FILE

In re Laser Lens, Inc.

1998 July

CANE, CARTON, COONEY & RODRIGUEZ-DOD, P.A,
2600 Commercial Boulevard, Suite 107
Hope Valley, Franklin 00045

TO: Applicant
FROM: Marilyn Cane
DATE: July 28, 1998
RE: Laser Lens. Inc. Refinancing

Five years ago, we prepared the articles of incorporation for Laser Lens, Inc. (LLI), a closely-held corporation that manufactures custom high-precision lenses for experimental and commercial lasers. Doctors Alan Tartar and Laurie Tsu, the husband-wife co-owners of LLI, started the business by combining their savings with a Small Business Administration (SBA) loan. They have developed the company into a profitable leader in the field. Tartar and Tsu, President and Vice President respectively, constitute the board of directors of LLI, each owning 3,500 shares of common stock, the only shares outstanding.

Drs. Tartar and Tsu have determined it's time to expand LLI's operations. They intend to enter the mass production market of high-precision lenses. Tartar and Tsu have developed a detailed business plan, commissioned architectural drawings for a new factory, obtained an option on an ideal building site, and are prepared to sign a fixed-price construction contract. The only thing they don't have is the $22 million required to finance the expansion.

Although LLI is doing quite well, it does not currently generate sufficient profits to fund the expansion of the business internally. Nor do Drs. Tartar and Tsu have the personal resources or the inclination to invest heavily in the venture. LLI's original SBA loan has been repaid; there are no government or government-backed loans available to finance the expanded operation.

Tartar and Tsu explored two financing alternatives: one is the sale of additional stock in LLI as proposed by Industrial Security Insurance (ISI), and the other is the issuance of bonds as proposed by Entrepreneur Finance Group (EFG). They rejected the EFG bond alternative and now seek our advice on the stock sale. A transcript of my recent recorded interview with Tartar and Tsu and other relevant documents are attached.

Please prepare for my signature a letter addressed to Drs. Tartar and Tsu in which you do the following:

(1) Using the materials in the file, including the article from the *Breward Business Review*, extract and list the goals they hope to achieve for themselves and LLI.

(2) Explain to them what the legal, economic, and personal consequences will be on each of their goals if they accept the ISI stock sale proposal. In this part of the letter, use each of the goals you have identified in part 1 as a section heading and discuss under that heading how the ISI proposal affects that particular goal.

Don't bother with how the specific numbers play out; LLI has a battery of CPAs to crunch the numbers. Also, ignore any securities regulation issues. The proposal involves a private offering that should be exempt but, in any event, I have another associate checking on that question. To be most helpful to our clients, discuss the underlying principles in language that is understandable to non- lawyers and be sure to explain the meaning of statutory phrases like "voting trusts," "pre-emptive rights" and others that might be unfamiliar to non-lawyers. Thanks for your assistance.

Industrial
Security
Insurance

Capitol Plaza Commercial Center
Cenzrallia, Franklin 00133

Doctors Alan Tartar and Laurie Tsu

July 22, 1998

Laser Lens, Inc.
12 Meadow Lane
Hope Valley, FN 00048

Dear Doctors Tartar and Tsu:

Industrial Security Insurance (ISI), an accredited investor that owns and invests on a discretionary basis in more than one billion dollars in securities, has approved a private purchase of 10,000 shares of Laser Lens, Inc., common stock at $2,200 per share. At this price, the transaction will generate $22 million for Laser Lens, Inc., the amount the company requires to move forward with its planned plant construction and its entry into the commercial laser market.

ISI insists that the stock it purchases be common stock, not shares of a different class or series. Therefore, the shares will be neither convertible nor callable. As a condition of the sale, a voting trust consisting of your shares and those of ISI will be established pursuant to the Franklin Business Corporation Act. The purpose of the voting trust will be to insure that the trustee will vote the shares to place each of you and a nominee of ISI on a three-person board of directors. On all matters other than the election of the directors, the trustee will vote each party's shares as instructed by that party. The board of directors will continue to have the authority to select the company's officers and to make and review routine business decisions.

In addition to amending Laser Lens, Inc's by-laws to create a three-person board, the articles of incorporation will be amended to provide for preemptive rights and to prohibit the issuance of shares for compensation or in return for non-monetary compensation except with approval of the stockholders holding a majority of the shares.

This proposal is premised on the assumption that LLI will continue to own all rights to the patents for the laser lens. It is also conditioned on your agreement: 1) to continue to serve as President and Vice President for the term of the voting trust; and 2) to execute non-competition agreements for a like term. We consider these to be indispensable conditions of the agreement.

While there are other details that the lawyers will be required to draft, these are the core elements of an agreement among you, ISI, and Laser Lens, Inc. Please let me know by August 4 if you are in accord with these terms. I will cause the matter to be reduced to a formal written agreement and bring the contract to you in Hope Valley for execution. Perhaps you would like to invite an attorney to review the document. If so, please let me know and I will forward a draft to your counsel as soon as the contract is ready.

ISI is delighted to have the opportunity to invest in Laser Lens, Inc. We expect the company to claim a substantial share of the laser market and to be a profitable venture for you and ISI.

Sincerely,

Marc Dobson

Marc Dobson, Senior Investment Manager

Articles of Incorporation
of
Laser Lens, Inc.

The undersigned incorporators, for the purpose of forming a corporation under the State of Franklin Business Corporation Act, hereby adopt the following Articles of Incorporation.

Article I – Name

The name of this corporation is Laser Lens, Inc.

Article II – Shares

This corporation is authorized to issue 50,000 shares of Common Stock, par value $1.00 per share.

Article III - Initial Registered Agent and Street Address

The name of the corporation's initial registered agent and the street address of its initial registered office are:

Laurie Tsu
123 Laurel Drive
Hope Valley, Franklin 00049

Article IV – Incorporators

The name and address of each incorporator is:

Laurie Tsu
123 Laurel Drive
Hope Valley, Franklin 00049

Alan Tartar
123 Laurel Drive Hope
Valley, Franklin 00049

The undersigned incorporators have executed these Articles of Incorporation this 15th day of October. 1993.

Laurie Tsu

Alan Tartar

TRANSCRIPT OF INTERVIEW WITH
DR. ALAN TARTAR & DR. LAURIE TSU, LASER LENS, INC.

CONDUCTED BY MARILYN CANE
CANE, CARTER, COONEY & RODRIQUEZ-DOD
JULY 24,1998

Attorney: Right in here, please. Take that chair, Laurie. Alan, over in this one. Can I get you something, coffee or tea?

Tartar: No thanks, Marilyn. Got to cut down on the caffeine.

Attorney: How are the kids, Laurie?

Tsu: Fine, Marilyn. They're growing up so quickly. They're into softball and roller hockey. Andy wants to play football in the fall. We're not sure we'll let him.

Attorney: Always a tough decision. Are your plans for expanding the business taking shape?

Tartar: That's why we're here today. We're right on course with the business plan we developed last year. After you helped us nail down the option for the site of the new facility in the new Weston Industrial Park, we interviewed a half dozen architects and an equal number of builders. We settled on a great design by Eddie Smith, and Tom Gibbs is working up a fixed-price construction contract that we'll get you to look over.

Attorney: Great. What's next?

Tsu: Now we need your advice on how to finance the expansion.

Attorney: How much money will you need for the building, equipment and a reasonable float?

Tsu: We've pushed the numbers around and we'll be comfortable at $22 million. The facility will cost $19.2 to complete with almost $3 million left to bolster what we have already. Given the strong cash position of LLI, that's more than enough.

Attorney: What financing choices are you looking at?

Tartar: There are two of them. There is an offer to cover the deal through a stock sale to Industrial Security Insurance. We also thought about issuing bonds but we decided to drop that option.

Attorney: Why?

Tartar: *EFG*, the Entrepreneur Finance Group, submitted a proposal to underwrite a private placement of $22 million in bonds at an acceptable fixed rate of interest with a 30-year term. We sure liked the idea of quarterly payments of the accrued interest. Paying interest-only would lower our cash flow requirements during the term of the bonds. Of course, the bond principal had to be fully paid on maturity. Also, the bonds were callable at any time meaning we could pay them off early without a prepayment fee in the event LLI was able to accumulate the principal before 30 years passed. We're convinced we will amass that amount of capital from income well before 30 years, more likely in 10 to 15.

Tsu: Yes, but the downside aspects of the bond deal made us pull out. The bonds would have been secured by the two patents the company owns. In the event of default—not something we anticipate but a possibility we must account for—EFG could force a sale of the patent rights and we would lose control of the most valuable asset we'll ever own. Moreover, in addition to being callable, the bonds would be convertible on the tenth, twentieth and thirtieth anniversaries at a formula price of $2,200 per share. At that conversion rate, it would have been possible to lose control of LLI to the bondholders, even if we did pretty well.

Attorney: How do you figure that?

Tsu: Let's say LLI performs well enough to make the $2,200 per share conversion rate attractive to EFG but it doesn't do well enough to generate sufficient profits to allow us to call the bonds. Then the bondholder converts the bonds on the tenth anniversary and gets 10,000 shares, more than enough to wrest control of the company from Alan and me.

Attorney: Well, isn't there a way out of that. Let me figure out the numbers. Here it is. If LLI accumulates at least $6,602,200 in profits before the tenth anniversaiy, you could call that amount of the bonds. If you do that, it means the maximum number of shares into which the bonds could be converted would be 6,999, one short of equaling the shares you hold together. That's the advantage of the bonds being callable at any time but convertible at set times.

Tartar: OK, but it's in the first 10 years that it's going to be the toughest to accumulate profits. It's at the back end that profits will pile up if we keep pace with our business plan. And we won't dig into our personal estate to shore up the finances of LLI. We've already done that once, and we were very nervous about it.

Tsu: That's right. Accumulated personal income is built into our business plan and we'll need it to insure the kids have solid college options and there's money available for our retirement. The bottom line is we can't risk losing control of LLI, jeopardizing the patents, or exposing us to loss of our modest personal wealth. No, we have to pass on the bond option.

Attorney: As I recall from the time I incorporated LLI, you had irrevocably assigned to the corporation all rights to the patents. LLI still owns the patents, doesn't it?

Tsu: Yeah, it does. They're good for 20 years from the time we filed them—that means they've got about 12 to 13 years left to run, and we want to be sure they're protected for at least that long.

Attorney: I understand your concerns, Laurie. Do I remember correctly—you own 7,000 shares of stock?

Tartar: That's right. We each own 3,500 shares. Those are the only shares outstanding.

Attorney: What about the stock purchase being proposed by ISI in the letter you sent me earlier? What do you think of it?

Tsu: This is where we need your help, Marilyn. We'd like you to advise us on the terms of the proposal. ISI seems to be willing to have us remain in control of the day-to-day operation of LLI. Can you give us a sense of the pluses and the minuses of the deal?

Attorney: Yes, but at first glance there are some things that bother me about it. For example, what about the non-competition agreements if you decide it doesn't work out?

Tartar: Yes, well, we have some of the same concerns. But at this stage, ISI has made it pretty clear that the terms of the proposal in its letter are its "best and final" offer. So, don't spend any time and effort suggesting alternatives or counter-proposals. Just let us know how the proposed terms will affect us. We can talk about alternatives once we understand all the effects of ISl's proposal.

Attorney: Understood. I'll put together a letter setting out how the ISI proposal fits with your needs and goals. After you've had a chance to digest that, we'll meet again so you can ask me any questions and the two of you can be satisfied you understand the opportunities and obstacles inherent in the proposal. How does that sound?

Tsu: Great.

Tartar: That's exactly what we were hoping for.

Attorney: Good. You'll be hearing from me shortly.

Conclusion of Recorded Interview

LASER LENS COMPANY MAKING PLANS TO EXPAND OPERATIONS

Laser Lens, Inc. (LLI), the manufacturer of high- precision laser lenses, is studying how to expand its operations. Dr. Alan Tartar, president of LLI, revealed that the *company* is preparing a business plan to build beyond the relatively narrow custom market and into the broader field of mass- produced lenses for lasers.

"Custom manufacturing is comfortable, now that we've refined the LLI manufacturing process," said Tartar in a recent interview with the ***Business Review.*** "We know our clients and their needs," he added. The mass production market, on the other hand, "is a rough and tumble place where you can get hurt if you're not careful," Tartar cautioned. But the mass market is where the real profits are, according to Dr. Tartar. "High risk, high gain," he said. To take advantage of the situation, LLI must build an expensive new manufacturing facility and increase its workforce from about 50 employees to a highly-trained staff of almost 225.

Dr. Laurie Tsu, the VP of LLI and Tartar's wife, noted the company is well positioned to make a move. LLI retired its start-up SBA loan last year and books a steadily growing annual profit. "We are a debt free business with great technical know-how and a strong industry reputation. Is there a better time to expand?" she asked.

LASER, an acronym for *light amplification by stimulated emission of radiation*, is a device for the creation and amplification of a narrow, intense beam of coherent light. In a laser, the atoms or molecules of a crystal, such as ruby or garnet—or of a gas, liquid, or other substance—are "excited" in a process called stimulated emission, producing a sudden burst of coherent radiation as all the atoms discharge in a rapid chain reaction. Today's lasers range in size from as small as a grain of salt to as large as a building. They are widely used in industry (for cutting and boring metals and other materials), in medicine (for self-cauterizing surgery), and in communications, scientific research, and holography. They also are key parts in everyday devices such as bar-code scanners, laser printers, and compact disc players.

e of the explosive laser market.

Until now, LLI's customers ordered special design lasers for unique projects. For example, Dr. Tsu described the lasers LLI produced for the National Radio Astronomy Observatory, the federal agency that operates 27 mobile antennas in Sedona, Arizona, designed to search for life in space. "Some extragalactic sources are detected by their radio emission, but others are best identified with optically enhanced lasers made only by LLI," Tsu noted proudly.

Tartar and Tsu, who earned PhDs from Franklin University, filed two extremely valuable patents that they assigned to LLI. "As we expand into new markets, we must protect our control of the patents that form the foundation of the business. We also must be sure that we remain in charge of the operational direction of the company," Tartar said. Tsu added, "Alan and I form an effective team that combines scientific knowledge with a street smart awareness of what makes the laser business run. An egghead or a numbers guy wouldn't know how to put both sides of the business together."

Tartar and Tsu expect an expanded LLI "to break even in five [years] and then to take off vertically." They did express concern about market volatility in the high-tech laser field. "With a slight downside risk, we need to protect our personal financial position while we restructure LLI," Tsu said.