

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 1994

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-6620

INSTRUMENT SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

11-1893410  
(I.R.S. Employer  
Identification No.)

100 JERICHO QUADRANGLE, JERICHO, NEW YORK  
(Address of Principal Executive Offices)

11753  
(Zip Code)

Registrant's telephone number, including area code: (516) 938-5544

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
COMMON STOCK, \$.25 PAR VALUE	NEW YORK STOCK EXCHANGE
SECOND PREFERRED STOCK, SERIES I \$.25 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

State the aggregate market value of the voting stock held by non-affiliates of the registrant. (The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.) As of November 15, 1994 -- approximately \$263,000,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (applicable only to corporate registrants). As of November 15, 1994 -- 33,738,036.

Documents incorporated by reference: Part III - Registrant's definitive proxy statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

## PART I

### ITEM ONE - BUSINESS

#### General

Instrument Systems Corporation ("ISC" or "the Company") is a diversified manufacturer with operations in three business segments: Home and Commercial Products, Specialty Plastic Films and Electronic Information and Communication Systems.

#### Home and Commercial Products

Management believes that its wholly-owned subsidiary, Clopay, is among the largest manufacturers of residential garage doors in the United States. Clopay sells a broad line of steel and wood garage doors for residential and commercial use which are manufactured in stock sizes and styles as well as special order to customer specifications.

Clopay's strategy is to produce a broad line of high quality garage doors and other building products for distribution throughout North America to retail, professional installer and wholesale channels. Clopay has focused on increasing its market share by introducing new products, expanding its distribution, sales and marketing programs and through strategic acquisitions.

Clopay sells residential garage doors to a large number of retailers throughout North America, including home centers and building material cooperative buying groups. Significant customers include The Home Depot Inc., Menards, Inc., Lowe's Companies, Inc., Payless Cashways, Inc., Builders Square, Inc., Hechinger Company, Home Base, Wickes Lumber Company, Wolohan Lumber Co., 84 Lumber and Grossman's Inc. Residential and commercial garage doors and related products for professional installation are sold directly to a national network of installation specialists.

Clopay distributes garage doors directly from its manufacturing facilities and through its network of 32 company-owned distribution centers throughout the United States and in Canada. Under Clopay's "furnish and install" program, consumers purchase garage doors through local retailers. Clopay distribution centers manage the installation through authorized installing dealers.

Clopay continues to make substantial capital investments in its manufacturing facilities and believes that its automated continuous production plants enable it to produce garage doors cost effectively. Wood garage doors and passage doors are produced from kiln dried lumber and are constructed for ease of operation and durability. Steel garage doors, including insulated doors, are fabricated from pre-painted, galvanized steel, specially selected for rust resistance and low maintenance. The lumber and steel used in the manufacturing operations are generally available from a variety of sources. All products are designed for safe operation and easy specification by architects, contractors and facilities planners.

The garage door market is characterized by several large national manufacturers including Clopay and many smaller regional and local manufacturers. Clopay believes that it competes favorably on the basis of price, diversity of product line, quality and merchandising capability.

Clopay also operates a service company that installs and services garage doors and openers and prefabricated fireplaces.

The Company also manufactures and sells a broad line of specialty hardware primarily for the food service industry under the name "Standard-Keil" and components for beverage dispensing equipment under the name "Tap-Rite." Specialty hardware products include commercial refrigeration fittings, locks,

hinges and lighting components for coolers, walk-in refrigeration equipment, environmental control units and filters used to contain grease. The beverage dispensing equipment includes carbon dioxide regulators, beer faucets, picnic pumps and tavern taps.

The Company also manufactures and sells synthetic batting. Batting is material used in layers or sheeting for lining, as a furniture filling, for packaging and as filters.

#### Specialty Plastic Films

Clopay is a leading manufacturer of customized plastic film and laminates made from plastic resin and non-woven fabrics for use in consumer and health care products. Clopay's strategy is to offer technologically advanced products for use in niche markets to major consumer and health care product companies. Clopay believes that its research and development activities and capital investment in related equipment enable it to efficiently manufacture products in large volume and meet changing consumer needs. These factors, together with its technical expertise, allow Clopay to compete favorably in its markets. Clopay sells its products primarily throughout the United States with sales also in Canada, Latin America and the Pacific Rim.

Clopay manufactures thin gauge embossed barrier films and coated laminates of plastic film and non-woven fabrics to customer specifications for sale to consumer product and other companies. These products are used primarily as the backsheet barrier and the leg cuff in disposable diapers as well as the moisture barrier in adult incontinent products and sanitary napkins. These products are differentiated by strength, barrier and other properties. A substantial portion of the specialty plastic film sales over the last five years have been to The Procter & Gamble Company. The loss of this customer would have a material adverse effect on the Company's business.

In May 1994, this customer informed the Company of its intention to make a design change which will substantially reduce and could eliminate the thin laminate program. The change is based upon the lower cost of an alternative material. During fiscal 1994, sales of the thin laminate were approximately \$28 million. The loss of the thin laminate program will adversely impact earnings, subject to the ability of the Company to replace the business, expand other areas of the specialty plastic films business and reduce operating costs.

The Company has recently been approved as a supplier of other moisture barrier films to this customer and expects to sell approximately \$10 to \$15 million per year of such films. The Company has a number of ongoing development projects with this and other customers and has directed its efforts to find alternative business for the utilization of the plastic films segment's production capacity.

Clopay also manufactures plastic films and laminates for a wide variety of disposable health care products including surgical drapes, patient care underpads and medical garments. These plastic products are also sold for use in garments worn by workers in hazardous industrial environments.

Clopay manufactures these products on high speed equipment to meet stringent tolerances. The manufacturing process consists of melting a mixture of plastic resins (primarily polyolefins) and additives, and forcing this mixture through a computer controlled die and rollers to produce embossed films. In addition, the process can involve extruding the melted plastic film directly onto a non-woven fabric to form a laminate. Certain products involve further processes such as a secondary lamination of the film to a non-woven material. Through statistical process control methods, Clopay personnel monitor and control the entire production process. The plastic resins used in Clopay's products are commodities generally available from several sources.

Clopay is engaged in several joint efforts with the research and development departments of its major specialty plastic film customers. Clopay employs chemists, scientists and engineers at a technical center to study polymers and manufacturing processes that will assist in the development of its

specialty plastic film products. Clopay's research and development efforts have resulted in inventions covering embossing patterns, improved processing methods and other proprietary technology. Clopay's research and development costs for this business amounted to approximately \$1,600,000, \$1,600,000 and \$1,700,000 in 1992, 1993 and 1994, respectively.

#### Electronic Information and Communication Systems

The Company's wholly-owned subsidiary, Telephonics, founded in 1933 and acquired by the Company in 1962, is an electronics systems company specializing in advanced information and communications systems for government, aerospace, civil, industrial and commercial markets. In recent years, Telephonics has expanded its customer base with increasing emphasis in non-military markets. These efforts have resulted in a series of new contract awards in transit and wireless communications as well as international air traffic control projects.

Telephonics designs, manufactures and logistically supports advanced military communications systems, avionics for commercial airlines, transit communication systems, wireless products, command and control systems, strategic communications systems, VLSI/LSI circuits, microwave components, test instrumentation, microwave landing systems, maritime surveillance radars and air traffic control systems. A substantial portion of Telephonics' sales (approximately 66% for 1994) were to agencies of the U.S. Government or to prime contractors or subcontractors on government, military or aerospace programs. Telephonics' funded backlog at September 30, 1994 was approximately \$125 million as compared to \$112 million at September 30, 1993. Approximately 60% of the September 30, 1994 backlog is expected to be shipped within twelve months.

Telephonics participates in approximately 50 government and aerospace programs. Approximately 60% of Telephonics' sales for 1994 were attributable to upgrades, enhancements and follow-on options to existing long-term products and programs.

Some of the major programs under which Telephonics participates include the following:

Description of Program	Customer	Product	Purpose
C-17A (Air Force Cargo Transport)	McDonnell Douglas	Integrated Radio Management System	Centralized digitally controlled audio distribution system
		Wireless Intercomm System	Wireless communication system
		Transponder Test Unit	On-board test equipment
LAMPS MARK III (Antisubmarine Warfare Helicopter)	Loral	Multi-Mode Radar (MMR) Intercommunication and Radio Management System Identification Friend or Foe (IFF)	Upgraded avionics for the LAMPS MARK III Helicopter with maritime surveillance radar with identification friend/or foe capability and inter-communication and radio management systems
Joint-STARS (Airborne Surveillance System)	Northrop-Grumman Corporation	Distributed Digital Intercommunications and Radio Control System	Manages all inter-communication and radio transmissions
Starcom (Inter-communication System for Aircraft)	U.S. Army	Communications System Control Unit	Provides all inter-communications on aircraft
AATC (Amphibious Assault Ships)	U.S. Navy	Amphibious Air Traffic Control	Processing and display equipment used for air traffic control

MTRACS (Caribbean Operations Center)	U.S. Navy	Command, Control and Communications System	Used for Caribbean air surveillance
SEPTA	ABB Traction	Communications, Wayside Video Surveillance Systems	Car-borne communications for rail cars
Zhuhai	Guangdong Machinex Corporation	Air Traffic Control System	Manage Air Traffic at Zhuhai, China Airport

Telephonics also designs and produces custom large-scale integrated circuits, which replace conventional circuits and components with a single microchip. Telephonics provides microchips to manufacturers of complex control circuitry for airborne communication systems, telecommunications signal processing equipment, security systems, home appliances, automated hand tools, and for use in automobiles. Telephonics also provides specialized design services which supplement customers' in-house capabilities. Telephonics also produces a wide variety of microwave components and test instruments.

Headsets, microphones, earphones and cables manufactured by Telephonics are used in military and commercial aircraft and ground vehicles, especially in high noise environments.

Telephonics' commercial products include multiplex in-flight passenger entertainment and service systems for wide-bodied aircraft which permit various audio channels to be transmitted simultaneously over a single line and distributed as separate channels to each passenger. Telephonics is under contract with McDonnell Douglas to produce passenger and cabin address intercom systems for the MD-80 aircraft. Under contracts with Morrison Knudson, ABB Traction and other rail suppliers, Telephonics also produces communication equipment which provides interior communications among commercial train cars.

Government programs in which Telephonics is involved frequently provide for purchases under a series of independently priced contracts, each calling for delivery of a lot, consisting of a portion of the units in the overall program. Each contract is treated separately and there is no requirement that upon delivery of the lot which is the subject of one contract, the government must contract to purchase, or the supplier must contract to sell, additional lots.

Telephonics accounts for its long-term contracts using the percentage-of-completion method. Under this method, the Company recognizes revenues and gross profit under a contract based upon the costs incurred as a percentage of the total estimated cost of fulfilling the contract. A typical lot takes approximately one to three years to fulfill.

Most of Telephonics' contracts are fixed price, which means that Telephonics generally bears the risk of cost overruns. In a fixed price contract, progress payments are received during performance as stages are reached for which fixed payments are established in the contract.

In accordance with Department of Defense and NASA procedures, all contracts involving government programs permit the government to terminate the contract at any time, at its convenience, without cause. In the event of such termination, Telephonics is entitled to reimbursement for its costs and to receive a proportionate share of its profits, if any, on the work performed prior to termination.

Telephonics' staff of approximately 250 engineers and marketing personnel, many of whom have technical backgrounds, advise government and commercial planning and design personnel in an attempt to include Telephonics' products in their programs.

Telephonics competes on the basis of technology, design, price and performance. The products sold by Telephonics utilize technologies which are constantly changing. Telephonics' expertise in these technologies enables it to compete with several major manufacturers of electronic information and communications systems which have greater financial resources than Telephonics. Telephonics also competes with several smaller manufacturers of similar products.

A major part of Telephonics' product development is performed under government contracts under which such costs are generally recoverable. Research and development costs not recoverable under contractual arrangements are charged to expense as incurred. These costs were approximately \$2,900,000, \$1,600,000 and \$1,400,000 for 1992, 1993 and 1994, respectively.

Employees

The Company has approximately 2,900 employees located throughout the United States and in Canada at its various plants, warehouses and offices. Approximately 400 of its employees are covered by collective bargaining agreements, primarily with affiliates of the AFL-CIO. The Company believes its relationships with employees are satisfactory.

Officers of the Registrant

Name	Age	Served as Officer Since	Positions and Offices
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Harvey R. Blau	59	1983	Chairman of the Board
Robert Balemian	55	1976	President
Patrick L. Alesia	46	1979	Vice President and Treasurer
Susan E. Rowland	36	1983	Secretary

ITEM TWO - PROPERTIES

The Company occupies approximately 2,100,000 square feet of general office, factory and warehouse space and showrooms throughout the United States and in Canada. The following table sets forth certain information as to each of the Company's major facilities:

Location	Business Segment	Primary Use	Approximate Square Footage	Owned or Leased
-----	-----	-----	-----	-----
Jericho, NY	Corporate Headquarters	Office	11,000	Leased
Farmingdale, NY	Electronic Information and Communication Systems	Manufacturing	167,000	Owned
Huntington, NY (2 facilities)	Electronic Information and Communication Systems	Manufacturing	114,000	Owned
Huntington, NY	Electronic Information and Communication Systems	Manufacturing	41,000	Leased
Carson, CA	Home and Commercial Products	Manufacturing	125,000	Owned
Allenwood, NJ	Home and Commercial Products	Manufacturing	144,000	Owned
Cincinnati, OH	Home and Commercial Products Specialty Plastic Films	Office	34,000	Leased

Cincinnati, OH	Specialty Plastic Films	Research and Development	33,000	Leased
Russia, OH	Home and Commercial Products	Manufacturing	274,000	Leased
Baldwin, WI	Home and Commercial Products	Manufacturing	198,000	Leased
Shawano, WI	Home and Commercial Products	Manufacturing	59,000	Leased
Augusta, KY	Specialty Plastic Films	Manufacturing	143,000	Owned
Nashville, TN	Specialty Plastic Films	Manufacturing	86,000	Leased
Fresno, CA	Specialty Plastic Films	Manufacturing	37,000	Leased

The Company has aggregate minimum annual rental commitments under real estate leases of approximately \$4,900,000. The majority of the leases have escalation clauses related to increases in real property taxes on the leased property and some for cost of living adjustments. Certain of the leases have renewal options. The Company also leases space for the home and commercial products segment's distribution centers in numerous facilities throughout the United States which aggregate approximately 500,000 square feet. All plants and equipment of the Company are believed to be in adequate condition and contain sufficient space for current needs.

#### ITEM THREE - LEGAL PROCEEDINGS

A. Warwick Administrative Group, et al. v. Avon Products, et al. By way of background, in February 1989, Lightron Corporation ("Lightron"), a wholly-owned subsidiary of the Company, initially received notification from the EPA that it was being named as one of several potentially responsible parties who could be liable for cleanup and natural resource damages relating to a landfill located in the Town of Warwick, Orange County, New York (the "Site"). Subsequently, the EPA conducted a remedial investigation and feasibility study at the Site to determine the extent of the contamination and the various alternative measures which are appropriate for remediation. On June 27, 1991, a Record of Decision was signed setting forth the selected course of remediation for the Site. Thereafter, pursuant to an Administrative Order issued by the EPA which directed them to do so, the potentially responsible parties named in the Order (the "Warwick Group") agreed to undertake to perform a second operable unit Remediation Investigation and Feasibility Study.

In January 1993, the Warwick Group instituted the within action in the United States District Court for the Southern District of New York against Lightron and several other potentially responsible parties. According to their complaint, the plaintiffs are seeking, inter alia, a declaratory judgment decreeing that Lightron and the other defendants are jointly and severally responsible under CERCLA to contribute their share of the actual response costs already incurred and the future response costs to be incurred by the plaintiffs in connection with the remediation of the Site.

Consistent with its contention that it did not dump or have delivered or carted to the Site for disposal any hazardous or toxic wastes, Lightron has served and filed an answer to the amended pleadings in which it generally denies the plaintiffs' allegations and asserted several affirmative defenses to liability, as well as counterclaims against the plaintiffs. Lightron also has entered into a Stipulation with the other defendants regarding the implicit assertion of mutual cross-claims among the several defendants.

B. Department of Environmental Conservation with Lightron Corporation (Peekskill). Lightron once conducted operations at a location in Peekskill in the Town of Cortlandt, New York owned by ISC Properties, Inc., a wholly-owned

subsidiary of the Company (the "Peekskill Site"). ISC Properties, Inc. sold the Peekskill Site in November 1982.

Subsequently, ISC was advised by the New York State Department of Environmental Conservation ("DEC") that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron's prior plating operations. Based upon these findings, ISC Properties, Inc. is involved in the negotiation of a consent order which the DEC will provide for the performance of a field investigation and feasibility study at the Peekskill Site.

C. Linke Enterprises of Oregon, Inc. v. Champion Laboratories, Inc. and Instrument Systems Corporation. In September 1990, a private cost recovery action under federal and state environmental statutes was commenced in the United States District Court of the District of Oregon. Plaintiff sought to recover from the Company response costs in an amount exceeding \$250,000 which the plaintiff allegedly had expended to investigate and remediate an existing environmental problem at the Site. The Site was previously leased by one of the Company's former subsidiaries, Sun Battery, Inc., for the period from 1966 to 1971. According to the terms of the settlement agreement which resolved the action, the Company was obligated to contribute to the plaintiff's remediation costs the sum of \$97,992.87. Champion Laboratories, Inc. also was required to make a contribution to the plaintiff's remediation costs in the amount of \$49,011.13. In consideration of these contributions, both the Company and Champion Laboratories, Inc. have been indemnified by the plaintiff against any further liability with regard to the environmental matter, except to the extent that either the EPA or the comparable state environmental agency initiates enforcement proceedings or prosecutes a claim for environmental damages.

In June 1992, the Company was notified pursuant to the settlement agreement that the State of Oregon had renewed its investigation of the Site and that such investigation could lead to a final determination that further cleanup actions were necessary.

D. Atlantic Richfield Company (ARCO) v. Current Controls, et al. By way of background, the Atlantic Richfield Company ("ARCO") initially notified the company in 1991 that based upon ARCO's investigation of the groundwater at the Sinclair Refinery Superfund Site in Wellsville, New York, a portion of which ("Operable Unit II") allegedly is owned currently by an indirect, wholly-owned subsidiary of the Company, ISC Development Corp., the shallow aquifer underlying the Site was found to be contaminated with various hazardous substances. It is ARCO's contention that manufacturing operations conducted at ISC Development Corp.'s premises (which were leased to a third party) may have contributed to this contamination, and that as an owner and/or operator, the Company would be jointly and severally liable as a responsible party for the costs of remediation under Section 107 of CERCLA.

On or about January 26, 1994, ARCO served the Company with a summons and complaint in this action pending in the United States District Court for the Western District of New York. The Company has been named as one of several defendants whom the plaintiff claims should be held jointly and severally liable for the costs incurred and to be incurred by ARCO in the remediation and cleanup of portions of the Sinclair Refinery Superfund Site.

E. The Town of New Windsor v. Tesa Tuck, et al. In or about March 1993, the Town of New Windsor instituted an action in the United States District Court for the Southern District of New York against Lightron Corporation and other defendants in which it is seeking, inter alia, a declaratory judgment decreeing that Lightron and the other defendants are jointly and severally responsible to contribute to the response costs incurred and to be incurred by the plaintiff in connection with the remediation of a landfill located in the Town of New Windsor, New York (the "Site"). The plaintiff's claim against Lightron is premised upon its contention that Lightron of Cornwall, Inc., a former division of Lightron Corporation, allegedly disposed of full and empty drums of lacquer paints and thinners at the Site. The plaintiff has alleged in its complaint that total response costs for the Site are estimated to be approximately \$8,000,000. Lightron has served and filed an answer denying the material allegations of the complaint and asserting several affirmative defenses to

liability, as well as cross-claims against the other defendants and

counterclaims against the plaintiff. Also, the original defendants recently have impleaded as third party defendants several other parties whom the defendants are claiming have contributed to the contamination found to exist at the Site.

Management believes, based on facts presently known to it, that the outcome of the litigation proceedings described above will not have a material adverse effect on the Company's consolidated financial position or results of operations.

ITEM FOUR - SUBMISSION OF MATTERS TO  
A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

PART II

ITEM FIVE - MARKET FOR REGISTRANT'S COMMON EQUITY  
AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock and Second Preferred Stock, Series I, are listed for trading on the New York Stock Exchange. As of November 15, 1994 there were approximately 16,000 record holders of the Company's Common Stock. The following table shows for the periods indicated the quarterly range in the high and low sales prices for these securities.

FISCAL QUARTER ENDED -----	COMMON STOCK		SECOND PREFERRED STOCK, SERIES I	
	HIGH ----	LOW ---	HIGH ----	LOW ---
December 31, 1992	\$6 1/4	\$4 1/8	\$6 5/8	\$4 3/4
March 31, 1993	7 3/8	6	7 3/8	6 1/2
June 30, 1993	8 1/8	6	8	6 5/8
September 30, 1993	8 3/4	6 1/4	8 5/8	6 3/4
December 31, 1993	9 1/8	8	9	8 1/4
March 31, 1994	9 3/4	7 3/4	9 3/4	8 3/4
June 30, 1994	9	6 5/8	9 1/8	7 1/8
September 30, 1994	8 1/8	6 7/8	8 1/8	7 1/4

On November 8, 1994 the Company's Board of Directors authorized a self-tender offer for up to 3,000,000 shares of the Company's Common Stock at prices between \$8.00 and \$9.25. The Company will determine the per share price within this range that will allow it to purchase 3,000,000 shares or such lesser number as may be tendered. The offer expires on December 9, 1994, unless extended.

ITEM SIX - SELECTED FINANCIAL DATA

	YEARS ENDED SEPTEMBER 30,				
	1994 ----	1993 ----	1992 ----	1991 ----	1990 ----
Net sales	\$488,957,000 =====	\$436,949,000 =====	\$398,761,000 =====	\$343,343,000 =====	\$318,184,000 =====
Income from continuing operations	\$ 29,705,000 =====	\$ 26,560,000 =====	\$ 21,594,000 =====	\$ 13,443,000 =====	\$ 6,427,000 =====
Per share	\$ .80 =====	\$ .70 =====	\$ .59 =====	\$ .45 =====	\$ .22 =====
Total assets	\$293,215,000 =====	\$270,270,000 =====	\$246,750,000 =====	\$303,592,000 =====	\$294,505,000 =====

Long-term obligations	\$ 15,538,000	\$ 26,147,000	\$ 28,406,000	\$ 79,738,000	\$ 86,602,000
	=====	=====	=====	=====	=====

<FN>

No dividends on Common Stock were declared or paid during the five years ended September 30, 1994.

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

RESULTS OF OPERATIONS

Fiscal 1994 Compared to Fiscal 1993

Net sales for all business segments were \$489.0 million, an increase of \$52.0 million over 1993. Net sales of the home and commercial products segment increased by \$49.5 million or 21.5% in 1994 compared to 1993. The increase is principally attributable to higher unit sales of garage doors (\$40.8 million) due to expanded distribution and increased market share. Net sales of the specialty plastic films segment increased by \$1.3 million or 1.2% in 1994 compared to 1993 primarily due to increased unit sales. Net sales of the electronic information and communication systems segment increased by \$1.2 million or 1.3% in 1994 compared to 1993 due to new contract awards.

Operating income for all business segments was \$55.4 million, an increase of \$5.6 million or 11.3% over 1993. Operating income of the home and commercial products segment increased by \$3.5 million or 16.4% in 1994 compared to 1993 principally due to the increased garage door sales partly offset by increased distribution costs and start-up expenses for a new garage door product line. Operating income of the specialty plastic films segment increased by \$2.0 million or 10.8% compared to 1993 primarily due to the increased sales and production efficiencies. Operating income of the electronic information and communication systems segment increased slightly compared to 1993 due to the effect of the higher net sales offset by increased bid and proposal expenditures.

As previously reported, a major customer of the specialty plastic films segment informed the Company in May 1994 of its intention to make a design change which will phase out the segment's thin laminate program through the first half of 1995. This change is based upon the lower cost of an alternative material. During each of 1994 and 1993, sales of the thin laminate were approximately \$28 million. The Company has been approved as a supplier of other moisture barrier films to this customer and expects to sell approximately \$10 to \$15 million per year of such films. The Company also has a number of ongoing development projects with this and other customers and has directed its efforts to find alternative business for the utilization of the plastic films segment's production capacity. The loss of the thin laminate program will adversely impact earnings subject to the ability of the Company to replace the business, expand other areas of the specialty plastic films business and reduce operating costs.

The Company has experienced increased raw material costs during the latter part of fiscal 1994 for steel used in its building products business and for polyethylene resin used in its specialty plastic films business. It is expected that prices of these materials will increase further in fiscal 1995. The Company has been able to pass on such increases to its customers in the past and anticipates the ability to do so during fiscal 1995, although there is no assurance as to the timing or extent that it will be able to do so.

Interest income increased by \$1.0 million due to higher investable balances during 1994.

Fiscal 1993 Compared to Fiscal 1992

Net sales for all business segments were \$436.9 million, an increase of \$38.2 million over 1992. Net sales of the home and commercial products segment increased by \$43.3 million or 23.1% in 1993 compared to 1992. The increase is principally attributable to higher unit sales of garage doors (\$19.0 million)

due to expanded distribution and increased market share and to the increase (\$24.0 million) from including a full year's sales for businesses acquired in March 1992. Net sales of the specialty plastic films segment increased by \$5.9 million or 5.5% in 1993 compared to 1992. Increased unit sales of products other than thin laminate (\$14.2 million) and higher average selling prices for these products (\$1.3 million) offset decreased net sales of the thin laminate product due to selling price reductions described below (\$5.0 million) and lower unit sales (\$4.6 million). The thin laminate program with the specialty plastic films segment's major customer was revised in September 1992. Among other changes, the revision provided for a reduction of selling prices that had the effect of reducing the segment's thin laminate sales. Net sales of the electronic information and communication systems segment decreased by \$11.0 million or 10.6% in 1993 compared to 1992 due to fewer defense related awards and delays in funding existing programs.

Operating income for all business segments was \$49.8 million, an increase of \$5.7 million or 13.0% over 1992. Operating income of the home and commercial products segment increased by \$7.0 million or 48.1% in 1993 compared to 1992 principally due to the increased garage door sales. Operating income of the specialty plastic films segment decreased by \$.9 million or 4.7% compared to 1992 primarily due to lower margins on the thin laminate program in connection with the previously mentioned price reductions, substantially offset by an overall increase in unit sales. Operating income of the electronic information and communication systems segment decreased by \$.4 million or 3.6% compared to 1992. The effect of the lower net sales was partially offset by reduced bid and proposal expenditures (\$2.6 million).

Interest expense decreased by \$2.3 million in 1993 compared to 1992 primarily due to the January 1992 redemption of the Company's 12 1/2% Subordinated Debentures and other debt reductions.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated by operations was \$36.0 million after income tax payments of \$16.8 million. Cash, cash equivalents and marketable securities at September 30, 1994 were \$58.4 million compared to \$37.6 million a year earlier and working capital increased by \$4.3 million to \$121.0 million at September 30, 1994.

Cash flows used in investing activities included \$11.6 million of proceeds received from the sale of the Company's ownership interest in Oneita Industries, Inc., as well as capital expenditures of \$9.2 million and acquisitions by the building products business of \$1.9 million. The Company also rents various real property and equipment through noncancellable operating leases. Related future minimum lease payments due in 1995 aggregate \$14.5 million and are expected to be funded through operating cash flows. There are no material commitments for future capital expenditures though it is likely that cash outflows for capital asset acquisitions and leases will continue.

Cash flows used in financing activities included expenditures of \$15.4 million to acquire 1,930,600 shares of Common Stock in connection with the Company's stock repurchase program covering up to 4,000,000 shares of its Common and Preferred Stock. On November 8, 1994, the Company's Board of Directors authorized a self-tender offer for up to an additional 3,000,000 shares of the Company's Common Stock at prices between \$8.00 and \$9.25. The Company will determine the per share price within this range that will allow it to purchase 3,000,000 shares or such lesser number as may be tendered. The offer expires in December 1994. The self-tender offer will be funded by existing cash and marketable securities.

Anticipated cash flows from operations, together with existing cash and marketable securities and lease line availability, should be adequate to finance presently anticipated working capital and capital expenditure requirements and to repay long-term debt as it matures.

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," establishes financial accounting and reporting standards for investments and is effective for the

fiscal year beginning October 1, 1994. Adoption of this standard will not have a material effect on the Company's financial position or results of operations.

ITEM EIGHT - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company and its subsidiaries and the report thereon of Arthur Andersen LLP, dated November 8, 1994 are included herein:

- Report of Independent Public Accountants.
- Consolidated Balance Sheets at September 30, 1994 and 1993.
- Consolidated Statements of Income, Cash Flows and Shareholders' Equity for the years ended September 30, 1994, 1993, 1992.
- Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Instrument Systems Corporation:

We have audited the accompanying consolidated balance sheets of Instrument Systems Corporation (a Delaware corporation) and subsidiaries as of September 30, 1994 and 1993 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Instrument Systems Corporation and subsidiaries as of September 30, 1994 and 1993 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1994 the Company changed its method of accounting for income taxes.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to consolidated financial statements and schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Roseland, New Jersey  
November 8, 1994

Arthur Andersen LLP

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30,  
1994 1993

	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 28,659,000	\$ 26,466,000
Marketable securities (Note 1)	29,727,000	11,095,000
Accounts receivable, less allowance for doubtful accounts of \$3,659,000 in 1994 and \$3,860,000 in 1993	59,191,000	51,885,000
Contract costs and recognized income not yet billed (Note 1)	29,194,000	35,453,000
Inventories (Note 1)	68,918,000	55,985,000
Investment in affiliate (Note 6)	---	11,615,000
Prepaid expenses and other current assets	6,987,000	7,094,000
	-----	-----
Total current assets	222,676,000	199,593,000
	-----	-----
Property, Plant and Equipment, at cost, net of depreciation and amortization (Note 1)	49,890,000	49,807,000
	-----	-----
Other Assets:		
Costs in excess of fair value of net assets of businesses acquired, net (Note 1)	18,240,000	17,695,000
Other	2,409,000	3,175,000
	-----	-----
	20,649,000	20,870,000
	-----	-----
	\$293,215,000	\$270,270,000
	=====	=====

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30,	
	1994	1993
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current and refinanced portion of long-term debt (Note 3)	\$ 9,542,000	\$ 1,385,000
Accounts payable	33,704,000	30,896,000
Accrued liabilities (Note 2)	48,058,000	44,700,000
Federal income taxes	10,324,000	5,829,000
	-----	-----
Total current liabilities	101,628,000	82,810,000
	-----	-----
Long-Term Debt (Note 3)	15,538,000	26,147,000
	-----	-----
Shareholders' Equity (Note 4):		
Preferred stock, par value \$.25 per share, authorized 3,000,000 shares -- Second Preferred Stock, Series I, authorized 1,950,000 shares, issued 1,677,129 shares in 1994 and 1,680,491 shares in 1993 (liquidation value \$16,771,000 and \$16,805,000, respectively)	419,000	420,000
Common stock, par value \$.25 per share, authorized 85,000,000 shares, issued 33,887,739 shares in 1994 and 35,803,344 shares in 1993	8,472,000	8,951,000
Capital in excess of par value	78,614,000	94,159,000

Retained earnings	89,711,000	60,426,000
	-----	-----
	177,216,000	163,956,000
Less --		
Deferred compensation	(900,000)	(1,298,000)
Treasury shares, at cost, 34,500 common shares in 1994 and 202,900 common shares in 1993	(267,000)	(1,345,000)
	-----	-----
Total shareholders' equity	176,049,000	161,313,000
	-----	-----
Commitments and Contingencies (Note 5)	\$293,215,000	\$270,270,000
	=====	=====

<FN>

The accompanying notes to consolidated financial statements are an integral part of these statements.

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED SEPTEMBER 30,		
	1994	1993	1992
	-----	-----	-----
Net sales	\$488,957,000	\$436,949,000	\$398,761,000
Cost of sales	344,485,000	308,711,000	281,051,000
	-----	-----	-----
Selling, general and administrative expenses	144,472,000	128,238,000	117,710,000
	94,529,000	83,979,000	78,915,000
	-----	-----	-----
	49,943,000	44,259,000	38,795,000
	-----	-----	-----
Other income (expense):			
Interest expense	(1,803,000)	(1,942,000)	(4,214,000)
Interest income	1,885,000	929,000	865,000
Other, net	322,000	1,020,000	645,000
	-----	-----	-----
	404,000	7,000	(2,704,000)
	-----	-----	-----
Income from continuing operations before income taxes	50,347,000	44,266,000	36,091,000
	-----	-----	-----
Provision for income taxes (Note 1):			
State and foreign	3,558,000	3,330,000	3,370,000
Federal	17,084,000	14,376,000	11,127,000
	-----	-----	-----
	20,642,000	17,706,000	14,497,000
	-----	-----	-----
Income from continuing operations	29,705,000	26,560,000	21,594,000
	-----	-----	-----
Discontinued operations, net of income tax effect (Note 6):			
Operating income (loss)	---	(537,000)	2,474,000
Provision for loss on disposal	---	(7,938,000)	---
	-----	-----	-----
	---	(8,475,000)	2,474,000
	-----	-----	-----
Income before extraordinary item	29,705,000	18,085,000	24,068,000
	-----	-----	-----
Extraordinary item, net of income tax effect (Note 3)	---	---	(100,000)
	-----	-----	-----
Net income	\$ 29,705,000	\$ 18,085,000	\$ 23,968,000
	=====	=====	=====
Income per share of common stock (Note 1):			
Continuing operations	\$ .80	\$ .70	\$ .59
Discontinued operations	--	(.22)	.07
	-----	-----	-----
Net income	\$ .80	\$ .48	\$ .66
	=====	=====	=====

<FN>

The accompanying notes to consolidated financial statements are an integral part of

these statements.

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30,		
	1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 29,705,000	\$ 18,085,000	\$ 23,968,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,754,000	9,458,000	8,479,000
Provision for losses on accounts receivable	805,000	627,000	942,000
Deferred income taxes	(133,000)	(1,593,000)	(2,608,000)
Loss from early extinguishment of debt	---	---	1,574,000
(Income) loss from discontinued operations	---	10,681,000	(2,870,000)
Change in assets and liabilities:			
Increase in accounts receivable and contract costs and recognized income not yet billed	(1,477,000)	(16,922,000)	(9,572,000)
Increase in inventories	(12,385,000)	(8,702,000)	(1,780,000)
(Increase) decrease in prepaid expenses and other assets	(429,000)	513,000	(731,000)
Increase in accounts payable, accrued liabilities and Federal income taxes	10,185,000	7,274,000	11,226,000
Other changes, net	(26,000)	195,000	(321,000)
Total adjustments	6,294,000	1,531,000	4,339,000
Net cash provided by operating activities	35,999,000	19,616,000	28,307,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in marketable securities	(18,632,000)	(4,676,000)	(6,419,000)
Proceeds from sale of property, plant and equipment	75,000	737,000	200,000
Acquisition of property, plant and equipment	(9,241,000)	(8,438,000)	(8,690,000)
Net proceeds from sale of stock of affiliate	11,615,000	---	12,508,000
Acquired businesses	(1,946,000)	---	(14,626,000)
Decrease in equipment lease deposits and other	1,219,000	1,902,000	1,004,000
Net cash used in investing activities	(16,910,000)	(10,475,000)	(16,023,000)

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	YEARS ENDED SEPTEMBER 30,		
	1994	1993	1992
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares	(15,415,000)	(1,562,000)	(5,000)
Proceeds from issuance of long-term debt	7,100,000	4,500,000	13,272,000
Payment of long-term debt	(8,464,000)	(3,580,000)	(63,385,000)
Net proceeds from sale of stock	---	---	36,274,000
Other, net	(117,000)	(40,000)	501,000
Net cash used in financing activities	(16,896,000)	(682,000)	(13,343,000)
NET INCREASE (DECREASE) IN CASH AND CASH			

EQUIVALENTS	2,193,000	8,459,000	(1,059,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,466,000	18,007,000	19,066,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 28,659,000	\$ 26,466,000	\$ 18,007,000

<FN>

The accompanying notes to consolidated financial statements are an integral part of these statements.

INSTRUMENT SYSTEMS CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS)

For the Years Ended September 30, 1994, 1993 and 1992

	SECOND PREFERRED STOCK, SERIES I	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	DEFERRED COMPENSATION	TREASURY SHARES	SHARES COST		
	SHARES	PAR VALUE	SHARES	PAR VALUE					
Balances, September 30, 1991	1,705,571	\$426	31,869,418	\$7,967	\$64,217	\$19,221	\$2,528	3,454,509	\$ 6,354
Amortization of deferred compensation	---	---	---	---	---	---	(653)	---	---
Sale of Common Stock	---	---	6,900,000	1,725	34,549	---	---	---	---
Stock dividend on Second Preferred Stock, Series I (Note 4)	---	---	73,950	18	407	(428)	---	---	---
Purchase of treasury shares	---	---	---	---	---	---	---	3,375	5
Exercise of stock options (Note 4)	---	---	241,500	61	447	---	---	---	---
Other	(25,010)	(6)	25,010	6	17	---	---	---	---
Net income	---	---	---	---	---	23,968	---	---	---
Balances, September 30, 1992	1,680,561	420	39,109,878	9,777	99,637	42,761	1,875	3,457,884	6,359
Amortization of deferred compensation	---	---	---	---	---	---	(577)	---	---
Cash dividend on Second Preferred Stock, Series I (Note 4)	---	---	---	---	---	(420)	---	---	---
Purchase of treasury shares	---	---	---	---	---	---	---	249,400	1,562
Exercise of stock options (Note 4)	---	---	186,500	47	302	---	---	---	---
Retirement of treasury shares	---	---	(3,504,384)	(876)	(5,700)	---	---	(3,504,384)	(6,576)
Other	(70)	---	11,350	3	(80)	---	---	---	---
Net income	---	---	---	---	---	18,085	---	---	---
Balances, September 30, 1993	1,680,491	420	35,803,344	8,951	94,159	60,426	1,298	202,900	1,345
Amortization of deferred compensation	---	---	---	---	---	---	(563)	---	---
Cash dividend on Second Preferred Stock, Series I (Note 4)	---	---	---	---	---	(420)	---	---	---
Purchase of treasury shares	---	---	---	---	---	---	---	1,930,600	15,415
Exercise of stock options (Note 4)	---	---	114,500	29	152	---	---	---	---
Retirement of treasury shares	---	---	(2,099,000)	(525)	(15,968)	---	---	(2,099,000)	(16,493)
Other	(3,362)	(1)	68,895	17	271	---	165	---	---
Net income	---	---	---	---	---	29,705	---	---	---
Balances, September 30, 1994	1,677,129	\$419	33,887,739	\$8,472	\$78,614	\$89,711	\$ 900	34,500	\$ 267

<FN>

The accompanying notes to consolidated financial statements are an integral part of these statements.

INSTRUMENT SYSTEMS CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the accounts of Instrument Systems Corporation and all subsidiaries. All significant intercompany items have been eliminated in consolidation.

Cash flows and investments

Marketable securities consist primarily of U.S. government obligations and are carried at amortized cost which approximates market. Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," establishes financial accounting and reporting standards for investments and is effective for the fiscal year beginning October 1, 1994. Adoption of this standard will not have a material effect on the Company's financial position or results of operations. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash payments for interest expense were \$1,824,000, \$1,875,000 and \$4,982,000 in 1994, 1993 and 1992, respectively.

Accounting for long-term contracts

The Company records sales and gross profits on its long-term contracts on a percentage-of-completion basis. The Company determines sales and gross profits by (1) relating costs incurred to current estimates of total manufacturing costs of such contracts or (2) based upon a unit of shipment basis. General and administrative expenses are expensed as incurred. Revisions in estimated profits are made in the period in which the circumstances requiring the revision become known. Provisions are made currently for anticipated losses on uncompleted contracts.

"Contract costs and recognized income not yet billed" consists of recoverable costs and accrued profit on long-term contracts for which billings had not been presented to the customers because the amounts were not billable at the balance sheet date.

Inventories

Inventories, stated at the lower of cost (first-in, first-out or average) or market, include material, labor and manufacturing overhead costs, and are comprised of the following:

	SEPTEMBER 30,	
	1994	1993
	-----	-----
Finished goods	\$16,664,000	\$13,136,000
Work in process	26,674,000	22,383,000
Raw materials and supplies	25,580,000	20,466,000
	-----	-----
	\$68,918,000	\$55,985,000
	=====	=====

Property, plant and equipment

Depreciation of property, plant and equipment is provided primarily on a straight-line basis over the estimated useful lives of the assets.

Leasehold improvements are amortized over the life of the lease or life of the improvement, whichever is shorter.

Property, plant and equipment consists of the following:

	SEPTEMBER 30,	
	1994	1993
	-----	-----
Land, buildings and building improvements	\$27,304,000	\$23,161,000
Machinery and equipment	59,454,000	57,415,000
Leasehold improvements	7,975,000	10,170,000
	-----	-----
	94,733,000	90,746,000
Less--Accumulated depreciation and amortization	44,843,000	40,939,000
	-----	-----
	\$49,890,000	\$49,807,000
	=====	=====

Maintenance and repair expense was \$8,208,000, \$8,096,000 and \$8,163,000 in 1994, 1993 and 1992, respectively.

Costs in excess of fair value of net assets of businesses acquired ("Goodwill").

Goodwill is being amortized on a straight-line basis over a period of forty years. At September 30, 1994 and 1993, accumulated amortization of goodwill was \$3,618,000 and \$3,087,000, respectively.

Income taxes

Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this standard, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates scheduled to be in effect when such differences reverse. Previously, income taxes were determined using the deferred method prescribed by APB Opinion No. 11. The adoption of Statement No. 109 did not have a material effect on the Company's financial position or results of operations and prior years have not been restated. The components of income tax expense included in continuing operations were as follows:

	1994 -----	1993 -----	1992 -----
Current	\$20,775,000	\$17,093,000	\$16,709,000
Deferred	(133,000)	613,000	(2,212,000)
	-----	-----	-----
	\$20,642,000	\$17,706,000	\$14,497,000
	=====	=====	=====

The primary components of deferred taxes result from differences in the reporting of depreciation, the allowance for doubtful accounts, other non-deductible accruals and, in 1992, \$1,548,000 related to the difference between the book and tax basis of the Company's investment in Oneita (see Note 6).

Cash payments for income taxes were \$16,809,000, \$15,151,000 and \$11,283,000 in 1994, 1993 and 1992, respectively.

The following table indicates the significant elements contributing to the difference between the U.S. Federal statutory tax rate and the effective tax rate:

	1994 -----	1993 -----	1992 -----
U.S. Federal statutory tax rate	35.0%	34.8%	34.0%
State and foreign income taxes	4.6	4.9	6.2
Other	1.4	.3	-
	----	----	----
Effective tax rate	41.0%	40.0%	40.2%
	=====	=====	=====

Research and development costs and advertising expense

Research and development costs not recoverable under contractual arrangements are charged to expense as incurred. Approximately \$4,000,000, \$3,600,000 and \$4,800,000 for 1994, 1993 and 1992, respectively, was incurred on such research and development.

Advertising expense was \$5,600,000, \$5,000,000 and \$3,300,000 in 1994, 1993 and 1992, respectively.

Income per share of Common Stock

Income per share is calculated using the weighted average number of shares of Common Stock outstanding during each period, adjusted to reflect the dilutive

effect of shares issuable for common stock equivalents. Shares used in computing income per share were 37,102,000 in 1994, 37,989,000 in 1993 and 36,314,000 in 1992.

## 2. ACCRUED LIABILITIES:

At September 30, 1994 and 1993, accrued liabilities included \$13,856,000 and \$13,323,000, respectively, for payroll and other employee benefits.

## 3. LONG-TERM DEBT:

The Company's long-term debt outstanding at September 30, 1994 relates primarily to real estate mortgages, with interest rates ranging from 8.0% to 8.7% and maturities through 2004.

The following are the maturities of long-term debt outstanding at September 30, 1994 for each of the succeeding five years:

1995	\$9,542,000
1996	562,000
1997	8,918,000
1998	248,000
1999	256,000

The current portion of long-term debt at September 30, 1994 includes \$9,000,000 which was outstanding under a long-term debt agreement and, subsequent to year-end, was refinanced under a short-term line of credit. Interest on this obligation is at approximately the prime rate (7.75% at September 30, 1994).

The extraordinary item in the 1992 consolidated statement of income relates to the early extinguishment of debt.

## 4. SHAREHOLDERS' EQUITY:

During 1994, the Company expended \$15,415,000 to acquire 1,930,600 shares of Common Stock in connection with its stock repurchase program covering up to 4,000,000 shares of its Common and Preferred Stock. On November 8, 1994 the Company's Board of Directors authorized a self-tender offer for up to 3,000,000 additional shares of the Company's Common Stock at prices between \$8.00 and \$9.25. The Company will determine the per share price within this range that will allow it to purchase 3,000,000 shares or such lesser number as may be tendered. The offer expires in December 1994.

The Company's Second Preferred Stock, Series I --

- a) is convertible into Common Stock on the basis of one share of Common Stock for each share of Second Preferred Stock, Series I, subject to certain adjustments;
- b) is redeemable at \$10.00 per share at the option of the Company;
- c) has a liquidation value of \$10.00 per share; and
- d) has the same voting rights and privileges as Common Stock.

The holders of Second Preferred Stock, Series I are entitled to receive for each share of Second Preferred Stock, an annual dividend of --

- a) \$.25 in cash; or
- b) shares of Common Stock of the Company having a market value of \$.25, but in no event more than one-quarter of a share of Common Stock per share of Second Preferred Stock.

The Board of Directors, at the time of the dividend declaration, shall determine (in its discretion) whether the dividend shall be in cash or Common Stock.

The Company has an Employee Stock Ownership Plan ("ESOP") which covers most of the Company's nonunion employees. Contributions to the ESOP (in cash or equity securities of the Company) may be made in such amounts as the Board of Directors determines in its sole discretion. The fair market value of contributions to the ESOP are charged to income as made. The ESOP has a loan agreement the proceeds of which were used to purchase equity securities of the Company. Borrowings under the loan agreement are guaranteed by the Company and bear interest at approximately the prime rate. The Company will provide the funds with which the ESOP will repay the loan and will treat those payments as an expense. The outstanding balance of the loan has been reflected as a liability in the accompanying consolidated balance sheets with a like amount of deferred compensation recorded as a reduction of shareholders' equity.

The Company has two non-qualified stock option plans under which options for an aggregate of 2,000,000 shares of Common Stock may be granted. The plans provide for the granting of options at an exercise price of not less than 100% of the fair market value per share at date of grant. Options generally expire five or ten years after date of grant and become exercisable in installments as determined by the Board of Directors. Transactions under the plans, and under an Incentive Stock Option plan that expired in 1992, are as follows:

	NUMBER OF SHARES -----	OPTION PRICE -----
Outstanding at September 30, 1992	915,000	\$1.00 to \$2.25
Granted	323,000	\$5.50 to \$7.00
Exercised	(186,500)	\$1.50 to \$5.50
Terminated	(500)	\$2.25
	-----	
Outstanding at September 30, 1993	1,051,000	\$1.00 to \$7.00
Granted	907,000	\$7.125 to \$9.125
Exercised	(114,500)	\$1.00 to \$7.00
Terminated	(1,500)	\$7.00
	-----	
Outstanding at September 30, 1994	1,842,000	\$1.50 to \$9.125
	=====	

The outstanding options expire at various dates through 2004. Options for 889,500 shares are exercisable at September 30, 1994 at \$1.50 to \$8.625 per share. Outstanding options include grants in 1994 covering 680,000 shares of stock that do not become exercisable unless the market price of the Common Stock has attained an average price of \$10 per share for 10 consecutive trading days, or 60 days before the options expire, whether or not the price target has been met. As of September 30, 1994, options for 329,500 shares were available for future grants.

The Company has an Outside Director Stock Award Plan (the "Outside Director Plan"), which was approved by the shareholders in 1994, under which 300,000 shares may be issued to non-employee directors. Annually, each eligible director is awarded shares of the Company's Common Stock having a value of \$10,000 which vests over a three-year period. For shares issued under the Outside Director Plan, the fair market value of the shares at the date of issuance will be amortized to compensation expense over the vesting period. The related deferred compensation has been reflected as a reduction of shareholders' equity. In 1994, 10,770 shares were issued under the Outside Director Plan.

In April 1986, the Board of Directors declared a dividend distribution of one Common Stock purchase Right for each outstanding share of Common Stock. The Rights were amended in November 1994. These Rights will expire in 1996 unless redeemed earlier and, initially, will trade with the Common Stock. They are not presently exercisable and have no voting power. In the event a person acquires 15% or more, or makes a tender offer which if consummated would result in such

person owning 15% or more of the Common Stock, the Rights detach from the Common Stock and become exercisable and entitle a holder to buy one-half of one share of Common Stock for \$6.00 (adjustable to prevent dilution). If a person or group acquires beneficial ownership of 15% or more of the Company's outstanding Common Stock, each Right will entitle its holder (other than such person or group) to purchase, at the then-current exercise price of the Right, a number of shares of the Company's Common Stock having a market value of twice the then-current exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination, each Right will entitle its holder to purchase, at the then-current exercise price, a number of the acquiring company's common shares having a market value of twice the then-current exercise price of the Right. Prior to the acquisition by a person or group of beneficial ownership of 15% or more of the Company's outstanding Common Stock, the Rights are redeemable for \$.01 per Right at the option of the Board of Directors.

As of September 30, 1994, shares of the Company's authorized but unissued Common Stock were reserved in connection with the following:

	SHARES -----
Conversion of outstanding Second Preferred Stock, Series I	1,677,129
Stock option plans	2,171,500
Exercise of Common Stock purchase warrants	226,414
Exercise of Common Stock purchase Rights	18,964,141
	-----
	23,039,184
	=====

#### 5. COMMITMENTS AND CONTINGENCIES:

The Company and its subsidiaries rent real property and equipment under operating leases expiring at various dates. Most of the real property leases have escalation clauses related to increases in real property taxes.

Future minimum payments under noncancellable operating leases consisted of the following at September 30, 1994:

1995	\$14,500,000
1996	10,900,000
1997	8,500,000
1998	6,700,000
1999	5,600,000
Later years	5,400,000

Rent expense for all operating leases, net of subleases, totalled approximately \$18,600,000, \$16,900,000 and \$13,900,000 in 1994, 1993 and 1992, respectively.

The Company is subject to various laws and regulations concerning the environment, and is currently participating in administrative or court proceedings involving several sites under these laws, usually as one of a group of potentially responsible parties. These proceedings are at a preliminary stage, and it is impossible to estimate with any certainty the amount of the liability, if any, of the Company alone or in relation to that of any other responsible parties, or the total cost of remediation and the timing and extent of remedial actions which may ultimately be required by governmental authorities.

In view of the inherent difficulty in predicting the outcome of litigation and governmental proceedings, management cannot state what the eventual outcome of such litigation and proceedings will be. However, management believes, based on facts presently known to it, that the outcome of such litigation and

proceedings will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Two officers of the Company have employment agreements, as amended, for a term ending in 2000. The agreements provide for salary and, under certain conditions, incentive bonuses. The agreements also provide that in the event there is a change in the control of the Company, as defined therein, the officers have the option to terminate the agreements and receive a lump sum payment based upon the compensation payable over the balance of the agreements. As of September 30, 1994, the amount payable in the event of such termination would be approximately \$38,000,000.

6. DISCONTINUED OPERATIONS:

During 1993, the Company decided to withdraw from the apparel business and sell its 25% interest in Oneita Industries, Inc., which ceased to be a consolidated subsidiary in 1992. The sale of the investment was completed in October 1993 for approximately \$11,600,000 and the financial statements reflect a related charge in 1993 of \$7,938,000 (net of income tax effect of \$1,930,000).

7. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended September 30, 1994 and 1993 are as follows:

	QUARTERS ENDED			
	SEPTEMBER 30, 1994	JUNE 30, 1994	MARCH 31, 1994	DECEMBER 31, 1993
Net sales	\$141,658,000	\$125,287,000	\$105,857,000	\$116,155,000
Gross profit	42,185,000	36,621,000	31,299,000	34,367,000
Net income	10,603,000	7,371,000	4,926,000	6,805,000
Income per share of common stock	\$ .29	\$ .20	\$ .13	\$ .18

	QUARTERS ENDED			
	SEPTEMBER 30, 1993	JUNE 30, 1993	MARCH 31, 1993	DECEMBER 31, 1992
Net sales	\$130,469,000	\$108,164,000	\$ 94,734,000	\$103,582,000
Gross profit	39,117,000	31,483,000	27,121,000	30,517,000
Income from continuing operations	9,560,000	6,759,000	4,629,000	5,612,000
Discontinued operations	(825,000)	(8,016,000)	193,000	173,000
Net income	8,735,000	(1,257,000)	4,822,000	5,785,000
Income per share of common stock:				
Continuing operations	\$ .25	\$ .18	\$ .12	\$ .15
Discontinued operations	(.02)	(.21)	.01	--
	\$ .23	\$ (.03)	\$ .13	\$ .15

<FN>

Earnings per share are computed independently for each of the quarters presented, on the basis described in Note 1. The sum of the quarters may not be equal to the full year earnings per share amounts.

8. BUSINESS SEGMENTS:

The Company's principal business segments are as follows -- Home and Commercial Products (manufacture and sale of garage doors and other building products, hardware primarily for the food service industry, and synthetic batting); Electronic Information and Communication Systems (communication and information systems for government and commercial markets); and Specialty Plastic Films (manufacture and sale of plastic films for disposable surgical and patient care products, infants diapers and adult incontinence care products).

Information on the Company's business segments is as follows:

	1994	SEPTEMBER 30, 1993	1992
	-----	-----	-----
Net sales --			
Home and commercial products	\$280,342,000	\$230,809,000	\$187,485,000
Electronic information and communication systems	94,001,000	92,835,000	103,840,000
Specialty plastic films	114,614,000	113,305,000	107,436,000
	-----	-----	-----
	\$488,957,000	\$436,949,000	\$398,761,000
	=====	=====	=====
Operating income --			
Home and commercial products	\$ 25,103,000	\$ 21,569,000	\$ 14,563,000
Electronic information and communication systems	9,577,000	9,514,000	9,867,000
Specialty plastic films	20,752,000	18,737,000	19,663,000
	-----	-----	-----
Total operating income	55,432,000	49,820,000	44,093,000
General corporate expenses	(5,167,000)	(4,541,000)	(4,653,000)
Interest income (expense), net	82,000	(1,013,000)	(3,349,000)
	-----	-----	-----
Income from continuing operations before income taxes	\$ 50,347,000	\$ 44,266,000	\$ 36,091,000
	=====	=====	=====
Identifiable assets --			
Home and commercial products	\$112,799,000	\$ 96,198,000	\$ 84,156,000
Electronic information and communication systems	86,962,000	89,264,000	77,025,000
Specialty plastic films	43,205,000	41,592,000	42,232,000
Corporate	50,249,000	43,216,000	43,337,000
	-----	-----	-----
	\$293,215,000	\$270,270,000	\$246,750,000
	=====	=====	=====
Capital expenditures --			
Home and commercial products	\$ 6,446,000	\$ 2,831,000	\$ 2,649,000
Electronic information and communication systems	1,941,000	2,231,000	2,189,000
Specialty plastic films	793,000	3,374,000	3,777,000
Corporate	61,000	2,000	75,000
	-----	-----	-----
	\$ 9,241,000	\$ 8,438,000	\$ 8,690,000
	=====	=====	=====
Depreciation and amortization --			
Home and commercial products	\$ 3,284,000	\$ 2,799,000	\$ 2,155,000
Electronic information and communication systems	3,150,000	3,277,000	3,045,000
Specialty plastic films	3,169,000	3,194,000	2,868,000
Corporate	151,000	188,000	411,000
	-----	-----	-----
	\$ 9,754,000	\$ 9,458,000	\$ 8,479,000
	=====	=====	=====

Sales to a customer of the specialty plastic films business were approximately 8%, 10% and 14% of consolidated net sales in 1994, 1993 and 1992, respectively. Sales to the United States Government and its agencies, either as a prime contractor or subcontractor, aggregated approximately \$62,000,000 for 1994, \$60,000,000 for 1993 and \$75,000,000 for 1992, all of which are included in the electronic information and communication systems segment. Sales between business segments are not material. In computing operating income, none of the following have been added or deducted -- general corporate expenses, net interest income or expense and income taxes. Assets by business segment are those identifiable assets that are used in the Company's operations in each

segment. Corporate assets are principally cash and marketable securities. Included in capital expenditures in 1994 of the home and commercial products segment was \$4,200,000 for the purchase of a building that was previously leased.

ITEM NINE - DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The information required by Part III is incorporated by reference to the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in February, 1995, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year ended September 30, 1994. Information relating to the officers of the Registrant appears under Item I of this report.

PART IV

ITEM FOURTEEN - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following consolidated financial statements of Instrument Systems Corporation and subsidiaries are included in Item 8:

	Page
	----
(a) 1. Financial Statements	
Consolidated Balance Sheets at September 30, 1994 and 1993.....	16
Consolidated Statements of Income for the Years Ended September 30, 1994, 1993 and 1992.....	17
Consolidated Statements of Cash Flows for the Years Ended September 30, 1994, 1993 and 1992.....	18
Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 1994, 1993 and 1992.....	19
Notes to Consolidated Financial Statements.....	20
	Filed Herewith on Page Number (1) -----
(a) 2. Schedule	
I Marketable Securities.....	S-1
VIII Valuation and Qualifying Accounts.....	S-2

(1) Schedules other than those listed are omitted because they are not applicable or because the information required is included in the consolidated financial statements.

(b) Reports on Form 8-K:

None.

(c) Exhibits:

Exhibit No.

- 3.1 Restated Certificate of Incorporation (Exhibit 3(a) of Form S-2 Registration Statement No. 33-9655)
- 3.2 By-laws as amended (Exhibit 3 of Current Report on Form 8-K dated November 8, 1994)
- 4.1 Credit Agreement dated April 6, 1990 between the Registrant and a lending institution (Exhibit 10 to Current Report on Form 8-K dated May 8, 1990)
- 4.2 Amendment to Rights Agreement dated as of November 8, 1994 between Registrant and American Stock Transfer Company (Exhibit 4.1 of Current Report on Form 8-K dated November 8, 1994)
- 10.1 Employment Agreement dated March 1, 1983 between the Registrant and Robert Balemian, as amended (Exhibit 10 of Current Report on Form 8-K dated March 1, 1983, Exhibit 10 of Current Report on Form 8-K dated March 2, 1983, Exhibit 10(a) of Current Report on Form 8-K dated March 15, 1984, Exhibit 10 of Current Report on Form 8-K dated May 4, 1987, Exhibit 10(a) of Current Report on Form 8-K dated February 13, 1989, Exhibit 10 of Current Report on Form 8-K dated February 28, 1990, Exhibit 10 of Current Report on Form 8-K dated February 25, 1991 and Exhibit 10 of Current Report on Form 8-K dated May 28, 1991)
- 10.2 Employment Agreement dated March 1, 1983 between the Registrant and Harvey R. Blau, as amended (Exhibit 10 of Current Report on Form 8-K dated March 1, 1983, Exhibit 10 of Current Report on Form 8-K dated March 2, 1983, Exhibit 10(b) of Current Report on Form 8-K dated March 15, 1984, Exhibit 10 of Current Report on Form 8-K dated May 4, 1987, Exhibit 10(a) of Current Report on Form 8-K dated February 13, 1989, and Exhibit 10 of Current Report on Form 8-K dated February 28, 1990, Exhibit 10 of Current Report on Form 8-K dated February 25, 1991 and Exhibit 10 of Current Report on Form 8-K dated May 28, 1991)
- 10.3 Form of Trust Agreement between the Registrant and U.S. Trust Company of California, N.A., as Trustee relating to the Company's Employee Stock Ownership Plan
- 10.4 Incentive Stock Option Plan, as amended (including form of Stock Option) (Exhibit 4(a) of Form S-8 Registration Statement No. 33-14259)
- 10.5 Restricted Management Stock Bonus Plan, as amended, (Exhibit 4(b) of Form S-8 Registration Statement No. 33-14259)
- 10.6 Form of Stock Option Agreement (Exhibit 10(b) of Current Report on Form 8-K dated February 13, 1989)
- 10.7 Warrant Agreement to Officer (Exhibit 28 of Current Report on Form 8-K dated March 2, 1983)
- 10.8 Agreement dated October 5, 1993 between Gintel & Co., L.P. and the Registrant (Exhibit 7(c)(2) of Current Report on Form 8-K dated October 6, 1993)
- 10.9 1992 Non-Qualified Stock Option Plan (Exhibit 10.10 of Annual Report on Form 10-K for the year ended September 30, 1993)
- 10.10 Non-Qualified Stock Option Plan (Exhibit 10.12 of Annual Report on Form 10-K for the year ended September 30, 1988)
- 10.11 Form of Indemnification Agreement between the Registrant and its officers and directors (Exhibit 28 to Current Report on Form 8-K)

dated May 3, 1990)

- 10.12 Outside Director Stock Award Plan (Exhibit 4 of Form S-8  
Registration Statement No. 33-52319)
- 21 The following lists the Company's significant subsidiaries all  
of which are wholly-owned by the Company. The names of certain  
subsidiaries which do not, when considered in the aggregate  
constitute a significant subsidiary, have been omitted.

	Name of Subsidiary -----	State of Incorporation -----
	Clopay Corporation	Maryland
	Telephonics Corporation	Delaware
	Standard-Keil Industries, Inc.	Delaware
	Lightron Corporation	Delaware
23	Consent of Arthur Andersen LLP	
27	Financial Data Schedule	
99	Additional Exhibit	

The following undertakings are incorporated into the Company's Registration Statements on Form S-8 (Registration Nos. 2-82183, 2-99536, 33-14259, 33-39090 and 33-52319).

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any fact or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit



Ronald J. Kramer

Milton Paulson Director

Milton Paulson

James W. Stansberry Director

James W. Stansberry

Martin S. Sussman Director

Martin S. Sussman

William H. Waldorf Director

William H. Waldorf

Lester L. Wolff Director

Lester L. Wolff

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated November 8, 1994, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (Nos. 2-82183, 2-99536, 33-14259, 33-39090 and 33-52319).

Arthur Andersen LLP

Roseland, New Jersey
December 5, 1994

SCHEDULE I

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE I -- MARKETABLE SECURITIES

AS OF SEPTEMBER 30, 1994 AND 1993

Table with 7 columns: Description of Marketable Securities, Cost of Each Issue (1994, 1993), Market Value of Each Issue at Balance Sheet Date (1994, 1993), and Carrying Value of Each Issue in the Balance Sheet (1994, 1993). Rows include U.S. Government and its Agencies, Municipal obligations, and Commercial paper.

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SCHEDULE VIII

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 1994, 1993 AND 1992

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Profit and Loss	Charged to Other Accounts	Accounts Written Off	
FOR THE YEAR ENDED SEPTEMBER 30, 1994:					
Allowance for doubtful accounts	\$3,860,000	\$805,000	\$ 95,000 (1)	\$1,101,000	\$3,659,000
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED SEPTEMBER 30, 1993:					
Allowance for doubtful accounts	\$3,913,000	\$627,000	\$ 38,000 (1)	\$ 718,000	\$3,860,000
	=====	=====	=====	=====	=====
FOR THE YEAR ENDED SEPTEMBER 30, 1992:					
Allowance for doubtful accounts	\$2,965,000	\$942,000	\$173,000 (2)	\$ 167,000	\$3,913,000
	=====	=====	=====	=====	=====

<FN>

(1) Recoveries of amounts previously written off.

(2) Principally related to an acquired company.

INSTRUMENT SYSTEMS CORPORATION  
EMPLOYEE STOCK OWNERSHIP PLAN TRUST AGREEMENT

PREAMBLE

Instrument Systems Corporation, a Delaware corporation, as plan sponsor, and U.S. Trust Company of California, N.A., as Trustee, by execution of this Trust Agreement, hereby establish effective as of November 8, 1994, the Instrument Systems Corporation Employee Stock Ownership Plan Trust for the purpose of holding and investing assets of and funding benefits under the Instrument Systems Corporation Employee Stock Ownership Plan (the "Plan"), which is an employee stock ownership plan within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended. The Plan and this Trust Agreement shall be deemed to be and construed as a single document. However, notwithstanding the immediately preceding sentence, anything else herein, or any inference to the contrary contained in the Plan, the Trustee's rights, powers, titles, duties, responsibilities, discretion, and immunities shall be governed solely by this Trust Agreement without reference to the provisions of the Plan.

ARTICLE 1

Definitions

1.1 Incorporation of Definitions Used in Plan.

The definitions stated in Article I of the Plan are hereby incorporated by reference into this Trust Agreement.

1.2 Definitions of Terms Used Exclusively  
In Trust Agreement

(a) "Bank" means (1) a banking institution organized under the laws of the United States; (2) a member bank of the Federal Reserve System; or (3) any other banking institution, whether or not incorporated, doing business under the laws of any state or the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under the authority of the Comptroller of the Currency, and which is supervised and examined by state or federal authority having supervision over banks.

(b) "Fiduciary" means a person or organization that is a fiduciary with respect to the Plan or the Trust Fund within the meaning of ERISA Section 3(21).

1.3 Named Fiduciaries

The members of the Committee, collectively and individually, shall be the named fiduciaries of the trust for purposes of Section 402 of ERISA, except that, to the extent, if any, permitted by ERISA, each Member and Beneficiary also shall be a named fiduciary with respect to the exercise of voting and tender or exchange offer rights for Employer Securities held in such Member's

Account.

## ARTICLE 2

### Establishment of Trust and Certain Primary Conditions of its Operation

#### 2.1 Establishment of Trust

This Trust Agreement establishes an employees' trust pursuant to the Plan that is intended to be a tax-exempt organization under Code Section 501(a). The Company and the Trustee hereby agree that the Trust Fund shall be held in trust and administered, invested and distributed for the benefit of Members and their Beneficiaries under the terms and conditions of this Trust Agreement.

#### 2.2 Designation of Trust

The employees' trust established hereunder shall be known as the Instrument Systems Corporation Employee Stock Ownership Plan Trust.

#### 2.3 Trust Fund

The Trust Fund shall consist of the cash, Employer Securities and other property, if any, held by the Trustee which shall represent at any time the total of the Employer Securities acquired by the Trustee and the contributions made by the Employer to the Trust Fund under the provisions of the Plan, plus the earnings and less the losses thereupon, without distinction which at the time of reference have been made by the Trustee as authorized herein. Unless otherwise directed by the Committee, the Trustee shall hold, invest, and administer the Trust assets as a single fund without identification of any part of the Trust assets to the Company or to any Member or group of Members or their Beneficiaries. The Trustee need not inquire into the source of any money or property transferred to it nor into the authority or right of the transfer or of such money or property to transfer or such money or property to the Trustee.

#### 2.4 Exclusive Benefit Rule

The employees' trust established by this Trust Agreement is expressly declared to be irrevocable, subject to the provisions of Article 8. It shall be impossible, at any time prior to the satisfaction of all liabilities with respect to Members and their Beneficiaries, for any part of the principal or income of the Trust Fund to be used for, or diverted to, any purpose which is not for the exclusive benefit of Members and their Beneficiaries. The preceding sentence shall not be construed in such a way as to prohibit the use of assets of the Trust Fund to pay fees and other expenses and obligations (including without limitation obligations of the Trustee under an Acquisition Loan) incurred in the maintenance, administration and investment of the Trust Fund in accordance with the provisions of this Trust Agreement.

#### 2.5 Reversion Prohibited

Except as permitted in Section 2.4 or Article 10 of the Trust Agreement, it shall be impossible for any

part of the Trust Fund to revert to the Company or any Member Company.

## 2.6 Claims against the Trust Fund

Subject to the claims procedure provided under the Plan, the Committee shall have complete control and authority to determine the existence, nonexistence, nature and amount of the rights and interests of all persons in or to the Trust Fund or under the Plan. Except as otherwise required by ERISA, the Trustee shall have no duty to question or to examine any determination made by the Committee or direction given by the Committee to the Trustee in respect of such matters.

## 2.7 Employer Contributions

Employer contributions to the Trust Fund shall consist only of cash, Employer Securities or other property acceptable to the Trustee. The Trustee shall have no duty to administer the Plan nor to determine that the contributions received from the Employer complies with the provisions of the Plan or any Acquisition Loan, or that the assets of the Trust are adequate to provide any benefit payable pursuant to the Plan or are adequate to make the payments under any Acquisition Loan. The Trustee shall not be obligated to collect any contributions from the Employer, nor be obligated to see that funds deposited with it are deposited according to the provisions of the Plan.

## 2.8 Distributions

Payments shall be made from the Trust Fund by the Trustee to such persons, in such manner, at such times, and in such amounts as the Committee shall from time to time direct in writing; provided, however, that the Trustee may withhold compliance with the Committee's direction to the extent that, and so long as, the Trustee shall deem such withholding necessary to insure payment of the Trustee's fees and expenses or to protect the Trustee against liability for taxes or any other liability. The Trustee shall not be liable for any distribution made or acts done by it pursuant to written directions of the Committee. Neither shall the Trustee be obligated to inquire as to whether any payee or distributee is entitled to any payment or distribution. Rather, any payment or distribution made by the Trustee on the order or direction of the Committee shall operate as a complete discharge of all obligations of the Trustee with respect thereto.

# ARTICLE 3

## Investment of the Trust Fund

### 3.1 General Responsibility and Authority for Investment of Trust Fund Assets

The assets of the Trust Fund shall be invested and reinvested by the Trustee, subject to and in accordance with the provisions of this Trust Agreement.

### 3.2 ERISA Requirements

(a) In investing and managing the assets of the Trust Fund, the Fiduciary who has investment respon-

sibility and authority shall exercise the care, skill, prudence and diligence, under the circumstances then prevailing, which prudent men, acting in like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims.

(b) Except as authorized by regulations promulgated by the Department of Labor, no Fiduciary may maintain the indicia of ownership of any assets of the Trust Fund outside the jurisdiction of the district courts of the United States.

(c) In investing and managing the assets of the Trust Fund, the Fiduciary shall take into consideration the funding policy of the Plan.

(d) Notwithstanding any other provision of the Trust Agreement, the Trustee shall not be required to comply with any provisions of the Trust Agreement that is not consistent with the requirements of Title I of ERISA. In the event a court of competent jurisdiction shall issue an opinion or order to the Plan, the Company or the Trustee, which shall, in the opinion of counsel to the Company or the Trustee, invalidate under ERISA, in all circumstances or in any particular circumstances, any provision or provisions of this Trust Agreement, then, upon notice thereof to the Company or to the Trustee, as the case may be, such invalid or conflicting provisions of this Trust Agreement shall be given no further force or effect.

### 3.3 Investment in Employer Securities

The primary purpose of the Plan is to acquire an ownership interest in the Company either from the Company or its shareholders and to provide deferred compensation benefits to Members and Beneficiaries in the form of shares of Employer Securities. Accordingly, the Plan has been established to provide for investment primarily in shares of Employer Securities. In furtherance of the purpose for which the Plan has been established and designed, the Trustee shall, in accordance with the terms of the Plan, (a) acquire shares of Employer Securities with assets of the Trust Fund or with the

proceeds of an Acquisition Loan, (b) hold unallocated shares of Employer Securities which have been acquired with the proceeds of an Acquisition Loan in a Loan Suspense Account for release and allocation to the Accounts of Members, (c) hold shares of Employer Securities which have been contributed by the Employer and (d) distribute to Members or their Beneficiaries under the terms of the Plan all shares of Employer Securities and other assets which have been allocated to the Accounts of such Members pursuant to the terms of the Plan in accordance with the terms of the Plan, notwithstanding any otherwise applicable fiduciary standard relating to (i) diversification of Trust Fund assets, (ii) the speculative character of Trust Fund investments, (iii) the lack or inadequacy of income provided by Trust Fund assets, or (iv) the probable continual fluctuation in the fair market value of Trust Fund assets. Subject to the provisions of the Plan, the Trustee is expressly authorized, in accordance with the terms of the Plan, to hold 100% of the assets of the Trust Fund in shares of Employer Securities.

The Trustee may purchase Employer Securities for the Trust Fund, as directed by the Committee, either

(a) directly or indirectly from the Company or any shareholder of the Company, including any person deemed to be a "party in interest" within the meaning of ERISA Section 3(14) or a "disqualified person" within the meaning of Code Section 4975 or (b) through "blind" transactions on a national securities exchange in which neither the purchaser nor the seller knows the identity of the other party to the transaction. In purchasing any securities on a national securities exchange, the Trustee shall give due consideration to the trading volume, if any, of Employer Securities at the time of each purchase and accordingly regulate the amount and timing of such purchases so as to minimize the effect on market price fluctuations which may be caused by such purchases. The Trustee shall comply with all federal and state securities laws and with all applicable provisions of ERISA when purchasing Employer Securities, including, if required, the condition that no more than adequate consideration (as defined in Section 3(18) of ERISA) be paid for such Stock, and no commission be charged when a purchase of Employer Securities is made from a "party in interest" or a "disqualified person."

In the event that the Trustee purchases or sells shares of Employer Securities from or to a "party in interest" or a "disqualified person," the terms of such purchase or sale shall provide that in the event that there is a final determination by the Internal Revenue Service, Department of Labor or court of competent jurisdiction that the Trustee paid more than "adequate consideration" (as defined in ERISA Section 3(18)) to the seller or received less than adequate consideration from the purchaser for such shares of Employer Securities as of the date of purchase or sale, the seller or purchaser, as the case may be, shall be required to pay to the Trustee an amount in cash equal to the difference between the purchase or sale price and the amount determined to be adequate consideration plus interest at a reasonable rate from the date of purchase or sale to the date of payment.

The Trustee may enter into an Acquisition Loan, the proceeds of which must be used within a reasonable time after their receipt by the Trustee to acquire shares of Employer Securities and/or repay a prior Acquisition Loan; provided, however, that the terms and conditions of the Acquisition Loan together with any other documents executed by the Trustee in connection therewith (including without limitation any security or guarantee agreements) shall be subject to the following provisions:

(a) The Acquisition Loan must be primarily for the benefit of the Plan Members and their Beneficiaries. The terms of the Acquisition Loan, whether or not between independent parties, must, at the time the loan is made, be at least as favorable to the Plan as the terms of a comparable loan resulting from arms'-length negotiations between independent parties. The loan must for a specific term and must not be payable at the demand of any person, except in the case of default.

(b) The Acquisition Loan shall bear no more than a reasonable rate of interest.

(c) Any collateral pledged to the creditor shall consist only of the shares of Employer Securities acquired with the proceeds of such Acquisition Loan or

shares of Employer Securities that were pledged as collateral in connection with a prior Acquisition Loan of the Trustee that was repaid with the proceeds of the current Acquisition Loan, provided, however, that the Company may guarantee repayment of the Acquisition Loan.

(d) Under the terms of the Acquisition Loan or other documents executed by the Trustee in connection therewith, the creditor shall not have recourse against the assets of the Trust Fund except that an Acquisition Loan may permit recourse with respect to (1) the collateral pledged as security for the Acquisition Loan, (2) contributions (other than contributions of Employer Securities) that are made to meet the Trustee's obligations under the Acquisition Loan, and (3) earnings attributable to such collateral and the investment of such contributions.

(e) The Acquisition Loan or any security agreements executed by the Trustee in connection therewith shall provide for the release of shares of Employer Securities from encumbrance in a manner permitted by Treasury Regulations under Code Section 4975(e)(7).

(f) The Acquisition Loan or any security agreements executed by the Trustee in connection therewith shall provide that in the event of default under such Acquisition Loan, the value of the Plan Assets, if any, transferred in satisfaction of such obligation must not exceed the amount of such default, and if the lender is a "disqualified person," the Acquisition Loan must provide for the transfer of Plan assets only upon and to the extent of the failure of the Trustee to meet the payment schedule of the Acquisition Loan. For purposes of this paragraph (f), the preceding sentence shall not apply solely because a guarantor is a disqualified person.

(g) Payments made by the Trustee from the Trust Fund with respect to an Acquisition Loan during a Plan Year shall not exceed the sum of (1) contributions (other than contributions of shares of Employer Securities) made to the Trust Fund for the Plan Year and each prior Plan Year to meet its obligations under such Acquisition Loan and the earnings attributable to the investment of such contributions and (2) earnings attributable to allocated and unallocated shares of Employer Securities purchased with such Acquisition Loan, reduced by (3) payments made under such Acquisition Loan in prior Plan Years, and increased by (4) the proceeds of any sale of Employer Securities held in the Suspense Account. Such contributions and earnings must be accounted for separately in the books of account of the Trustee until the Acquisition Loan is repaid. Notwithstanding the foregoing, if at the date of termination of the Plan, the Trustee remains indebted under any Acquisition Loan, the Committee may instruct the Trustee, prior to making the final Plan allocations, to pay accrued interest and principal and to prepay the remaining principal balance of the Acquisition Loan with shares of Employer Securities held in the Suspense Account or with the proceeds of a sale or other disposition of such Employer Securities. If any assets remain in the Suspense Account after all Acquisition Loans have been fully discharged, such assets will be allocated as income of the Trust Fund for the Plan Year in which the Plan terminates.

(h) Except as provided in the Plan or as

otherwise required by applicable law, no shares of Employer Securities acquired with the proceeds of an Acquisition Loan shall be subject to a put, call, right of first refusal or other option or buy-sell or similar arrangement, while such Stock is held by or when distributed from the Plan, whether or not the Acquisition Loan is repaid or the Plan is then an employee stock ownership plan (as defined by Section 4975(e)(7) of the Code). To the extent required by Treasury Regulation Section 54.4975-11(a)(3)(ii), the restrictions of this paragraph (h) shall be nonterminable.

#### ARTICLE 4

##### Powers of the Trustee

###### 4.1 Scope of Powers

The Trustee has whatever powers are required to discharge its obligations and exercise its rights under this Trust Agreement, without being limited by any state statute or rule of law regarding investments by trustees, including (but not limited to) the powers specified in the following Section of this Article, and the powers and authority granted to the Trustee under other provisions of this Trust Agreement. The enumeration of any power herein shall not be by way of limitation, but shall be cumulative and construed as full and complete power in favor of the Trustee.

###### 4.2 Powers of the Trustee

In furtherance of the purposes of the Plan and the Trust, the Trustee is authorized and empowered to exercise the following powers in its sole discretion:

(a) To invest and reinvest the Trust assets without distinction between the principal and income in Employer Securities. To the extent Trust assets are not invested in Employer Securities, such assets shall be invested in such shares and obligations of corporations or of unincorporated associations or trusts or investment companies or in any kind of investment fund, mutual fund (open and/or otherwise), or common trust fund, or in any other realty or personalty or any other kind of investment, without regard to whether or not such investment is an authorized or appropriate investment for trustees under the state laws applicable hereto. The Trustee may invest part or all of the Trust in any common fund established and maintained by the Trustee for the collective investment of assets in employee benefit trusts which qualify under Section 401(a) of the Internal Revenue Code, as amended.

(b) Except as provided in Section 4.3, to sell, mortgage, pledge, lease or otherwise dispose of any securities or other property in the Trust at public or private sale.

(c) To register any investment held in the Trust Fund in its own name or in the name of a nominee, with or without the addition of words indicating that such securities are held in a fiduciary capacity, and to hold any investment in bearer form, and to deposit any investment in a depository or clearing corporation, but the books and records of the Trustee shall show that all

such investments are part of the Trust Fund.

(d) Notwithstanding any other provisions of this Agreement, to enter into an Acquisition Loan and use the proceeds of such loan to purchase Employer Securities.

(e) To determine, for all purposes of the Plan, the market value of any securities or other property held by the Trustee in the Trust and, where any securities or other property are determined by the Trustee not to be publicly traded, to determine their value in accordance with sound practice and standards for evaluating such property; subject, however, in the case of Employer Securities held in the Trust that is not publicly traded within the meaning of Code Section 401(a)(28), to any valuation of such Employer Securities rendered by an independent appraiser selected by the Trustee with the approval of the Company.

(f) To employ suitable agents, including such public accountants, brokers, custodians, ancillary trustees, and appraisers as shall be necessary and appropriate, and to employ counsel (which may be counsel for the Committee or the Company), and to pay their reasonable expenses and compensation. The written opinion of such counsel shall be full and complete protection of the Trustee in respect to any action taken or suffered by the Trustee hereunder in good faith reliance on said opinion.

(g) Other than with respect to payments required under an Acquisition Loan and except as otherwise provided in Section 4.3, to sell, exchange, convey, transfer or otherwise dispose of shares of Employer Securities.

(h) To make commitments either alone or in concert with others to purchase at any future date any property, investments or securities authorized by Section 4.2(a) of this Agreement.

(i) Except as provided in Section 4.2(d), to borrow funds from any lender other than the Trustee (including the Employer) to finance the acquisition of Employer Securities, provided however, that any evidence of indebtedness to any "party in interest" or "disqualified person" or to any other lender which is guaranteed by a "party in interest" or "disqualified person" shall be an Acquisition Loan subject to the provisions of Section 3.3.

(j) To accept, compromise or otherwise settle any obligations or liability due to or from it as Trustee hereunder, including any claim that may be asserted for taxes under present or future laws, or to enforce or contest the same by appropriate legal proceedings.

(k) Except as otherwise provided in Section 4.3, to vote Employer Securities held in the Trust Fund and to exercise any other rights or privileges associated with such Stock in accordance with the terms of the Plan.

(l) To exercise, generally, any of the powers which an individual owner might exercise in connection with property, either real or personal, held by the Trust Fund, and to do all other acts that the Trustee may deem necessary or proper to carry out any powers set forth in this Section 4.2 or which are otherwise in the best

interests of the Trust Fund.

#### 4.3 Voting Employer Securities and Tendering Employer Securities

Except as otherwise required by ERISA or regulations thereunder, or the Code or regulations thereunder, all voting rights of shares held by the Trust Fund, and all rights to sell or otherwise tender shares held by the Trust Fund, shall be exercised by the Trustee in accordance with the provisions of the Plan. Anything in this Trust Agreement or in the Plan to the contrary notwithstanding, proceeds of any unallocated Employer Securities tendered by the Trustee shall be reinvested in Employer Securities.

#### 4.4 Documents, Instruments and Facilities

(a) In order to effectuate the specific powers and authority herein granted to the Trustee, the Trustee may make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate.

(b) The Trustee may use its own facilities in effecting any transaction involving assets of the Trust Fund, unless such use is prohibited by ERISA Section 406.

### ARTICLE 5

#### Duties and Obligations of the Trustee

##### 5.1 Scope of Duties and Obligations

The Trustee agrees to perform the duties and obligations imposed by this Trust Agreement. No duties or obligations shall be imposed upon the Trustee with respect to the Trust Fund unless undertaken by the Trustee under the express terms of this Trust Agreement or unless imposed upon the Trustee by statute or at common law. The Trustee shall have no duty or obligation to advise Members or Beneficiaries as to the effect of federal or state securities laws on the Plan, the Trust Fund or any distributions therefrom.

##### 5.2 General Duties and Obligations

(a) The Trustee shall hold all property received by it and any income and gains thereupon. The Trustee shall manage, invest and reinvest the Trust Fund, shall collect the income therefrom, and shall make payments as provided in the Plan and in this Trust Agreement. The Trustee may utilize depositories to hold assets of the Trust Fund, provided however that the Trustee shall not be relieved of any fiduciary responsibility with respect to the assets so held.

(b) The Trustee is responsible only for money or assets that it actually receives. The Trustee has no duty to compute amounts to be paid to it by the Employer or to enforce collection of any contribution due from the Employer. The Trustee is not responsible for the correctness of the computation of the amount of any contribution made or to be made by the Employer.

(c) The Trustee shall make payments and disbursements from the Trust Fund in accordance with Section

2.8 of the Trust Agreement.

(d) Subject to the provisions of Section 8.2(c), the Trustee shall comply with any directive issued by the Board or the Committee to withdraw and transfer all or any part of the Trust Fund to another trustee or another successor funding agent.

### 5.3 Valuation

(a) The Trustee shall determine, and report to the Committee, the current fair market value of the assets and liabilities of the Trust Fund, and Members' and Beneficiaries' interests therein, as of the regular Valuation Date and as of any interim Valuation Date that may be fixed by the Committee.

(b) The fair market value of assets of the Trust Fund shall be determined by the Trustee on the basis of such sources of information as it may deem reliable, including (but not limited to) information reported in: (1) newspapers of general circulation, (2) standard financial periodicals or publications, (3) statistical and valuation services, (4) records of securities exchanges, (5) reports of any brokerage firm deemed reliable by the Trustee, or (b) any combination of the foregoing. If the Trustee is unable to value assets from such sources, it may rely on information from the Employer, the Committee, appraiser or other sources, and will not be liable for an inaccurate valuation based in good faith on such information. Notwithstanding the foregoing, the fair market value of shares of Employer Securities shall be (i) if the Stock is readily tradeable on an established securities market, the fair market value of such stock on such market on the Valuation Date or (ii) if the Stock is not readily tradeable on an established securities market, the fair market value determined in good faith by the Trustee based upon an appraisal by an independent appraiser meeting requirement similar to the requirements of Code Section 170(a)(1).

(c) Reasonable costs incurred in valuing the Trust Fund that are not paid by the Company shall be a charge against the Trust Fund.

### 5.4 Records

The Trustee shall keep complete accounts of all investments, receipts and disbursements, other transactions hereunder, and gains and losses resulting from same. Such accounts shall be sufficiently detailed to meet the Trustee's duties of reporting and disclosure required under applicable federal or state law as shall exist from time to time. All accounts, books, contracts and records relating to the Trust Fund shall be open to inspection and audit at all reasonable times by any person designated by the Committee.

### 5.5 Reports

(a) Within 90 days following the close of each Plan Year, and as otherwise directed by the Committee, and within 90 days following the Trustee's resignation or removal under Article 7 of this Trust Agreement, the Trustee shall furnish the Committee with a written report setting forth the transactions effected by the Trustee during the period since it last furnished such a report

and any gains or losses resulting from same, any payments or disbursements made by the Trustee during such period, the assets of the Trust Fund as of the last day of such period (as cost and at fair market value), and any other information about the Trust Fund that the Committee may reasonably request. The Trustee shall certify the accuracy of the report if such certification is required by any applicable federal or state law or regulation.

(b) Each report submitted pursuant to subSection (a) shall be promptly examined by the Committee. If the Committee approves of such report, the Trustee shall be forever released from any liability of accountability with respect to the propriety of any of its accounts or transactions so reported, as if such account had been settled by judgment or decree of a court of competent jurisdiction in which the Trustee, the Committee, the Company, and all persons having or claiming any interest in the Trust Fund were made parties. The foregoing, however, is not to be construed to deprive the Trustee of the right to have its account judicially settled if it so desires.

(c) The Committee may approve of any report furnished by the Trustee under subSection (a) either by written statement of approval furnished to the Trustee or shall be deemed to have approved of any such report by failure to file a written objection to the report with the Trustee within 90 days of the date on which the Committee receives such report. The Committee shall not be liable to any person for its approval, disapproval or failure to approve any such report rendered by the Trustee.

#### 5.6 Instructions

All communications required hereunder from the Company or the Committee to the Trustee shall be in writing signed by an officer of the Company or by a member of the Committee authorized to sign on its behalf. The Committee may authorize one or more of its members to sign on its behalf all communications required hereunder between the Committee and the Trustee. At all times during which communications between the Committee and the Trustee are required hereunder, the Company and the Committee shall keep the Trustee advised of the names and specimen signatures of all members of the Committee and the individuals authorized to sign on behalf of the Committee. In the absence of any notification of changes, the Trustee may assume that the members of the Committee are the same as last reported by the Company to the Trustee.

#### 5.7 Hiring of Agents and Related Expenses

The Trustee may employ suitable agents and counsel who may be agents or counsel for the Employer. The reasonable expenses incurred by the Trustee and the Committee in hiring such agents or counsel or otherwise in the performance of their duties hereunder and all other charges, expenses, disbursements and compensation of the Trustee or the Committee shall be paid from the Trust Fund, unless the Employer pays such charges, expenses, disbursements and compensation directly. In addition, the Employer in its discretion may reimburse the Trust Fund for any such charges, expenses, disbursements and compensation paid from the Trust Fund.

## ARTICLE 6

### Compensation, Rights and Indemnities of the Trustee

#### 6.1 Compensation and Reimbursement

(a) The Trustee shall receive for its services reasonable compensation as agreed upon in writing from time to time between the Company and the Trustee.

(b) The Trustee shall be reimbursed for all reasonable expenses it incurs in the performance of its duties under this Trust Agreement. In this regard, reasonable expenses include (but are not limited to) accounting, consulting, appraisal, brokerage, custodial, actuarial and, subject to Section 6.3, legal fees for professional services related to the administration of the Plan and this Trust Agreement.

(c) Compensation and expenses payable under this Section 6.1 shall be paid from the Trust Fund (and may be charged, if applicable, to an appropriate subaccount or subtrust), unless the Employer pays such compensation and expenses directly. In addition, the Employer in its discretion may reimburse the Trust Fund for any such compensation and expenses paid from the Trust Fund.

#### 6.2 Rights of the Trustee

(a) Whenever in the administration of the Plan a certification or direction is required to be given to the Trustee, or the Trustee deems it necessary that a matter be proved prior to taking, suffering or omitting any action hereunder, such certification or direction shall be fully made, or such matter may be deemed to be conclusively proved, by delivery to the Trustee of an instrument signed either:

(1) in the name of the Company by an officer of the Company; or

(2) unless the matter concerns the authority of the Committee, in the name of the Committee by the Chairman or Secretary of the Committee;

and the Trustee may fully rely upon such instrument to the extent permitted by law. Notwithstanding the foregoing, the Trustee may in its sole discretion accept such other evidence of a matter or require such further evidence as may seem reasonable to it, in lieu of such instrument. Generally, the Trustee shall be protected in acting upon any notice, resolution, order, certificate, opinion, telegram, letter or other document believed by the Trustee to be genuine and to have been signed by the proper party or parties, and may act thereon without notice to a Member or Beneficiary and without considering the rights of any Member or Beneficiary.

(b) The Trustee may make any payment which it is required to make hereunder by mailing a check for the amount of such payment and any other necessary papers by first class mail in a sealed envelope addressed to the person to whom such payment is to be made, according to the certification of the Committee. In this respect, the Trustee shall recognize only instructions given to it by the Committee and has the right to act thereon without notice to any person and without considering the rights

of any Member or Beneficiary. The Trustee is not required to determine or to make any investigation to determine, the identity or mailing address of any person entitled to benefits under the Plan, and is entitled to withhold payment of benefits or directions to issuing companies with respect to such payment until the identity and mailing address of the Member or Beneficiary entitled to receive such benefits is certified by the Committee. The Trustee shall not be responsible for the determination or computation of any benefit due to a Member or Beneficiary.

(c) In the event that any dispute arises as to the identity or rights of any person or persons to whom the Trustee is to make payment or delivery of any funds or property, the Trustee may withhold payment or delivery of such funds or property without liability until the dispute is resolved by arbitration, adjudicated by a court of competent jurisdiction, or settled by written stipulation of the parties concerned. The Trustee shall not be liable for the payment of and interest or income on the cash or other property held by it under such circumstances. The Trustee, at its discretion, may bring any action in the nature of an interpleader, but shall not be obligated to do so.

(d) The Trustee may consult with legal counsel (who may be counsel for the Committee, the Company or a Member Company) with respect to the construction of the Plan or this Trust Agreement or its duties thereunder, or with respect to any legal proceeding or any question of law, and shall be fully protected (to the extent permitted by law) with respect to any action it takes or omits in good faith upon the advice of such counsel.

(e) The Trustee shall be provided with specimen signatures of the current members of the Committee. The Trustee shall be entitled to rely in good faith upon any directions signed by a majority of the members of the Committee or their appointed delegate, and shall incur no liability for following such directions.

(f) The Trustee may accept communications by photostatic teletransmissions with duplicate or facsimile signatures as a delivery of such communications in writing until notified in writing by the Committee that the use of such devices is not longer authorized.

(g) Until advised to the contrary by the Company, the Trustee shall assume that the Trust is exempt from all Federal, State, and local income taxes, and may act in accordance with that assumption. If the whole or any part of the Trust Fund, or the proceeds thereof, becomes liable for the payment of any estate, inheritance, income or other tax, charge or assessment which the Trustee is required to pay, the Trustee shall have full power and authority to pay such tax, charge or assessment out of any money or other property in its hand

for the account of the person whose interests hereunder are so liable, but at least 10 days prior to the making of any such payment the trustee must mail notice to the Committee of its intention to make such payment. Prior to making any transfers or distributions of any of the proceeds of the Trust Fund, the Trustee may require such releases or other documents from any lawful taxing authority and may require such indemnity from any payee or distributee, as it deems necessary.

### 6.3 Indemnification

(a) The Company shall indemnify and hold harmless the Trustee from all loss or liability (including expenses and reasonable attorneys' fees) to which the Trustee may be subject by reason of its execution of its duties under this Trust Agreement, or by reason of any acts taken in good faith in accordance with directions, or acts omitted in good faith due to absence of directions, from the Committee unless such loss or liability is due to the Trustee's negligence or willful misconduct. The Trustee is entitled to collect on the indemnity provided by this Section 6.3 only from the Employer, and is not entitled to any direct or indirect indemnity payment from assets of the Trust Fund. For purposes of Section 6, negligence shall be defined as acts or omissions that constitute a material departure from standards of ordinary care.

(b) In the event that the Trustee is named as a defendant in a lawsuit or proceeding involving the Plan or the Trust Fund, the Trustee shall be entitled to receive on a current basis the indemnity payments provided for in this Section. If, however, the final judgment entered in the lawsuit or proceeding holds that the Trustee is guilty of negligence or willful misconduct with respect to one or more counts alleged against it, the Trustee shall refund the portion of the indemnity payments that are reasonably allocable to the defense of those counts with respect to which the Trustee has been found to have committed acts of negligence or willful misconduct.

### 6.4 Limitation of Liability of Trustee

(a) If the Trustee makes a written request for directions from the Committee, the Trustee may await such directions without incurring liability. The Trustee has no duty to act in the absence of such requested directions, but may in its discretion take such action as it deems appropriate to carry out the purposes of this Trust Agreement, without liability therefor.

(b) The Trustee is not responsible for determining the adequacy of the Trust Fund to meet liabilities under the Plan, and is not liable for any obligations of the Plan or the Trust Fund in excess of the assets of the Trust Fund.

(c) The Trustee shall not be liable for the acts or omissions of any other fiduciary or person with respect to the Plan or the trust Fund except to the extent required under Section 405(a) of ERISA.

(d) The Trustee is not responsible for any matter affecting the administration of the Plan by the Company, the Committee, or any other person or persons to whom responsibility for administration of the Plan is delegated pursuant to the terms of the Plan.

### 6.5 Court Proceedings and Necessary Parties to Legal Actions

The Trustee may institute, maintain or defend any litigation necessary in connection with the administration of the Trust fund, provided, the Trustee shall be under no duty or obligation to do so unless it shall have

been indemnified to its satisfaction against all expenses and liabilities which it may sustain or reasonably anticipate by reason thereof. All costs and expenses of litigation for which the Trustee would be liable shall be paid by the Company, or if not paid by the Company, from the Trust Fund. Except as required by ERISA Section 502(h), only the Employer, the Committee and the Trustee shall be considered necessary parties in any legal action or proceeding with respect to the Trust Fund, and no Member, Beneficiary or other person having an interest in the Trust Fund shall be entitled to notice. Any judgment entered on any such action or proceeding shall be binding on the Employer, Committee, Trustee and all persons claiming under the Trust. Nothing in this Section 6.5 is intended to preclude a Member or Beneficiary from enforcing his legal rights.

#### 6.6 Bonding of Trustee

The Trustee shall not be required to furnish any bond or security for the performance of its powers and duties hereunder, unless irrespective of this provision, the Trustee is required to do by State or Federal statute or regulation.

#### 6.7 Third Party

No person dealing with the Trustee shall be obligated to see to the proper application of any money paid or property delivered to the Trustee, or to inquire whether the Trustee has acted pursuant to any of the terms of the Plan or Trust. Each person dealing with the Trustee may act upon any notice, request, or representation in writing by the Trustee, or by the Trustee's duly authorized agent, and shall not be liable to any person whomsoever in so doing. The certificate of the Trustee that it is acting in accordance with the Plan or Trust shall be conclusive in favor of any person relying on the certificate.

#### 6.8 Tax and Information Returns

The Company shall be responsible for timely filing all tax and information returns, as well as all required descriptions, reports, and disclosures, relating to the Plan and Trust.

### ARTICLE 7

#### Resignation or Removal of the Trustee

##### 7.1 Resignation

The Trustee may resign at any time by delivering to the Board of Directors or the Committee a written notice of resignation, to take effect not less than 60 days after delivery, unless such notice is waived.

##### 7.2 Removal

The Board of Directors or the Committee may remove the Trustee at any time by delivering to the Trustee, not less than 60 days before it is to take effect, a written notice of removal (unless such notice is waived by the Trustee).

##### 7.3 Successor Trustee

Upon the resignation or removal of the Trustee, the Board of Directors or the Committee shall appoint a successor Trustee, which may accept such appointment by execution of this Trust Agreement. In the event that no successor Trustee is appointed, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee or for instructions. Any expenses incurred by the Trustee in connection with said application shall be paid from the Trust Fund as an expense of administration.

#### 7.4 Settlement

The Trustee shall have the right to have a final settlement of the accounts of the Trust by judicial settlement in an action instituted by the Trustee in a court of competent jurisdiction.

#### 7.5 Transfer to Successor Trustee

Upon settlement of the Trustee's account, the Trustee shall transfer to the successor Trustee the Trust Fund as it is then constituted and true copies of its records relating to the Trust Fund. Upon the completion of this transfer, the Trustee's responsibilities under this Trust Agreement shall cease and the Trustee shall be discharged from further accountability for all matters embraced in its settlement; provided, however, that the Trustee executes and delivers all documents and written instruments which are necessary to transfer and convey the right, title and interest in the Trust Fund assets,

and all rights and privileges with respect to such assets, to the successor Trustee. Notwithstanding the foregoing, the Trustee is authorized to reserve such amount as it may deem advisable for payment of its fees and expenses in connection with the settlement of its account. Any balance of such reserve remaining after the payment of such fees and expenses shall be paid over to the successor Trustee. Notwithstanding any provision of Trust Agreement to the contrary, the Trustee may invest and reinvest such reserves in any investment or investment vehicle appropriate for the temporary investment of cash reserves of trust.

#### 7.6 Duties of the Trustee Prior to Transfer to Successor Trustee

The Trustee's powers, duties, rights and responsibilities under this Trust Agreement shall continue until the date on which the transfer of the Trust Fund assets and delivery of the related documents to the successor Trustee under Section 7.5 is completed. Nothing contained herein shall relieve the Trustee of its duties under Section 5.5. The successor Trustee shall neither be liable or responsible for any act or omission to act with respect to the operation or administration of the Trust Fund under this Trust Agreement prior to such date, nor be under any duty or obligation to audit or otherwise inquire into or take any action concerning the acts or omissions of the Trustee or any predecessor Trustee.

#### 7.7 Powers, Duties and Rights of the Successor Trustee

Upon its receipt of all the assets of the Trust

Fund and all of the documents related thereto, the successor Trustee shall become vested with all the estate, powers, duties, rights and discretion of the Trustee under this Trust Agreement with the same effect as though the successor Trustee were originally named as Trustee hereunder.

7.8 Merger or Consolidation Involving Corporate Trustee

Any corporation into which a corporation acting as Trustee hereunder may be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization or consolidation to which such Trustee may be a party, shall be the successor of the Trustee hereunder without the necessity of any appointment or other action, provided it does not resign and is not removed.

ARTICLE 8

Amendment of the Trust Agreement  
or Termination of the Plan

8.1 Amendment of the Trust Agreement

(a) The Company reserves the right to amend this Trust Agreement in the manner set forth in subsection (b) at any time and to any extent that it may deem advisable or appropriate, provided, however, that:

(1) No amendment may affect the duties, rights, responsibilities or liabilities of the Trustee without its written consent;

(2) No amendment may have the effect of vesting in the Company or Member Company any interest in or control over any property subject to the terms of this Trust Agreement; and

(3) No amendment may contravene the provisions of Section 2.4.

(b) Any amendment to this Trust Agreement shall be made only pursuant to action of the Board of Directors. A certified copy of the resolution adopting any amendment and a copy of the adopted amendment as executed by the Company shall be delivered to the Trustee. Upon such action by the Company, the Trust Agreement shall be deemed amended as of the date specified as the effective date by such action or in the instrument of the amendment. The effective date of any amendment may be before, on or after the date of such action.

(c) Unless an amendment expressly provides otherwise, all Member Companies shall be bound by any amendment adopted pursuant to this Article 8.

8.2 Termination of the Plan

(a) In the event that the Plan is terminated, the Committee shall notify the Trustee as to whether the Trust Fund is to be distributed or is to be maintained by the Trustee in accordance with the provisions of the Plan and this Trust Agreement. If the Committee directs that the Trust Fund is to be distributed, the Trustee shall establish the fair market value of the Trust fund as of

such interim Valuation Date as is designated by the Committee, and, after paying the reasonable expenses involved in the termination of the Plan, shall distribute all of a part of the assets of the Trust fund (converting such assets into cash, as necessary) in accordance with the written directions of the Committee (including, to the extent permitted by applicable federal law, a direct distribution to one or more Member Companies of any excess assets of the Trust Fund remaining after all liabilities of the Plan and the Trust Fund to the Members and Beneficiaries have been satisfied).

(b) If, at the date of termination of the Plan, the Plan remains indebted with respect to an Acquisition Loan, the Committee shall instruct the Trustee, prior to making the final Plan allocations, to pay the accrued principal and interest and to prepay the remaining principal balance of the Acquisition Loan with the shares of Employer Securities held in the Loan Suspense Account or with the proceeds of a sale or other disposition of such Employer Securities. If any assets remain in the Loan Suspense Account after all Acquisition Loans have been fully discharged, such assets shall be allocated as income of the Trust Fund for the Plan Year in which the Plan terminates.

(c) In the event of the withdrawal of any Member Company from the Plan, the Trustee shall distribute the assets of the Trust Fund attributable to the Members employed by the Member Company, and their Beneficiaries, in accordance with the written directions of the Committee.

(d) Notwithstanding the provisions of subsections (a), (b) and (c):

(1) To the extent permitted by the United States Department of Labor, the Trustee may pay, from the assets of the Trust Fund, the reasonable expenses involved in the termination of the Trust Fund prior to distributing the assets of the Trust Fund as directed by the Committee;

(2) The Trustee shall not comply with any instruction to transfer assets of the Trust Fund to the funding agent of any other employee benefit plan unless the Trustee determines that such transfer of assets will comply with the requirements of the Code, and that any required actuarial statement of valuation has been properly filed; and

(3) The Trustee may condition the delivery, transfer or distribution of any or all assets of the Trust Fund upon its receipt of assurance satisfactory to it that the approval of appropriate governmental or other authorities has been secured (including, if the Trustee so requests, a favorable determination letter issued by the Internal Revenue Service to the effect that the termination of the Plan will not adversely affect the Plan's qualified status), that any such action will not give rise to a non-exempt prohibited transaction under ERISA or the Code and that there has been proper compliance with all notices and other procedures required by applicable law.

## ARTICLE 9

### Communications

#### 9.1 Company's and Committee's Address

Communications to the Company shall be addressed to it at \_\_\_\_\_  
\_\_\_\_\_. Communications to the Committee shall be addressed to it in care of the Company, at the address above, provided, however, that upon the Company's or the Committee's written request, such communications shall be sent to such other address as the Company or the Committee, as the case may be, may specify.

#### 9.2 Trustee's Address

Communications to the Trustee shall be addressed to it at \_\_\_\_\_  
\_\_\_\_\_ provided, however, that upon the written request of the Trustee, such communications shall be sent to such other address or addresses as the Trustee may specify.

#### 9.3 Binding Upon Receipt

No communication shall be binding on the Trustee, Company or Committee until it is received by such party.

#### 9.4 Communication in Writing

Any action of the Company or the Committee pursuant to this Trust Agreement, including all orders, requests, directions, instructions, approvals and objections of the Company or the Committee to the Trustee, shall be in writing signed on behalf of the Company or the Committee by any duly authorized officer of the Company or member of the Committee, respectively. The Trustee shall be governed by such action and, to the maximum extent permitted by ERISA, be fully protected, and indemnified in accordance with and subject to the conditions of Section 6.3 hereof, in relying thereon.

### ARTICLE 10

#### Miscellaneous

##### 10.1 Gender, Tense and Headings

Whenever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine gender in all cases where they would so apply. Whenever any words used herein are in the singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply.

Headings of Articles, Sections and subSections as used herein are inserted solely for convenience and reference and constitute no part of this Trust Agreement.

##### 10.2 Governing Law

This Trust Agreement shall be construed and governed in all respects in accordance with applicable federal law, and, to the extent not preempted by such federal law, in accordance with the laws of the state of New York.

### 10.3 Mistake of Fact

Notwithstanding any other provisions herein contained, if any contribution is made due to a mistake of fact, such contribution shall, upon the direction of the Committee, which shall be given in conformity with the provisions of ERISA, be returned to the Company or the party who made it, as directed by the Company, without liability to any person (including, but not limited to, Members and Beneficiaries).

### 10.4 Qualification of Plan

Notwithstanding any other provisions herein contained, the Trust Agreement is entered into on the condition that the Plan and the Trust Agreement shall be approved by the Internal Revenue Service as a qualified and exempt plan and trust under the provisions of the Code and the Treasury Regulations. If such approval should be denied for any reason (including failure to comply with any conditions for such approval imposed by the Internal Revenue Service), contributions made after the execution of the Trust Agreement and prior to such denial shall, upon the direction of the Committee, which shall be given in conformity with the provisions of ERISA, be returned to the Company or the party who made it, as directed by the Company, without any liability to any person, within one year after the date of denial of such approval. All remaining assets in the Trust shall be returned to the Company.

### 10.5 Deductibility of Contributions

Notwithstanding any other provisions herein contained, all contributions made under the Plan are hereby expressly conditioned upon their deductibility under Section 404 of the Code and the Treasury Regulations thereunder, as amended from time to time, and if the deduction for any contribution is disallowed in whole or in part, then such contribution (to the extent the deduction is disallowed) shall, upon the direction of the Committee, which shall be given in conformity with the provisions of ERISA, be returned to the Company or the party who made it without liability to any person.

### 10.6 Receipt or Release

Any payment to any Member or Beneficiary in accordance with the provisions of this Trust shall, to the extent thereof, be in full satisfaction of all claims against the Trustee, and the Trustee may require such Member or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

### 10.7 Alienation

Except in the case of a Qualified Domestic Relations Order, (a) the benefits, proceeds, payments, or claims of any Member or Beneficiary payable from the Trust assets shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary including any such liability which is for alimony or other payments for support of a spouse or former spouse, (b) any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, garnish, levy or otherwise dispose of or exe-

cute upon any right or benefit payable hereunder shall be void, and (c) the Trust assets shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements, or torts of any Member entitled to benefits hereunder and such benefits shall not be considered an asset of the Member in the event of his insolvency or bankruptcy.

10.8 Accounting Period

This Trust shall adopt as its fiscal year the twelve (12) consecutive month period beginning January 1 of each year and ending December 31 of such year for accounting purposes; provided, however, that the first fiscal year shall begin on the Effective Date of this Trust and shall end on December 31, 1994.

10.9 Title of Trust Assets

The legal and equitable title and ownership of all assets at any time constituting a part of the Trust Fund shall be and remain with the Trustee and neither the Employer nor any Member shall ever have any legal or equitable estate therein, save and except that a Member shall be entitled to receive distributions as and when lawfully made under the terms hereof, and the Employer may receive a distribution to the extent permitted by Section 8.2(a), 10.3, 10.4, or 10.5.

10.10 Titles for Convenience Only

Titles to the Sections of the Trust Agreement are included for convenience only and shall not control the meaning of interpretation of any provision of the Trust Agreement.

10.11 Entire Agreement; Parties Bound

The Trust Agreement and the Plan contain the entire agreement and understanding of the Company, the Member Companies and the Trustee with respect to the subject matter hereof and supersede all prior agreements and understandings related to such subject matter. This Agreement shall be binding upon the parties hereto and their successors and assigns.

10.12 Executed Counterparts

The Trust Agreement may be executed in any number of counterparts, each of which shall be deemed to be the original although the others shall not be produced.

IN WITNESS WHEREOF, the Company and the Trustee have executed this Trust Agreement on this \_\_\_\_\_ day of November, 1994, effective as of November 8, 1994.

-----  
Trustee:

-----  
Company:



CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated November 8, 1994, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (Nos. 2-82183, 2-99536, 33-14259, 33-39090 and 33-52319).

Arthur Andersen LLP

Roseland, New Jersey  
December 5, 1994

<ARTICLE> 5

<LEGEND>

The schedule contains summary financial information extracted from the consolidated financial statements for the year ended September 30, 1994 and is qualified in its entirety by reference to such financial statements.

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<F1>Fully diluted per share data is the same as primary since, as permitted by APB No. 15, dilution is less than three percent.

</FN>