[illegible] X [illegible] can [illegible] w/ lending [illegible]
under stringent terms as shown in this letter, & not be required to file under
HSR (since beneficial ownership will not pass. However, due to X's
(continued below)

[redacted]

June 10, 1991

BY MESSENGER

Victor Cohen, Esq.
Federal Trade Commission
Room 301
6th & Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Victor:

As we discussed on Thursday, June 6, 1991, a few more details are now available relating to the proposed transaction I described in my May 10, 1991, letter to you (a copy of which is attached to this letter as Exhibit A). None of the facts described in my earlier letter have changed, except that on December 15, 1991 the additional $3.5 million will be provided by Company X in the form of credit enhancement and the original $3 million note will convert to a cash flow mortgage having an indefinite term. However, as we discussed on June 6, 1991, given the financial condition of Company Y (the borrower), conventional loans are not available and Company X (the lender) has legitimate concerns regarding the future financial performance of Company Y. Accordingly, the Loan Agreement provides certain additional veto powers for Company X as well as certain affirmative and negative covenants regarding the continuing operations of Company Y which are designed to provide further assurances regarding Company Y's ability to meet its obligations to Company X. The major provisions are more particularly described below.

First, as part of the Loan Agreement Company X and Company Y will agree to the 1991 Budget for Company Y, including the assumed sales levels, staffing and salary levels, price list, and sales commissions for Company Y. Company Y's management will operate the daily business affairs of Company Y and can deviate from a budget line item within prescribed limits obtaining Company X's approval. Any deviations of a greater magnitude require Company X's approval. In the event that Company X does not approve of a

input on Y's prices a possible antitrust violation under the Sherman & FTC Acts
may occur. Counsel [illegible] so advised.

requested change in the budget, then the parties agree to submit the issue to an independent third party for resolution.

Second, the Loan Agreement provides that in subsequent years Company Y will prepare an annual budget and submit the budget to Company X for approval. Once again, if Company X withholds its approval of the budget, then the parties agree to submit the issue to an independent third party for resolution.

Third, if Company X provides the additional [redacted] million credit enhancement on December 15, 1991, then the majority shareholders of Company Y agree to subordinate their loans to Company Y to the Company X loan and/or forgive some of the loans they made to Company Y in order to provide Company X with additional lender protection.

Fourth, the Loan Agreement provides that subsequent to the pay-off of the loan principal, the majority shareholders will ensure that Company X continues to receive a percentage of the net profits of Company Y.

Fifth, in the event that any key executive position becomes vacant, Company X would have veto power over any replacements selected by the Company Y management.

Finally, Company Y affirmatively covenants to maintain at a prescribed level the sales volumes, price lists and sales staff commissions of Company Y, subject to change as provided in the budgets.

As we discussed, Company X would not have the right to appoint management or make daily operating decisions. The veto powers over Company Y's management decisions granted to Company X are directed toward assuring the continued viability of Company Y and the realization of Company X's anticipated return on its loan to Company Y. You stated that although this hybrid loan had some of the aspects of "ownership", so long as Company Y's veto rights over Company X's management decisions are limited to those necessary to protect Company X's lender interest and no change in the beneficial ownership of the stock or assets of Company Y is involved, then the transaction would not be a reportable event.

Please contact me immediately if I have in any way misunderstood your analysis of this matter. Thank you for your assistance.

Sincerely,

[redacted]

[redacted]