

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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FILER

AQUITRON MEDICAL INC

CIK: **736970** | IRS No.: **411359703** | State of Incorpor.: **MN** | Fiscal Year End: **0430**
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SIC: **3845** Electromedical & electrotherapeutic apparatus

Mailing Address

*14800 28TH AVENUE NORTH
MINNEAPOLIS MN 55447*

Business Address

*14800 28TH AVE NORTH
PLYMOUTH MN 55447
6125579200*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) - June 1, 1995

AEQUITRON MEDICAL, INC.
(Exact name of registrant as specified in its charter)

Minnesota
(State or other Jurisdiction
of incorporation)

0-11571
(Commission File
Number)

41-1359703
(IRS Employer
Identification No.)

14800 Twenty Eighth Avenue North
Minneapolis, MN 55447
(Address of principal executive offices and zip code)

(612) 557-9200
(Registrant's telephone number, including area code)

AEQUITRON MEDICAL, INC.
(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets.

On June 1, 1995, Aequitron Medical, Inc. (the "Company") acquired the sleep diagnostic business from CNS, Inc. pursuant to an Asset Purchase Agreement dated May 8, 1995. The assets acquired include all rights to CNS, Inc.'s sleep diagnostic products, all applicable patents and a product currently under development. The acquisition involved the combination of a payment of cash and short-term debt, totalling \$5,595,610. A portion of the purchase price (\$595,610) was calculating upon closing as an amount equal to 85% of certain net receivables of the purchased business. To finance the acquisition, the Company obtained a \$2,500,000 term loan from Norwest Bank Minnesota, N.A., used \$2,500,000 in cash and presented CNS, Inc. with a promissory note in the amount of \$595,610.

As part of the acquisition, CNS Chairman and Chief Executive Officer, Daniel E. Cohen, M.D. entered into a Non-competition Agreement with the Company. Pursuant to such agreement, Dr. Cohen has agreed not to compete with the Company's newly acquired sleep diagnostic product business, directly or indirectly, generally for a period of seven years, or such lesser time if the Company discontinues the manufacture and sale of sleep disorder diagnostic equipment.

Item 5. Other Events.

Simultaneously with the signing of the Asset Purchase Agreement, the Company entered into a Non-exclusive Distributorship Agreement dated May 8, 1995. Pursuant to such Agreement, the Company has the right to market and distribute CNS, Inc.'s Breathe Right nasal strips to professional health care markets, including hospitals, sleep labs, physician groups and homecare providers. The agreement will continue for a term of one year, with automatic renewals for one-year periods unless one party provides notice of nonrenewal.

Item 7. Financial Statements; Pro Forma Financial Information and Exhibits.

(a) Financial statements of business acquired.

It would be impracticable for the Registrant to provide the financial statements of the CNS, Inc. sleep diagnostic business for the periods specified in Rule 3-05(b) of Regulation S-X at the time of filing of this Form 8-K. The Registrant will file the required financial statements as soon as practicable, but not later than sixty days after the date on which this Form 8-K must be filed.

(b) Pro forma financial information.

It would be impracticable for the Registrant to provide the pro forma financial information required by Article 11 of Regulation S-X at the time of filing this Form 8-K. The Registrant will file the required pro forma financial information as soon as practicable, but not later than sixty days after the date on

which this Form 8-K must be filed.

(c) Exhibits.

- 2.1 Asset Purchase Agreement dated May 8, 1995 by and among Aequitron Medical, Inc. and CNS, Inc. Upon the request of the Commission, the Company agrees to furnish a copy of the exhibits and schedules to the Asset Purchase Agreement.
- 2.2 Non-Competition Agreement dated May 8, 1995 by and between Dan Cohen and Aequitron Medical, Inc.
- 2.3 Term Loan and Credit Agreement dated June 1, 1995 by and between Norwest Bank Minnesota, N. A. and Aequitron Medical, Inc.
- 2.4 Term Note from Aequitron Medical, Inc. to Norwest Bank Minnesota, N.A. dated June 1, 1995 in the amount of \$2,500,000.
- 2.5 Security Agreement dated June 1, 1995 for Norwest Bank Minnesota, N.A. by Aequitron Medical, Inc.

SIGNATURES

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

DATED: June 15, 1995

AEQUITRON MEDICAL, INC.

By: /s/ James B. Hickey, Jr.
James B. Hickey, Jr.
President and Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION

EXHIBIT INDEX TO FORM 8-K

Date of Report:
June 1, 1995

Commission File No.:
0-11571

AEQUITRON MEDICAL, INC.

Exhibit

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- 2.3 Term Loan and Credit Agreement dated June 1, 1995 by and between Norwest Bank Minnesota, N. A. and Aequitron Medical, Inc.
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- 2.5 Security Agreement dated June 1, 1995 for Norwest Bank Minnesota, N.A. by Aequitron Medical, Inc.

ASSET PURCHASE AGREEMENT

AGREEMENT made as of the 8th day of May, 1995, by and among AEQUITRON MEDICAL, INC., Minnesota corporation (the "Buyer"), and CNS, INC., a Delaware corporation (the "Seller").

WHEREAS, the Seller owns and desires to sell and transfer to the Buyer, and the Buyer desires to purchase and acquire from the Seller, the assets of the Seller used by the Seller in the business ("Purchased Business") of manufacturing, marketing, distributing and selling equipment for diagnosis of sleep disorders (the "Equipment") upon the terms, conditions and provisions hereinafter set forth.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.1 Asset Purchase. Subject to the terms and conditions set forth herein, the Buyer agrees to purchase from the Seller, and the Seller agrees to sell, transfer, assign, convey and deliver to the Buyer, on the Closing Date (as defined below), all of Seller's right, title and interest in and to the following assets of the Seller which are used solely in the operation of the Purchased Business ("Purchased Assets"):

(a) Material items of inventory of all kinds, including raw materials, work-in-process, if any, finished goods, packaging and supplies, including the inventories listed on Schedule 1.1(a).

(b) The machinery, tools, dies, molds, and other equipment listed on Schedule 1.1(b) hereto.

(c) All registered and unregistered domestic and foreign patents, all trademarks, tradenames, copyrights, service marks and applications therefor and 510(k)s, issued or pending, (to the extent transferable) which are listed on Schedule 1.1(c) together with all related rights and associated goodwill ("Proprietary Rights").

(d) All rights of the Seller under the unfilled sales orders and any other contracts and commitments listed on Schedule 1.1(d) (the "Assumed Contracts").

(e) All books, records and correspondence pertaining to inventories, accounts receivable, equipment, intangible property, regulatory matters, manufacturing, quality control and quality assurance documentation, all forms and correspondence with the FDA

on marketing authority and inspection issues, customers, sales prospects and

suppliers (including all customer, sales prospect and supplier lists) used in connection with the Purchased Business (the "Records").

(f) All technology, know-how and other intangible property related to the Purchased Assets or the Purchased Business, including, without limitation, tooling design, blue prints, repair history, specifications, drawings, bills of material and engineering documentation.

(g) All advertising and promotional literature and materials, including catalogs, brochures, pamphlets and art work.

(h) Net receivables as described in 1.2 below.

The Seller hereby agrees to deliver to the Buyer possession of the Purchased Assets on the Closing Date.

1.2 Consideration for Assets. In consideration of, and in exchange for, the sale of the assets and property described in Section 1.1 above, Buyer shall assume certain liabilities as set forth in Section 1.3, below, and, in addition, shall pay the "Purchase Price" to Seller at Closing: (1) the sum of Five Million Dollars (\$5,000,000) cash; and (2) the remainder by delivery to Seller of Buyer's promissory note in the form and on the terms attached as Exhibit A in a face amount equal to 85% of the net receivables of the Purchased Business (net of \$105,274 of excluded receivables identified on Schedule 1.2) as valued at the Closing Date ("Promissory Note"). If receivables in excess of 15% of the net receivables of the Purchased Business remain uncollected 151 days after the date of the Promissory Note, Seller will reimburse Buyer in cash in an amount equal to 50% of such uncollected net receivables up to a maximum of \$50,000.

The Purchase Price shall be allocated among the Purchased Assets in the manner determined by Buyer. Seller and Purchaser shall each file Form 8594 (Asset Acquisition Statement under Section 1060) on a timely basis reporting the allocation of the Purchase Price. Seller and Purchaser shall not take any position on their respective income tax returns that is inconsistent with the allocation of the Purchase Price as determined by Buyer.

1.3 Liabilities of Seller.

Buyer shall assume no liabilities of Seller, fixed or contingent, known or unknown, determined or undetermined, due or not yet due except as

specifically set forth on Schedule 1.3 hereto.

On the Closing Date, Buyer agrees to assume and to perform in accordance with their respective terms the obligations of the Purchased Business listed below ("Assumed Liabilities").

(a) "Assumed Contracts" described herein or listed on Schedule 1.1(d) hereof.

(b) Any warranty obligations for Equipment sold prior to Closing Date. At Closing, Seller shall pay cash to Buyer in the amount of Seller's accrual for warranty obligations determined as of the Closing Date, the amount of which shall be determined consistent with past accounting practices of Seller.

(c) Maintenance contract obligations of Seller on the Purchased Assets, but at Closing Seller shall reimburse Buyer for one-half the amount of the maintenance contract obligations thus assumed by Buyer.

(d) Products liability claims arising from Equipment sold by Seller prior to the Closing Date, if and to the extent that Buyer has modified, upgraded or updated such Equipment, or serviced such Equipment in a way found to have caused injury to a third party or to the extent Buyer failed to service, update, upgrade or properly modify such equipment pursuant to order of a court or governmental agency or pursuant to a maintenance or service obligation.

(e) Any recall or modification obligations imposed by a governmental agency or by maintenance or service obligations.

(f) Post-closing training obligations in connection with Equipment sold before Closing, for which Seller will reimburse Buyer for its expenses when and as accrued.

1.4 Closing; Delivery of Documents.

(a) The closing of the transactions contemplated by this Agreement (the "Closing") shall take place on June 1, 1995 at a mutually agreeable place (the "Closing Date"), or such other date as agreed by the parties.

(b) On the Closing Date, Seller shall deliver to Buyer the following:

(i) Patent Assignments in recordable form transferring the patents and patent applications listed on Schedule 1.1(c);

(ii) Trademark Assignments in recordable form transferring the trademarks listed on Schedule 1.1(c);

(iii) an opinion of Lindquist & Vennum P.L.L.P., Seller's counsel, in form and substance satisfactory to Buyer; and

(iv) a Bill of Sale transferring the Purchased Assets to Buyer free and clear of all encumbrances.

(v) the cash amounts referenced in Section 1.3(b) and (c) above.

(c) On the Closing Date, Buyer shall deliver to Seller the following:

(i) the cash portion of the Purchase Price; and

(ii) the Promissory Note; and

(iii) an opinion of Best & Flanagan, P.L.L.P., Buyer's counsel, in form and substance satisfactory to Seller.

1.5 Conditions to Closing. The obligation of each party to consummate the transactions contemplated by this Agreement is subject to the satisfaction by the other party of the following conditions:

(a) The representations and warranties of the other party shall be true and correct in all material respects at the Closing as though then made;

(b) The other party shall have performed and complied in all material respects with all covenants and agreements required to be performed and complied with by it under this Agreement prior to the Closing;

(c) No action or proceeding before any court or agency will be pending or threatened wherein an unfavorable judgment,

decree or order could prevent the carrying out of this Agreement or any of the transactions contemplated hereby or have an adverse effect on the Purchased Assets or the Purchased Business; and

(d) The other party shall have delivered all documents required to be delivered by it under Section 1.4;

(e) The form and substance of all certificates, instruments, opinions and other documents delivered on or before the Closing pursuant to this Agreement shall be reasonably satisfactory to each party and its counsel; and

(f) During the period from the date of this Agreement to the Closing (i) there shall not have been any material adverse change in the condition or the results of operation of the Purchase Assets or the Purchased Business (ii) nor shall Seller have sustained any material loss or damage to the Purchased Assets, whether or not insured,

either of which would have a material adverse effect on the ability of Buyer to operate the Purchased Business.

Either party may waive any condition to its obligation to consummate the transactions contemplated by this Agreement and agree to proceed with Closing.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE SELLER

As an inducement to the Buyer to enter into this Agreement, the Seller hereby represents and warrants to, and agrees with, the Buyer as follows:

2.1 Organization and Corporate Power. The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with full power and authority to enter into this Agreement and perform its obligations hereunder.

2.2 Authorization. The execution, delivery and performance of this Agreement by Seller and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action and will not create a lien or encumbrance on the Purchased Assets or conflict with or result in a default under any material commitment, agreement or law applicable to Seller. Approval of Seller's shareholders of the transactions contemplated hereby is not required. Other than possible consents required under the Assumed Contracts, no material consent or approval of or filing or registration with any

third party is required in connection with the execution, delivery or performance of this Agreement by Seller. This Agreement constitutes a valid and binding obligation of the Seller, enforceable in accordance with its terms.

2.3 Title and Condition of Properties. At the Closing Date the Seller will own the Purchased Assets good and marketable title, free and clear of all liens, charges, purchase rights, claims, pledges, mortgages, security interests, encumbrances, or other limitations or restrictions whatsoever. The Seller's machinery and equipment, and other tangible personal property included in the Purchased Assets are in reasonable operating condition and repair, normal wear and tear excepted (except for inventory, the condition of which shall be governed by Section 2.5).

2.4 Tangible Personal Property. Schedule 1.1(b) lists all material manufacturing machinery and equipment used to manufacture the Equipment, except for Seller's manufacturing space at 1250 Park Road, Chanhassen, Minnesota 55317 and fixtures related thereto.

2.5 Inventory. The inventory shall on the Closing Date be in the condition as inspected by Buyer.

2.6 Proprietary Rights.

2.6.1 The Seller's use of the Proprietary Rights does not, to Seller's knowledge, violate or constitute the misappropriation or the misuse of any intellectual property rights of any third party. Schedule 1.1(c) attached hereto sets forth a list of all Proprietary Rights, other than trade secrets and know-how. The Seller has not granted, conveyed, licensed or assigned any rights under the Proprietary Rights and to Seller's knowledge there are no other parties using the Proprietary Rights.

2.6.2 To the best knowledge of Seller, all Proprietary Rights are valid and enforceable, and, as to patents, there exist no facts or prior art which would render any of those patents invalid or unenforceable.

2.6.3 Seller has received no notice that any of the features, components or configurations (whether developed or under development) of the products included in the Purchased Assets infringe, nor has any claim been made that they may infringe, the intellectual property rights of any other party. Further, the Seller has not been sued or charged orally or in writing with, or been a defendant in any claim, suit, action or proceeding relating to the Purchased Business which involves a claim of infringement of

any patents, trademarks, service marks or copyrights, or a claim of unfair competition or misappropriation of trade secrets or confidential information.

2.6.4 None of the Proprietary Rights is subject to any outstanding order, judgment, decree, stipulation or agreement restricting the use thereof by the Seller or restricting the licensing thereby by the Seller to any person.

2.6.5 Apnea Screener. The FDA has not granted the authority sought by Seller in the 510(k) application filed by it with the FDA for the apnea screener ("Sleep Test") owned by Seller and made part of the Purchased Assets. Prior to and following the Closing Date, Seller agrees to cooperate with Buyer in seeking to cause the FDA to grant such 510(k) application with respect to the Sleep Test.

2.7 Litigation. Except as set forth on Schedule 2.7, there are no actions, suits or proceedings, pending or, to the best knowledge of Seller, threatened or claimed against or affecting the Seller which relate in any manner to the Purchased Business at law or in equity, or before or by any federal, state, municipal or other governmental agency. The Seller is not presently a party to or subject to or bound by any agreement or

any judgment, order, writ, injunction or decree of any court or any governmental body that contains any provision that would or could operate to prevent the carrying out of this Agreement or the transactions contemplated hereby.

2.8 Contracts. Other than the Assumed Contracts, Seller is not a party to or otherwise bound by any material agreement, contract, indenture, instrument or lease with respect to the Purchased Business, except as set forth on Schedule 2.8.

2.9 Insurance. Seller maintains products' liability and other insurance as described in Schedule 2.9. Following the Closing Date, Buyer will provide its own insurance and shall, consistent with the indemnification provisions in 4.2 and 4.3 below, hold Buyer harmless from any products liability or other claim in connection with the Equipment, the Purchased Business or the Purchased Assets, arising from Equipment sold before the Closing Date, except as provided in Section 1.3(d) above.

2.10 Medical Device Regulation. The Seller has applied for or obtained all applicable material licenses, registrations, approvals, clearances and authorizations required by local, state and Federal agencies, foreign or domestic, regulating the safety, effectiveness and market clearance of the Equipment. The Seller has had no recalls or FDA product actions, and has no

ongoing clinical studies. Seller has received no notice, oral or written, of any adverse findings of the FDA in its inspections, except for certain non-material facility-related items.

2.11 Product Performance. The Seller has made available to Buyer all supportive materials and data substantiating representations made to the FDA in its Section 510(k) pre-market notifications, including any and all testing data in the possession or under the control of the Seller, whether or not submitted to the FDA. The Seller further represents and warrants that to the best of Seller's knowledge the Seller's products perform in compliance with the representations and performance specifications as contained in said notifications and the Seller's product literature, and that sales thereof, if any, have been made in compliance with the rules and regulations of the FDA, and in compliance with labeling approved by the FDA and/or submitted with the products. The FDA authorizations and notifications described in Schedule 2.11 attached hereto represent to the best of Seller's knowledge the only FDA authorizations and notifications necessary to permit the sale and use by Seller in the United States of the Devices. Each 510(k) listed in Schedule 2.11 lists the corresponding part or product covered by such 510(k).

2.12 Employee Plans. A complete list of all employee benefit plans covering employees of the Purchased Business is set forth on Schedule 2.12.

2.13 Defaults. There has not to Seller's knowledge occurred any default by Seller or, assuming all required consents to assignment are obtained, any event which will become a default, nor, to Seller's knowledge, has there occurred any default by any third party which will become a default under any Assumed Contract or any judgment, order or commitment related to the Purchased Assets.

2.14 Financial Statements. Seller's financial statements for the fiscal years ending December 31, 1993 and 1994 and its interim statements for the period ending March 31, 1995 (and its 1994 monthly financial statements, which portray the fact that the majority of revenues of the Purchased Business have historically occurred in the last months of the Company's fiscal quarters) are attached as Schedule 2.14 hereto (the "Financial Statements"). The 1993 and 1994 year-end statements have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods covered thereby, and the Financial Statements fairly present the financial position of Seller as of the respective dates of the balance sheets included therein, and the results of operations for the respective periods indicated.

2.15 Absence of Undisclosed Liabilities. To the best knowledge and belief of Seller after due diligence, except to the extent reflected or reserved

against in Seller's balance sheet or as otherwise noted on Schedule 2.15 hereto, Seller as of March 31, 1995, and as of the Closing Date, had or will have no liabilities which would prevent title to the Purchased Assets from transferring to Buyer.

2.16 No Violation. Seller is not subject to or obligated under its certificate of incorporation, its bylaws, any applicable law, or rule or regulation of any governmental authority, or any agreement or instrument, or any license, franchise or permit, or subject to any order, writ, injunction or decree, which would be breached or violated by its execution, delivery or performance of this Agreement.

2.17 Taxes. All tax returns required by law to be filed, and all taxes required to be paid or withheld and paid over by Seller which relate to the Purchased Assets, the non-filing or non-payment of which could result in a lien on or encumbrance against the Purchased Assets, have been fully paid, withheld and paid over, and filed, as appropriate. Seller does not have any reason to believe that a claim for such taxes for prior years in any material amount may be asserted by any taxing body. Specifically, but not by way of limitation, there are no tax liens filed or outstanding for unpaid sales or payroll withholding taxes at the office of the Minnesota Secretary of State or any Minnesota County Recorder's office. The federal and state TIN of Seller is 41-1580270 and 3940631, respectively, and Seller's Minnesota sales tax permit number is 3940631.

2.18 Conduct of Business. Prior the Closing, Seller shall operate the Purchased Business in a prudent manner and only in the ordinary course of business consistent with past practices. Seller shall use all reasonable efforts to preserve the Purchased Business organization intact and to preserve its present relationship with employees, suppliers, customers and others having business relationships with Seller.

2.19 Full Disclosure. To Seller's knowledge, no representation, covenant or warranty of Seller in this Agreement or any Schedule or Exhibit hereto contains or will contain any untrue statement of a material fact or omit or will fail to state any material fact necessary to make any statement made not misleading. Buyer acknowledges that it has had full access to relevant records and to officers of Seller.

2.20 Brokerage. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Buyer or any of its shareholders, other than consideration paid to Piper Jaffray for financial advice to Seller, which Seller will pay.

ARTICLE III

REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE BUYER

3.1 Corporate Organization and Power. Buyer is a corporation duly organized and validly existing under the laws of the State of Minnesota, with full corporate power and authority to enter into this Agreement and perform its obligations hereunder.

3.2 Authorization. The execution, delivery and performance of this Agreement and the Promissory Note by Buyer and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action, and no other corporate proceedings on its part are necessary to authorize the execution, delivery or performance of this Agreement and the Promissory Note. This Agreement and the Promissory Note constitutes a valid and binding obligation of Buyer, enforceable in accordance with its terms.

3.3 No Violation. Buyer is not subject to or obligated under its certificate of incorporation, its bylaws, any applicable law, or rule or regulation of any governmental authority, or any agreement or instrument, or any license, franchise or permit, or subject to any order, writ, injunction or decree, which would be breached or violated by its execution, delivery or performance of this Agreement. Buyer will comply with all applicable laws, and with all applicable rules and regulations of all governmental authorities in connection with its execution, delivery and performance of this Agreement and the transactions contemplated hereby.

3.4 Brokerage. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Buyer or any of its shareholders, other than consideration paid to Dain, Bosworth for financial advice to Buyer, which Buyer will pay.

3.5 Litigation. There are no actions, suits, proceedings or orders pending or, to the best of Buyer's knowledge, threatened against or affecting Buyer at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would adversely affect Buyer's performance under this Agreement or the consummation of the transactions contemplated hereby.

3.6 Insurance. Following the Closing Date, Buyer will provide its own insurance and shall, consistent with the indemnification provisions in Sections 4.2 and 4.3 below, hold Seller harmless from any products liability or other claim in connection with the Equipment, the Purchased Business or the

Purchased Assets, arising from Equipment sold after the Closing Date.

ARTICLE IV

ADDITIONAL AGREEMENTS

4.1 Survival. All representations, warranties, agreements, covenants and obligations herein shall survive the execution and delivery of this Agreement and the Closing until December 31, 1996 except for matters relating to products liability claims, which shall survive until June 1, 2000.

4.2 Indemnification. Except to the extent indemnified by insurance proceeds:

4.2.1 The Seller will indemnify the Buyer, and hold it harmless against any loss, liability, damage, deficiency or expense (including reasonable legal expenses and costs) which it may suffer, sustain or become subject to as a result of a misrepresentation or breach by Seller of any representation, warranty, covenant or agreement of Seller set forth in this Agreement, or resulting from liabilities or obligations of Seller not assumed by Buyer, and any costs and expenses associated with defending against such claims, liabilities, obligations, costs, damages, losses and expenses.

4.2.2 The Buyer agrees to indemnify the Seller and hold it harmless against any loss, liability, damage or expense, including reasonable legal expenses and costs, which the Seller may suffer, sustain or become subject to, as a result of (i) a misrepresentation or breach by the Buyer of any representation, warranty, covenant or agreement of the Buyer contained in this Agreement, (ii) the operation of the Purchased Business or any of the Purchased Assets by Buyer after the Closing (iii) Assumed Liabilities and (iv) any costs and expenses associated with defending against such claims, liabilities, obligations, costs, damages, losses and expenses.

4.2.3 The parties will be liable to each other for any loss or liability arising under this Section 4 only if the aggregate amount of all such losses and liabilities related to such claims exceeds \$150,000, in which case the Indemnifier, as defined below, will be liable for all such amounts in excess of \$150,000. In no event shall either party's aggregate liability under this Section 4 exceed the sum of \$3,000,000, except, for products liabilities, for which in no event shall either party's liability under this Section 4 exceed the sum of \$5,000,000.

4.2.4 The parties' indemnification provided for in this Section 4 shall be the parties' sole and exclusive remedy with regard to the subject matter of this Agreement, except for claims as a result of fraudulent misrepresentation by the parties and except with respect to any claim alleging violation of Sections

4.12 or 4.13 of this Agreement.

4.3 Indemnification Procedure.

(a) A party or parties entitled to indemnification hereunder with respect to a third party claim (the "Indemnified Party") will give the party or parties required to provide such indemnification (the "Indemnifier") prompt written notice of any legal proceeding, claim or demand instituted by any third party (in each case, a "Claim") in respect of which the Indemnified Party is entitled to indemnification hereunder.

(b) The Indemnifier shall have the right, at its option and expense, to defend against, negotiate, settle or otherwise deal with any Claim with respect to which it is the Indemnifier and to select counsel, acceptable to the Indemnified Party, to defend the Indemnified Party against such Claim; provided, that the Indemnified Party may participate in any proceeding with counsel of its choice and at its expense; and provided further that the Indemnifier may not enter into a settlement of any such Claim without the consent of the Indemnified Party unless such settlement requires no monetary payment for which the Indemnified Party is not fully indemnified and does not involve any other matters binding upon the Indemnified Party.

(c) The Indemnified Party will not settle any Claim without the prior written consent of the Indemnifier, which shall not be unreasonably withheld.

(d) The parties will cooperate fully with each other in connection with the defense, negotiation or settlement of any Claim.

4.4 Expenses. All fees, expenses, including attorneys' and accountants' fees incurred by Seller in connection with the negotiation of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated by this Agreement shall be borne by the Seller. All such fees and expenses incurred by Buyer shall be borne by Buyer.

4.5 Further Transfers. The Seller will, and will cause its subsidiaries and affiliates, if any, to, execute and deliver such further instruments of conveyance and transfer and take such additional action as the Buyer may reasonably request to effect, consummate, confirm or evidence the transfer to the Buyer (or its designees) of the Purchased Assets. The Seller will execute such documents as may be necessary to assist the Buyer in

preserving or perfecting its rights in the Purchased Assets.

4.6 Transition Assistance. Seller will at no cost to Buyer provide reasonable transition assistance to Buyer's employees with respect to the manufacture and marketing of the Devices. Buyer will, at no cost to Seller, provide to Seller reasonable transitional assistance with respect to Seller's remaining operations by making available those individuals hired by Buyer.

4.7 Sales Tax. Any and all sales tax liability arising as a result of the sale and purchase of the Purchased Assets shall be the sole responsibility of, and shall be paid by, the Buyer.

4.8 Regulatory Transfers. If necessary, the Seller shall file a letter with the FDA or any successor agency notifying the FDA of any registration change required of the Seller to transfer all rights and pre-market notification clearances to the Buyer. In regard to any other applicable licenses, registrations, approvals, clearances and authorizations required by local, state and federal agencies, foreign or domestic, regulating the safety, effectiveness and market clearance of the Devices which constitute a portion of the Purchased Assets, the Seller shall file a letter with each applicable regulatory authority notifying the authority of any registration change required of the Seller to transfer all rights hereunder to the Buyer.

4.9 Conduct of Business. Prior to the Closing, Seller will conduct the Purchased Business only in the ordinary course of business consistent with past practices; take no steps to damage customer, employee or vendor relationships; maintain the

Purchased Assets in good repair, order and condition; not sell, lease, encumber, transfer or otherwise dispose of any Purchased Assets; permit Buyer and its employees and agents reasonable access to Seller's contracts, personnel, facilities, equipment, records and other things reasonably related to the Purchased Business.

4.10 Employee Matters. Buyer may offer employment to those individuals listed on Schedule 4.10 and will provide such individuals who accept such employment employee benefits consistent with those offered to other employees of Buyer generally. Seller shall use its best efforts to encourage such individuals to accept employment with Buyer on the Closing Date; provided Seller makes no guarantee that such individuals will accept employment with Buyer. Buyer shall provide Seller with the names of all Seller's employees to whom Buyer extends offers of employment, within 48 hours of extending said offers. Buyer shall also provide Seller with notices of acceptances and rejections of these offers by Seller's employees, within 48 hours of receipt of said notifications. Buyer shall not be bound by any CNS agreements or conditions of employment, including any liability for accrued vacation pay, qualified

retirement plans, fringe benefits, salaries, severance pay or other benefits, or by the terms and conditions of any collective bargaining agreement which gave or established rights to any CNS employees prior to the Closing Date.

4.11 Customers. Buyer and Seller shall each use its best efforts to obtain any consents required under the Assumed Contracts in order to provide Buyer with the benefits under such Assumed Contracts, but Seller makes no guarantees that such third parties will accept the assignment of its contracts.

4.12 Non-Compete Agreement. From the Closing Date until the end of the period ending seven years after the end of the Relevant Period, or until Buyer discontinues engaging in the manufacture and sale of sleep disorders diagnostic equipment, Seller and Dan Cohen shall not (i) contact, deal with, or in any way solicit any entity or individual that, at any time, was a customer of the Seller or becomes a customer of the Buyer (after the Closing) to purchase any products or services in competition with the Purchased Business anywhere in the world, including any products or services developed by Buyer after the Closing provided such products or services were developed from trade secrets, know-how or other intellectual property included in the Purchased Assets; (ii) engage in, own, manage, operate, control or participate in the ownership, management, operations or control of, or have any financial interest in, any entity or individual engaged in a business competitive with the Purchased Business anywhere in the world; provided nothing herein shall prohibit Seller from engaging in any business other than the sleep disorders diagnostic business; or (iii) seek to persuade, directly or indirectly, any employees of Buyer, including former employees of Seller, to discontinue that individual's employment

with the Buyer nor to become employed in any activity competitive with the Purchased Business. A person or entity that acquires an interest in the Seller or the entity that results from acquisition of control of or combination with Seller shall not be prevented by this Section 4.12 from competing with the Purchased Business in the sleep disorders diagnostic business. A violation by Seller or Dan Cohen of the foregoing covenants may cause irreparable injury to Buyer, and Buyer shall be entitled, in addition to any other rights and remedies that it may have at law or in equity, to temporary or permanent injunctive relief enjoining Seller and/or Dan Cohen from doing or continuing to do any such act and any other violation or threatened violation of the foregoing covenants.

4.13 Confidentiality. Seller and Dan Cohen agree from and after the Closing Date that they shall not, at any time, without the prior written consent of Buyer, disclose or use any "Confidential Information" obtained in the course of Seller's ownership of the Purchased Business prior to the Closing Date or in the course of Seller's review of sale records or access to Buyer's Confidential Information after the Closing Date, except as required in Seller's continuing business or businesses. "Confidential Information" shall include, without

limitation, information relating to customers, products, machines, processes, methods, know-how, trade secrets, inventions, developments, equipment or supplies, made, sold, licensed, used, developed or practiced by Seller, its customers or suppliers prior to the Closing Date or by Buyer, its customers or suppliers after the Closing Date; provided, however, that Confidential Information shall not include information which Seller is under a duty by its customers not to use or to disclose to any third party or that relates to publicly disclosed facts. Buyer shall have the same remedies in the event of a violation or threatened violation of the foregoing covenants as are enumerated in Section 4.12.

4.14 Products, Supplies and Documents. Buyer shall have the right to use existing products, supplies and documents (including, but not limited to, inventory, labels, shipping materials, catalogues and similar materials, and advertising material) being transferred to it pursuant to this Agreement until such products and supplies are depleted, but shall not have the right to use Seller's name in connection therewith.

4.15 Press Release and Announcements. No general press releases related to this Agreement and the transactions contemplated herein, or other announcements to Seller's employees, customers and suppliers will be issued without the joint approval of Buyer and Seller. Buyer and Seller will cooperate to prepare a joint press release to be issued on the Closing Date or, upon the request of Seller or Buyer, at the time of the signing of this Agreement.

4.16 Brain Wave Monitoring and Analysis. Seller owns technology which is not part of the Purchased Assets related to

brain wave monitors. However, there is software that is part of the Proprietary Rights transferred hereunder as part of the Purchased Assets which is used and involves intellectual property used in the brain wave monitoring technology. Such software may be used by Seller in its brain wave monitoring business and brain wave analysis, and Buyer hereby grants Seller a perpetual license to use any such Proprietary Rights for this purpose. The perpetual license granted to CNS under this Paragraph 4.16 shall not permit CNS to use the software or the Proprietary Rights to engage in the sleep monitoring or diagnosis of sleep disorder business and use of the software or the Proprietary Rights for such purposes is expressly excluded from the perpetual license.

ARTICLE V

MISCELLANEOUS

5.1 Amendment and Waiver. This Agreement may be amended, and any provision of this Agreement may be waived, provided that any such amendment or waiver will be binding on the Seller only if such amendment or waiver is set

forth in a writing executed by the Seller and that any such amendment or waiver will be binding upon the Buyer only if such amendment or waiver is set forth in a writing executed by the Buyer. Waiver by the Seller or the Buyer of any breach of or failure to comply with any provision of this Agreement by the other party shall not be construed as, or constitute a continuing waiver of, or a waiver of any other breach of, or failure to comply with, any other provision of this Agreement.

5.2 Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement will be in writing and will be deemed to have been given when personally delivered or mailed by first class mail, return receipt requested. Notices, demands and communications to the Seller and the Buyer will, unless another address is specified in writing, be sent to the addresses indicated below:

Notices to the Seller:

CNS, Inc.
1250 Park Road
Chanhassen, MN 55317
Attention: Chief Executive Officer
Chief Operating Officer

with a copy to:

Lindquist & Vennum
4200 IDS Center
Minneapolis, MN 55402
Attn: Patrick Delaney

Notices to the Buyer:

Aequitron Medical, Inc.
14800 28th Avenue North
Plymouth, MN 55447
Attn: Chief Executive Officer
Chief Financial Officer

with a copy to:

Best & Flanagan, Professional Limited Liability
Partnership
4000 First Bank Place
Minneapolis, MN 55402
Attn: David Morse

5.3 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties, which shall not be unreasonably withheld.

5.4 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

5.5 Captions. The captions used in this Agreement are for convenience of reference only and do not constitute a part of this Agreement and will not be deemed to limit, characterize or in any way affect any provision of this Agreement, and all provisions of this Agreement will be enforced and construed as if no caption had been used in this Agreement.

5.6 Complete Agreement. This document and the documents referred to herein contain the complete agreement between the parties and supersede any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. There are no restrictions, promises, warranties, covenants, or undertakings, other than those expressly provided for herein.

5.7 Counterparts. This Agreement may be executed in one or more counterparts all of which taken together will constitute one and the same instrument.

5.8 Governing Law. The law of the State of Minnesota will govern all questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement.

5.9 Arbitration.

(a) Except with respect to matters involving Sections 4.12, 4.13 and 4.15 hereof, if a dispute arises between Buyer and Seller as to the interpretation of this Agreement or any other agreement entered into pursuant hereto, including, without limitations, any matter involving indemnification, Buyer and Seller

agree to use the following procedures, in lieu of either party pursuing other available remedies and as the sole remedy, to resolve the dispute.

(b) A party seeking to initiate the procedures shall give written notice to the other party, describing briefly the nature of the dispute. A meeting shall be held between the parties within 10 days of the receipt of such notice, attended by individuals with decision-making authority regarding the dispute, to attempt in good faith to negotiate a resolution of the dispute.

(c) If, within 30 days after such meeting, the parties have not succeeded in negotiating a resolution of the dispute, the parties agree to submit the matter to binding arbitration in Minneapolis, Minnesota, by one arbitrator appointed by Buyer and Seller. If Buyer and Seller fail to appoint an arbitrator within 10 days from the conclusions of the negotiation period, then upon petition of either party, such arbitrator shall be appointed by the Chief Judge of the United States District Court for the District of Minnesota or by the American Arbitration Association so as to enable the arbitrator to render an award within 90 days after the arbitrator has been appointed. Following the selection of the arbitrator as set forth above, the arbitration shall be conducted promptly and expeditiously and in accordance with the rules of the American Arbitration Association. Such award shall be final and binding and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction therefor.

(d) Each party shall bear one-half of the expenses of the arbitrator excluding, however, legal, expert, accountant and other professional fees of the other side.

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

AEQUITRON, INC.

By /s/ James B. Hickey, Jr.
Its President and CEO

CNS, INC.

By /s/ Richard E. Jahnke
Its President

LIST OF EXHIBITS AND SCHEDULES

Exhibit A	Promissory Note
Schedule 1.1(a)	Inventory
Schedule 1.1(b)	Machinery and Equipment
Schedule 1.1(c)	Proprietary Rights
Schedule 1.1(d)	Assumed Contracts
Schedule 1.2	Excluded Receivables
Schedule 2.7	Litigation
Schedule 2.8	Other Contracts
Schedule 2.9	Insurance
Schedule 2.12	510(k)s
Schedule 2.13	Employee Plans
Schedule 2.14	Financial Statements
Schedule 4.10	Employee Matters

EXHIBIT A

PROMISSORY NOTE

\$ _____

Minneapolis, Minnesota
June 1, 1995

FOR VALUE RECEIVED, the undersigned promises to pay to the order of CNS, Inc., at Chanhassen, Minnesota, or at such other place as may hereafter from time to time be designated in writing by the holder hereof, the

sum of _____ Dollars, payable in two equal installments (i) on or before 75 days and (ii) 150 days from the date hereof, with interest at the rate of 4% per year.

The undersigned shall have the right to prepay any or all of this note at any time without penalty.

The undersigned waives demand, presentment, protest and notice of dishonor of this note, and agrees that, without any notice, the holder hereby may from time to time extend or renew the date or dates or amount or amounts of payment above recited, and that in any such case the undersigned shall continue liable to pay the unpaid balance of the indebtedness evidenced hereby so extended, renewed or modified notwithstanding any such extension, renewal or modification.

In the event any installment of the amount payable hereunder is not paid on the due date, the entire amount payable hereunder shall become payable immediately.

In the event any payment is not made when due, the undersigned agrees to pay all costs of collection and reasonable attorney's fees.

WITNESS:

AEQUITRON MEDICAL, INC.

By _____
Its:

NON-COMPETITION AGREEMENT

This Non-Competition agreement is made and entered into this 8th day of May, 1995, by and between Dan Cohen who resides at Eden Prairie, Minnesota and Aequitron Medical, Inc., a Minnesota corporation which maintains its principal place of business at 14800 28th Avenue North, Minneapolis, Minnesota 55447. The parties to this agreement (Dan Cohen and Aequitron Medical, Inc.) will hereinafter respectively be referred to as "Cohen" and "Aequitron" and this Non-Competition Agreement will hereinafter be referred to as the "Agreement."

The factual circumstances underlying the execution of this Agreement are:

A. Cohen is the Chief Executive Officer of CNS, Inc. (hereinafter "CNS"), a Delaware corporation which maintains its principal place of business at 1250 Park Road, Chanhassen, Minnesota 55317.

B. Cohen is a shareholder of CNS and is the beneficial owner of 378,332 shares representing 4.4 percent of the issued and outstanding common stock of CNS as of the date of this Agreement.

C. Aequitron has entered into an Asset Purchase Agreement with CNS of even date herewith under which Aequitron is purchasing from CNS for cash those assets of CNS used by CNS in the business of manufacturing, marketing, distributing and selling equipment for the diagnosis of sleep disorders, the terms and conditions of which are more specifically set forth in the Asset Purchase Agreement between CNS and Aequitron (hereinafter the "Purchase Agreement").

D. The Purchase Agreement contains provisions regarding non-competition and confidentiality as regards the line of business being purchased by Aequitron from CNS under the Purchase Agreement.

E. A specific condition of Aequitron's agreement to execute and perform the Purchase Agreement is an acknowledgement by Cohen individually that the non-competition and confidentiality provisions of the Purchase Agreement set forth on Paragraphs 4.12 and 4.13 of the Purchase Agreement will be acknowledged as binding upon him for the same period of time and upon the same terms and conditions as set forth in Paragraphs 4.12 and 4.13 of the Purchase Agreement.

F. Aequitron and Cohen having agreed upon the terms and conditions whereby Cohen individually agrees to be bound by the provisions of Paragraphs 4.12 and 4.13 now desire to memorialize their agreements and understandings in writing.

NOW, THEREFORE, in consideration of the sum of One Dollar and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged by Cohen, Cohen and Aequitron hereby agree as follows:

1. Cohen in order to induce Aequitron to enter into the Purchase Agreement hereby agrees to be bound personally by the terms and conditions of Paragraphs 4.12 and 4.13 of the Purchase Agreement.

2. The provisions and conditions of Sections 4.12 and 4.13 of the Purchase Agreement shall be binding upon Cohen and Aequitron for the period of time set forth in said sections, notwithstanding the termination of his employment, officership, shareholder or director status with CNS.

3. Cohen acknowledges that the sale of assets by CNS as specified in the Purchase Agreement is beneficial to the future business operations of CNS and more than likely will have a positive impact on the stock price of CNS stock and shareholders' value and thereby should correspondingly inure to the benefit of Cohen individually in light of his personal stock holdings in CNS.

4. Cohen hereby waives the defense of lack of consideration for entering into this non-competition and confidentiality agreement should be necessary for Aequitron to seek enforcement of same.

5. A true and correct copy of Sections 4.12 (Non-Compete Agreement) and 4.13 (Confidentiality) as set forth in the Purchase Agreement are attached hereto marked as Exhibit A and incorporated herein by reference.

IN WITNESS WHEREOF, Cohen and Aequitron have executed this Agreement the day and year first set forth above.

COHEN:

Date: May 8, 1995

/s/ Dan Cohen
Dan Cohen

AEQUITRON MEDICAL, INC.

Date: May 8, 1995

By /s/ James B. Hickey, Jr.
Its President and CEO

This Term Loan and Credit Agreement (the "Agreement") dated as of June 1, 1995 (the "Effective Date") is between Norwest Bank Minnesota, National Association (the "Bank") and Aequitron Medical, Inc. (the "Borrower").

BACKGROUND

The Borrower has requested that the Bank renew its existing revolving line of credit in the amount of \$2,000,000.00, which line of credit will be used for short term working capital purposes. Borrowings under this line of credit are currently evidenced by a promissory note dated October 1, 1994 (the "October 1, 1994 Revolving Note").

The Borrower has also requested that the Bank extend to the Borrower a \$2,500,000.00 term loan for purposes of partially financing the Borrower's purchase of the assets of CNS, Inc.

The Bank is agreeable to meeting the Borrower's requests provided that each credit facility extended is subject to the terms and conditions of this Agreement.

The Revolving Note and the Term Note (all as defined below) will collectively be referred to as the "Notes". The Revolving Note, the Term Note, this Agreement, and all "Security Documents" described in Exhibit B may collectively be referred to as the "Documents."

In consideration of the promises contained in this Agreement, the Borrower and the Bank agree as follows:

1. LINE OF CREDIT
 - 1.1 Line of Credit Amount. During the availability period described below, the Bank agrees to provide a revolving line of credit (the "Line") to the Borrower. Outstandings under the Line will not, at any one time, exceed the lesser of Two Million and 00/100 Dollars (\$2,000,000.00) or the Borrowing Base less the outstanding balance of the Term Note. The Borrowing Base is defined and calculated in accordance with Exhibit A to this Agreement.
 - 1.2 Line Availability Period. The Line Availability Period will mean the period from the Effective Date to October 31, 1996 (the "Line Expiration Date").
 - 1.3 Advances. The Borrower's obligation to repay all advances made under the Line will be evidenced by a single promissory note (the "Revolving Note") dated as of the Effective Date and in form and content acceptable to the Bank. The Revolving Note shall replace, but shall not satisfy, the October 1, 1994 Revolving Note. Reference is made to the Revolving Note for terms relating to interest rate, repayment and other conditions governing the Line.
 - 1.4 Mandatory Prepayment. If at any time the principal outstanding under the Revolving Note exceeds the lesser of \$2,000,000.00 or the Borrowing Base less the outstanding balance of the Term Note, the Borrower must immediately prepay the Revolving Note to the extent necessary to eliminate the excess.

2. TERM LOAN

2.1 Term Loan Amount. The Bank agrees to provide a term loan to the Borrower in the amount of Two Million Five Hundred and 00/100 Dollars (\$2,500,000.00) (the "Term Loan"). The Borrower's obligation to repay outstanding under the Term Loan will be evidenced by a promissory note (the "Term Note") dated as of the Effective Date, and in form and content acceptable to the Bank. Reference is made to the Term Note for terms relating to interest rate, repayment and other conditions governing the Term Loan.

2.2 Term Loan Availability Period. The Term Loan is available in one disbursement which may be requested by the Borrower on or after the Effective Date but no later than July 18, 1995.

2.3 Mandatory Prepayment. If at any time the principal outstanding under the Term Note exceeds the lesser of \$2,000,000.00 or the Borrowing Base less the outstanding balance of the Revolving Note, the Borrower must immediately prepay the Revolving Note to the extent necessary to eliminate the excess, and if after prepaying the Revolving Note the outstanding balance of the Term Note continues to exceed the Borrowing Base, the Borrower will prepay the Term Note to the extent necessary to eliminate the excess.

3. EXPENSES

3.1 Application Fee. The Borrower has fully paid, and the Bank has earned and accepted, a one-time application fee of \$5,000.00, which will be applied to the loan fee payable by the Borrower as provided in Section 3.6.

3.2 Non-Usage Fee. During the Line Availability Period the Borrower will pay the Bank a nonusage fee of 0.45% per annum on the average daily unused amount of the Line The fee will be paid quarterly in arrears.

3.3 Documentation Expenses. The Borrower agrees to pay the Bank's reasonable expenses relating to the preparation of the Documents. The Borrower also agrees to pay the Bank's future expenses relating to any amendments to the Documents that may be necessary in the future, and any expenses relating to the collection of each promissory note given by the Borrower. Expenses include, but are not limited to, reasonable attorneys' fees, including the allocated costs of the Bank's in-house counsel.

3.4 Collection Expenses. The Borrower agrees to pay all costs of collection, including reasonable attorneys' fees and legal expenses incurred by the Bank in the event the Borrower fails to pay the Bank any amounts due under any promissory note or the Documents.

3.5 Audit Expense. The Borrower agrees to reimburse the Bank for the cost of its initial prefunding collateral survey and the cost of periodic audits of all collateral pledged to the Bank which may be conducted at such intervals as the Bank may reasonably require. The audits may be performed by employees of the Bank or independent contractors retained by the Bank.

- 3.6 Loan Fee. The Borrower will pay a \$25,000.00 loan fee in consideration of the Term Loan, which is due on the Effective Date.
- 3.7 Miscellaneous Expense. The Borrower agrees to reimburse the Bank for all expenses paid to third parties relating to the perfection of its security interest in collateral pledged to the Bank.

4. DISBURSEMENTS AND PAYMENTS

- 4.1 Requests for Advances. Any advance permitted under this Agreement must be requested in a writing in the form of Exhibit B transmitted to the Bank via facsimile, with the original to be delivered to the Bank via United States mail. The Bank will not consider any request for an advance under the Line or consider disbursing the Term Loan if there is an event which is, or with notice or the lapse of time would be, an event of default under this Agreement. Proceeds from an advance under the Line or a disbursement under the Term Loan will be deposited into the Borrower's account at the Bank or disbursed in such other manner as the Bank and the Borrower mutually agree.
- 4.2 Optional Cost of Funds Interest Rate Advances. According to the terms of the Replacement Note, the Borrower may elect interest rates based on the Bank's cost of funds index. To elect a Cost of Funds Rate Option, as defined in the Term Note, the Borrower must, prior to funding, request a quote from the Bank. This request must designate an amount (the "Cost of Funds Rate Portion") and a period (the "Cost of Funds Interest Period"). The Cost of Funds Interest Period will be any period of time mutually agreed to by the Bank and the Borrower. The Borrower must orally accept a quote at the time of receipt or it will be deemed rejected. If accepted, the Cost of Funds Rate Option will remain in effect for the Cost of Funds Interest Period specified in the quote. At the end of each Cost of Funds Interest Period the principal amount subject to the Cost of Funds Rate Portion shall bear interest at the Base Rate Option (as defined in the Replacement Note).
- 4.3 Performance Based Rate Reductions / Premiums. The Borrower, depending on its financial performance as measured under the performance standards set forth in Sections 4.3(a) or (c), may be entitled to a reduced rate of interest on its borrowings under the Replacement Note and the Term Note, or may be subject to the payment of a rate premium on such borrowings.
- (a) Rate Reduction. The Bank shall discount the otherwise applicable rate of interest in effect at any time under the Replacement Note or under the Term Note by 0.29% at any time after August 1, 1996 if the Borrower's performance meets or exceeds all of the following criteria as certified annually by the Borrower's certified public accountants in a certificate addressed to the Bank:
- 1) the Borrower's net income after taxes exceeds \$575,000.00 for each quarter of the fiscal year preceding the year in which net income is measured, for each fiscal quarter of the current fiscal year, and for each fiscal quarter of the following fiscal year as projected under the financial projection provided to the Bank to Section 8.1(e) of this Agreement;

2) the Borrower remains in compliance with all covenants set forth in this Agreement regardless of whether any default is waived or cured by the Bank, with the exception of Section 8.1(d);

3) the Borrower's "B Score", or ratio of after tax net income plus depreciation plus amortization to total liabilities, is greater than 0.40 to 1.0. (this ratio shall be calculated on a rolling basis at the end of each month using the results of that month and each of the eleven immediately preceding months).

(b) Effective Date or Cancellation Date of Rate Reduction: Any rate reduction shall become effective on either August 1st or the date on which the Bank receives from the Borrower's certified public accountants the certificate of compliance described in Section 4.3(a), whichever is later. The rate reduction shall be canceled by the Bank, based on its review of

the Borrower's interim financial statements effective on the first day of the quarterly reporting period following the quarterly period in which the Borrower fails to meet the rate reduction performance criteria.

(c) Rate Increase. The Bank shall increase the otherwise applicable rate of interest in effect at any time under the Replacement Note or under the Term Note by 0.63% whenever the Bank determines from its review of the Borrower's interim financial statements that the Borrower has failed to comply with the following minimum performance criteria in any fiscal quarter:

1) the Borrower's after tax net income is less than \$250,000.00;

2) the Borrower's B Score is less than 0.25 to 1.0.

(d) Effective Date or Cancellation Date of Rate Increase. Any rate increase shall become effective on the first day of the quarterly reporting period following the quarterly period in which the Borrower fails to meet the minimum performance criteria set forth in Section 4.3(c). The rate increase shall be canceled on the first day of the quarterly reporting period following the quarterly period in which the Borrower exceeds such minimum performance criteria.

4.4 Payments. All principal, interest and fees due under the Documents will be paid to the Bank by the direct debit of available funds on deposit in the Borrower's account with the Bank. The Bank will debit the account on the dates the payments become due. If a due date does not fall on a day on which the Bank is open for substantially all of its business (a "Banking Day"), the Bank will debit the account on the next Banking Day and interest will continue to accrue during the extended period. If there are insufficient funds in the account on the day the Bank enters any debit authorized by this Agreement, the debit will be reversed and the payment will be due immediately without necessity of demand by direct remittance of immediately available funds.

5. SECURITY

All amounts due under this Agreement and the Documents will be secured as provided in Exhibit C. The Borrower also hereby grants the Bank a security interest (independent of the Bank's right of set-off) in its deposit accounts at the Bank and in any other debt obligations of the Bank to the Borrower.

6. CONDITIONS PRECEDENT

Prior to each request for an advance under this Agreement, the Borrower must also deliver to the Bank any additional documents that are described in Exhibit C as a condition precedent to any such advance.

7. REPRESENTATIONS AND WARRANTIES

To induce the Bank to enter into this Agreement, the Borrower makes the representations and warranties contained in Exhibit D. Each request for an advance under this Agreement constitutes a reaffirmation of these representations and warranties.

8. COVENANTS

During the time period that credit is available under this Agreement, and thereafter until all amounts due under the Documents are paid in full, unless the Bank shall otherwise agree in writing, the Borrower agrees to:

8.1 Financial Information

Annual Reporting Information

- (a) Annual Financial Statements, CPA Management Letter and CPA Compliance Certificate. Provide the Bank on or before July 31 of each calendar year the Borrower's annual financial statements. The statements must be audited with an unqualified opinion by a certified public accountant acceptable to the Bank. The Borrower shall also deliver to the Bank the letter to management provided by its accountants with respect to the annual financial statements, together with a compliance certificate prepared by the Borrower's certified public accountants in form acceptable to the Bank, which demonstrates and certifies that the Borrower remains in compliance with the requirements of this Agreement.
- (b) Financial Projections. Provide the Bank on or before July 31st of each year, the financial projections for the succeeding three fiscal years of the Borrower in form acceptable to the Bank.
- (c) High Performance Certification. Provide the Bank on or before July 31st of each year, a certification from its Certified Public Accountants as to the Borrower's compliance with the performance criteria set forth in Section 4.3 of this Agreement, in form acceptable to the Bank.

Monthly Reporting Information

- (d) Interim Financial Statements. Provide the Bank within 45 days of each month end, the Borrower's interim financial statements certified as correct and in form acceptable to the Bank.

- (e) Borrower Prepared Compliance Certificate. Provide the Bank concurrently with the interim financial statements required above, a compliance certificate in the form of Exhibit E, signed by an officer of the Borrower, which certifies that: 1) the statements have been accurately prepared in accordance with generally accepted accounting principles applied consistently with the Borrower's annual financial statements; 2) the Borrower remains in compliance with the covenants required by this Agreement; and 3) if the Borrower is benefiting from a Section 4.3 rate reduction, a certification stating that the Borrower remains in compliance with the performance criteria of Section 4.3 of the Agreement, and information in support of such certification.
- (f) Borrowing Base Certificate. Provide the Bank within 45 days of each month end, a Borrowing Base Certificate in form acceptable to the Bank.
- (g) Lawsuit Status Report. Provide the Bank within 30 days of each month end, a status report regarding all lawsuits pending against the Borrower in form acceptable to the Bank.
- (h) Financial Performance Trending Report. Provide the Bank within 30 days of each month end, graphs showing the trends of the Borrower's financial performance and covenant compliance.
- (i) Analysis of Significant Financial Items. Provide the Bank within 30 days of each month end, a detailed internal analysis of significant financial and operating items affecting the Borrower's financial and operating performance.
- (j) Accounts Receivable Aging. Provide the Bank within 45 days of each month end, an accounts receivable aging report certified as correct and in form acceptable to the Bank.
- (k) Accounts Payable Aging. Provide the Bank within 45 days of each month end, an accounts payable aging report certified as correct and in form acceptable to the Bank.

Other Reporting Information

- (l) SEC Reporting. Provide the Bank within 30 days of filing with the Securities and Exchange Commission, copies of its Form 10-K Annual Report, Form 10-Q Quarterly Report and 8-K Current Report.
- (m) Notices. Provide the Bank prompt written notice of: 1) any event which has or might after the passage of time or the giving of notice, or both, constitute an event of default under the Documents, or 2) any event that would cause the representations and warranties contained in this Agreement to be untrue.
- (n) Additional Information. Provide the Bank with such other information as it may reasonably request, and permit the Bank to visit and inspect its properties and examine its books and records.

8.2 Financial Measures

- (a) Cash Flow Coverage Ratio. Maintain at all times a ratio of after-tax

profit plus depreciation and amortization to Current Maturities of Long Term Debt of at least 2.25 to 1.0.

"Current Maturities of Long Term Debt" means that portion of the Borrower's long term debt and capital leases payable within 12 months of the determination date.

- (b) Tangible Net Worth. Maintain at all times a minimum Tangible Net Worth of at least \$9,000,000.00, plus 50% of all positive monthly net income, beginning May 1, 1995.

"Tangible Net Worth" means total assets less total liabilities and less the following types of assets: (1) leasehold improvements; (2) receivables and other investments in or amounts due from any shareholder, director, officer, employee or other person or entity related to or affiliated with the Borrower; (3) goodwill, patents, copyrights, mailing lists, trade names, trademarks, servicing rights, organizational and franchise costs, bond underwriting costs and other like assets properly classified as intangible.

- (c) Total Liabilities to Tangible Net Worth Ratio. Maintain at all times a ratio of total liabilities to Tangible Net Worth of less than 0.85 to 1.0.

- (d) Current Ratio. Maintain at all times a ratio of Current Assets to Current Liabilities of at least 2.5 to 1.0.

"Current Assets" means current assets less receivables and investments in or other amounts due from any shareholder, director, officer, employee or any person or entity related to or affiliated with the Borrower.

"Current Liabilities" means current liabilities less any portion of such current liabilities that constitute Subordinated Debt.

- (e) Interest Coverage Ratio. Maintain at all times after November 1, 1995, a ratio of net income plus income taxes plus interest expense to interest expense of at least 2.0 to 1.0, as calculated on a rolling 12 month basis as of each month end and phased in by using the results of November, 1995 and of each succeeding month.

- (f) Debt Service Coverage Ratio. Maintain at all times after November 1, 1995, a ratio of Traditional Cash Flow plus interest expense to Current Maturities of Long Term Debt plus interest expense of at least 1.75 to 1.0, calculated on a rolling 12 month basis as of each month end and phased in by using the results of November, 1995 and of each succeeding month.

"Traditional Cash Flow" means the aggregate amount of the following: (1) net income after taxes; (2) amortization expense; (3) depreciation and depletion expense; (4) deferred tax expense and (5) similar non-cash charges against income which the Bank determines in its discretion to be appropriate "add-backs".

8.3 Other Covenants

- (a) Insurance. Cause its properties to be adequately insured by a reputable insurance company against loss or damage and to carry such other insurance (including business interruption, flood, or environmental risk insurance) as is required of or usually carried by persons engaged in the same or similar business. Such insurance must, with respect to the Bank's collateral security, include a lender's loss payable

endorsement in favor of the Bank in form acceptable to the Bank. The Borrower shall additionally maintain product liability insurance in an amount not less than \$5,000,000.00.

- (b) Additional Borrowing. Refrain from incurring any indebtedness except:
 - (i) Trade credit incurred in the ordinary course of business.
 - (ii) Purchase money indebtedness (including capitalized leases) for the acquisition of fixed assets, provided that the total principal amount outstanding at any one time does not exceed \$500,000.00.
- (c) Other Liens. Refrain from allowing any security interest or lien on property it owns now or in the future, except:
 - (i) Liens in favor of the Bank.
 - (ii) Liens for taxes not delinquent or which the Borrower is contesting in good faith.
 - (iii) Liens which secure purchase money indebtedness allowed under this Agreement.
- (d) Sale of Assets. Refrain from selling or leasing during any fiscal year assets with a cumulative value in excess of \$500,000.00, other than sales of inventory in the ordinary course of business.
- (e) Business Acquisition. Refrain from purchasing or otherwise acquiring during any fiscal year, all or substantially all, of the assets of any other person, firm, corporation or other entity with a cumulative value in excess of \$500,000.00.
- (f) Change of Ownership. Refrain from permitting or suffering any change, direct or indirect in its capital ownership in excess of 15%.
- (g) Nature of Business. Refrain from engaging in any line of business materially different from that presently engaged in by the Borrower.
- (h) Guaranties. Refrain from assuming, guaranteeing, endorsing, or otherwise becoming contingently liable for any obligations of any other person, except for those guaranties outstanding as of the Effective Date and disclosed to the Bank in writing.
- (i) Deposit Accounts. Maintain its principal deposit accounts with the Bank.
- (j) Maintenance of Properties. Make all repairs, renewals or replacements necessary to keep its plant, properties and equipment in good working condition.
- (k) Books and Records. Maintain adequate books and records and refrain from making any material changes in its accounting procedures whether for tax purposes or otherwise.

- (l) Compliance with Laws. Comply in all material respects with all laws applicable to its business and the ownership of its property.
- (m) Preservation of Rights. Maintain and preserve all rights, privileges, charters and franchises it now has.

These covenants were negotiated by the Bank and Borrower based on information provided to the Bank by the Borrower. A breach of a covenant is an indication that the risk of the transaction has increased. As consideration for any waiver or modification of these covenants, the Bank may require: additional collateral, guaranties or other credit support; higher fees or interest rates; and possible modifications to the Documents and the monitoring of the Agreement. The waiver or modification of any covenant that has been violated by the Borrower will be made in the sole discretion of the Bank. These options do not limit the Bank's right to exercise its rights under Section 9 of this Agreement.

9. EVENTS OF DEFAULT AND REMEDIES

9.1 Default

Upon the occurrence of any one or more of the following events of default, or at any time afterward unless the default has been cured, the Bank may declare the Line to be terminated and in its discretion accelerate and declare the unpaid principal, accrued interest and all other amounts payable under the Revolving Note, the Term Note, and the Documents to be immediately due and payable:

- (a) Default by the Borrower in the payment when due of any principal or interest due under the Revolving Note and the Term Note and continuance for 10 days.
- (b) Default by the Borrower in the observance or performance of any covenant or agreement contained in the Documents, including this Agreement, and continuance for more than 30 days.
- (c) Default by the Borrower in the observance or performance of any covenant or agreement contained in the Documents, or any of them, excluding this Agreement, after giving effect to any applicable grace period.
- (d) Default by the Borrower in any agreement with the Bank or any other lender that relates to indebtedness or contingent liabilities which would allow the maturity of such indebtedness to be accelerated.
- (e) Any representation or warranty made by the Borrower to the Bank is untrue in any material respect.
- (f) Any litigation or governmental proceeding against the Borrower seeking an amount in excess of \$500,000.00 either 1) results in an uninsured final judgment equal to or in excess of that amount against the Borrower or 2) remains unresolved on the 270th day following its commencement, unless as of the 270th day no judgment or award has been entered and the contingent liability arising as a result is classified as "remote" by the Borrower's counsel as defined in FASB 5 in a signed

opinion addressed to the Bank.

- (g) A garnishment, levy or writ of attachment, or any local, state, or federal notice of tax lien or levy is served upon the Bank for the attachment of property of the Borrower in the Bank's possession or indebtedness owed to the Borrower by the Bank.
- (h) Any Guarantor dissolves or becomes insolvent or is the subject of a voluntary or involuntary petition under the United States Bankruptcy Code.
- (i) A material adverse change occurs in the Borrower's financial condition or ability to repay its obligations to the Bank.

9.2 Immediate Default

If, with or without the Borrower's consent, a custodian, trustee or receiver is appointed for any of the Borrower's properties, or if a petition is filed by or against the Borrower under the United States Bankruptcy Code, then the Line shall immediately terminate and the unpaid principal, accrued interest and all other amounts payable under the Revolving Note, the Term Note, and the Documents will become immediately due and payable without notice or demand.

10. MISCELLANEOUS.

- (a) 360 Day Year. All interest and fees due under this Agreement will be calculated on the basis of actual days elapsed in a 360 day year.
- (b) GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all calculations for compliance with financial covenants will be made using generally accepted accounting principles consistently applied ("GAAP").
- (c) No Waiver; Cumulative Remedies. No failure or delay by the Bank in exercising any rights under this Agreement shall be deemed a waiver of those rights. The remedies provided for in the Agreement are cumulative and not exclusive of any remedies provided by law.
- (d) Amendments or Modifications. Any amendment or modification of this Agreement must be in writing and signed by the Bank and Borrower. Any waiver of any provision in this Agreement must be in writing and signed by the Bank.
- (e) Binding Effect: Assignment. This Agreement and the Documents are binding on the successors and assigns of the Borrower and Bank. The Borrower may not assign its rights under this Agreement and the Documents without the Bank's prior written consent. The Bank may sell participations in or assign this Agreement and the Documents and exchange financial information about the Borrower with actual or potential participants or assignees.
- (f) Minnesota Law. This Agreement and the Documents will be governed by the substantive laws of the State of Minnesota.

- (g) Severability of Provisions. If any part of this Agreement or the

Documents are unenforceable, the rest of this Agreement or the Documents may still be enforced.

(h) Integration. This Agreement and the Documents contains the entire understanding between the parties and supersedes all prior agreements between the Bank and the Borrower relating to each credit facility subject to this Agreement, whether verbal or in writing.

Address for notices to Bank:

Norwest Bank Minnesota
National Association
55 East Fifth Street
St. Paul, Minnesota 55101

Attention: Thomas L. Falck
Vice President

Norwest Bank Minnesota
National Association

By: /s/ Thomas L. Falck
Its: Vice President

Address for notices to Borrower:

Aequitron Medical, Inc.
14800 28th Avenue North
Plymouth, Minnesota 55447

Attention: William M. Milne
Chief Financial Officer

Aequitron Medical, Inc.

By: /s/ William M. Milne
Its: Chief Financial Officer

EXHIBIT A
BORROWING BASE DEFINITION

Borrowing Base means the sum of 75% of Eligible Accounts Receivable (as defined below) plus 20% of Eligible Inventory (as defined below), plus 90% of Eligible Investments (as defined below) plus 50% of Eligible Crow River Industries, Incorporated Inventory (as defined below).

Eligible Accounts Receivable means all accounts receivable except those which are:

- 1) Greater Than 90 days past the invoice date.
- 2) Due from an account debtor, 10% or more of whose accounts owed to the Borrower are more than 90 days past the invoice date.
- 3) Subject to offset or dispute.
- 4) Due from an account debtor who is subject to any bankruptcy proceeding.
- 5) Owed by a shareholder, subsidiary, affiliate, officer or employee of the Borrower.
- 6) Not subject to a perfected first lien security interest in favor of the Bank.
- 7) Due from an account debtor located outside the United States and not supported by a standby letter of credit acceptable to the Bank.
- 8) Due from a unit of government, whether foreign or domestic.
- 9) Otherwise deemed ineligible by the Bank in its reasonable discretion.

Eligible Inventory means all medical inventory of the Borrower, including the purchased inventory of CNS, Inc., at the lower of cost or market as determined by generally accepted accounting principals, except inventory which is:

- 1) In transit; or located at any warehouse not approved by the Bank.
- 2) Covered by a warehouse receipt, bill of lading or other document of title.
- 3) On consignment to or from any other person or subject to any bailment.
- 4) Damaged, obsolete or not salable in the Borrower's ordinary course of business.
- 5) Subject to a perfected first lien security interest in favor of any third party.
- 6) Supplies or parts inventory.
- 7) Work-in-process inventory.
- 8) In the process of being returned.
- 9) Custom or non-standard parts.
- 10) Finished goods.
- 11) Otherwise deemed ineligible by the Bank in its reasonable discretion.

Eligible Crow River Industries, Incorporated Inventory means all inventory of Crow River Industries, Incorporated, at the lower of cost or market as determined by generally accepted accounting principals except inventory, which is:

- 1) In transit; or located at any warehouse not approved by the Bank.
- 2) Covered by a warehouse receipt, bill of lading or other document of title.
- 3) On consignment to or from any other person or subject to any bailment.
- 4) Damaged, obsolete or not salable in the Borrower's ordinary course of business.
- 5) Subject to a perfected first lien security interest in favor of any third party.
- 6) Supplies or parts inventory.
- 7) Work-in-process inventory.
- 8) In the process of being returned.
- 9) Otherwise deemed ineligible by the Bank in its reasonable discretion.

Eligible Investments means any security issued by the United States government with an initial maturity not in excess of one (1) year, or any money market mutual fund rated A-1/P-1 provided that such investment are subject to a first lien security interest in favor of the Bank.

Actual advance rates are to be determined on a reasonable basis by Norwest Collateral Review staff prior to initial funding following its pre-funding collateral survey and from time to time afterward.

EXHIBIT A

AEQUITRON MEDICAL, INC. BORROWING BASE CERTIFICATE

TO: Norwest Bank Minnesota, National Association
55 East Fifth Street
St. Paul, Minnesota 55101
(the "Bank")

Aequitron Medical, Inc. (the "Borrower") certifies that the following

computation of the Borrowing Base was performed as of _____ in accordance with the Borrowing Base definitions set forth in Exhibit A to the Credit Agreement between the Bank and the Borrower dated -----.

<TABLE>

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Total Accounts Receivable	\$ _____	
Less: 1) Greater than 90 days in age	\$ _____	
2) Other ineligible	\$ _____	
Eligible Accounts Receivable	\$ _____	
75% of Eligible Accounts Receivable		\$ _____
Total Inventory	\$ _____	
Less: Ineligible Inventory	\$ _____	
Eligible Inventory	\$ _____	
20% of Eligible Inventory		\$ _____
Total Crow River Industries, Incorporated Inventory	\$ _____	
Less: Ineligible Crow River Inventory	\$ _____	
Eligible Inventory	\$ _____	
50% of Eligible Crow River Inventory		\$ _____
Eligible Investments	\$ _____	
90% of Eligible Investments*		\$ _____
Total Borrowing Base		\$ _____
Line Outstandings		\$ _____
Term Outstandings		\$ _____
Line Outstandings		\$ _____
Excess (Deficit)		\$ _____

</TABLE>

Aequitron Medical, Inc.

By: _____

Its: _____

* NOTE: Additional documentation required to support reliance on Eligible Investments. See Exhibit "C" of the Agreement.

EXHIBIT B
AEQUITRON MEDICAL, INC.
TO BE SENT VIA FAX (612) 291-2141 BY 11:00 A.M. DAILY
REQUEST FOR ADVANCE OR PAYDOWN
OF REVOLVING LINE

To: Norwest Bank Minnesota,

From: Aequitron Medical, Inc.

National Association
55 East Fifth Street
St. Paul, Minnesota 55101
(the "Bank")

14800 - 28th Avenue North
Plymouth, Minnesota 55447
(the "Borrower")

Pursuant to the terms of the conditional revolving line of credit documented under the existing credit agreement (the "Agreement") entered into between the Bank and the Borrower, the Borrower requests as follows:

___ REQUEST FOR LINE ADVANCE. The Borrower requests that the Bank advance to the Borrower on _____, 199__, by direct deposit into demand deposit account # _____, funds in the amount of U.S.\$ _____ .

The advance should bear interest as follows: ___ Base Rate, floating; or ___ Fixed Rate Cost of Funds plus _____%, maturing _____ .

In making this request, the Borrower hereby certifies as follows:

1. This request is not in excess of the Borrowing Base reflected in the Borrower's last Borrowing Base Certificate dated _____

2. As of this date, the Borrower's availability under the Line is as follows:

Borrowing Base	\$ _____
Term Loan Balance	(\$ _____)
Revolving Line Balance	(\$ _____)
Current Borrowing Base Availability	\$ _____

___ REQUEST FOR PAYDOWN OF LINE. The Borrower requests that the Bank debit the Borrowers demand deposit account # _____, on _____ in the amount of U.S.\$ _____ and apply the proceeds to the payment of the outstanding balance of the Revolving Note that evidences its borrowings under the Line.

I personally certify that I am authorized to sign on behalf of the Borrower, that I have read and am familiar with the terms of the Agreement and have no knowledge of an existing event of default or event which after the lapse of time or the delivery of notice would constitute an event of default under the Agreement. If this request includes reliance on Eligible Investments, the required documentation for the specific investments is attached.

AEQUITRON MEDICAL, INC.

By: _____

Its: _____

EXHIBIT C

CONDITIONS PRECEDENT TO INITIAL ADVANCE OR DISBURSEMENT

The Replacement Note and the Term Note

Security Documents

Security Agreement. A Security Agreement signed by the Borrower granting the Bank a first lien security interest in the Borrower's accounts, inventory, equipment and general intangibles. The Borrower will also execute financing statements sufficient to perfect the security interest granted to the Bank.

Collateral Pledge Agreement. A Collateral Pledge Agreement signed by the Borrower and pledging to the Bank a first lien security interest in the securities described in it. The Borrower will also execute any other documents required by the Bank to perfect the pledge.

Guaranty by Corporation. The unlimited, unconditional Guaranty by Corporation (the "Guaranty") of Crow River Industries, Incorporated (the "Guarantor"), together with a Certificate of Authority for Guaranty by Corporation.

Authorization

Corporate Certificate of Authority. A certificate of the Borrower's corporate secretary as to the incumbency and signatures of the officers of the Borrower signing the Documents and containing a copy of resolutions of the Borrower's board of directors authorizing execution of the Documents and performance in accordance with the terms of the Agreement.

Organization

Articles of Incorporation And By - Laws. A certified copy of the Borrower's Articles of Incorporation and By-Laws and any amendments, if applicable.

Certificate of Good Standing. A copy of the Borrower's Certificate of Good Standing, certified within 30 days of the Effective Date by the Minnesota Secretary of State.

Other

Arbitration Agreement. The Bank's standard form of arbitration agreement (the "Arbitration Agreement") signed by the Bank and Borrower, subjecting to binding arbitration potential controversies between the Bank and Borrower relating to the Documents and the Agreement, as more fully described in the Arbitration Agreement.

Legal Opinion. A signed opinion of counsel for the Borrower, addressed to the Bank, and in form and substance satisfactory to the Bank, opining that: (1) the Borrower is duly organized and in good standing in its state of organization; (2) the Borrower is qualified in each state in which it does business and is legally required to be qualified; (3) the Borrower has the power to execute and deliver the Documents and to borrow money and perform in accordance with the terms of the Documents; (4) all corporate action and consent necessary to the validity of the Documents has been obtained; (5) the Documents have been duly signed and are the valid and binding obligation of the Borrower and enforceable in accordance with their terms; and (6) to the best of counsel's knowledge, the Documents and the transactions contemplated thereunder do not conflict with any provision of the articles of incorporation or by-laws of Borrower or any agreement binding upon the Borrower or its properties.

Pre-Funding Collateral Survey. A collateral survey conducted by the Bank or its agents

substantiating the Borrower's inventory and the inventory of Crow River Industries, Incorporated and confirming or adjusting the Bank's advance rate with respect to such collateral.

CONDITIONS PRECEDENT TO ALL ADVANCES

Request for Advance. Concurrent with each request for an advance under the Line or a disbursement under the Term Loan, the Borrower will deliver a Request for Advance certificate to the Bank in the form set forth at Exhibit B.

CONDITIONS PRECEDENT TO ADVANCES SECURED BY INVESTMENT SECURITIES

Notice of Pledge. Concurrent with each request for an advance under the Line or a disbursement under the Term Loan that will be supported in part by investment securities permitted under the Borrowing Base definition set forth in the Agreement, the Borrower will deliver to the Bank a Notice of Pledge form identifying those investment securities to be included in the Borrowing Base, together with such other documents as the Bank may deem necessary to secure the pledge.

EXHIBIT D

REPRESENTATIONS AND WARRANTIES

Organizational Status. The Borrower is a corporation duly formed and in good standing under the laws of the State of Minnesota.

Authorization. This Agreement, and the execution and delivery of the Documents required hereunder, is within the Borrower's powers, and has been duly authorized, and does not conflict with any of its organizational papers or any other agreement by which the Borrower is bound.

Financial Reports. The Borrower has provided the Bank with its annual audited financial statement dated April 30, 1994 and its unaudited interim financial statement dated April 30 1995, and these statements fairly represent the financial condition of the Borrower as of their respective dates and were prepared in accordance with GAAP.

Litigation. There is no litigation or governmental proceeding pending or threatened against the Borrower which could have a material adverse effect on the Borrower's financial condition or business.

Taxes. The Borrower has paid when due all federal, state and local taxes.

No Default. There is no event which is, or with notice or the lapse of time would be, an event of default under this Agreement.

ERISA. The Borrower is in compliance in all material respects with ERISA and has received no notice to the contrary from the PBGC or other governmental area.

Environmental Matters. To the best of the Borrower's knowledge following diligent inquiry: 1) the Borrower is in compliance in all material respects with all applicable environmental, health, and safety statutes and regulations, 2) the Borrower is not the subject of any "Superfund" evaluations, and 3) the

Borrower has not incurred, directly or indirectly, any material contingent liability in connection with the release of any toxic or hazardous waste or substance into the environment.

Norwest Bank Minnesota,
National Association

Term Note

\$2,500,000.00

June 1, 1995

FOR VALUE RECEIVED, Aequitron Medical, Inc. (the "Borrower") promises to pay to the order of Norwest Bank Minnesota, National Association (the "Bank"), at its principal office or such other address as the Bank or holder may designate from time to time, the principal sum of Two Million Five Hundred and 00/100 Dollars (\$2,500,000.00), or the amount shown on the Bank's records to be outstanding, plus interest (calculated on the basis of actual days elapsed in a 360-day year) accruing on the unpaid balance at the annual rate of interest defined below. Absent manifest error the Bank's records will be conclusive evidence of the principal and accrued interest owing hereunder.

This Term Note is issued pursuant to a credit agreement of even date herewith between the Bank and the Borrower (the "Agreement"). The Agreement, and any amendments or substitutions thereto, contain additional terms and conditions including default and acceleration provisions. The terms of the Agreement are incorporated into this Term Note by reference. Capitalized terms not expressly defined herein shall have the meanings given them in the Agreement.

INTEREST RATE.

Base Rate Option. Unless the Borrower chooses the Cost of Funds Option as defined below, the principal balance outstanding under this Term Note will bear interest at an annual rate equal to the Base Rate plus 0.85%, floating (the "Base Rate Option"). The Base Rate is the "base" or "rate" of interest established by the Bank from time to time at its principal office in Minneapolis.

Cost of Funds Option. Subject to the terms and conditions of the Agreement, the Borrower may elect that all or portions of the principal balance of this Term Note bear interest at the Bank's cost of funds plus 3.25% (the "Cost of Funds Option"). The Bank's Cost of Funds is the rate determined by the Bank to represent the Bank's direct and indirect cost of acquiring funds with a term equal to the applicable Cost of Funds Interest Period, in an amount equal to the Cost of Funds Rate Portion. Specific reference is made to the disbursement section of the Agreement for terms governing the designation of Cost of Funds Interest Periods and Cost of Funds Rate Portions.

Rate Decrease / Premium. The interest rate contracted in this Term Note shall be subject to either an increase or a decrease in accordance with the terms of Section 4.3 of the Agreement in the manner provided therein.

REPAYMENT TERMS

Interest. Interest accruing under the Cost of Funds Rate Option will be payable on the first day of each month and at the end of each Cost of Funds Interest Period.

Principal. Principal will be payable in 25 successive quarterly installments of \$92,500.00, payable on the first day of each calendar quarter and starting October 1, 1995. The remaining principal balance, plus any accrued interest, will be payable on July 1, 2002.

PREPAYMENT. The Borrower may prepay this Term Note in full or in part at any time in a minimum amount of \$100,000.00. Each prepayment will be applied in inverse order of maturity and will include accrued interest on the amount prepaid, if the installment consists of principal only.

Each prepayment of principal amounts bearing interest under an optional interest rate, whether voluntary or by reason of acceleration, will be accompanied by accrued interest on the amount prepaid plus a prepayment fee equal to the amount, if any, by which:

(i) the additional interest that would have been payable on the amount prepaid, if it had not been paid until the last day of the applicable interest period, exceeds

(ii) the interest that would have been recoverable by the Bank by reinvesting the amount prepaid from the prepayment date to the last day of the applicable interest period in U.S. Government Securities having a maturity date on or about that date.

ADDITIONAL TERMS AND CONDITIONS. The Borrower agrees to pay all costs of collection, including reasonable attorneys' fees and legal expenses incurred by the Bank in the event this Term Note is not duly paid. Demand, presentment, protest and notice of nonpayment and dishonor of this Term Note are expressly waived. This Term Note will be governed by the substantive laws of the State of Minnesota.

Aequitron Medical, Inc.

By: /s/ William M. Milne

Its: Chief Financial Officer

Norwest Bank Minnesota,
National Association

Security Agreement

Norwest Bank Minnesota
National Association
55 East Fifth Street
St. Paul, Minnesota 55101
(the "Bank")

Aequitron Medical, Inc.
14800 - 28th Avenue North
Plymouth, Minnesota 55447
(the "Borrower")

June 1, 1995

1. SECURITY INTEREST AND COLLATERAL. To secure payment of the Obligations (as defined below), the Borrower hereby enters into this Security Agreement (the "Agreement") and grants to the Bank a security interest (the "Security Interest") in the Collateral (defined below).

"Obligations" means every present and future debt, liability, and obligation which the Borrower may owe to the Bank, whether direct or indirect, due or unmatured, absolute or contingent, primary or secondary, or joint, several or joint and several, and including all extensions, renewals, amendments or replacements of such debt, liability, or obligation.

"Collateral" means the following property, excluding consumer goods, in which the Borrower now has or hereafter acquires an interest and all products and proceeds of such property:

(a) "Inventory". All inventory held for sale or lease or supply under a service contract, or which constitutes work in process or materials used or consumed in the Borrower's business.

(b) "Equipment". All equipment including but not limited to all machinery, vehicles, furniture, appliances, fixtures, manufacturing and processing equipment, shop equipment, office and recordkeeping equipment, computer hardware and software, and parts and tools.

(c) "Accounts". All accounts and other rights to the payment of money including all debt instruments, contract rights, chattel paper, loans and other receivables, tax refunds, unearned premiums, rebates, documents and all returned or repossessed goods arising from or relating to such accounts or rights.

(d) "General Intangibles". All general intangibles including but not limited to applications for patents, patents, copyrights, trademarks, trade secrets, goodwill, trade names, customer lists, permits, franchises, contracts, and the right to use the Borrower's name.

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS. Borrower represents, warrants and agrees that:

(a) Borrower is a corporation whose chief executive office is located at the address shown at the beginning of this Agreement, and that this Agreement has been authorized by all necessary corporate action.

(b) The Collateral will be primarily used for business purposes.

(c) Borrower has and will have title to each item of Collateral free and clear of all security interests and other encumbrances, except:

(i) the Security Interest;

(ii) liens for taxes not delinquent or which the Borrower is contesting in good faith;

(iii) liens securing purchase money indebtedness to the extent consented to in writing in advance by the Bank;

The Borrower will defend the Collateral against the claims of all persons except the Bank. Borrower will not dispose of any interest in the Collateral without the prior written consent of the Bank, except that, prior to the occurrence of an Event of Default and the revocation by the Bank of the Borrower's right to do so, Borrower may sell Inventory in the ordinary course of business.

(d) Borrower will execute and deliver to the Bank financing statements and any other documents that the Bank may require to perfect its Security Interest in the Collateral, and will not permit any tangible Collateral to be located in any state and/or county in which a financing statement perfecting such Collateral is required to be but has not been filed. Borrower agrees that the Bank may alternatively execute financing statements to perfect the Security Interest in the Collateral where permitted by law.

(e) Each Account and each document is (or will be when arising or issued) the valid and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the obligor shown by the Borrower's records to be obligated to pay such Account. Borrower will not agree to the material modification or cancellation of any such right to payment without the Bank's prior written consent, and will not subordinate any such Account or right to payment to any other claim.

(f) Borrower will at all times:

(i) keep all tangible Collateral in good working order and condition,

normal depreciation excepted;

(ii) promptly pay all taxes and other governmental charges levied or assessed upon Collateral;

(iii) permit the Bank to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Borrower's books and records pertaining to the Collateral and Borrower's business, and to request verifications from account obligors of amounts owed to Borrower;

(iv) keep accurate and complete records regarding the Collateral and Borrower's business and financial condition and provide the Bank such periodic reports of condition as the Bank may reasonably request;

(v) promptly notify the Bank of any loss of or material damage to any Collateral or of any adverse change known to Borrower regarding the prospect of payment on any Account;

(vi) upon Bank's request, promptly deliver to the Bank any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Borrower;

(vii) keep all tangible Collateral insured against loss and damage, including risks of fire (including extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks in such amounts as the Bank may reasonably request, with any loss payable to the Bank to the extent of its interest and with the commitment of the insurer to notify the Bank before cancellation;

(viii) pay when due or reimburse the Bank on demand for all costs of collection of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorney's fees) incurred by the Bank in connection with this Agreement and the Obligations, including expenses incurred in any litigation or bankruptcy proceedings;

(ix) prevent the Collateral from being used or kept in violation of all applicable law;

(x) obtain a waiver or consent from the owner and any mortgagee of any real property where the Collateral may be located that provides that the Security Interest will at all times be senior to any such interest or lien.

(g) If Borrower breaches any covenant or warranty in this Agreement, and the breach or failure continues for a period of ten calendar days after the Bank gives written notice (or, in the case of the agreement contained in clause (vii)

of Section 2(f), immediately upon the occurrence of such failure, without notice or lapse of time), the Bank may in its discretion perform or observe such agreements in the Borrower's or the Bank's name, and may take any other actions which the Bank deems necessary to cure or correct such failure. Borrower shall reimburse the Bank on demand for all costs and expenses (including reasonable attorneys' fees) incurred by the Bank in performing or observing such agreements. If the Borrower fails to reimburse the Bank upon demand, the Bank may cause such amounts to be advanced or added to any of the Obligations secured hereunder, which will bear interest at the highest rate provided under the note designated for this purpose by the Bank at the time of the advance.

(h) Borrower irrevocably appoints the Bank or its delegate as attorney-in-fact of Borrower with the right (but not the duty) to execute, deliver, endorse or file, in the name and on behalf of Borrower, any instruments, documents, financing statements, applications for insurance or other agreements required of Borrower under Section 2 at any time following an Event of Default. Following an Event of Default, the Bank may in its discretion enforce any rights of the Borrower under any contract of insurance, and in the Borrower's or the Bank's name, execute and deliver proofs of claim, receive payment of proceeds, endorse checks and other instruments representing payment of such proceeds, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

3. EVENTS OF DEFAULT. Each of the following occurrences shall constitute an event of default under this Agreement (each an "Event of Default"):

(a) Borrower defaults under the terms of any of the Obligations or any credit agreement relating thereto; or

(b) Borrower materially fails to observe or perform any covenant contained in this Agreement; or

(c) any representation or warranty made by the Borrower and set forth in this Agreement is materially false or misleading.

4. REMEDIES UPON EVENT OF DEFAULT. Upon the occurrence of an Event of Default and at any time thereafter, the Bank may exercise any one or more of the following rights and remedies:

(a) declare all unmatured Obligations to be immediately due and payable, without presentment or other notice or demand;

(b) exercise all rights available upon default to a secured party under the Uniform Commercial Code. The Bank may require Borrower to make the Collateral available to the Bank at a place to be designated by the Bank which is reasonably convenient to both parties, and if notice to Borrower of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given in the manner specified in this Agreement at least 10 calendar days prior to the date of any public sale or disposition or the date after which any private sale may occur;

(c) exercise any or all other rights available to the Bank by law or agreement against the Collateral, the Borrower or any other person or property.

The Bank shall not be obligated to preserve any rights Borrower may have against prior parties, to liquidate or realize on the Collateral at all or in any particular manner or order, or apply any cash proceeds of Collateral in any particular order.

5. OTHER PERSONAL PROPERTY. Unless at the time the Bank takes possession of any tangible Collateral, or at any time within seven days thereafter, the Borrower gives the Bank written notice of the existence of property belonging to the Borrower that does not constitute Collateral, but which is located or found upon or within such Collateral, together with a description of such property, the Bank shall not be responsible or liable to the Borrower with respect to such property unless it has actual knowledge of its existence and location upon or in such Collateral.

6. LOCK BOX, COLLATERAL ACCOUNT. Upon the Bank's request following an Event of Default, the Borrower will direct each obligor on an account to make payments to a special lock box under the control of the Bank. Borrower authorizes and directs the Bank to deposit into a special collateral account to be established and maintained with the Bank all checks, drafts and cash payments, received in said lock box. All deposits to this collateral account shall constitute Collateral and shall not constitute payment of any Obligation. At its option, the Bank may, at any time, apply collected funds on deposit in the collateral account to the payment of the Obligations in such order of application as the Bank may determine, or permit the Borrower to withdraw all or part of the balance of the collateral account. If a collateral account is established, Borrower agrees that it will promptly deliver to the Bank for deposit into the collateral account all payments on Accounts. All such payments shall be delivered to the Bank in the form received (except for Borrower's endorsement where necessary). Until deposited, all payments on Accounts received by Borrower shall be held in trust by the Borrower as the property of the Bank, and shall not be commingled with any funds or property of the Borrower.

7. COLLECTION RIGHTS OF THE BANK. In addition to its rights under Sections 4 and 6, the Bank may, at any time following an Event of Default, notify any account obligor or any other person obligated to pay any amount due with respect to an Account to make payment directly to the Bank. Upon the Bank's request, Borrower will notify such account obligors and other obligors in writing and will state on all invoices to such account obligors or other obligors that the amount due is payable directly to the Bank. At any time after the Bank or Borrower gives such notice to an account obligor or other obligor, the Bank may, in its discretion, and in its own name or in Borrower's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account

of, or securing, any such chattel paper, account, or other right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive or change the obligations (including collateral obligations) of any such account obligor or other obligor.

8. AMENDMENTS. This Agreement can be waived, amended or terminated and the Security Interest released, only in an express writing signed by the Bank. A waiver signed by the Bank shall be effective only in the specific instance and for the specific purpose given.

9. NO WAIVER; CUMULATIVE REMEDIES. Delay or failure to act shall not preclude the exercise or enforcement of any of the Bank's rights or remedies. All rights of the Bank shall be cumulative and may be exercised singularly or concurrently, at the Bank's option, and the exercise of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

10. NOTICES. All notices to be given to Borrower shall be deemed sufficiently given if delivered or mailed to the Borrower at the above address or at the most recent address shown on the Bank's records.

11. BINDING EFFECT; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of Borrower and the Bank and their respective heirs, representatives, successors and assigns and shall take effect when signed by Borrower and delivered to the Bank. A photographic or other reproduction of this Agreement or of any financing statement signed by the Borrower shall have the same force and effect as the original.

12. APPLICABLE LAW; SEVERABILITY. Except to the extent otherwise required by law, this Agreement shall be governed by the laws of the state in which the Bank's main office is located. If any provision or application of this Agreement is unenforceable in any respect, such unenforceability shall not affect other provisions of this Agreement.

13. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

14. INTEGRATION. This Agreement represents the entire understanding of the Bank and Borrower with respect to the Collateral and supersedes all prior oral or written agreements between the parties relating to the Collateral.

IN WITNESS WHEREOF, this Agreement was executed the day and year first above written.

AEQUITRON MEDICAL, INC.

By: /s/ William M. Milne

Title: Chief Financial Officer