

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In Re:

Case No. BKY 04-42532

Rels Manufacturing Corporation,

Chapter 11

Debtor.

**NOTICE OF MOTION AND
MOTION FOR EXPEDITED RELIEF FROM
THE AUTOMATIC STAY**

TO: Attached Service List

1. Associated Commercial Finance, Inc. (“Associated”), by its undersigned attorneys, moves the Court for the relief requested below and gives notice of hearing herewith.

2. The Court will hold a hearing on this motion at 10:30 a.m. on November 3, 2004, before Honorable Robert J. Kressel, U.S. Bankruptcy Judge, Court Room No. 8 West, U.S. Courthouse, 300 South Fourth Street, Minneapolis, Minnesota.

3. Any response to this motion must be filed and delivered not later than November 2, 2004, which is the day before the time set for the hearing. **UNLESS A RESPONSE OPPOSING THIS MOTION IS TIMELY FILED, THE COURT MAY GRANT THE MOTION WITHOUT A HEARING.**

4. This Court has jurisdiction over this motion pursuant to 28 U.S.C. §§ 157 and 1334, Fed. R. Bankr. P. 5005 and Local Rule 1070-1. This proceeding is a core proceeding. The petition commencing this Chapter 11 case was filed on March 24, 2004. The case is now pending in this Court.

5. This motion arises under 11 U.S.C. § 362(d), Fed. R. Bankr. P. 4001 and 9014 and Local Rules 9013-1 and 2, 9006-1 and 9017-1.

6. Associated is a Wisconsin corporation registered to do business in the state of Minnesota.

7. Pursuant to the terms of a Letter Loan Agreement dated July 7, 1998 between Rels Manufacturing Corporation (the "Debtor") and Associated (the "Original Agreement"), as amended by a letter amendment dated as of September 30, 1999 and a letter amendment dated as of May 1, 2001 and as further amended by that certain Amendment No. 3 to Letter Loan Agreement approved by the Court and dated April 12, 2004 (the "Third Amendment") (the Letter Loan Agreement as so amended and as it may be further amended, modified, supplemented or restated from time to time being the "Credit Agreement"), Associated made: (a) a Revolving Credit Loan to the Debtor in the maximum principal amount of \$750,000.00 (the "Revolving Credit Loan"); (b) a term loan of \$375,000.00 (the "Term Loan"; and together with the Revolving Credit Loan being sometimes hereinafter referred collectively as "the Loans" and individually as a "Loan"); and (c) a mortgage loan of \$210,000.00 (the "Mortgage Loan"). The Mortgage Loan was paid in 2003. A true and correct copy of the Credit Agreement (consisting of the Third Amendment, which is attached hereto as Exhibit A, and the Original Agreement, which is attached hereto as Exhibit B.

8. To secure the payment of the Loans, the Debtor executed and delivered to Associated a Security Agreement dated as July 7, 1998 (the "Original Security Agreement") pursuant to which the Debtor granted to Associated a first priority security interest in the "Collateral" described therein, including, without limitation, all of the Debtor's right, title and interest in and to existing or thereafter arising or acquired Accounts, Chattel Paper, Controlled Property, Documents, Equipment and Fixtures General Intangibles, Instruments, Inventory, Proceeds (whether cash or non-cash Proceeds, including Insurance Proceeds and non-cash

Proceeds of all types); and Products of all the foregoing.

9. Associated's security interest in the Pre-petition Collateral are perfected by filing a financing statement with the Minnesota Secretary of State on July 20, 1998, as document number 20543051, and continued by financing statement filed with the Minnesota Secretary of State on June 26, 2003, as document number 2003787247.

10. By the Final Order Approving Agreement and Authorizing Post-Petition Financing Secured by Senior Lien and Superpriority Expense Claims entered by this Court on May 27, 2004 (the "Financing Order") and extended by further Order of this Court dated September 1, 2004, the Court approved the Associated's post-petition financing of the Debtor pursuant to certain terms and conditions as set forth therein. A true and correct copy of the Financing Order is attached hereto as Exhibit C. To date Associated has been providing financing to the Debtor in reliance on the terms of the Financing Order and the Credit Agreement.

11. Pursuant to the terms of the Financing Order and the Credit Agreement and to evidence its indebtedness under the Credit Agreement, Debtor executed and delivered to Associated a Post-Petition Credit Note dated April 12, 2004 in the principal amount of Five Hundred Seventy Five Thousand and No/100ths Dollars (\$575,000.00), a true and correct copy of which is attached hereto as Exhibit D.

12. Pursuant to the terms of the Financing Order and to secure the Debtor's obligations in favor of Associated under the Credit Agreement, the Debtor executed and delivered to Associated an Amended and Restated Security Agreement dated April 12, 2004 (the "Security Agreement"). A true and correct copy of the Security Agreement is attached hereto as Exhibit E. Under the Security Agreement, Debtor has granted to Associated a continuing first

security interest in the “Collateral” described therein including, without limitation, accounts, chattel paper, controlled property, Commercial Tort Claims, deposit accounts, data processing records and systems, electronic chattel paper, documents, goods, payment intangibles, supporting obligations, equipment and fixtures, general intangibles, instruments, inventory, proceeds, and products of the foregoing (hereinafter, together with the Pre-petition Collateral, collectively referred to as the “Collateral”).

13. Paragraph I of the Financing Order provides:

Associated may, upon motion to the Bankruptcy Court and upon three (3) business days’ notice to the parties in interest, seek relief from the automatic stay under Section 362 to enforce its rights under the Credit Agreement and the other Loan Documents including, without limitation, its right to foreclose its liens and security interest in the Collateral, and such other relief as Associated may request. Other than the Events of Default existing under the Credit Agreement at the time that the Debtor has commenced the instant Case, Debtor agrees that the occurrence of an Event of Default, as provided under the Credit Agreement, shall constitute sufficient grounds for relief from the automatic stay.

14. An “Event of Default” under the Credit Agreement occurs when any judgments are issued against any Loan Party where the aggregate of the judgments exceed \$10,000 for any or all Loan Parties. Original Agreement, paragraph 9(f). As a guarantor of the Debtor’s obligations under the Credit Agreement, David Carroll is a “Loan Party.” Original Agreement, paragraph 1(h). In connection with the Debtor’s execution of the Credit Agreement, David Carroll executed an Acknowledgement and Agreement under the terms of which, among other things, David Carroll confirmed that his personal Guaranty dated July 7, 1998, remained in full force and effect and enforceable against him in accordance with its terms and that he continued to guaranty the payment and performance of the “Indebtedness” including, without limitation, the Debtor’s obligations under the Credit Agreement. A true and correct copy of the Acknowledgement and Agreement is attached hereto as Exhibit F.

15. On June 30, 2004, the Minnesota State District Court for the Fourth Judicial District (Hennepin County) (The “District Court”), in the matter captioned *Ellen Mitchell Gallagher v. David C. Carroll, et al.*, Court Filed No. 04-7795, entered judgment against David C. Carroll and in favor of Ms. Gallagher in the amount of \$1,185,918.54 (the “Judgment”). A true and correct copy District Court’s Judgment Roll memorializing the District Court’s entry and docketing of the Judgment is attached hereto as Exhibit G. The entry of the Judgment is an Event of Default under the Credit Agreement and arose after the commencement of this Chapter 11 case.

16. Section 2(b)(iii) and 2(c)(iii) of the Credit Agreement, which amends the Original Agreement, requires that the Debtor make interest payments to Associated as follows:

The Borrower agrees to pay interest on the outstanding principal amount of the Term Loan from the date of the Term Loan until the Term Loan is paid at the rates and at the times specified in the Term Note.

The Borrower agrees to pay interest on the outstanding principal amount of each Advance from the date of such Advance until such Advance is paid at the rates and at the times specified in the Post-Petition Revolving Credit Note shall pay to Associated

Third Amendment, Sections 2(b) and (c). Section 9(a) of the Credit Agreement, as amended under the Third Amendment, provides that it is an “Event of Default” where the Debtor fails to make “due and punctual payment of any installment of interest . . . on the Loans an the date when due”

17. Under the Credit Agreement, interest under the Term Loan and the Revolving Loan is due on the first business day of each month. Debtor has failed to make interest payments as required under the Credit Agreement for the month of October.

18. Under the Credit Agreement, it is an “Event of Default” where Associated, “in its sole discretion, shall determine that there has been a material adverse change in the condition of

(financial or otherwise) business, property of any Loan Party.” Original Agreement, Section 9

(h). Associated has made such a determination not only because of the Judgment, described herein, but also because over the last several weeks, the Debtor has been operating at a cash deficit, that is, it has on a daily basis issued checks to pay its creditors where the Debtor does not have sufficient proceeds to pay these checks, and, accordingly, these checks are dishonored. Despite repeated attempts by Associated to alert the Debtor to this ongoing problem, the Debtor has continued to issue what are in effect NSF checks to its creditors and employees. The primary reason for these cash flow problems is that the Debtor has been conducting its operations at a loss for the months of September and October.

19. In accordance with the provisions of the Financing Order authorizing Associated to relief from the Automatic Stay under 11 U.S.C. § 362 upon three business days’ notice, the automatic stay should be lifted and vacated so that Associated can enforce its security interest against the Collateral as well as its rights under the Settlement Agreement against the Debtor, including, without limitation, foreclosing on its security interest in the Collateral. Moreover, under 11 U.S.C. § 362(d)(1), the Court should grant Associated’s motion for “cause,” due to the provisions of the Financing Order and the Judgment.

20. As a result of the foregoing, Associated hereby requests that this Court grant it expedited relief, as provided under the terms of the Financing Order, which allows Associated to relief upon three business days’ notice.

21. Pursuant to Local Rule 9013-2(c), Associated does not presently intend to call a witness at the hearing on its motion. If the Court orders an evidentiary hearing, however, Associated may call Mr. Richter, John Cron, an Auditor for Associated, Jeff Kohr, Audit Manager for Associated and/or Mr. Carroll to testify as to the matters set forth herein.

WHEREFORE, Associated hereby requests that the Court grants Associated's Motion for expedited Relief and that the Court issues an order terminating the automatic stay under 11 U.S.C. § 362(a) thereby permitting Associated to enforce its security interest against the Collateral as well as its rights under the Settlement Agreement against the Debtor, including, without limitation, foreclosing on its security interest in the Collateral.

Dated: October 27, 2004

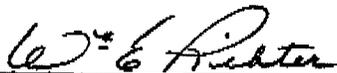
FABYANSKE, WESTRA & HART, P.A.

By: /e/ Paul L. Ratelle
Paul L. Ratelle (#127632)
Michael A. Rosow (#317998)
800 LaSalle Avenue, Suite, 1900
Minneapolis, MN 55402
(612) 338-0115
ATTORNEYS FOR ASSOCIATED
COMMERCIAL FINANCE, INC.

VERIFICATION

I, William Richter, a vice president of Associated Banc-Corp., acting on behalf of Associated Commercial Finance, Inc., declare under penalty of perjury that the foregoing is true and correct according to the best of my knowledge, information, and belief.

Dated: October 27, 2004


William Richter

SERVICE LIST

<p>RELS Manufacturing Corporation 6700 Bleck Drive Rockford, MN 55373</p>	<p>Michael L. Meyer Ravich Meyer Kirkman McGrath & Nauman 4545 IDS Center 80 South 8th Street Minneapolis, MN 55402 Fax No. (612) 332-8302</p>	<p>US Attorney 600 US Courthouse 300 South Fourth Street Minneapolis, MN 55415</p>
<p>MN Dept. of Revenue Collection Enforcement 551 Bankruptcy Section PO Box 64447 St. Paul, MN 55107</p>	<p>Pier Foundry 51 State Street St. Paul, MN 55107</p>	<p>Unsecured Creditors Committee in the Chapter 11 Case of Shark Industries, Inc Matthew R. Burton Leonard O'Brien Spencer Gale & Sayre 100 South 5th Street, Suite 2500 Minneapolis, MN 55402 Fax No. (612) 332-2740</p>
<p>Michael R. Fadlovich United States Trustee 300 South Fourth Street 1015 U.S. Courthouse Minneapolis, MN 55415 Fax No. 612-664-5516</p>	<p>IRS District Director Stop 5700 316 North Robert Street St. Paul, MN 55101</p>	<p>IRS Office of Chief Counsel 650 Galtier Plaza 175 East 5th Street St. Paul, MN 55101</p>
<p>Securities & Exchange Commission 500 W. Madison, #1400 Chicago, IL 60661</p>	<p>Securities & Exchange Commission Attn Bankruptcy Division 175 West Jackson Blvd, #900 Chicago, IL 60604</p>	<p>Margaret Fernandez 12600 Deerfield Parkway, Suite 100 Alpharetta, GA 30004</p>
<p>Earl M. Jorgensen Co. 1775 101st Avenue, N.E. Minneapolis, MN 55449</p>	<p>Electric Motor Service 2020 Division Street St. Cloud, MN 56302</p>	<p>Gear & Broach Inc. 7204 Winnetka Avenue No. Minneapolis, MN 55428</p>
<p>Innovative Metals, Inc. 1040 Commerce Blvd. Howard Lake, MN 55349</p>	<p>Metal Coatings 441 West Dual Blvd. Isanti, MN 55040</p>	<p>Shark Industries, Ltd. 6700 Bleck Drive Rockford, MN 55373</p>
<p>Sican Canada 515 Woodward Avenue Milton, Ontario Canada</p>	<p>Source Transport 5501 Executive Center Drive Suite 204 Charlotte, NC 28212</p>	<p>Tomahawk Foundry 2337 29th Street Rice Lake, WI 54868</p>
<p>Yellow Freight PO Box 73149 Chicago, IL 60673</p>	<p>BL Systems Inc. C/O Malcom P. Terry 150 South 5th Street, Suite 1800 Minneapolis, MN 55402 Fax No. (612) 672-3777</p>	<p>Paul W. Chamberlain Chamberlain Law Firm 1907 Wayzata Boulevard, Suite 130 Wayzata, MN 55391</p>

AMENDMENT NO. 3 TO LETTER LOAN AGREEMENT

THIS AMENDMENT NO. 3 TO LETTER LOAN AGREEMENT, dated as of April 12, 2004 (the "Amendment"), by and between **RELS MANUFACTURING CORPORATION**, a Minnesota corporation ("Borrower"), and **ASSOCIATED COMMERCIAL FINANCE, INC.**, a Wisconsin corporation (the "Lender").

WITNESSETH:

A. The Borrower and the Lender are the parties to that certain Letter Loan Agreement dated July 7, 1998, as amended by a letter amendment dated as of September 30, 1999 and a letter amendment dated as of May 1, 2001 (as so amended, the "Original Agreement").

B. The Borrower has commenced a proceeding under Chapter 11 of the Bankruptcy Code, 11 U.S.C. §101 et. seq. (the "Code"), in the United States Bankruptcy Court for the District of Minnesota (the "Court").

C. The Borrower and the Lender have moved the Court for a Preliminary Order Approving Agreement and Authorizing Post-Petition Financing Secured by Senior Liens and Superpriority Expense Claims (the "Preliminary Post-Petition Financing Order"; and together with the final order approving the Lender's post-petition financing, the "Post-Petition Financing Order") pursuant to which the Lender will agree to make Post-Petition Advances pursuant to the Original Agreement as amended by this Amendment.

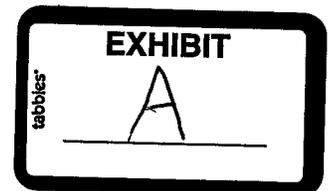
NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by the parties hereto, it is agreed as follows:

1. **Defined Terms.** All capitalized terms used in this Amendment shall, except where the context otherwise requires, have the meanings set forth in the Original Agreement, as amended hereby.

2. **Amendments.** The Original Agreement is hereby amended as follows:

(a) The first paragraph of the Original Agreement is amended in its entirety to read as follows:

"Associated Commercial Finance, Inc., as the successor to BNC Financial Corporation (the "Lender"): (1) has extended to RELS Manufacturing Corporation, a Minnesota corporation (the "Borrower") (A) a term loan (the "Term Loan") of Three Hundred Seventy-Five Thousand and No/100ths Dollars (\$375,000.00) on July 7, 1998 and on which there is an outstanding principal balance of \$80,702.89 plus accrued but unpaid interest of \$14,167.21 on the date



(the 'Petition Date') of the Borrower's commencement of a proceeding (the 'Proceeding') under Chapter 11 of the Bankruptcy Code, 11 U.S.C. §101 et. seq. (the 'Code'), in the United States Bankruptcy Court for the District of Minnesota (the 'Court'); and (B) an expired revolving line of credit of up to Seven Hundred Fifty Thousand and No/100ths Dollars (\$750,000.00) (the 'Original Line of Credit') which expired on July 31, 2001 and on which there is an outstanding principal balance of the principal balance of \$499,353.78, accrued but unpaid interest of \$76,018.24 as well as expenses due thereunder as of February 29, 2004 in the amount of \$ 16,426.87 (such amount being the 'Revolving Credit Loan') on the Petition Date; and (2) hereby extends to the Borrower a post-petition line of credit, which shall not exceed the sum of \$575,000 (the "Line of Credit") pursuant to which the Lender will make advances (the 'Advance(s)') to the Borrower for the Borrower's account upon the following terms and conditions; provided, however, that the sum (such sum being the 'Total Usage') of: (A) the Revolving Credit Loan other than the \$16,426.87; and (B) the aggregate outstanding principal amount of the Advances (such amount being the 'Post-Petition Revolving Credit Loan'; and together with the Term Loan and the Revolving Credit Loan being sometimes hereinafter referred to collectively as the 'Loans' and individually as a 'Loan')) may not in the aggregate exceed the amount of \$575,000 (such amount being the 'Maximum Credit Amount') at any time:"

(b) Section 2(a) of the Original Agreement is amended in its entirety to read as follows:

“(a) Revolving Credit Loan.

(i) Revolving Credit Loan. The Revolving Credit Loan became due and payable on July 31, 2001, subject, however, to the Proceeding.

(ii) Revolving Credit Note. The Revolving Credit Loan is evidenced by the current Revolving Credit Note dated September 30, 1999 made by the Borrower payable to the order of the Lender in the original principal amount of \$750,000.00. The Lender shall maintain records of all payments on the Revolving Credit Note. The outstanding principal amount of the Revolving Credit Loan set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Revolving Credit Note.

(iii) Interest on the Revolving Credit Loan. The Borrower agrees to pay interest on the Revolving Credit Loan at the rates and at the times specified in the Revolving Credit Note.

(iv) Prepayment.

(A) Voluntary. The Borrower shall have the right, by giving written notice to the Lender by not later than 2:00 p.m. (Minneapolis time) on the business day of such payment, to voluntarily prepay the Revolving Credit Loan in whole or in part at any time, together with accrued interest thereon;

(B) Mandatory.

(1) The Borrower shall prepay the Revolving Credit Loan through the application of collections on the Collateral in accordance with the terms of the order entered by the Court permitting the Borrower to obtain Advances during the Proceeding (the 'Post-Petition Financing Order') and this Agreement.

(2) If, at any time, the Total Usage exceeds the Maximum Credit Amount, then the Borrower, upon demand, shall prepay the amount of such excess together with interest on the amount prepaid and such prepayment shall be applied first to the Revolving Credit Loan and, after the payment in full of the Revolving Credit Loan, to the Post-Petition Revolving Credit Loan."

(c) Section 2(b) of the Original Agreement is amended in its entirety to read as follows:

"(b) Term Loan.

(i) Term Loan. The Term Loan became due and payable on July 31, 2001, subject, however, to the Proceeding.

(ii) Term Note. The Term Loan is be evidenced by, and is payable in accordance with the terms of, the Term Note except that during the Proceeding, the Borrower shall make monthly principal payments of \$5,000.00 on the first day of each month, commencing May 1, 2004 and continuing thereafter throughout the Proceeding. The Lender shall maintain records of the amount of all payments on the Term Note. The amount of the Term Note set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Term Note;

(iii) Interest on the Term Loan. The Borrower agrees to pay interest on the outstanding principal amount of the Term Loan from the date of the Term Loan until the Term Loan is paid at the rates and at the times specified in the Term Note.

(iv) Prepayment.

(A) Voluntary. The Borrower may prepay the Term Loan in whole or in part at any time. Any such prepayment, which prepays the Term Loan in full, shall be accompanied by accrued interest.

(B) Mandatory. Contemporaneously with the Borrower's receipt of any 'Proceeds' from the sale or other disposition of any 'Equipment' or 'Fixture' Collateral, the Borrower shall prepay the Term Loan by the amount of such Proceeds.

(C) Application of Prepayments. Any partial prepayment shall be applied to installments due on the Term Loan in the inverse order of their maturities."

(d) Section 2(c) of the Original Agreement is amended in its entirety to read as follows:

“(c) Post-Petition Revolving Credit Loan.

(i) Advances. The Lender has agreed, on the terms and conditions stated herein, to make Advances to the Borrower from time to time on any business day during the period from the date of the Post-Petition Financing Order and ending on the 'Termination Date' described in the Post-Petition Financing Order (the 'Termination Date'); provided, however, that the Lender shall not be required to make an Advance if, after giving effect to such Advance: (A) the Post-Petition Revolving Credit Loan would exceed the lesser at that time of the Line of Credit or the Borrowing Base; or (B) the Total Usage would exceed the Maximum Credit Amount. Within the limits set forth above, the Borrower may obtain Advances from the Lender, prepay the Post-Petition Revolving Credit Loan and reborrow pursuant to this Section.

For purposes of this Agreement, the following terms shall have the following meanings:

'Affiliate' shall mean, with respect to the Borrower, any person which directly or indirectly controls, is controlled by, or is under common control with the Borrower. One person shall be deemed to control another person if the controlling person owns directly or indirectly 51% or more of any class of voting stock of the controlled person or possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the controlled person, whether through ownership of stock, by contract or otherwise.

'Borrowing Base' shall mean, at any date of determination, the sum of: (a) 70% of the Borrower's Eligible Accounts; plus (b) either: (i) during the period commencing on the date of the initial Post-Petition Financing and ending on April 29, 2004, the sum of (A) 35% of the Borrower's Eligible Post-Petition Inventory and (B) at the discretion of the Lender, (1) 35% of the Borrower's Eligible Pre-Petition Inventory or (2) 30% of the amount of collections of the Borrower's Pre-Petition Accounts deposited into the Collateral Account, established pursuant to the terms of the Collateral Account Agreement referred to herein, at least two business days prior to the date of the requested Advance; or (ii) at any time thereafter, the sum of: (A) 35% of the sum of: (1) the Borrower's Eligible Post-Petition Inventory; plus (2) during the period commencing on April 30, 2004 and ending on October 30, 2004 (the 'Pre-Petition Inventory Roll-over Period'), an amount (such amount being the 'Pre-Petition Inventory Roll-over Amount') equal to 1/6th of the Borrower's remaining Pre-Petition Inventory determined as of the last day of each fiscal month ending in the Pre-Petition Inventory Roll-over Period multiplied by the number of full months that have elapsed during the Pre-Petition Inventory Roll-over Period; plus (B) at the discretion of the Lender, (1) 35% of the result of: (i) the Borrower's then remaining Eligible Pre-Petition Inventory; minus (ii) the Pre Petition Inventory Roll-over Amount ; or (2) 30% of the amount of collections of the Borrower's Pre-Petition Accounts deposited into the Collateral Account, established pursuant to the terms of the Collateral Account Agreement referred to herein, at least two business days prior to the date of the requested Advance; minus (c) the reserves established by the Lender, in its sole discretion, from time to time; provided, however, that the Lender reserves the right, in its sole discretion, to adjust such borrowing base percentages and to adjust or establish new reserves from time to time based on its periodic evaluation of the Collateral and the Borrower's business operations; provided further, however, that the Lender agrees to give Borrower at least 3 business days notice of the Lender's intent to adjust any borrowing base percentage or to establish new reserves. The amount of the Borrowing Base shall be determined periodically from the most recent Borrowing Base Certificate and supporting reports delivered to the Lender pursuant to Section 7(a).

'Eligible Accounts' of the Borrower shall mean the United States dollar value (net of accrued royalties payable to third parties, finance charges and/or service charges) of only such accounts of the Borrower arising after the Petition Date from the sale of inventory or the rendering of services in the ordinary course of business in which only the Lender holds a security interest and as to which the Lender, in its sole discretion, shall from time to time determine to be collectable in a timely manner in the ordinary course of business without dispute or set off. Without limiting the discretion of the Lender to consider any account not to be an Eligible Account, and by way of example only of types of accounts that the Lender

will consider not to be Eligible Accounts, the Lender, notwithstanding any earlier classification of eligibility, may consider any account not to be an Eligible Account if: (a) any warranty is breached as to the account or the account debtor disputes liability or makes any claim with respect to the account; (b) (i) the account is not paid by the account debtor within 90 days after the date of the original invoice relating thereto; or (ii) the account is owed by any account debtor who has not paid 10% or more of such account debtor's accounts within the time period specified in subsection (b)(i) above including in such calculation all of such account debtor's accounts, regardless of whether any such account is a pre-Petition Date account or post-Petition Date account; (c) a petition in bankruptcy or other application for relief under any insolvency law is filed with respect to the account debtor owing the account, or the account debtor owing the account assigns for the benefit of creditors, becomes insolvent, fails, suspends, or goes out of business, or the Lender shall become dissatisfied with the creditworthiness of an account debtor owing an account; (d) the account arises from a sale to an account debtor outside the United States, unless the sale is on letter of credit, acceptance or other terms acceptable to the Lender; (e) the account debtor is an Affiliate, supplier or creditor of the Borrower; (f) the account debtor is the United States of America or any agency or department thereof and the account is subject to the Assignment of Claims Act; (g) the account relates to a sale of inventory and/or performance of services that have been invoiced but not fully performed except that Eligible Accounts shall include the accounts and invoices (but without duplication) relating to jobs that have been completed but not delivered/shipped; or (i) the account is a barter account.

'Eligible Inventory' of the Borrower shall mean the United States dollar value of only the Borrower's finished goods inventory, in which only the Lender holds a security interest and as to which the Lender, in its sole discretion, shall elect from time to time to constitute Eligible Inventory. Without limiting the Lender's right, in its sole discretion, to consider any inventory not to be Eligible Inventory, and by way of example only of types of inventory that the Lender will consider not to be Eligible Inventory, the Lender, notwithstanding any earlier classification of eligibility, may consider any inventory not to be Eligible Inventory if: (a) such inventory has not been included in the Borrowing Base for more than 6 months or is discontinued inventory; (b) such inventory is not located at the Borrower's facility located at an address set forth on Exhibit A to that certain Amendment No. 3 to Letter Loan Agreement dated as of April 6, 2004 (the 'Third Amendment'); (c) such inventory is consigned to, or by, the Borrower; or (d) such inventory is subject to a trademark, trade name, patent or licensing arrangement, any contractual arrangement, or any law, rule or regulation that limit or impair the ability of the Lender to promptly exercise any of its rights with respect thereto;. The value of Eligible Inventory shall be the lower of the cost or market value of the

Eligible Inventory computed on a first-in, first-out basis in accordance with GAAP.

'Eligible Post-Petition Inventory' shall mean the Eligible Inventory acquired by the Borrower after the Petition Date. The value of Eligible Post-Petition Inventory shall be the cost of such Eligible Post-Petition Inventory.

'Eligible Pre-Petition Inventory' shall mean the Eligible Inventory as of the Petition Date. The value of Eligible Pre-Petition Inventory shall be its value on shown on the Borrowing Base Certificate dated April 6, 2004 delivered to the Lender.

(ii) Post-Petition Revolving Credit Note. The Advances shall be evidenced by, and be payable in accordance with the terms of, a Post-Petition Revolving Credit Note in the form provided by the Lender appropriately completed and duly executed by the Borrower (such Post-Petition Revolving Credit Note together with all replacement, substitute or renewal notes therefor being the 'Post-Petition Revolving Credit Note'). The Lender shall maintain records of the amount of each Advance and of the amount of all payments on the Post-Petition Revolving Credit Note. The aggregate outstanding principal amount of all Advances set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Post-Petition Revolving Credit Note.

(iii) Interest on the Advances. The Borrower agrees to pay interest on the outstanding principal amount of each Advance from the date of such Advance until such Advance is paid at the rates and at the times specified in the Post-Petition Revolving Credit Note.

(iv) Borrowing Procedure.

(A) Advances. The Borrower shall give telephonic notice to the Lender, promptly confirmed in writing by the Borrower if requested by the Lender, of each requested Advance by not later than 11:00 a.m. (Minneapolis time) on the business day on which such Advance is to be made. The Lender shall make such Advance by transferring the amount thereof in immediately available funds for credit to the Borrower's debtor-in-possession account maintained by the Borrower at Associated Bank, N.A. ('ABM' or the 'Depository Bank').

(B) Conditions Precedent. Each request for an Advance shall be deemed a representation and warranty that all conditions precedent to such credit extension under Section 5 are satisfied as of the date of such request and as of the date of such extension.

(v) Prepayment.

(A) Voluntary. The Borrower shall have the right, by giving written notice to the Lender by not later than 2:00 p.m. (Minneapolis time) on the business day of such payment, to voluntarily prepay the Revolving Credit Loan in whole or in part at any time, together with accrued interest thereon.

(B) Mandatory. If, at any time, the Post-Petition Revolving Credit Loan exceeds the lesser of the Line of Credit or the Borrowing Base or the Total Usage exceeds the Maximum Credit Amount, then the Borrower, upon demand, shall prepay the amount of such excess together with interest on the amount prepaid and such prepayment shall be applied first to the Revolving Credit Loan and, after the payment in full of the Revolving Credit Loan, to the Post-Petition Revolving Credit Loan.

(vi) Limitation on Advances. Notwithstanding anything to the contrary set forth in this Agreement, the Lender shall not be required to make any Advance that would be used by the Borrower for any purpose other than the payment of working capital expenses set forth in the operating budget and cash flow projections then most recently submitted to, and approved by, the Lender pursuant to the Post-Petition Financing Order.”

(e) The Original Agreement is generally amended to that any reference to: (i) “any Note” or words of like import referring to a Note shall be deemed to include a reference to the relevant Revolving Credit Note, Term Note, or Post-Petition Revolving Credit Note, as the case may be; and (ii) “the Notes” or words of like import referring to a Note shall be deemed to include a reference to the Revolving Credit Note, the Term Note and the Post-Petition Revolving Credit Note.

(f) Section 3 of the Original Agreement is amended by adding the following as the last sentence thereof:

“Each payment received by the Lender may be applied to the Borrower’s obligations to the Lender under this Agreement or any other Loan Document to the ‘Pre-petition Indebtedness’ and Post-petition Indebtedness in accordance with the then effective Post-Petition Financing Order and any amount applied to any such indebtedness shall be applied to such indebtedness in such order of application as the Lender, in its sole discretion, may elect.”

(g) Sections 7(a)(iii) and (iv) of the Original Agreement are respectively amended in their entireties to read as follows:

(iii) (A) with each request for an Advance, a Borrowing Base Certificate showing the relevant information for the Borrower as of the end of business on the immediately preceding business day; (B) by no later than 11:00 a.m. (Milwaukee time) on Monday of each week, commencing April 12, 2004, a Borrowing Base Certificate showing the relevant information for the Borrower as of the end of business on the last business day of the preceding week; and (C) by no later than the close of the Lender's business on the 15th day of each month of the Borrower's fiscal year, a Borrowing Base Certificate showing the relevant information for the Borrower as of the end of business on the last business day of the then most recently ended month of the Borrower's fiscal year; each Borrowing Base Certificate shall be accompanied by supporting reports required by the Lender such as, but not limited to, a detailed accounts receivable aging, a detailed inventory report including, without limitation, copies of the invoices for any Eligible Post-Petition Inventory being first included in the Borrowing Base, a copy of the relevant pages of the Borrower's sales register or other detailed sales report, a detailed collection report and the Borrowing Base Certificate and such supporting reports shall be in a form acceptable to the Lender and certified as accurate by the Borrower's chief financial officer or treasurer;

(iv) within 15 days after the end of each month or as more frequently as may be requested by Lender: (A) a detailed aging of all accounts receivable by invoice, including, without limitation, a reconciliation to the last aging report delivered to the Lender; (B) a certification of ineligible accounts receivable; (C) an aging of all accounts payable, and (D) a reconciliation of accounts receivables to the Borrower's general ledger and Lender's records, each in form and content acceptable to the Lender and certified as accurate by the Borrower's chief financial officer or treasurer."

(h) Section 7(a) of the Original Agreement is further amended by: (i) deleting the word "and" appearing after Section 7(a)(vii); (ii) re-lettering "Section 7(a)(viii)" as "Section 7(a)(ix)"; and (iii) inserting the following new Section 7(a)(viii):

"(viii) (A) by no later than 12:00 noon on Friday of each week, an operating budget and cash flow projection for the immediately following week; and (B) by no later than 12:00 noon on Tuesday of each week, Borrower's actual operating results and cash flow for the then most recently ended week together with a comparison to Borrower's operating budget and cash flow projections for such week; each of which shall be in the form of Exhibit B to the Third Amendment or other form acceptable to Lender and certified as accurate by the Borrower's chief financial officer or treasurer."

(i) Section 7(f) of the Original Agreement is amended by deleting the proviso clause limiting the Borrower's obligations to reimburse the Lender for its examination fees.

(j) Section 7(h) of the Original Agreement is amended by deleting the requirement of minimum Net Worth and Subordinated Debt.

(k) Sections 9(a) and (b) of the Original Agreement are respectively amended in their entireties to read as follows:

(a) the Borrower shall default in the due and punctual payment of any installment of interest or principal on the Loans on the date when due, or in due and punctual payment of any other amount which is due and payable to the Lender under any Loan Document on the date when due;

(b) the Borrower shall default in the due performance or observance of any covenant set forth in Section 7(b), 7(c), 7(g), 7(h), 7(i) or in Section 8;”.

(l) Section 9 of the Original Agreement is further amended by: (i) changing the “period” appearing at the end of Section 9(m) to a “semi-colon” and (ii) inserting the following new Sections 9(n) through (q):

“(n) The Borrower suspends business operations for any period of five (5) consecutive business days, regardless of whether pursuant to any restraining order or injunction;

(o) Any creditor obtains relief from the automatic stay imposed by Section 362 of the Bankruptcy Code and Lender, in its sole discretion, determines that the actions proposed to be taken by such creditor are materially adverse to the ability of Borrower to reorganize in the Proceeding or to the rights and benefits of the Lender;

(p) Any execution or attachment shall be issued whereby any Collateral or any substantial part of Borrower’s other property shall be taken or attempted to be taken and the same shall not have been vacated or stayed within 30 days after the issuance thereof; or

(q) The Termination Date shall occur under the then applicable Post-Petition Financing Order.”

3. **Effective Date.** This Amendment shall become effective as of the date hereof on the date (the ‘Effective Date’) when, and only when, the Lender shall have received:

(a) Counterparts of this Amendment executed by the Borrower;

(b) the Post-Petition Revolving Credit Note in the form provided by the Lender appropriately completed and duly executed by Borrower;

(c) an Amended and Restated Security Agreement (the “Amended Security Agreement”) in the form provided by the Lender appropriately completed and duly executed by Borrower;

(d) a Lockbox Agreement and Collateral Account Agreement in the respective form provided by the Lender appropriately completed and duly executed by Borrower and the Depository Bank;

(e) a Certificate of Incumbency showing the names and specimen signatures of the officers of Borrower authorized to execute this Agreement;

(f) a Certificate that Borrower’s Board of Directors has authorized the execution of this Agreement and documents contemplated herein;

(g) a current Certificate of Good Standing for Borrower issued by the office of the Minnesota Secretary of State or other evidence of good standing satisfactory to the Lender;

(h) an Acknowledgment and Agreement in the form provided by Lender appropriated completed and duly executed by the Guarantor;

(i) an Acknowledgment and Agreement in the form provided by Lender appropriated completed and duly executed by each holder of Subordinated Debt;

(j) the entry of the Preliminary Post-Petition Financing Order in form and substance satisfactory to Lender; and

(k) such other approvals, opinions or documents as the Lender may require.

4. **Representations and Warranties.** To induce the Lender to enter into this Amendment, the Borrower represents and warrants to the Lender as follows:

(a) The execution, delivery and performance by the Borrower of this Amendment, the Post-Petition Revolving Credit Note, the Amended Security Agreement and any other documents to which the Borrower is a party have been duly authorized by all necessary corporate action, do not require any approval or consent of, or any registration, qualification or filing with, any governmental agency or authority or any approval or consent of any other Person (including, without limitation, any stockholder or member), do not and will not conflict with, result in any violation of or constitute any default under, any provision of the Borrower’s articles of incorporation or by-laws, any agreement binding on or applicable to the Borrower or any of its property, or any law or governmental regulation or court decree or order, binding upon or applicable to the Borrower or of any of its property and will not result in the creation or imposition of any security interest or other lien or encumbrance in or on any of its property pursuant to the provisions of any agreement applicable to Borrower or any of its property;

(b) The representations and warranties contained in Section 6 of the Original Agreement are true and correct as of the date hereof as though made on that date after giving effect to the Amendment;

(c) (i) No events have taken place and no circumstances exist at the date hereof which would give Borrower the right to assert a defense, offset or counterclaim to any claim by the Lender for payment of the obligations under the Original Agreement as amended hereby or any other Loan Document; and (ii) the Borrower hereby releases and forever discharges the Lender and its successors, assigns, directors, officers, agents, employees and participants from any and all actions, causes of action, suits, proceedings, debts, sums of money, covenants, contracts, controversies, claims and demands, at law or in equity, which the Borrower ever had or now has against the Lender or its successors, assigns, directors, officers, agents, employees or participants by virtue of their relationship to the Borrower in connection with the Loan Documents and the transactions related thereto; and

(d) The Original Agreement as amended by this Amendment, the Post-Petition Revolving Credit Note, the Amended Security Agreement and each other Loan Document to which the Borrower is party remain in full force and effect, are the legal, valid and binding obligations of the Borrower and are enforceable in accordance with their respective terms, subject only to bankruptcy, insolvency, reorganization, moratorium or similar laws, rulings or decisions at the time in effect affecting the enforceability of rights of creditors generally and to general equitable principles which may limit the right to obtain equitable remedies.

5. Reference to and Effect on the Loan Documents.

(a) From and after the effective date of this Amendment, each reference in the Original Agreement to “this Agreement”, “herein”, “hereof”, “hereby” or words of like import referring to the Original Agreement and each reference in any other Loan Document to the “Credit Agreement”, the “Loan Agreement”, “therein”, “thereof”, “thereby” or words of like import referring to the Original Agreement shall mean and be a reference to the Original Agreement as amended by this Amendment.

(b) Except as specifically set forth above, the Original Agreement remains in full force and effect and is hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Lender under the Original Agreement or any other Loan Document, nor constitute a waiver of any provision of the Original Agreement or any such Loan Document.

6. Costs and Expenses. The Borrower agrees to pay all costs and expenses of the Lender in connection with the preparation, reproduction, execution and delivery of this Amendment and the other documents to be delivered hereunder or thereunder, including its

reasonable attorneys' fees and legal expenses upon the earlier of 60 days after the Lender delivers an invoice to the Borrower for such costs and expenses or the Termination Date.

7. **Governing Law.** This Amendment shall be governed by and construed in accordance with the laws of the State of Minnesota.

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

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

~~RELS MANUFACTURING CORPORATION~~

By: 
Its: CEO

ASSOCIATED COMMERCIAL FINANCE, INC.

By: _____
Its: _____

EXHIBIT A

DEBTOR LOCATIONS

EXHIBIT B

FORM OF OPERATING BUDGET AND CASH FLOW FORECAST



BNC
Financial Corporation A Subsidiary of BNCORP, Inc.

4150 South Second Street Suite 350 St. Cloud, MN 56301 Telephone: (320) 259-0500 Fax: (320) 259-0535

July 7, 1998

RELS Manufacturing Corporation
7710 Commerce Circle
Rockford, MN 55373
Attention: Mr. David C. Carroll

Dear Mr. Carroll:

BNC Financial Corporation (the "Lender") is pleased to advise RELS Manufacturing Corporation, a Minnesota corporation (the "Borrower"), that the Lender hereby extends to the Borrower: (a) a term loan (the "Term Loan") of up to Three Hundred Seventy-Five Thousand and No/100ths Dollars (\$375,000.00); (b) a mortgage loan (the "Mortgage Loan") of up to Two Hundred Ten Thousand and no/100ths Dollars (\$210,000.00); and (c) a revolving line of credit of up to Six Hundred Thousand and No/100ths Dollars (\$600,000.00) (the "Line of Credit") pursuant to which the Lender will make advances (the "Advance(s)") to the Borrower for the Borrower's account upon the following terms and conditions:

1. Documents; etc. The Borrower has delivered, or will deliver, to the Lender before the initial Advance, the Term Loan, or the Mortgage Loan is made, the following documents (this Agreement together with each of the following defined documents and each other instrument, document, guaranty, mortgage, deed of trust, chattel mortgage, pledge, power of attorney, consent, assignment, contract, notice, security agreement, lease, financing statement, patent, trademark or copyright registration, subordination agreement, trust account agreement, or other agreement executed and delivered by any Loan Party with respect to this Agreement or to create or perfect any security interest in any collateral securing the payment of the Loan (the "Collateral") (in each case as originally executed and as amended, modified or supplemented from time to time) being sometimes hereinafter referred to collectively as the "Loan Documents" and individually as a "Loan Document") and other items, all containing or to contain provisions acceptable to the Lender and its counsel:

(a) a Revolving Credit Note (such Revolving Credit Note together with each renewal, replacement or substitute note therefor being the "Revolving Credit Note") executed by the Borrower;



(b) a Term Note (such Term Note together with each renewal, replacement or substitute note therefore being the "Term Note");

(c) a Mortgage Note (such Mortgage Note together with each renewal, replacement or substitute note therefor being the "Mortgage Note"; and together with the Revolving Credit Note and the Term Note being sometimes hereinafter referred to collectively as the "Notes" and individually as a "Note") in the amount of the Mortgage Loan executed by the Borrower;

(d) a Security Agreement (the "Security Agreement") executed by the Borrower granting to the Lender a security interest in the Collateral described therein to secure repayment of the Notes and all present or future obligations of the Borrower to the Lender together with Uniform Commercial Code Standard Form UCC-1 Financing Statements sufficient to perfect the Lender's security interests in such Collateral and UCC searches from the filing offices in all states required by the Lender which reflect that the financing statements referred to in this subsection have been filed in such offices and that no other person holds a prior security interest in any such Collateral except as permitted by Section 8(a);

(e) A Combination Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statement (the "Mortgage") executed by the Borrower mortgaging to the Lender the parcel of land and improvements described therein, together with all personal property of the Borrower described in the Security Agreement (the "Mortgaged Premises"), together with such title policies, appraisals, and environmental audits as may be required by the Lender;

(f) An Assignment of Leases and Rents;

(g) An Environmental Indemnity Agreement (the "Indemnity Agreement") executed by the Loan Parties, as hereinafter defined, covering the Mortgaged Premises;

(h) a Guaranty (the "Guaranty") executed by David C. Carroll (the "Guarantor") (the Borrower and the Guarantor being sometimes hereinafter referred to collectively as the "Loan Parties" and individually as a "Loan Party");

(i) a Subordination Agreement (the "Subordination Agreement") executed by the Guarantor, as subordinated creditor, pursuant to which the Guarantor, as subordinated creditor, subordinates the payment of any and all obligations from time to time owed by the Borrower to the Guarantor (the "Subordinated Debt") to any and all obligations owed by the Borrower to the Lender from time to time.

- (j) An Assignment of Life Insurance Policy pursuant to which Borrower has assigned to Lender a certain life insurance policy insuring the life of David C. Carroll;
- (k) certified Bylaws and Articles of Incorporation of the Borrower;
- (l) resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party;
- (m) a certificate by the secretary or assistant secretary of the Borrower certifying the names of the officers of the Borrower authorized to sign the Loan Documents to which the Borrower is a party on behalf of the Borrower together with a sample of the true signatures of such officers;
- (n) Certificates of Good Standing for the Borrower of recent date issued by the Secretary of State of the state of the Borrower's organization and each other state required by the Lender;
- (o) a favorable opinion of counsel to the Loan Parties;
- (p) evidence of insurance required by any Loan Document;
- (q) a title insurance commitment issued by Home Security Abstract & Title Company in the amount of the Mortgage Note, committing to insure the Lender that the Mortgage will be a first lien of the property described therein, in form and content satisfactory to the Lender, which title insurance commitment shall be followed by a title insurance policy in the amount of the Mortgage Note; insuring that the Mortgage is a first lien upon the property described therein, in form and content satisfactory to the Lender;
- (r) a side letter executed by Borrower with respect to a conditional use permit affecting the property subject to the Mortgage;
- (s) \$7,500 in immediately available funds as a deposit against legal fees and expenses payable by the Borrower pursuant to Section 7(e) of this Agreement payable by the Borrower with respect to the Lender's pre-closing field exam (such legal fees and expenses and pre-closing field exam expenses being "Reimbursable Expenses"), which deposit has been received by the Lender and is only refundable only to the extent that the Reimbursable Expenses are less than \$5,500.00;
- (t) \$11,850.00 is immediately available funds as an origination fee; and

(u) such other approvals, opinions or documents as the Lender may reasonably request, including without limitation, a borrowing base certificate (the "Borrowing Base Certificate") as of a recent date.

2. Loans.

(a) The Revolving Credit Loan.

(i) Advances. The Lender has agreed, on the terms and conditions stated herein, to make Advances to the Borrower from time to time on any business day during the period from the date hereof and ending on the earlier of July 31, 2000 or the date on which the Lender terminates the Line of Credit pursuant to Section 9 hereof (such earlier date being the "Termination Date"); provided, however, that the Lender shall not be required to make an Advance if, after giving effect to such Advance, the aggregate outstanding principal amount of the Advances (the "Revolving Credit Loan") would exceed the lesser at that time of the Line of Credit or the Borrowing Base. Within the limits set forth above, the Borrower may obtain Advances from the Lender, prepay the Revolving Credit Note and reborrow pursuant to this Section. Each Advance shall be in the minimum amount of \$10,000.00.

For purposes of this Agreement, the following terms shall have the following meanings:

"Affiliate" shall mean, with respect to the Borrower, any person which directly or indirectly controls, is controlled by, or is under common control with the Borrower. One person shall be deemed to control another person if the controlling person owns directly or indirectly 51% or more of any class of voting stock of the controlled person or possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the controlled person, whether through ownership of stock, by contract or otherwise.

"Borrowing Base" shall mean, at any date of determination, the sum of: (a) 75% of the Borrower's Eligible Accounts; plus (b) 35% of the Borrower's Eligible Inventory; the amount of the Borrowing Base shall be determined periodically from the Borrowing Base Certificate and supporting reports delivered to the Lender pursuant to Section 7(a).

"Eligible Accounts" of the Borrower shall mean the United States dollar value (net of accrued royalties payable to third parties) of only such

accounts of the Borrower arising from the sale of inventory or the rendering of services in the ordinary course of business in which only the Lender holds a security interest and as to which the Lender, in its sole discretion, shall from time to time determine to be collectable in a timely manner in the ordinary course of business without dispute or set off. Without limiting the discretion of the Lender to consider any account not to be an Eligible Account, and by way of example only of types of accounts that the Lender will consider not to be Eligible Accounts, the Lender, notwithstanding any earlier classification of eligibility, may consider any account not to be an Eligible Account if: (a) any warranty is breached as to the account or the account debtor disputes liability or makes any claim with respect to the account; (b) (i) the account is not paid by the account debtor within 90 days after the date of the original invoice relating thereto; or (ii) the account is owed by any account debtor who has not paid 10% or more of such account debtor's accounts within the time period specified in subsection (b)(i) above; (c) a petition in bankruptcy or other application for relief under any insolvency law is filed with respect to the account debtor owing the account, or the account debtor owing the account assigns for the benefit of creditors, becomes insolvent, fails, suspends, or goes out of business, or the Lender shall become dissatisfied with the creditworthiness of an account debtor owing an account; (d) the account arises from a sale to an account debtor outside the United States, unless the sale is on letter of credit, acceptance or other terms acceptable to the Lender; (e) the account debtor is an Affiliate, supplier or creditor of the Borrower; (f) the account debtor is the United States of America or any agency or department thereof and the account is subject to the Assignment of Claims Act; or (h) the account relates to a sale of inventory and/or performance of services that have been invoiced but not fully performed except that Eligible Accounts shall include the accounts and invoices (but without duplication) relating to jobs that have been completed but not delivered/shipped.

"Eligible Inventory" of the Borrower shall mean the United States dollar value of only the Borrower's finished goods inventory, in which only the Lender holds a security interest and as to which the Lender, in its sole discretion, shall elect from time to time to constitute Eligible Inventory. Without limiting the Lender's right, in its sole discretion, to consider any inventory not to be Eligible Inventory, and by way of example only of types of inventory that the Lender will consider not to be Eligible Inventory, the Lender, notwithstanding any earlier classification of eligibility, may consider any inventory not to be Eligible Inventory if: (a) such inventory is slow-

moving or discontinued inventory; or (b) such inventory is not located at the Borrower's facility located at its address first stated above. The value of Eligible Inventory shall be the lower of the cost or market value of the Eligible Inventory computed on a first-in, first-out basis in accordance with GAAP.

(ii) Revolving Credit Note. The Advances shall be evidenced by, and be payable in accordance with the terms of, the Revolving Credit Note. The Lender shall maintain records of the amount of each Advance and of the amount of all payments on the Revolving Credit Note. The aggregate outstanding principal amount of all Advances set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Revolving Credit Note.

(iii) Interest on the Advances. The Borrower agrees to pay interest on the outstanding principal amount of each Advance from the date of such Advance until such Advance is paid at the rates and at the times specified in the Revolving Credit Note.

(iv) Borrowing Procedure.

(A) Advances. The Borrower shall give telephonic notice to the Lender, promptly confirmed in writing by the Borrower if requested by the Lender, of each requested Advance by not later than 11:00 a.m. (Minneapolis time) on the business day on which such Advance is to be made. The Lender shall make such Advance by transferring the amount thereof in immediately available funds for credit to an account (other than a payroll account) maintained by the Borrower at BNC National Bank of Minnesota ("BNBC") or at another financial institution which is acceptable to the Lender and has entered into a blocked account agreement with the Lender in form and substance satisfactory to the Lender (BNBC or such other financial institution being the "Depository Bank").

(B) Conditions Precedent. Each request for an Advance shall be deemed a representation and warranty that all conditions precedent to such credit extension under Section 5 are satisfied as of the date of such request and as of the date of such extension.

(v) Prepayment.

(A) Voluntary. The Borrower shall have the right, by giving written notice to the Lender by not later than 2:00 p.m. (Minneapolis time) on the business day of such payment, to voluntarily prepay the Revolving Credit Loan in whole or in part at any time, together with accrued interest thereon; provided, however, that if the Borrower prepays the Revolving Credit Loan in full and terminates the Line of Credit or if the Borrower enters into a credit agreement with any other person which is not permitted by Section 8(b), then the Borrower shall pay to the Lender, upon the Lender's demand, a prepayment premium equal to: (A) 2% of the committed amount of the Line of Credit if such event occurs prior to the first anniversary date of this Agreement; or (B) 1% of the committed amount of the Line of Credit if such event occurs thereafter;

(B) Mandatory. If, at any time, the Revolving Credit Loan exceeds the lesser of the Line of Credit or the Borrowing Base, then the Borrower, upon demand, shall prepay the amount of such excess together with interest on the amount prepaid; provided, however, that no prepayment premium shall be payable as a result of any prepayment pursuant to this subparagraph (B).

(vi) Increase in Line of Credit. At any time when no Default or Event of Default has occurred and is continuing, the Borrower may request that the Line of Credit be increased to \$750,000.00 and such increase shall become effective on the 30th day following the Lender's receipt of such written request so long as:

A. The Borrower executes and delivers to the Lender a replacement Revolving Credit Note in the amount of the increased Line of Credit;

B. No Default or Event of Default has occurred and is continuing on the date of increase; and

C. Simultaneously with the Borrower's request for such increase, the Borrower pays to the Lender a fee of \$1,500.00 in immediately available funds.

(b) Term Loan.

(i) Term Loan. On the date hereof, the Lender has disbursed the proceeds of the Term Loan to the Borrower;

(ii) Term Note. The Term Loan shall be evidenced by, and be payable in accordance with the terms of, the Term Note. The Lender shall maintain records of the amount of all payments on the Term Note. The amount of the Term Note set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Term Note;

(iii) Interest on the Term Loan. The Borrower agrees to pay interest on the outstanding principal amount of the Term Loan from the date of the Term Loan until the Term Loan is paid at the rates and at the times specified in the Term Note;

(iv) Prepayment

(A) Voluntary. The Borrower may prepay the Term Loan in whole or in part at any time. Any such prepayment which prepays the Term Loan in full shall be accompanied by accrued interest; provided, however, that if the Borrower prepays the Term Loan or if the Borrower enters into a credit agreement with any other person which is not permitted by Section 8(b), then the Borrower shall pay to the Lender, upon the Lender's demand, a prepayment premium equal to: (A) 2% of the Term Loan if such event occurs prior to the first anniversary date of this Agreement; or (B) 1% of the of the Term Loan if such event occurs thereafter;

(B) Mandatory. If the Lender fails to renew the Line of Credit, then the Borrower shall prepay the Term Loan in full on the maturity of the Revolving Credit Loan together with interest on the amount prepaid; provided, however, that no prepayment premium shall be payable as a result of any prepayment pursuant to subparagraph (B);

(C) Application of Prepayments. Any partial prepayment shall be applied to installments due on the Term Loan in the inverse order of their maturities.

(c) Mortgage Loan.

(i) Mortgage Loan. On the date hereof, the Lender has disbursed the proceeds of the Mortgage Loan to the Borrower.

(ii) Mortgage Note. The Mortgage Loan shall be evidenced by, and be payable in accordance with the terms of, the Mortgage Note. The Lender shall maintain records of the amount of all payments on the Mortgage Note. The amount of the Mortgage Note set forth on the records of the Lender shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Mortgage Note.

(iii) Interest on the Term Loan. The Borrower agrees to pay interest on the outstanding principal amount of the Mortgage Loan from the date of the Mortgage Loan until the Mortgage Loan is paid at the rates and at the times specified in the Mortgage Note.

(iv) Prepayment.

(A) Voluntary. The Borrower may prepay the Mortgage Loan in whole or in part at any time. Any such prepayment which prepays the Mortgage Loan in full shall be accompanied by accrued interest; provided, however, that if the Borrower prepays the Mortgage Loan or if the Borrower enters into a credit agreement with any other person which is not permitted by Section 8(b), then the Borrower shall pay to the Lender, upon the Lender's demand, a prepayment premium equal to: (A) 2% of the Mortgage Loan if such event occurs prior to the first anniversary date of this Agreement; or (B) 1% of the of the Mortgage Loan if such event occurs thereafter

(B) Mandatory. If the Lender fails to renew the Line of Credit, then the Borrower shall prepay the Mortgage Loan in full on the maturity of the Revolving Credit Loan together with interest on the amount prepaid; provided, however, that no prepayment premium shall be payable as a result of any prepayment pursuant to this subparagraph (B)

(C) Application of Prepayments. Any partial prepayment shall be applied to installments due on the Mortgage Loan in the inverse order of their maturities.

3. Payments. Any other provision of this Agreement to the contrary notwithstanding, the Borrower shall make all payments of interest on and principal of the Loans and all payments to the Lender with respect to payment of other fees, costs and expenses payable under any Loan Document in immediately available funds to the Lender at its address for notices hereunder. The Borrower authorizes the Lender to charge from time to time against the Borrower's account with the Lender any such payments when due and Lender will use its reasonable efforts to notify Borrower of such charges. The Borrower hereby authorizes the Lender to make an Advance, at the Lender's sole discretion, to pay, on behalf of the Borrower, any amount due to the Lender under any Loan Document without further action on the part of the Borrower and regardless of whether the Borrower is able to comply with the terms, conditions and covenants of this Agreement at the time of such Advance.

4. Set-off, Etc. Upon the occurrence and during the continuance of an Event of Default, the Lender may offset any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or monies of the Borrower then or thereafter with the Lender, or any obligations of the Lender to the Borrower, against the obligations of the Borrower arising under this Agreement or any other Loan Document. The Borrower hereby grants to the Lender a security interest in all such balances, credits, deposits, accounts or monies.

5. Conditions Precedent to All Credit Extensions. The obligation of the Lender to extend any credit to the Borrower shall be subject to the satisfaction of each of the following conditions, unless waived in writing by the Lender:

(a) The representations and warranties set forth in Section 6 shall be true and correct on the date of the requested credit extension and after giving effect thereto; and

(b) No Event of Default or event which, with notice and/or lapse of time, would constitute an Event of Default (such event being a "Default") shall have occurred and be continuing on the date of the requested credit extension or after giving effect thereto.

6. Representations and Warranties. To induce the Lender to extend credit hereunder, the Borrower represents and warrants that:

(a) the Borrower is a corporation validly organized and existing and in good standing under the laws of the state of its organization, has full power and authority to own its property and conduct its business substantially as presently conducted by it and is duly qualified to do business and is in good standing in each jurisdiction where the nature of its business makes such qualification necessary and where the failure to so qualify would materially adversely affect the the condition (financial or otherwise), business or property of the Borrower;

RELS Manufacturing Corporation

July 7, 1998

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(b) each Loan Party has full power and authority to enter into and to perform its, his or her obligations under the Loan Documents to which such Loan Party is a party;

(c) the Loan Documents constitute the legal, valid, and binding obligations of each Loan Party which is a party thereto and are enforceable against such Loan Party in accordance with their respective terms subject only to bankruptcy, insolvency, reorganization, moratorium or similar laws at the time in effect affecting the enforceability of rights of creditors generally and by general equitable principles which may limit the right to obtain equitable remedies;

(d) each Loan Party's execution, delivery and performance of the Loan Documents to which such Loan Party is a party have been duly authorized by all necessary corporate action, do not require the consent or approval of any person which has not been obtained, and do not conflict with any agreement binding upon such Loan Party or any of such Loan Party's property;

(e) there is no litigation, arbitration or governmental proceeding pending against any Loan Party or affecting the business, property or operations of such Loan Party which, if determined adversely to such Loan Party, would have a material adverse effect on the condition (financial or otherwise), the business, property or operations of such Loan Party;

(f) neither the Borrower nor any member of a group which is under common control with the Borrower (the Borrower's "ERISA Affiliates") has maintained, established, sponsored or contributed to any employee benefit plan which is a defined benefit plan ("Plan") covered by Title IV of the Employee Retirement Income Security Act of 1974 and the rules and regulations thereunder ("ERISA");

(g) the proceeds of the Loans will be used to refinance some of the Borrower's existing indebtedness, including, without limitation, payment of all accrued and unpaid payroll withholding taxes and all unpaid real estate taxes, and to provide working capital to the Borrower and for the Borrower's general corporate purposes; no part of the proceeds of the Loans will be used by the Borrower for any purpose which violates, or which is inconsistent with, any regulations promulgated by the Board of Governors of the Federal Reserve System;

(h) (i) the Borrower is in compliance in all material respects with all federal, state and local laws, rules and regulations applicable to it including, without limitation, all pollution control and environmental regulations in each jurisdiction where it is doing business; and (ii) the Borrower has no material liability for the release or threatened release of any toxic or hazardous waste, substance or constituent into the environment;

(i) the Borrower's annual financial statements dated March 31, 1998, copies of which have been furnished to the Lender, have been prepared in accordance with the generally accepted accounting principles consistently applied with those of the preceding fiscal year (such consistently applied generally accepted accounting principles being "GAAP") and present fairly the financial condition of the Borrower as of such dates and the result of its operations for the periods then ended;

(j) since March 31, 1998, neither the condition (financial or otherwise), the business, the properties nor the operations of the Borrower has been materially and adversely affected in any way;

(k) the Borrower has filed all Federal and State income tax and other tax returns which are required to be filed, and has paid all taxes as shown on said returns and all assessments received by the Borrower to the extent that such taxes have become due;

(l) the Borrower possesses adequate licenses, permits, franchises, patents, copyrights, trademarks and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted;

(m) no Loan Party is in default of a material provision under any material agreement, instrument, decree or order to which it is a party or by which it or its property is bound or affected;

(n) the Borrower has good title to all of its properties and assets, including, without limitation, the Collateral, free and clear of all mortgages, security interests, liens and encumbrances, except as permitted by Section 8(a);

(o) the Borrower has conducted a comprehensive review and assessment of its computer applications with respect to the risk that computer applications used by the Borrower may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999 (the "Year 2000 Problem") and, based upon such review, Borrower will use its best efforts to (i) address the Year 2000 problem; and (ii) modify its computer systems to satisfactorily address the Year 2000 problem not later than July 31, 1999; and

(p) all representations and warranties contained in this Section 6 shall survive the delivery of the Loan Documents, the making of the Loans, and no investigation at any time made by or on behalf of Lender shall diminish its rights to rely thereon.

7. Affirmative Covenants. The Borrower covenants and agrees with the Lender that for so long as any Loan remains unpaid or the Line of Credit is available to the Borrower, the Borrower shall:

(a) furnish to the Lender:

(i) as soon as available and in any event within 90 days after the end of each of the Borrower's fiscal years, commencing with the fiscal year ending in March, 1999, a copy of the Borrower's annual report, including balance sheet and related statements of earnings, stockholders' equity and cash flows for such fiscal year, with comparative figures for the preceding fiscal year, prepared in accordance with GAAP and reviewed by the Borrower's current independent public accountants or other independent public accountants satisfactory to the Lender and accompanied by the management letter, if any, delivered by such independent public accountants to the Borrower and the Borrower's response thereto;

(ii) as soon as available and in any event within 20 days after the end of each month of the Borrower's fiscal year, a copy of the Borrower's internally prepared financial statements, consisting of a balance sheet as of the close of such month and related statements of earnings for such month and from the beginning of such fiscal year to the end of such month prepared in accordance with GAAP and certified as accurate by the Borrower's president;

(iii) by no later than 12:00 noon on the first business day of each week, a Borrowing Base Certificate showing the relevant information for Eligible Accounts as of the end of the last business day of the preceding week together with supporting reports such as, but not limited to, any accounts receivable aging required by the Lender in a form acceptable to the Lender and certified as accurate by the Borrower's president, treasurer or chief financial officer;

(iv) as soon as available and in any event within 20 days after the end of each month of the Borrower's fiscal year, a Borrowing Base Certificate showing the relevant information for the Borrower as of the most recent month-end together with supporting reports such as, but not limited to, any accounts receivable aging, inventory certificates, accounts payable aging required by the Lender, all in a form acceptable to the Lender and certified as accurate by the Borrower's president; provided, however, that, the Lender, in its sole discretion, may require the Borrower to deliver an updated Borrowing Base Certificate and supporting reports on a more frequent basis;

(v) as soon as available and in any event within 45 days after the end of each of the Borrower's fiscal years, projections for the Borrower's immediately following fiscal year consisting of projected month-end balance sheets and month-end and year-to-date statements of earnings, all in a form acceptable to the Lender and certified by the Borrower's president as having been prepared in good faith and representing the most probable course of the Borrower's business during such fiscal year;

(vi) with each financial statement required by Section 7(a)(i) or (ii) above, a Compliance Certificate, including evidence satisfactory to the Lender of current payments of payroll withholding taxes, real estate taxes and all other taxes payable by the Borrower as of the end of the relevant reporting period in a form acceptable to the Lender and certified as accurate by the Borrower's president;

(vii) by no later than 10 days after the filing thereof, a copy of the Borrower's tax returns and related schedules; and

(viii) such other financial or other information or certification as the Lender may reasonably request;

(b) maintain and preserve its corporate existence;

(c) maintain insurance of such types and in such amounts as are maintained by companies of similar size engaged in the same or similar businesses and as may be required by any Loan Document; provided, however, that each policy insuring any Collateral securing the Loans shall name the Lender as the loss payee;

(d) file all federal and state income tax and other tax returns (including, without limitation, withholding tax returns) which are required and make payments as required of such taxes; provided, however, that the Borrower shall not be required to pay any such tax so long as the validity thereof is being contested in good faith by appropriate proceedings and adequate book reserves shall have been set aside with respect thereto;

(e) reimburse the Lender for reasonable expenses, fees and disbursements (including, without limitation, reasonable attorneys' fees and legal expenses), incurred in connection with the preparation or administration of this Agreement or any other Loan Document or the Lender's enforcement of the obligations of the Borrower under any Loan Document, whether or not suit is commenced, which attorneys' fees and legal expenses shall include, but not be limited to, any attorneys' fees and legal expenses incurred in connection with any appeal of a lower court's judgment or order; provided, however that the Lender

agrees that the Borrower's obligations to reimburse the Lender for its attorney's fees and legal expenses shall be limited to the sum of: (i) \$4,000.00; plus (ii) \$1,500 of attorneys' fees incurred in connection with the review of status of title to the property covered by the Mortgage; plus (iii) out-of-pocket expenses of such legal counsel; plus (iv) all costs, including filing fees, mortgage registration taxes and the like arising in connection with the filing of the Mortgage and any other Loan Document;

(f) permit the Lender and its representatives at reasonable times and intervals and upon reasonable notice to visit the Borrower's offices and inspect its books and records including, without limitation, permitting the Lender to examine any collateral securing the Loan and reimburse the Lender for all examination fees and expenses incurred in connection with such examinations at its then current rate for such services and for its out-of-pocket expenses incurred in connection therewith; provided, however that the Lender agrees that, so long as no Default or Event of Default has occurred and is continuing, the Borrower's obligations to reimburse the Lender for its examinations shall be limited to no more than the sum of \$1,500.00 per examination plus its out-of-pocket expenses incurred in connection therewith for no more than two examinations per calendar year with the pre-closing examination not counting as one of the examination for the current year;

(g) maintain all of its depository accounts with the Depository Bank;

(h) maintain, at each Measurement Date the sum of (a) the Borrower's Net Worth; plus (b) the outstanding principal balance of the Subordinated Debt at not less than \$345,000.00;

where the following terms shall have the following meanings:

"Measurement Date" shall mean the last day of each month of the Borrower's fiscal year.

"Net Worth" shall mean, at any date of determination, the difference between: (a) the total assets appearing on the Borrower's balance sheet at such date prepared in accordance with GAAP after deducting adequate reserves in each case where, in accordance with GAAP, a reserve is proper; and (b) the total liabilities appearing on such balance sheet (the "Total Liabilities").

8. Negative Covenants. The Borrower hereby agrees with the Lender that so long as any Loan remains unpaid or the Line of Credit is available to the Borrower, the Borrower shall not, without the Lender's prior written consent:

(a) create security interests or mortgages encumbering any of its assets except: (i) security interests in favor of the Lender; or (ii) other security interests described on Schedule 8(a) attached hereto and incorporated herein by reference;

(b) create, incur, assume or suffer to exist any indebtedness except: (i) the indebtedness under this Agreement or any other Loan Document; (ii) current liabilities (other than borrowed money) incurred in the ordinary course of business; or (iii) other indebtedness described on Schedule 8(b) attached hereto and incorporated herein by reference;

(c) lease or sell all or any substantial portion of its property and business to any other entity or entities, whether in one transaction or a series of related transactions;

(d) consolidate with or merge into or with any other entity or entities;

(e) declare or pay any dividends (except for stock dividends), purchase, redeem, retire or otherwise acquire for value any of the Borrower's capital stock (or any warrant or option to purchase any such stock) now or hereafter outstanding, or return any capital to its stockholders;

(f) acquire, make or hold any investment in any other person except: (i) cash and cash equivalents; and (ii) other investments described on Schedule 8(f) attached hereto and incorporated herein by reference;

(g) assume, guarantee, endorse or otherwise become liable upon the obligation of any person, firm or corporation except pursuant to the Loan Documents or by endorsement of negotiable instruments for deposit or collection in the ordinary course of business, nor sell any notes or accounts receivable with or without recourse;

(h) maintain, establish, sponsor or contribute to any Plan which is a defined benefit plan and shall not permit any of its ERISA Affiliates to do so except as previously disclosed to Lender in writing;

(i) make capital expenditures of more than \$50,000.00 during any of the Borrower's fiscal years.

(j) make any loan or advance to, or otherwise extend any credit to, the Borrower's officers, directors, shareholders, partners, members, managers or Affiliates or to any member of any such person's immediate family if, after giving effect to such loan or advance, the aggregate outstanding principal amount of all such loans and advances to any or all of the above described persons would exceed \$10,000.00.

(k) (i) make any payment of, or purchase, redeem, or acquire, any Subordinated Debt except as permitted by the Subordination Agreement pertaining to such Subordinated Debt; (ii) give security for all or any part of any Subordinated Debt; (iii) take or omit to take any action whereby the subordination of any Subordinated Debt or any part thereof to the Note might be terminated, impaired or adversely affected; (iv) settle, compromise, discharge or otherwise reduce the outstanding principal amount of any Subordinated Debt or exercise any right to convert the Subordinated Debt to equity except for payments made on such Subordinated Debt in accordance with the Subordination Agreement pertaining thereto; or (v) omit to give the Lender prompt written notice of any default or event which, with the giving of notice or lapse of time, would constitute a default under any other agreement or instrument relating to any Subordinated Debt.

9. Event of Default. The occurrence of any one or more of the following shall constitute an Event of Default ("Event of Default") hereunder:

(a) the Borrower shall default in the due and punctual payment of any installment of interest or principal on the Loans on the date when due, or in due and punctual payment of any other amount which is due and payable to the Lender under any Loan Document on the date when due;

(b) the Borrower shall default in the due performance or observance of any covenant set forth in Section 8;

(c) any Loan Party shall default (other than those defaults covered by other subsections of this Section 9) in the due performance or observance of any term, covenant, agreement or warranty contained in any Loan Document on its part to be performed, and such default shall continue for a period of 30 days after written notice thereof from the Lender to the Borrower;

(d) any Loan Party shall default and fail to cure such default in the time provided therein, under the terms of any agreement, indenture, deed of trust, mortgage, promissory note or security agreement governing the borrowing of money (other than this Agreement, or the other Loan Documents, and as a result of such default: (i) the maturity of any amount owed under such document or instrument is accelerated; or (ii) such default shall continue unremedied or unwaived for a period of time to permit such acceleration;

(e) any Loan Party shall become insolvent or generally fail to pay, or admit in writing such Loan Party's inability to pay such Loan Party's debts as they become due; or any Loan Party shall apply for, consent to, or acquiesce in, the appointment of a trustee, receiver or other custodian for such Loan Party or for such Loan Party's property, or make a general

assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian shall be appointed for any Loan Party or for a substantial part of such Loan Party's property and not be discharged within 60 days; or any bankruptcy, reorganization, debt arrangement, or other case or proceeding under any bankruptcy or insolvency law, or any dissolution or liquidation proceeding shall be commenced in respect of any Loan Party or be consented to or acquiesced in by such Loan Party or remain for 60 days undismissed; or any Loan Party shall take any action to authorize any of the foregoing;

(f) any judgments, writs, warrants of attachment, executions or similar process (not covered by insurance) shall be issued against any Loan Party or any of such Loan Party's assets where the aggregate amount of such judgments, writs, warrants of attachment, executions or similar process exceed \$10,000.00 for any or all Loan Parties and are not released, vacated, suspended, stayed, abated or fully bonded prior to any sale and in any event within 30 days after its issue or levy;

(g) the Guarantor shall cease to: (i) own 100% of the Borrower's issued and outstanding capital stock; (ii) have the power to elect a majority of the Borrower's directors; or (iii) direct the Borrower's management policies;

(h) the Lender, in its sole discretion, shall determine in good faith that there has been a material adverse change in the condition (financial or otherwise), business or property of any Loan Party;

(i) The Guarantor shall cease to be Borrower's President or shall cease to direct the Borrower's management policies;

(j) any representation or warranty set forth in this Agreement or any other Loan Document shall be untrue in any material respect on the date as of which the facts set forth are stated or certified;

(k) The Guarantor shall die or become incompetent;

(l) any Loan Party shall seek to revoke, repudiate or disavow the enforceability of any Loan Document;

(m) the Borrower shall fail to pay when due any payroll withholding taxes, real estate taxes or any other tax payable by the Borrower.

Upon the happening of: (1) any Event of Default described in Section 9(e), the full unpaid principal amount of the Notes and all other obligations of the Borrower to the Lender shall automatically be due and payable without any declaration, notice, presentment, protest or demand of any kind (all of which are hereby waived) and the Line of Credit shall automatically terminate; or (2) any other Event of Default, the Lender, upon written notice, may terminate the Line of Credit and may declare the outstanding principal amount of the Notes and all other obligations of the Borrower to the Lender to be due and payable without other notice, presentment, protest or demand of any kind, whereupon the full unpaid amount of the Notes and any and all other obligations, which shall be so declared due and payable, shall be and become immediately due and payable. In addition, the Lender may exercise any right or remedy available to it pursuant to any Loan Document, at law or in equity.

10. Miscellaneous.

(a) Notices Any notices or demands required or contemplated hereunder shall be written and shall be effective two days after the placing thereof in the United States mails postage prepaid, addressed to the relevant party at its address set forth on the signature page below or upon transmission by telecopy to the relevant party at the telecopy number set forth on the signature page below and a confirmation is received or at any other address or telecopy number as may be designated by the party in a notice to the other parties provided, however, that any notice to the Lender pursuant to Section 2(a)(iv) shall not be deemed given until received by the Lender.

(b) Governing Law. This Agreement, the Notes and each other Loan Document shall be governed by, interpreted and construed in accordance with the internal laws, but not the law of conflicts, of the State of Minnesota.

(c) Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or transfer its rights hereunder without the prior written consent of Lender.

(d) Waivers, Amendments; etc. The provisions of this Agreement, or any other Loan Document, may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Borrower and the Lender.

(e) Inconsistencies, etc. In the event of any conflict or inconsistency between or among the provisions of this Agreement and any other Loan Document, it is intended that the provisions of this Agreement and such other Loan Document be enforceable except to

the extent that the enforcement of such provisions is irreconcilable and, in that event, the provisions of this Agreement shall be controlling.

(f) WAIVER OF TRIAL BY JURY. THE BORROWER AND THE LENDER EACH WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS (i) UNDER THE LOAN DOCUMENTS OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION THEREWITH OR (ii) ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

(g) Limitation of Liability. Neither the Lender nor any affiliate of the Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue upon, any claim for any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to, this Agreement, the Notes or any other Loan Document, or the transactions contemplated and the relationship established hereby or thereby, or any act, omission or event occurring in connection herewith or therewith.

(h) Venue. AT THE OPTION OF THE LENDER, THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT TO WHICH THE BORROWER IS A PARTY MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS, ST. PAUL, OR ST. CLOUD, MINNESOTA; AND THE BORROWER CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE BORROWER COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, THE LENDER AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER

RELS Manufacturing Corporation
July 7, 1998
Page 21

APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

BNC Financial Corporation

By 
Its U.P.

4150 South Second Street
Suite 350
St. Cloud, MN 56301
Attention: Mr. James R. Moore
Telecopy No: (320) 259-0535

Accepted, acknowledged and agreed to this 7 day of July, 1998.

RELS Manufacturing Corporation

By 
Its PRESIDENT

7710 Commerce Circle
Rockford, MN 55373
Attention: Mr. David C. Carroll
Telecopy No: (612) 477-5082

LIST OF SCHEDULES

Schedule 8(a)	Security Interests	<i>None</i>
Schedule 8(b)	Debt	<i>None</i>
Schedule 8(f)	Investments	<i>None</i>

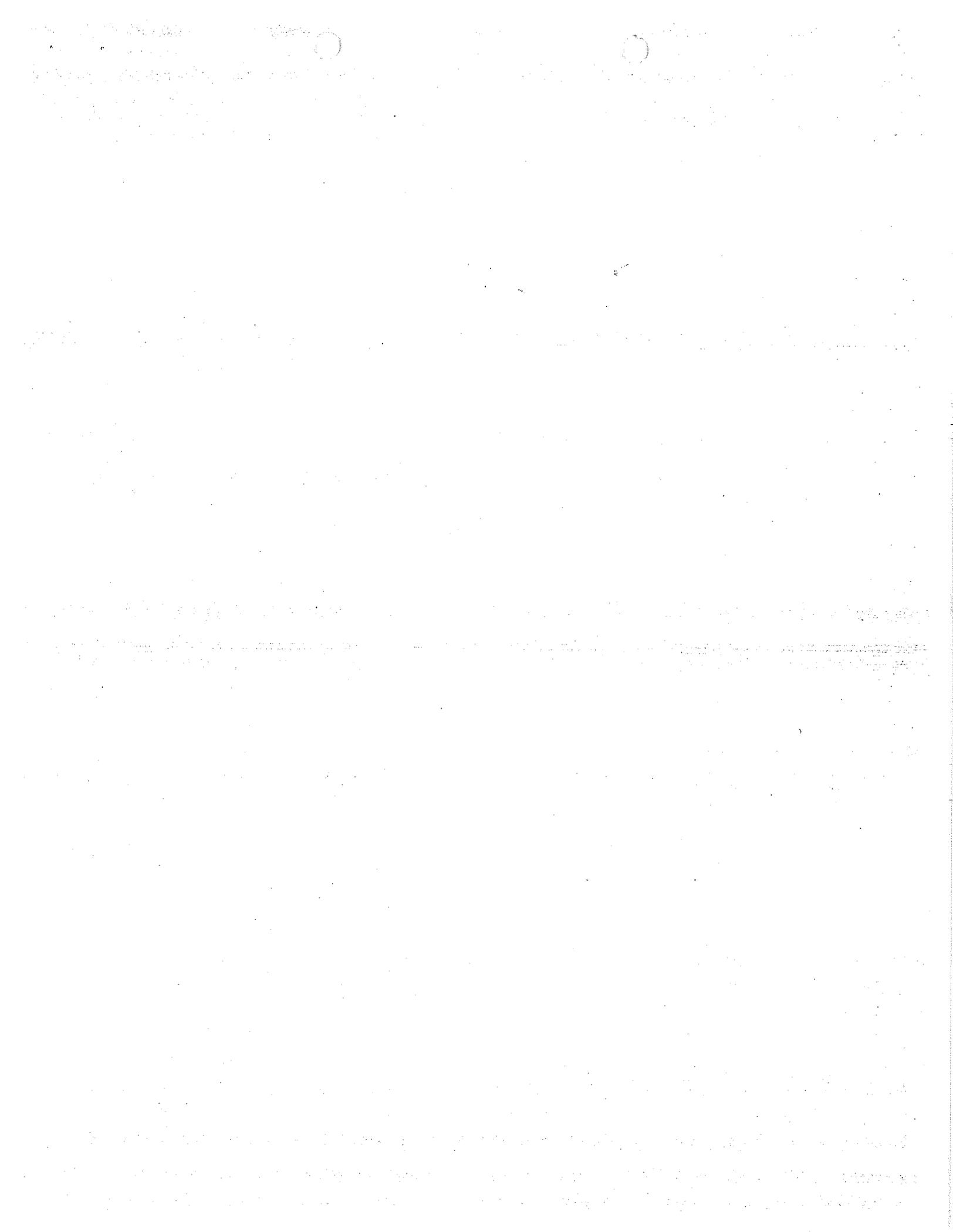
**SCHEDULE 8(a) TO LOAN AGREEMENT
and
SCHEDULE A-1 TO SECURITY AGREEMENT**

**RELS Manufacturing Corporation
UCC FILINGS WITH THE
MINNESOTA SECRETARY OF STATE
(THROUGH 6/26/98)**

Filing No.	Date	Secured Party	Assignee	Description
1567363	03-01-93	Commerce Financial Group, Inc.	Farmers State Bank of Lester Prairie	Equipment
1567490	03-01-93	Commerce Leasing Corp.		Leased Equipment
1586437	05-10-93	Commerce Financial Group, Inc.	Citizens State Bank of Silver Lake	Equipment filing
1589122	05-19-93	Commerce Leasing Corp.		Lease Amendment
1592013	06-01-93	Commerce Leasing Corp.	Stutsman County State Bank, N. Dak.	Assignment of 1567490
1608261	08-03-93	Commerce Leasing Corp.		Leased Equipment
1958878	07-18-97	Riviera Business Credit		Blanket Filing
1997977	12-22-97	First Community Bank Silver Lake	Commerce Financial Group, Inc.	Assignment of 1586437
1998476	12-22-97	First Community Bank of Lester Prairie	Commerce Financial Group, Inc.	Assignment of 1567363
1999667	12-29-97	Stutsman County State Bank	Commerce Leasing Corp.	Assignment of 1567490
2001255	01-05-98	Commerce Leasing Corp.		Continuation of 1567363

2001284	01-05-98	First Community Bank of Lester Prairie & Security State Bank of Sebeka	Commerce Leasing Corp.	Assignment of 1608261
2001285	01-05-98	Commerce Financial Group, Inc.		Continuation of 1586437
2001286	01-05-98	Commerce Leasing Corp.		Continuation of 1567490
2002650	01-09-98	Itasca Business Credit		Blanket Filing
2028766	04-15-98	Commerce Leasing Corp.		Continuation of 1608261

* To be paid upon payment from proceeds of initial Advance and Term Loan.





BNC

Financial Corporation

A Subsidiary of BNCORP, Inc.

4150 South Second Street

Suite 350

St. Cloud, MN 56301

Telephone: (320) 259-0500

Fax: (320) 259-0535

September 30, 1999

RELS Manufacturing Corporation
7710 Commerce Circle
Rockford, MN 55373
Attention: Mr. David C. Carroll

Ladies and Gentlemen:

We refer to the Letter Loan Agreement dated as of July 7, 1998 (the "Loan Agreement"; capitalized terms not defined herein being used herein as therein defined) between RELS Manufacturing Corporation (the "Borrower") and us. On the "Effective Date" (as defined below) of this letter amendment, we hereby agree with the Borrower to amend the first paragraph of the Loan Agreement is amended by increasing the amount of the Line of Credit from "Six Hundred Thousand and No/100ths Dollars (\$600,000.00)" to "Seven Hundred Fifty Thousand and No/100ths Dollars (\$750,000.00)."

This letter amendment shall be effective as of the date first above stated on the date (the "Effective Date") on which we receive a copy of this letter amendment executed by the Borrower together with the following:

- (a) A replacement Revolving Credit Note (the "Replacement Revolving Credit Note") in a form provided by us appropriately completed and duly executed by the Borrower;
 - (b) A Consent in a form provided by us appropriately completed and duly executed by the Guarantor;
 - (c) One Thousand Five Hundred and No/100ths Dollars (\$1,500.00) in immediately available funds as an origination fee, which origination fee is non-refundable and is earned upon the Effective Date regardless of whether the Borrower obtains any subsequent Advance hereunder; and
 - (d) Such other documents, instruments or certificates as we may request.
- By executing this letter amendment, the Borrower represents and warrants to us that:

RELS Manufacturing Corporation
September _____, 1999
Page 2

(a) The execution, delivery and performance by each Borrower of the Loan Agreement as amended through this letter amendment, the Replacement Revolving Credit Note and the other Loan Documents to which the Borrower is a party have been duly authorized by all necessary corporate action, do not require any approval or consent of, or any registration, qualification or filing with, any governmental agency or authority or any approval or consent of any other person (including, without limitation, any shareholder), do not and will not conflict with, result in any violation of or constitute any default under, any provision of the Borrower's articles of incorporation or bylaws, any agreement binding on or applicable to the Borrower or any of its property, or any law or governmental regulation or court decree or order, binding upon or applicable to the Borrower or of any of its property and will not result in the creation or imposition of any security interest or other lien or encumbrance in or on any of such Borrower's property pursuant to the provisions of any agreement applicable to the Borrower or any of its property;

(b) The representations and warranties contained in Section 6 of the Loan Agreement are true and correct as of the date hereof as though made on that date after giving effect to this letter amendment;

(c) The Loan Agreement as amended by this letter amendment, the Replacement Revolving Credit Note and the other Loan Documents to which the Borrower is a party remain in full force and effect, are the legal, valid and binding obligations of the Borrower and are enforceable in accordance with their respective terms, subject only to bankruptcy, insolvency, reorganization, moratorium or similar laws, rulings or decisions at the time in effect affecting the enforceability of rights of creditors generally and to general equitable principles which may limit the right to obtain equitable remedies;

(d) No events have taken place and no circumstances exist at the date hereof which would give the Borrower the right to assert a defense, offset or counterclaim to any claim by the Bank for payment of the obligations of the Borrower under the Loan Agreement or any other Loan Document; and (ii) the Borrower hereby releases and forever discharges the Lender and its successors, assigns, directors, officers, agents, employees and participants from any and all actions, causes of action, suits, proceedings, debts, sums of money, covenants, contracts, controversies, claims and demands, at law or in equity, which the Borrower ever had or now has against the Lender or its successors, assigns, directors, officers, agents, employees or participants by virtue of their relationship to the Borrower in connection with the Loan Documents and the transactions related thereto; and

RELS Manufacturing Corporation
September ____, 1999
Page 3

(e) After giving effect to this letter amendment, no Default or Event of Default exists.

By executing this letter amendment, the Borrower further agrees with us that:

(a) each reference in:

(i) the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring to the Loan Agreement, and each reference to the "Loan Agreement," "thereunder," "thereof," "therein" or words of like import referring to the Loan Agreement in any other Loan Document shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) any Loan Document to "the Revolving Credit Note," "Note," "thereunder," "thereof," "therein" or words of like import referring to the Revolving Credit Note shall mean and be a reference to the Replacement Revolving Credit Note executed and delivered pursuant to the terms hereof; and

(b) the execution, delivery and effectiveness of this letter amendment shall not, except as expressly provided herein, operate as a waiver of any of our rights, powers or remedies under the Loan Agreement or any other Loan Document, nor constitute a waiver of any provision of the Loan Agreement or any such Loan Document.

By executing this letter amendment, the Borrower further agrees to pay to us on demand all of our costs and expenses in connection with the preparation, reproduction, execution and delivery of this letter amendment and the other documents to be delivered hereunder, including our reasonable attorneys' fees and legal expenses.

Very truly yours,

BNC Financial Corporation

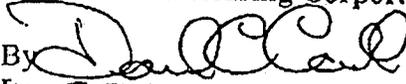
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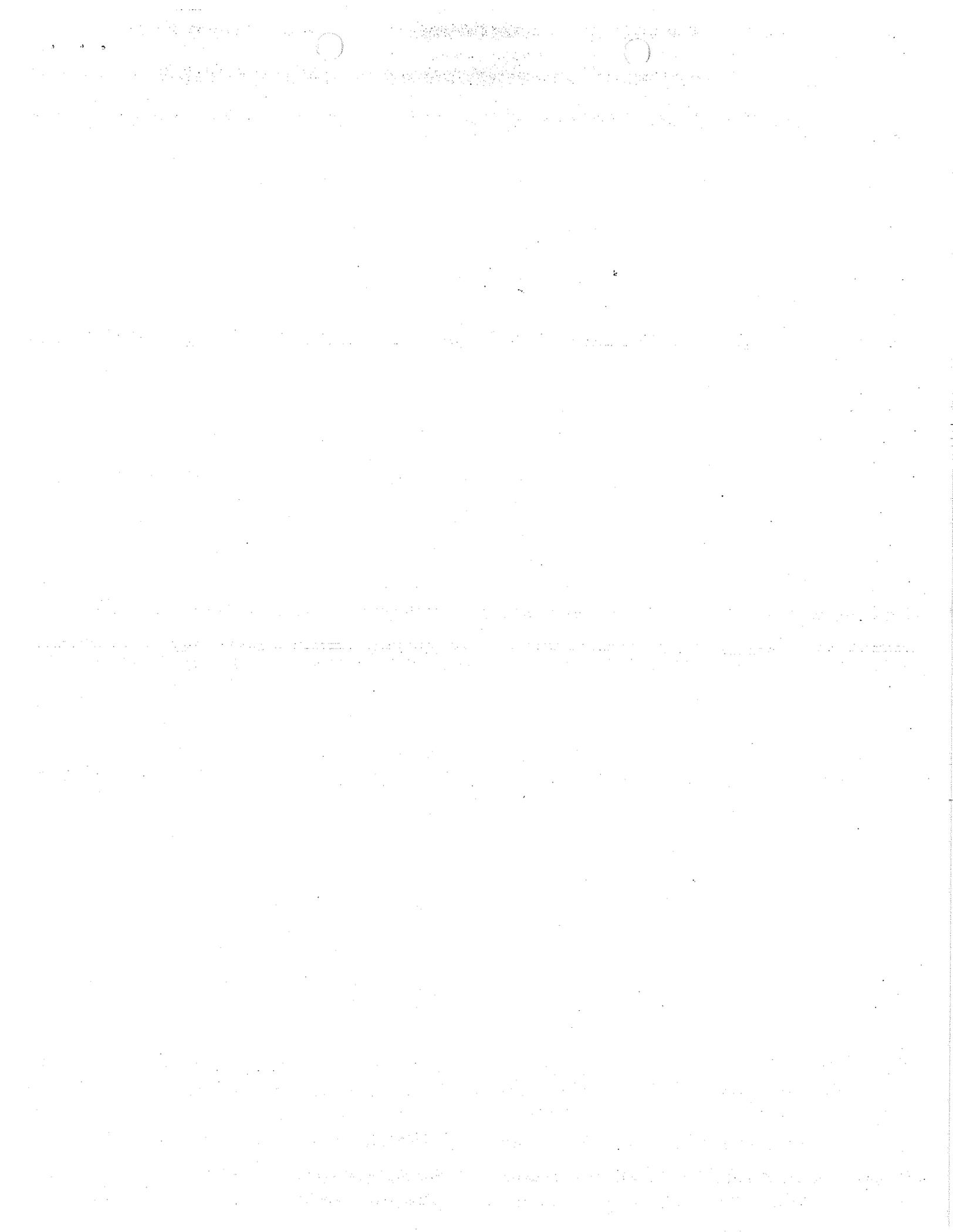

J.P.

RELS Manufacturing Corporation
September ____, 1999
Page 4

Accepted and agreed to as of this 30th day of September, 1999.

RELS Manufacturing Corporation

By 
Its CEO





Associated Commercial Finance, Inc.

May 1, 2001

RELS Manufacturing Corporation
7710 Commerce Circle
Rockford, MN 55373

Attention: Mr. David C. Carroll

Ladies and Gentlemen:

We refer to the Letter Loan Agreement dated as of July 7, 1998 between RELS Manufacturing Corporation (the "Borrower") and us, as the successor by merger with BNC Financial Corporation, as amended to date (as so amended, the "Loan Agreement"; capitalized terms not defined herein being used herein as therein defined). On the "Effective Date" (as defined below) of this letter amendment and waiver, we hereby agree with the Borrower to amend Section 2(a)(i) of the Loan Agreement by extending the stated Termination Date from "July 31, 2000" to July 31, 2001.

This letter amendment shall be effective as of the date first above stated on the date (the "Effective Date") on which we receive a copy of this letter amendment executed by the Borrower together with the following:

- (a) A Pledge Agreement in a form provided by us appropriately completed and duly executed by the Guarantor pledging to us all of the Collateral described therein together with related UCC Financing Statements and a Consent from the limited partner in Oakdale Properties Limited;
- (b) A Consent in a form provided by us appropriately completed and duly executed by the Guarantor; and
- (c) Such other documents, instruments or certificates as we may request.

By executing this letter amendment, the Borrower represents and warrants to us that:

- (a) The execution, delivery and performance by each Borrower of the Loan Agreement as amended through this letter amendment, the Amended Security Agreement and the other Loan Documents to which the Borrower is a party have been duly authorized by all necessary corporate action, do not require any approval or consent of, or any registration, qualification or filing with, any governmental agency or authority or

RELS Manufacturing, Inc.
May 1, 2001
Page 2

any approval or consent of any other person (including, without limitation, any stockholder), do not and will not conflict with, result in any violation of or constitute any default under, any provision of the Borrower's articles of incorporation or bylaws, any agreement binding on or applicable to the Borrower or any of its property, or any law or governmental regulation or court decree or order, binding upon or applicable to the Borrower or of any of its property and will not result in the creation or imposition of any security interest or other lien or encumbrance in or on any of such Borrower's property pursuant to the provisions of any agreement applicable to the Borrower or any of its property;

(b) The representations and warranties contained in Section 6 of the Loan Agreement are true and correct as of the date hereof as though made on that date after giving effect to this letter amendment and waiver except that the representation and warranty as to the absence of any material litigation set forth in Section 6(f) or the absence of any material default set forth in the last sentence of Section 6(m) are qualified by adding an exception for the presently existing litigation seeking foreclosure on the Borrower's premises by B.L. Systems, Inc. and for the Defaults and Events of Default which have occurred and continuing as of the date hereof (the "Existing Defaults and Events of Default");

(c) The Loan Agreement as amended by this letter amendment, the Pledge Agreement and the other Loan Documents to which the Borrower is a party remain in full force and effect, are the legal, valid and binding obligations of the Borrower and are enforceable in accordance with their respective terms, subject only to bankruptcy, insolvency, reorganization, moratorium or similar laws, rulings or decisions at the time in effect affecting the enforceability of rights of creditors generally and to general equitable principles which may limit the right to obtain equitable remedies;

(d) No events have taken place and no circumstances exist at the date hereof which would give the Borrower the right to assert a defense, offset or counterclaim to any claim by the Lender for payment of the obligations of the Borrower under the Loan Agreement as amended hereby or any other Loan Document; and (ii) the Borrower hereby releases and forever discharges the Lender and its successors, assigns, directors, officers, agents, employees and participants from any and all actions, causes of action, suits, proceedings, debts, sums of money, covenants, contracts, controversies, claims and demands, at law or in equity, which the Borrower ever had or now has against the Lender or its successors, assigns, directors, officers, agents, employees or participants by virtue of their relationship to the Borrower in connection with the Loan Documents and the transactions related thereto; and

(e) Before and after giving effect to this letter amendment, no Defaults or Events of Default have occurred and are continuing or will result from the execution and delivery of this letter amendment except for the Existing Defaults and Events of Default.

By executing this letter amendment, the Borrower further agrees with us that:

RELS Manufacturing, Inc.

May 1, 2001

Page 3

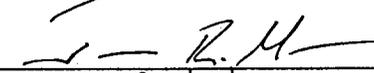
(a) each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring to the Loan Agreement, and each reference to the "Loan Agreement," "thereunder," "thereof," "therein" or words of like import referring to the Loan Agreement in any other Loan Document shall mean and be a reference to the Loan Agreement as amended hereby; and

(b) the execution, delivery and effectiveness of this letter amendment and waiver shall not, except as expressly provided herein, operate as a waiver of any of our rights, powers or remedies under the Loan Agreement or any other Loan Document, nor constitute a waiver of any provision of the Loan Agreement or any such Loan Document. Without limiting the generality of the foregoing, the Borrower acknowledges and agrees that the Lender does not waive any of the Existing Defaults and Events of Default and specifically reserves all of its rights with respect to such Existing Defaults and Events of Default.

By executing this letter amendment, the Borrower further agrees to pay to us on demand all of our costs and expenses in connection with the preparation, reproduction, execution and delivery of this letter amendment and the other documents to be delivered hereunder, including our reasonable attorneys' fees and legal expenses.

Very truly yours,

Associated Commercial Finance, Inc.

By 

Its Vice President

Accepted and agreed to as of this 10th day of May, 2001.

RELS Manufacturing Corporation

By 

Its CEO

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

Bky. No.: 04-42532

RELS MANUFACTURING CORPORATION,

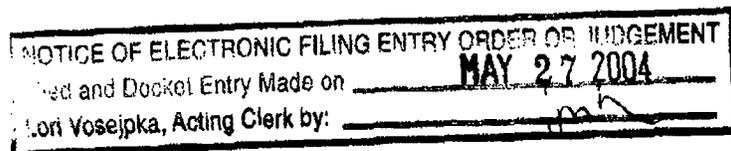
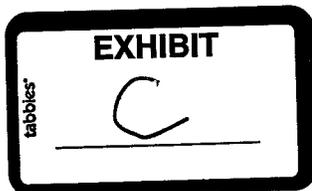
Chapter 11

Debtor.

**FINAL ORDER APPROVING AGREEMENT AND AUTHORIZING
POST-PETITION FINANCING SECURED BY SENIOR LIENS
AND SUPERPRIORITY EXPENSE CLAIMS**

This matter came before the Court on May 27, 2004, upon Motion by RELS MANUFACTURING CORPORATION'S (the "Debtor") for a Final Order Approving a Stipulation for Post-petition Financing Secured by Senior Liens and Superpriority Expense Claims (the "Stipulation"; capitalized terms not otherwise defined in this Order are being used as defined in the Stipulation) and an extension of the Preliminary Order Approving Agreement and Authorizing Post-petition Financing Secured by Senior Liens and Superpriority Expense Claims ("Post-Petition Financing Order") dated April 14, 2004. Based upon all records, files proceedings, argument of counsel the Stipulation negotiated between the Debtor and Associated Commercial Finance, Inc., ("Associated") and the Preliminary Post-Petition Financing Order, the Court hereby orders as follows:

A. The Debtor's Motion for a Final Order Approving Post-petition Financing Secured by Senior Liens and Superpriority Expense Claims is hereby granted and, further, the Debtor's authority to continue operating pursuant to the Stipulation is hereby extended through September 1, 2004.



26-1

B. All advances made by Associated to the Debtor after the date of this Order and under the terms of the Credit Agreement, the Revolving Credit Loan and the terms of this Order are hereby approved and the Debtor is immediately authorized to request advances, subject to and in accordance with, the terms and conditions of the Credit Agreement, the Revolving Credit Loan and the terms of this Order, all of which advances shall be used by Debtor to pay only those expenses and obligations set forth in the Debtor's operating budget and cash flow projection attached to the Financing Motion as Exhibit B.

C. Provided that Associated shall have received (i) the Third Amendment, the Replacement Revolving Credit Note, the Replacement Term Note, the Amended Security Agreement, the Lockbox Agreement, the Collateral Account Agreement in the respective forms provided by Associated appropriately completed and duly executed by the Debtor; (ii) an Acknowledgment and Agreement in the form provided by Associated appropriately completed and duly executed by David C. Carroll (the "Guarantor"); and (iii) all other conditions precedent to the effective date of the Third Amendment have been satisfied or waived by Associated, the Debtor shall be and hereby is authorized to enter into and borrow additional sums under the Credit Agreement (which sums, together with all expenses, fees, interest and other amounts allowed under the Credit Agreement and arising from and after the date of this Order are referred to herein as the "Post-petition Indebtedness"), referred to in the Financing Motion, and the Debtor shall execute any other document deemed necessary or appropriate by Associated to give effect to the terms and provisions of this Order which shall include the following additional condition: The Debtor's use of advances made by Associated under the terms of this Order and/or Debtor's use of all cash, cash equivalents, proceeds and all other sums constituting Associated's "cash collateral," as defined under Section 363(a) of the Code, to the extent Debtor

is permitted under the terms of this Order to use "cash collateral," shall be used solely for (i) payment when due of all filing fees, and (ii) the operating expenses incurred by the Debtor for the purposes of and in the amounts set forth in operating budgets and cash flow projections which Debtor shall provide to Associated on a weekly basis in advance of the Debtors' use of such advances or "Cash Collateral."

D. To secure the payment of the Post-petition Indebtedness and to the extent there is a diminution in the value of Associated's interest in the Pre-Petition Collateral in the amounts paid over to Associated with respect to the Pre-Petition Collateral, the Debtor is authorized to grant to Associated and hereby does grant to Associated, pursuant to Section 364(d) of the Bankruptcy Code, a first priority lien that is senior to all liens, present and future, of all third parties (other than the lien granted to Associated in the Pre-petition Collateral to secure payment of the Pre-petition Indebtedness) including, but not limited to, the lien in favor of all financial institutions at which the Debtor maintains accounts (general or special, time or demand, provisional or final), in and to all of the Debtor's assets, excluding causes of action created under Chapter 5 of the Bankruptcy Code in favor of the Debtor, constituting the Collateral (the "Post-Petition Security Interest"), whether arising before or after the Filing Date, and such lien shall be a continuing first priority lien. The first priority lien in favor of Associated shall be deemed to be perfected as of the date this Order is entered without the need to file any financing statement or take any further action.

E. Associated shall be and hereby is authorized to take any action Associated deems necessary or appropriate to perfect the liens and security interests respectively granted to Associated pursuant to this Order, including, but not limited to, filing financing statements, all of which shall be deemed to have been filed as of April 14, 2004.

F. All Post-petition Indebtedness which from time to time hereafter is owing by the Debtor to Associated under the Credit Agreement shall have superpriority under the provisions of sections 364(c)(1) of the Bankruptcy Code over all administrative expense incurred in this case, whether arising or assessed under §§ 105, 330, 331, 503(b), 506(c), 507(a), 507(b) or 726 of the Bankruptcy Code, except fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930, and shall at all times be senior to the rights of the Debtor or any successor trustee in this or any subsequent case under the Bankruptcy Code. Other than the lien granted by the Debtor to Associated in the Pre-petition Collateral to secure payment of the Pre-petition Indebtedness and the replacement lien in the Collateral described in Paragraph K hereof, no claim, having a priority superior to, or on a parity with, that granted to Associated by this Order, shall be granted while any of the obligations of the Debtor under the Credit Agreement remains outstanding.

G. Associated is a “good faith” lender within the meaning of section 364(e) of the Bankruptcy Code, and the credit extended by Associated pursuant to this Order and the Credit Agreement shall be deemed to be extended in good faith within the meaning of section 364(e) of the Bankruptcy Code and Associated is entitled to the protections afforded by section 364(e) of the Bankruptcy Code.

H. Associated and the Collateral shall be exempt from and not be subject to any surcharges, excises, liens or charges of any nature or type pursuant to Sections 364, 506(c) and 510 of the Bankruptcy Code or otherwise, in this Chapter 11 case or any subsequent Chapter 7 case including expenses of administration or liquidation.

I. Associated may, upon motion to the Bankruptcy Court and upon three (3) business days’ notice to the parties in interest, seek relief from the automatic stay under Section 362 to enforce its rights under the Credit Agreement and the other Loan Documents

including, without limitation, its right to foreclose its liens and security interest in the Collateral, and such other relief as Associated may request. Other than the Events of Default existing under the Credit Agreement at the time that the Debtor has commenced the instant Case, Debtor agrees that the occurrence of an Event of Default, as provided under the Credit Agreement, shall constitute sufficient grounds for relief from the automatic stay.

J. Without limiting the right of any party in interest to move the Court for an order converting this case to a case under Chapter 7 of the United States Bankruptcy Code, Debtor shall not take any action dismissing its Chapter 11 case and the Court may consider Associated's requirement that all of Debtor's obligations to Associated be fully paid as a precondition to ordering the dismissal of Debtor's case upon the motion of any party to convert or dismiss Debtor's case pursuant to Section 1112 of the Bankruptcy Code unless, prior to the entry thereof, either: (a) all of the Debtor's obligations and indebtedness owing to Associated under the Credit Agreement or any other Loan Document shall have been canceled or paid in full, or (b) Associated consents to dismissal.

K. Debtor is directed to turn over to Associated all cash, cash equivalents, proceeds and all other sums constituting Associated's "cash collateral," as defined under Section 363(a) of the Code arising from the Pre-petition Collateral. Associated shall be and hereby is authorized to apply, in accordance with the Credit Agreement, all cash, cash equivalents, proceeds and all other sums received by Associated and arising from the Pre-petition Collateral at the time the same are determined by Associated to be actually and finally collected or as otherwise provided in the Collateral Account Agreement. In exchange for the Debtor's use of the "cash collateral" of Associated, the Debtor is authorized and hereby does grant to Associated replacement liens in the Collateral with the same priority, dignity and effect as that of Associated's secured Pre-petition

liens on the Pre-petition Collateral to the extent that such replacement lien is not otherwise provided for pursuant to Section 552 of the Bankruptcy Code. Nothing herein authorizes the payment of any Pre-petition Indebtedness that was unsecured debt owed by Debtor to Associated.

L. Debtor is directed to turn over to Associated all cash, cash equivalents, proceeds and all other sums constituting Associated's "cash collateral," as defined under Section 363(a) of the Code arising from the Collateral. Associated shall be and hereby is authorized to apply, in accordance with the Credit Agreement and the Collateral Account Agreement, all cash, cash equivalents, proceeds and all other sums received by Associated and arising from the Collateral at the time the same are determined by Associated to be actually and finally collected or as otherwise provided in the Collateral Account Agreement. Nothing herein authorizes the payment of any Pre-petition Indebtedness that was unsecured debt owed by Debtor to Associated.

M. After application of all cash, cash equivalents, proceeds and all other sums received by Associated in accordance with the terms of this Order and the Credit Agreement to satisfy any Pre-petition Indebtedness, as provided in Paragraph K above, and thereafter under the Credit Agreement, the Debtor is authorized to repay any advances made by Associated to the Debtor from and after the date of this Order.

N. All acts of Debtor herein pertaining to its transactions with Associated, as approved by the Court, including, without limitation, all rights and liens granted by Debtor to Associated hereunder due to Associated's providing post-petition financing to the Debtor, shall be binding on the Debtor and on any successor to the Debtor, including without limitation, any trustee or successor trustee appointed under any chapter of the Bankruptcy Code.

O. Pursuant to Section 364(e) of the Bankruptcy Code, neither the reversal nor the modification of this Order, nor the entry of an order confirming a plan of reorganization in the

Debtor's case or the conversion of the Debtor's case to a case under Chapter 7 of the Bankruptcy Code shall affect the validity or priority of the Associated's administrative expense status with respect to or the liens and security interests granted by the Debtor to the Associated as provided herein. Further, the Debtor shall not submit or seek or support in this Case confirmation of a plan of reorganization which does not provide for the payment of the Pre-petition Indebtedness and the Post-petition Indebtedness (if any) in full in cash on or before the effective date of the plan absent the express written consent of Associated.

P. The Debtor shall maintain all of its accounts at Associated Bank, N.A. or affiliated entities, including all demand, deposit or debtor-in-possession accounts.

Q. Associated's agreement to make loans, advancements, extend credit, and grant other financial accommodations to the Debtor pursuant to the terms of the Credit Agreement, as provided and conditioned under the terms of this Order, shall terminate immediately and automatically, without notice of any kind upon the earliest of the following dates (the "Termination Date"):

(i) The date that this Order is reversed, revoked, stayed, rescinded, modified or amended;

(ii) Five business days after the Debtor has received written notice of the Debtor's failure to comply with any of the terms and conditions contained in this Order, provided that the Debtor fails to come into compliance with such terms and conditions within such five-day period;

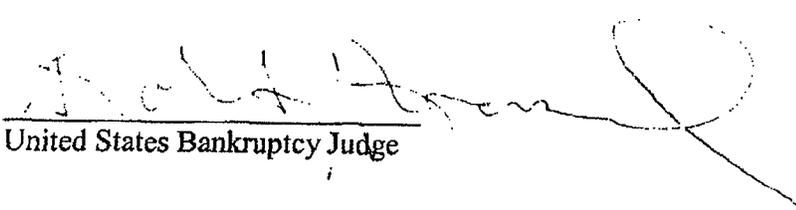
(iii) Upon entry of an order dismissing this case or converting it to a case under Chapter 7 of the Bankruptcy Code;

- (iv) Upon entry of an order authorizing the appointment of a trustee or examiner;
 - (v) Upon the date a confirmed Plan of Reorganization becomes effective;
 - (vi) Upon the entry of an order granting Associated relief from the automatic stay under Section 362 of the Bankruptcy Code;
 - (vii) Upon the occurrence of an Event of Default under the Credit Agreement;
- and/or
- (viii) 10:00 a.m. on September 1, 2004.

Upon the Termination Date, without further notice or order of the Court: (1) the Pre-petition Indebtedness and Post-petition Indebtedness shall be immediately due and payable; (2) Associated shall be entitled to apply or set-off any cash in Associated's possession or control to the Pre-petition Indebtedness and the Post-petition Indebtedness in accordance with the terms of Credit Agreement, until all such indebtedness is indefeasibly and finally paid in full; (3) the Debtor shall be prohibited from using any cash for any purpose other than application to the Pre-petition Indebtedness and the Post-petition Indebtedness until such indebtedness is indefeasibly and finally paid in full; (4) the Debtor shall be authorized to take such actions as Associated may deem necessary or desirable from time to time to assist Associated in the exercise of the rights and remedies available to Associated under the Credit Agreement, the other Loan Documents and applicable non-bankruptcy law with respect to the Collateral, including, without limitation, the surrender of such Collateral to Associated. The entry of this Order is without prejudice to the Debtor to move, pursuant to Section 363 (b) of the Bankruptcy Code, to use "Cash Collateral" after the Termination Date.

R. Notwithstanding any provision of this Order to the contrary, the factual assertions set forth in the Stipulation shall not be binding upon any successor of the Debtor, including, without limitation, any trustee or successor trustee appointed under any Chapter of the Bankruptcy Code.

Dated: May 27, 2004


United States Bankruptcy Judge

STATE OF MINNESOTA

SS.

COUNTY OF HENNEPIN

I, Lynn M. Hennen, hereby certify: I am a Deputy Clerk of the United States Bankruptcy Court for the District of Minnesota; on May 27, 2004, I placed copies of the attached:

FINAL ORDER APPROVING AGREEMENT AND AUTHORIZING
POST-PETITION FINANCING SECURED BY SENIOR LIENS
AND SUPERPRIORITY EXPENSE CLAIMS

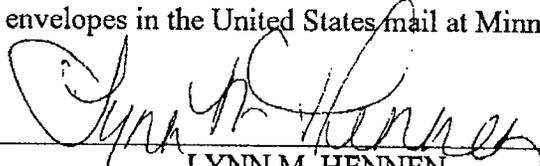
in individual postage metered official envelopes addressed to each of the persons, corporations, and firms at their last known addresses:

Habbo G. Fokkena, United States Trustee
1015 U.S. Courthouse
300 South Fourth Street
Minneapolis, Minnesota 55415

T. Chris Stewart, Esquire
Suite 700
701 Fourth Avenue South
Minneapolis, Minnesota 55415

Paul L. Ratelle, Esquire
800 LaSalle Avenue
Suite 1900
Minneapolis, Minnesota 55402

I sealed and placed the envelopes in the United States mail at Minneapolis, Minnesota.



LYNN M. HENNEN

POST-PETITION REVOLVING CREDIT NOTE

U.S. \$ 575,000

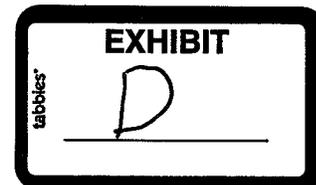
April 12, 2004

FOR VALUE RECEIVED, on the Termination Date (as defined in the Loan Agreement hereinafter defined) the undersigned, RELS Manufacturing Corporation, a Minnesota corporation (the "Borrower"), promises to pay to the order of Associated Commercial Finance, Inc. (the "Lender") the principal sum of Five Hundred Seventy-Five Thousand and no/100 DOLLARS (U.S. \$575,000) or, if less, the aggregate unpaid principal amount of all Advances (as hereinafter defined) made by the Lender to the Borrower pursuant to the Loan Agreement.

The Borrower promises to pay interest (computed on the basis of the number of days elapsed in a year of 360 days) on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full at a fluctuating annual rate equal to 8% per annum above the Prime Rate of Interest or such lower rate as may be agreed to by the Lender in writing. The term "Prime Rate of Interest" shall mean the rate of interest publicly announced by Associated Bank Minnesota, as its Prime Rate, Base Rate, Reference Rate or the equivalent of such rate, whether or not such bank makes loans to customers at, above, or below said rate. Interest accrued during each calendar month shall be due and payable on the first day of the following calendar month, with the first such interest payment due on May 1, 2004. Interest shall also be payable at maturity and interest accrued after maturity shall be payable on demand. Each change in the fluctuating interest rate shall take effect simultaneously with the corresponding change in the Prime Rate of Interest.

Both principal and interest are payable in lawful money of the United States of America to the Lender at 401 East Kilbourn Avenue, Suite 350, Milwaukee, Wisconsin 53202 (or other location specified by the Lender) in immediately available funds.

This Note is the Post-Petition Revolving Credit Note referred to in, and is entitled to the benefits of, the Letter Loan Agreement dated as of July 7, 1999 between the Borrower and the Lender, as amended by a letter amendment dated as of September 30, 1999, a letter amendment dated as of May 1, 2001 and a Third Amendment to Letter Loan Agreement dated as of April __, 2004 (the Letter Loan Agreement as so amended and as it may be further amended, modified, supplemented or restated from time to time being the "Loan Agreement"; capitalized terms not otherwise defined herein being used herein as therein defined). The Loan Agreement, among other things, (i) provides for the making of Advances (the "Advances") by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note; (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events prior to the maturity hereof upon the terms and conditions therein specified; (iii) contains provisions for the mandatory prepayment hereof upon certain conditions; and (iv) permits the voluntary prepayment hereof, without premium or penalty, upon certain conditions.



POST-PETITION REVOLVING CREDIT NOTE

Page 2

U.S. \$575,0000

April __, 2004

Presentment and demand for payment, notice of dishonor, protest and notice of protest are hereby waived. In the event of default, the Borrower agrees to pay costs of collection and reasonable attorneys' fees (whether or not suit is commenced), including, without limitation, attorneys' fees and legal expenses incurred in connection with any appeal of a lower court's judgment or order.

RELS Manufacturing Corporation

By: 
Its: CEO

AMENDED AND RESTATED SECURITY AGREEMENT
(Grantor)

This AMENDED AND RESTATED SECURITY AGREEMENT is made as of April 12, 2004 (the "Agreement"), by RELS Manufacturing Corporation, a Minnesota corporation, with its chief executive office at 6700 Bleck Drive, Rockford, MN ("Grantor"), in favor of Associated Commercial Finance, Inc., with an office at 401 East Kilbourn Avenue, Suite 350, Milwaukee, WI 53202 ("Lender").

RECITALS:

A. Grantor has requested extensions of credit from Lender pursuant to the terms of that certain Letter Loan Agreement dated as of July 7, 1998 between Grantor and Lender, as amended to date (the Letter Loan Agreement as so amended and as it may be further amended, modified, supplemented, increased or restated from time to time being the "Loan Agreement").

B. As a condition to such extensions of credit, Lender required that Grantor execute and deliver to Lender that certain Security Agreement dated as of even date with the Loan Agreement (the "Original Agreement").

C. As a condition to the effectiveness of that certain Third Amendment to Letter Loan Agreement dated as of even date herewith between Grantor and Lender and the Lender agreeing to provide post-petition financing to Grantor, Lender has required that the Original Agreement be amended and restated in its entirety by this Agreement.

D. Grantor has determined that the execution, delivery and performance of this Agreement are in its best business and pecuniary interest.

NOW, THEREFORE, for good and valuable consideration the receipt and adequacy of which are hereby acknowledged by each of the parties hereto, Grantor and Lender agree to amend and restate the Original Agreement in its entirety to read as follows:

ARTICLE I
DEFINITIONS

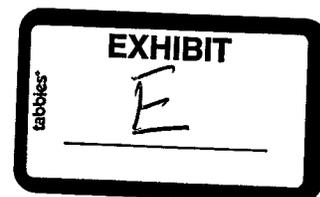
As used herein, the following terms shall have the meanings set forth in this Section:

"Accounts" shall have the meaning provided in the UCC.

"Chattel Paper" shall have the meaning provided in the UCC and shall include, without limitation, all Electronic Chattel Paper and Tangible Chattel Paper.

"Collateral" shall mean all property in which a security interest is granted hereunder.

"Commercial Tort Claim" shall have the meaning provided in the UCC.



“Controlled Property” shall mean property of every kind and description in which Grantor has or may acquire any interest, now or hereafter at any time in the possession or control of Lender or any Lender Affiliate for any reason and all dividends and distributions on or other rights in connection with such property.

“Data Processing Records and Systems” shall mean all of Grantor’s now existing or hereafter acquired electronic data processing and computer records, software (including, without limitation, all “Software” as defined in the UCC), systems, manuals, procedures, disks, tapes and all other storage media and memory.

“Default” shall mean any event which if it continued uncured would, with notice or lapse of time or both, constitute an Event of Default.

“Deposit Accounts” shall have the meaning provided in the UCC and shall include, without limitation, any demand, time, savings, passbook or similar account maintained with a bank.

“Document” shall have the meaning provided in the UCC.

“Electronic Chattel Paper” shall have the meaning provided in the UCC.

“Equipment” shall have the meaning provided in the UCC.

“Event of Default” shall have the meaning specified in Article VI hereof.

“Fixtures” shall have the meaning provided in the UCC.

“General Intangibles” shall have the meaning provided in the UCC and shall include, without limitation, all Payment Intangibles.

“Goods” shall have the meaning provided in the UCC and shall include embedded “Software” to the extent included in “Goods” as defined in the UCC.

“Grantor” shall have the meaning provided in the preamble hereto.

“Instruments” shall have the meaning provided in the UCC.

“Insurance Proceeds” shall mean all proceeds of any and all insurance policies payable to Grantor with respect to any Collateral, or on behalf of any Collateral, whether or not such policies are issued to or owned by Grantor.

“Inventory” shall have the meaning provided in the UCC.

“Investment Property” shall have the meaning provided in the UCC.

“Lender” shall have the meaning provided in the preamble hereto.

“Lender Affiliate” shall mean any affiliate of the Lender which is party to a written agreement with Grantor or any other Loan Party providing for any extension of credit to Grantor or any other Loan Party.

“Letter-of-Credit Rights” shall have the meaning provided in the UCC.

“Loan Agreement” shall have the meaning provided in the recitals hereto.

“Obligations” shall mean all loans (including the Loan(s)), advances, debts, liabilities, obligations, covenants and duties owing by any Loan Party to the Lender or any Lender Affiliate of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under the Loan Agreement, the other Loan Documents or under any other agreement or by operation of law, whether or not for the payment of money, whether arising by reason of an extension of credit, opening, guarantying or confirming of a letter of credit, guaranty, indemnification or in any other manner, whether joint, several or joint and several, direct or indirect (including those acquired by assignment or purchases), absolute or contingent, due or to become due, and however acquired. The term includes, but is not limited to, all principal, interest, fees, charges, expenses, reasonable attorneys’ fees, and any other sum chargeable to any Loan Party under the Loan Agreement or any other Loan Document.

“Payment Intangibles” shall have the meaning provided in the UCC.

“Proceeds” shall have the meaning provided in the UCC.

“Products” shall mean any goods now or hereafter manufactured, processed or assembled with any of the Collateral.

“Supporting Obligations” shall have the meaning provided in the UCC.

“Tangible Chattel Paper” shall have the meaning provided in the UCC.

“UCC” shall mean the Uniform Commercial Code as enacted in the State of Minnesota, as amended from time to time; provided, however, that: (a) to the extent that the UCC is used to define any term herein, and such term is defined differently in different Articles of the UCC, the definition of such term contained in Article 9 shall govern; and (b) if, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, the Lender’s security interest in any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of Minnesota, the term “UCC” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection or priority of, or remedies with respect to, the Lender’s security interest and for purposes of definitions related to such provisions.

Other terms defined herein shall have the meanings ascribed to them herein. All capitalized terms used herein, not specifically defined herein, shall have the meaning ascribed to

them in the Loan Agreement.

ARTICLE II SECURITY INTERESTS

As security for the payment of all Obligations, Grantor hereby grants to Lender and each Lender Affiliate a security interest in all of Grantor's right, title and interest in and to the following, whether now owned or existing or hereafter acquired or arising:

- Accounts;
- Chattel Paper;
- Commercial Tort Claims, if any, described on Exhibit B attached hereto and incorporated herein by reference;
- Controlled Property;
- Deposit Accounts;
- Documents;
- Equipment and Fixtures;
- General Intangibles;
- Instruments;
- Inventory;
- Investment Property;
- Letter-of-Credit Rights;
- Proceeds (whether cash or non-cash Proceeds, including Insurance Proceeds and non-cash Proceeds of all types);
- Products of all the foregoing; and
- Supporting Obligations.

ARTICLE III REPRESENTATIONS AND COVENANTS OF GRANTOR

Grantor represents, warrants and covenants that:

3.1 Authorization. The execution and performance of this Agreement have been duly authorized by all necessary action and do not and will not: (a) require any consent or approval of the stockholders of any entity, or the consent of any governmental entity; or (b) violate any provision of any indenture, contract, agreement or instrument to which it is a party or by which it is bound.

3.2 Title to Collateral. Grantor has good and marketable title to all of the Collateral and none of the Collateral is subject to any security interest except for the security interest created pursuant to this Agreement or other security interests permitted by the Loan Agreement (such other security interests being "Permitted Liens").

3.3 Disposition or Encumbrance of Collateral. Grantor will not encumber, sell or otherwise transfer or dispose of the Collateral without the prior written consent of Lender except as provided in this Section or for Permitted Liens. Until a Default or Event of Default has

occurred and is continuing, Grantor may sell Collateral consisting of: (a) Inventory in the ordinary course of business provided that Grantor receives as consideration for such sale an amount not less than the fair market value of the Inventory at the time of such sale; and (b) Equipment and Fixtures which in the judgment of Grantor have become obsolete or unusable in the ordinary course of business, provided that all net Proceeds of such sales of Equipment and Fixtures are delivered directly to Lender for application to the Obligations in such order as the Lender may elect.

3.4 Validity of Accounts. Grantor warrants that all Collateral consisting of Accounts, Chattel Paper and Instruments included in Grantor's schedules, financial statements or books and records are bona fide existing obligations created by the sale and actual delivery of Inventory or the rendition of services to customers in the ordinary course of business, which Grantor then owns free and clear of any security interest other than the security interest created by this Agreement or other Permitted Liens, and which are then unconditionally owing to Grantor without defenses, offset or counterclaim except those arising in the ordinary course of business that are immaterial in the aggregate and that the unpaid principal amount of any such Chattel Paper or Instrument and any security therefor is and will be as represented to Lender on the date of the delivery thereof to Lender.

3.5 Maintenance of Tangible Collateral. Grantor will maintain the tangible Collateral in good condition and repair. At the time of attachment and perfection of the security interest granted pursuant hereto and thereafter, all tangible Collateral will be located and will be maintained only at the locations set forth on Exhibit A hereto. Except as otherwise permitted by Section 3.3, Grantor will not remove such Collateral from such locations unless, prior to any such removal, Grantor has given written notice to Lender of the location or locations to which Grantor desires to remove the Collateral, Lender has given its written consent to such removal, and Grantor has delivered to Lender acknowledgment copies of financing statements filed where appropriate to continue the perfection of Lender's security interest as a first priority security interest on such Collateral. Lender's security interest attaches to all of the Collateral wherever located and Grantor's failure to inform Lender of the location of any item or items of Collateral shall not impair Lender's security interest thereon.

3.6 Notation on Chattel Paper. For purposes of the security interest granted pursuant to this Agreement, Lender has been granted a direct security interest in all Chattel Paper constituting part of the Collateral and such Chattel Paper is not claimed merely as Proceeds of Inventory. Upon Lender's request, Grantor will deliver to Lender the original of all Chattel Paper. Grantor will not execute any copies of such Chattel Paper constituting part of the Collateral other than those which are clearly marked as a copy. Lender may stamp any such Chattel Paper with a legend reflecting Lender's security interest therein.

3.7 Instruments as Proceeds; Deposit Accounts. Notwithstanding any other provision in this Agreement concerning Instruments, Grantor covenants that Instruments constituting cash Proceeds (for example, money and checks) shall be deposited in Deposit Accounts with the Depository Bank. Grantor has granted to the Lender a direct security interest in all Deposit Accounts constituting part of the Collateral and such Deposit Accounts are not claimed merely as Proceeds of other Collateral.

3.8 Protection of Collateral. All expenses of protecting, storing, warehousing, insuring, handling and shipping of the Collateral, all costs of keeping the Collateral free of any liens, encumbrances and security interests prohibited by this Agreement and of removing the same if they should arise, and any and all excise, property, sales and use taxes imposed by any state, federal or local authority on any of the Collateral or in respect of the sale thereof, shall be borne and paid by Grantor and if Grantor fails to promptly pay any thereof when due, Lender may, at its option, but shall not be required to pay the same whereupon the same shall constitute Obligations and shall bear interest at the rate specified in the Post-Petition Revolving Credit Note (the "Interest Rate") and shall be secured by the security interest granted hereunder.

3.9 Insurance. Grantor will procure and maintain, or cause to be procured and maintained, insurance issued by responsible insurance companies insuring the Collateral against damage and loss by theft, fire, collision (in the case of motor vehicles), and such other risks as are usually carried by owners of similar properties or as may be requested by Lender in an amount equal to the replacement value thereof, and, in any event, in an amount sufficient to avoid the application of any co-insurance provisions and payable, in the case of any loss in excess of \$10,000.00, to Grantor and Lender jointly. All such insurance shall contain an agreement by the insurer to provide Lender with 30 days' prior notice of cancellation and an agreement that the interest of Lender shall not be impaired or invalidated by any act or neglect of Grantor nor by the occupation of the premises wherein such Collateral is located for purposes more hazardous than are permitted by said policy. Grantor will maintain, with financially sound and reputable insurers, insurance with respect to its properties and business against such casualties and contingencies of such types (which may include, without limitation, public and product liability, larceny, embezzlement, business interruption or other criminal misappropriation insurance) and in such amounts as may from time to time be required by Lender. Grantor will deliver evidence of such insurance and the policies of insurance or copies thereof to Lender upon request.

3.10 Compliance with Law. Grantor will not use the Collateral, or knowingly permit the Collateral to be used, for any unlawful purpose or in violation of any federal, state or municipal law.

3.11 Books and Records; Access.

(a) Grantor will permit Lender and its representatives to examine Grantor's books and records (including Data Processing Records and Systems) with respect to the Collateral and make extracts therefrom and copies thereof at any time and from time to time, and Grantor will furnish such information and reports to Lender and its representatives regarding the Collateral as Lender and its representatives may from time to time request. Grantor will also permit Lender and its representatives to inspect the Collateral at any time and from time to time as Lender and its representatives may request.

(b) Lender shall have authority, at any time, to place, or require Grantor to place, upon Grantor's books and records relating to Accounts, Chattel Paper and other

rights to payment covered by the security interest granted hereby a notation or legend stating that such Accounts, Chattel Paper and other rights to payment are subject to Lender's security interest.

3.12 Notice of Default. Immediately upon any officer of Grantor becoming aware of the existence of any Default or Event of Default, Grantor will give notice to Lender that such Default or Event of Default exists, stating the nature thereof, the period of existence thereof, and what action Grantor proposes to take with respect thereto.

3.13 Additional Documentation. Grantor will execute, from time to time, and authorizes Lender to execute from time to time as Grantor's attorney-in-fact and/or file, such financing statements, assignments, and other documents covering the Collateral, including Proceeds, as Lender may request in order to create, evidence, perfect, maintain or continue its security interest in the Collateral (including additional Collateral acquired by Grantor after the date hereof), and Grantor will pay the cost of filing the same in all public offices in which Lender may deem filing to be appropriate and will notify Lender promptly upon acquiring any additional Collateral that may require an additional filing. Upon request, Grantor will deliver to Lender all Grantor's Documents, Chattel Paper and Instruments constituting part of the Collateral.

3.14 Chief Executive Office; State of Incorporation. The location of the chief executive office of Grantor is located in the State set forth in the preamble hereto and will not be changed from such state without 30 days' prior written notice to Lender. Grantor warrants that its books and records concerning Accounts and Chattel Paper constituting part of the Collateral are located at its chief executive office. Grantor's State of organization is the State set forth in the preamble hereto and such State has been its State of organization since the date of Grantor's organization. Grantor will not change its State of organization from such State without 30 days' prior written notice to Lender, Lender has given its written consent to such change, and Grantor has delivered to Lender acknowledgment copies of financing statements filed where appropriate to continue the perfection of Lender's security interest as a first priority security interest therein.

3.15 Name of Grantor. Grantor's exact legal name and type of legal entity is as set forth in the preamble hereto. Grantor will not change its legal name without 30 days' prior written notice to the Lender, the Lender has given its written consent to such change, and Grantor has delivered to the Lender acknowledgment copies of financing statements filed where appropriate to continue the perfection of the Lender's security interest as a first priority security interest in the Collateral. Grantor has not used any other name within the past five years except those described on Exhibit A attached hereto. Neither Grantor nor, to Grantor's knowledge, any predecessor in title to any of the Collateral has executed any financing statements or security agreements presently effective as to the Collateral except those described on Exhibit A attached hereto.

3.16 Disputes, Etc. Grantor shall advise Lender promptly of all disputes and claims in excess of \$10,000.00 for any one obligor on the Collateral in any fiscal year or in excess of \$25,000.00 in the aggregate for all obligors in any fiscal year and settle or adjust them at no expense to Lender. After the occurrence and during the continuance of an Event of Default,

Lender may at all times settle or adjust such disputes and claims directly with the customers for amounts and upon terms which Lender considers commercially reasonable. No discount, credit, allowance, adjustment or return shall be granted by Grantor to any customer without Lender's written consent other than discounts, credits, allowances, adjustments and returns made or granted by Grantor in the ordinary course of business prior to the occurrence and during the continuance of an Event of Default.

3.17 Power of Attorney. Grantor appoints Lender, or any other person whom Lender may from time to time designate, as Grantor's attorney with power, to: (a) endorse Grantor's name on any checks, notes, acceptances, drafts or other forms of payment or security evidencing or relating to any Collateral that may come into Lender's possession; (b) sign Grantor's name on any invoice or bill of lading relating to any Collateral, on drafts against customers, on schedules and confirmatory assignments of Accounts, Chattel Paper, Documents or other Collateral, on notices of assignment, financing statements under the UCC and other public records, on verifications of accounts and on notices to customers; (c) notify the post office authorities to change the address for delivery of Grantor's mail to an address designated by Lender; (d) receive and open all mail addressed to Grantor; (e) send requests for verification of Accounts, Chattel Paper, Instruments or other Collateral to customers; and (f) do all things necessary to carry out this Agreement. Grantor ratifies and approves all acts of the attorney taken within the scope of the authority granted. Neither Lender nor the attorney will be liable for any acts of commission or omission, or for any error in judgment or mistake of fact or law, except for its willful misconduct or gross negligence. This power, being coupled with an interest, is irrevocable so long as any Obligation remains unpaid. Grantor waives presentment and protest of all instruments and notice thereof, notice of default and dishonor and all other notices to which Grantor may otherwise be entitled.

3.18 Patents and Trademarks, Etc. Grantor agrees with Lender that, until the security interest granted by this Agreement has been terminated in accordance with the terms hereof:

(a) Grantor will perform all acts and execute all documents including, without limitation, grants of security interest, in form suitable for filing with the United States Patent and Trademark Office, reasonably requested by Lender at any time to evidence, perfect, maintain, record and enforce Lender's interest in the Collateral comprised of patents (collectively the "Patents"), patent applications (collectively the "Patent Applications"), trademarks or service marks (collectively the "Trademarks") or of any applications therefor (collectively the "Trademark Applications") or otherwise in furtherance of the provisions of this Agreement;

(b) Except to the extent that Lender shall consent in writing, Grantor (either itself or through licensees) will, unless Grantor shall reasonably determine that a Trademark (or the use of a Trademark in connection with a particular class of goods or products) is not of material economic value to Grantor: (i) continue to use each Trademark on each and every trademark class of goods in order to maintain each Trademark in full force free from any claim of abandonment for non-use; (ii) maintain as in the past the quality of products and services offered under each Trademark; (iii) employ each Trademark with the appropriate notice of application or registration to the

extent required by applicable law to maintain such Trademark; (iv) not use any Trademark except for the uses for which registration or application for registration of such Trademark has been made, unless such use is otherwise lawful; and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark may become invalidated;

(c) Except to the extent that Lender shall consent in writing, Grantor will not, unless Grantor shall reasonably determine that a Patent is not of material economic value to Grantor, do any act, or not to do any act, whereby any Patent may become abandoned or dedicated;

(d) Unless Grantor shall reasonably determine that a Patent, Patent Application, Trademark or Trademark Application is not of material economic value to Grantor, Grantor shall notify Lender immediately if it knows, or has reason to know, of any reason that any Patent, Patent Application, Trademark or Trademark Application may become abandoned or dedicated, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office or any court) regarding Grantor's ownership of any Patent or Trademark, its rights to register the same, or to keep and maintain the same;

(e) If Grantor, either itself or through any agent, employee, licensee or designee, shall file a Patent Application or Trademark Application for the registration of any Trademark with the United States Patent and Trademark Office, or any similar office or agency in any other country or any political subdivision thereof, Grantor shall promptly inform Lender, and, upon request of Lender, shall promptly execute and deliver any and all agreements, instruments, documents and papers as Lender may reasonably request to evidence Lender's security interest in such Patent or Trademark and the goodwill and general intangibles of Grantor relating thereto or represented thereby;

(f) Unless Grantor shall reasonably determine that a Patent Application or Trademark Application is not of material economic value to Grantor, Grantor will take all necessary steps, including, without limitation, in any proceeding before the United States Patent and Trademark Office, or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each Patent Application and Trademark Application (and to obtain the relevant registration) and to maintain each registration of the Patents and Trademarks, including, without limitation, filing of applications for renewal and affidavits of use;

(g) Unless Grantor shall reasonably determine that a Patent or Trademark is not of material economic value to Grantor, Grantor shall promptly notify Lender if any Patent or Trademark is infringed, misappropriated or diluted by a third party and either shall promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, or take such other actions as Grantor shall reasonably deem appropriate under the circumstances to protect such Patent or Trademark; and

(h) Grantor agrees that it will not enter into any agreement (for example, a license agreement) which is inconsistent with Grantor's obligations under this Agreement.

3.19 Copyrights. Grantor agrees with Lender that, until the security interest granted by this Agreement has been terminated in accordance with the terms hereof:

(a) Grantor will perform all acts and execute all documents including, without limitation, grants of security interest, in form suitable for filing with the United States Copyright Office, reasonably requested by Lender at any time to evidence, perfect, maintain, record and enforce Lender's interest in the Collateral comprised of copyrights or copyright applications (collectively the "Copyrights") or otherwise in furtherance of the provisions of this Agreement;

(b) Except to the extent that the Lender shall consent in writing, Grantor (either itself or through licensees) will, unless Grantor shall reasonably determine that a Copyright is not of material economic value to Grantor, publish the materials for which a Copyright has been obtained (the "Works") with any notice of copyright registration required by applicable law to preserve the Copyright;

(c) Unless Grantor shall reasonably determine that a Copyright is not of material economic value to Grantor, Grantor shall notify the Lender immediately if it knows, or has reason to know, of any reason that any application or registration relating to any Copyright may become abandoned or dedicated or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Copyright Office or any court) regarding Grantor's ownership of any Copyright, its right to register the same, or to keep and maintain the same;

(d) If Grantor, either itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Copyright with the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, Grantor shall promptly inform Lender, and, upon request of Lender, execute and deliver any and all agreements, instruments, documents and papers as Lender may request to evidence Lender's security interest in such Copyright and the Works relating thereto or represented thereby;

(e) Unless Grantor shall reasonably determine that a Copyright is not of material economic value to Grantor, Grantor will take all commercially reasonable steps, including, without limitation, in any proceeding before the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the Copyrights;

(f) In the event that any Copyright is infringed by a third party, Grantor shall promptly notify Lender and shall, unless Grantor shall reasonably determine that such Copyright is not of material economic value to Grantor, promptly sue to recover any and all damages or take such other actions as Grantor shall reasonably deem appropriate under the circumstances to protect such Copyright; and

(g) Grantor agrees that it will not enter into any agreement (for example, a license agreement) which is inconsistent with Grantor's obligations under this Agreement.

3.20 Control. Grantor will cooperate with Lender in obtaining control with respect to Collateral consisting of Deposit Accounts, Investment Property, Letter-of-Credit Rights, and Electronic Chattel Paper. Without limiting the foregoing, if Grantor becomes a beneficiary of a letter of credit, then Grantor shall promptly notify the Lender thereof and enter into a tri-party agreement with the Lender and the issuer and/or confirmation bank with respect to such letter of credit assigning the Letter-of-Credit Rights to the Lender and directing all payments thereunder to the Lender, all in form and substance reasonably satisfactory to the Lender.

3.21 Further Acts. Where Collateral is in the possession of a third party, Grantor will join with Lender in notifying such third party of Lender's security interest and in obtaining an acknowledgment from such third party that it is holding such Collateral for the benefit of the Lender.

3.22 Commercial Tort Claims. Grantor shall promptly notify the Lender of any Commercial Tort Claim acquired by it and, unless otherwise consented to by the Lender, Grantor shall promptly enter into a supplement to this Agreement granting to the Lender a security interest in such Commercial Tort Claim.

ARTICLE IV COLLECTIONS

Except as otherwise provided in this Article IV, Grantor shall continue to collect, at its own expense, all amounts due or to become due to Grantor under the Accounts constituting part of the Collateral and all other Collateral. In connection with such collections, Grantor may take (and, at Lender's direction shall take) such action as Grantor or Lender may deem necessary or advisable to enforce collection of the Accounts and such other Collateral; provided, however, that Lender shall have the right at any time, without giving written notice to Grantor of Lender's intention to do so, to notify the account debtors under any Accounts or obligors with respect to such other Collateral of the assignment of such Accounts and such other Collateral to Lender and to direct such account debtors or obligors to make payment of all amounts due or to become due to Grantor thereunder directly to Lender and, upon such notification and at the expense of Grantor, to enforce collection of any such Accounts or other Collateral, and to adjust, settle or compromise the amount or payment thereof in the same manner and to the same extent as Grantor might have done, but unless and until Lender does so or gives Grantor other instructions, Grantor shall make all collections for Lender. Grantor will irrevocably direct all present and future Account debtors and other Persons obligated to make payments on Accounts or other

Collateral to make such payments to a special lockbox (the "Lockbox") under the control of Lender or a Lender Affiliate or by wire transfer to the Lender Affiliate. After Lender so requests that payments be made to the Lockbox, all of Grantor's invoices, account statements and other written or oral communication directing, instructing, requesting or demanding payment of any Receivable or other amount constituting Collateral shall direct that all payments be made to the Lockbox and shall include the Lockbox address. All payments received in the Lockbox shall be deposited into a collateral account (the 'Collateral Account') maintained by Lender at the Depository Bank over which the Lender alone has power of withdrawal. Grantor agrees to execute and deliver all documentation required by Lender related to the establishment and maintenance of the Lockbox and the Collateral Account. Grantor shall deposit all Proceeds received by Grantor into the Collateral Account, and will designate with each such deposit the particular Account or other item of Collateral upon which the remittance was made. The Grantor acknowledges that the maintenance of the Collateral Account is solely for the convenience of the Lender in facilitating its own operations and the Grantor does not and shall not have any right, title or interest in the Collateral Account or in the amounts at any time appearing to the credit thereof. Said Proceeds shall be deposited in precisely the form received except for the Grantor's endorsement where necessary to permit collection of items, which endorsement the Grantor agrees to make. Grantor shall be liable as endorsee on all items deposited in the Collateral Account, whether or not in fact endorsed by Grantor. Pending such deposit, the Grantor agrees not to commingle any such checks, drafts, cash and other remittances with any of its funds or property, but will hold them separate and apart therefrom and upon an express trust for the Lender until turned over to Lender. Lender shall apply such collections to the payment of the Obligations in accordance with Section 3 of the Loan Agreement and the Post-Petition Financing Order; provided, however, that after an Event of Default has occurred and is continuing, Lender shall apply all collections in accordance with Section 7.7. Any application of any collection to the payment of any Obligation is conditioned upon final payment of any check or other instrument.

ARTICLE V ASSIGNMENT OF INSURANCE

Grantor hereby assigns to Lender, as additional security for payment of the Obligations, any and all monies due or to become due under, and any and all other rights of Grantor with respect to, any and all policies of insurance covering the Collateral. So long as no Default or Event of Default has occurred and is continuing, Grantor may itself adjust and collect for any losses of up to an aggregate amount of \$10,000.00 for all occurrences during any of Grantor's fiscal years and Grantor may use the resulting Insurance Proceeds for the replacement, restoration or repair of the Collateral. After the occurrence and during the continuance of a Default or an Event of Default, or after the aggregate amount of losses arising out of all occurrences during any of Grantor's fiscal years exceeds \$10,000.00, Lender may (but need not) in its own name or in Grantor's name execute and deliver proofs of claim, receive such monies, and settle or litigate any claim against the issuer of any such policy and Grantor directs the issuer to pay any such monies directly to Lender and Lender, at its sole discretion and regardless of whether Lender exercises its right to collect Insurance Proceeds under this Section, may apply any Insurance Proceeds to the payment of the Obligations, whether due or not, in such order and manner as Lender may elect or may permit Grantor to use such Insurance Proceeds for the

replacement, restoration or repair of the Collateral.

ARTICLE VI EVENTS OF DEFAULT

The occurrence of any Event of Default as defined in the Loan Agreement shall constitute an Event of Default hereunder ("Event of Default").

ARTICLE VII RIGHTS AND REMEDIES ON DEFAULT

Upon the occurrence of an Event of Default, and at any time thereafter until such Event of Default is cured to the satisfaction of Lender, and in addition to the rights granted to Lender under Articles IV and V hereof, Lender may exercise any one or more of the following rights and remedies:

7.1 Acceleration of Obligations. Declare any and all Obligations to be immediately due and payable, and the same shall thereupon become immediately due and payable without further notice or demand.

7.2 Right of Offset. Offset any deposits, including unmatured time deposits, then maintained by Grantor with Lender, whether or not then due, against any indebtedness then owed by Grantor to Lender whether or not then due.

7.3 Deal with Collateral. In the name of Grantor or otherwise, demand, collect, receive and give receipt for, compound, compromise, settle and give acquittance for and prosecute and discontinue any suits or proceedings in respect of any or all of the Collateral.

7.4 Realize on Collateral. Take any action which Lender may deem reasonably necessary or desirable in order to realize on the Collateral, including, without limitation, the power to perform any contract, to endorse in the name of Grantor any checks, drafts, notes, or other instruments or documents received in payment of or on account of the Collateral. Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. Lender may sell the Collateral without giving any warranties as to the Collateral. Lender may specifically disclaim any warranties of title or the like. This procedure will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

7.5 Access to Property. Enter upon and into and take possession of all or such part or parts of the properties of Grantor, including lands, plants, buildings, machinery, equipment, Data Processing Records and Systems and other property as may be necessary or appropriate in the reasonable judgment of Lender, to permit or enable Lender to store, lease, sell or otherwise dispose of or collect all or any part of the Collateral, and use and operate said properties for such purposes and for such length of time as Lender may deem necessary or appropriate for said purposes without the payment of any compensation to Grantor therefor. Grantor shall provide

Lender with all information and assistance requested by Lender to facilitate the storage, leasing, sale or other disposition or collection of the Collateral after an Event of Default has occurred and is continuing.

7.6 Other Rights. Exercise any and all other rights and remedies available to it by law or by agreement, including rights and remedies under the UCC as adopted in the relevant jurisdiction or any other applicable law, or under the Loan Agreement and, in connection therewith, Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender, and any notice of intended disposition of any of the Collateral required by law shall be deemed reasonable if such notice is mailed or delivered to Grantor at its address as shown on Lender's records at least 10 days before the date of such disposition.

7.7 Application of Proceeds. All Proceeds of Collateral shall be applied in accordance with the UCC, and such Proceeds applied toward the Obligations shall be applied in accordance with Section 3 of the Loan Agreement and the Post-Petition Financing Order.

7.8 Patents and Trademarks. Upon the occurrence and during the continuance of an Event of Default:

(a) Lender may, at any time and from time to time, upon thirty (30) days' prior notice to Grantor, license or, to the extent permitted by an applicable license, sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any Patent or Trademark, throughout the world for such term or terms, on such conditions, and in such manner, as Lender shall in its sole discretion determine;

(b) Lender may (without assuming any obligations or liability thereunder), at any time enforce (and shall have the exclusive right to enforce) against any licensor, licensee or sublicensee all rights and remedies of Grantor in, to and under any one or more license or other agreements with respect to any Patent or Trademark and take or refrain from taking any action under any such license or other agreement, and Grantor hereby releases Lender from, and agrees to hold Lender free and harmless from and against, any claims arising out of, any action taken or omitted to be taken with respect to any such license or agreement;

(c) Any and all payments received by Lender under or in respect of any Patent or Trademark (whether from Grantor or otherwise), or received by Lender by virtue of the exercise of the license granted to Lender by subsection (g) below, shall be applied to the Obligations in accordance with Section 7.7 hereof;

(d) Lender may exercise in respect of the Patents and Trademarks, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC;

(e) In order to implement the sale, lease, assignment, license, sublicense or other disposition of any of the Patents and Trademarks pursuant to this Section 7.8, Lender may, at any time, execute and deliver on behalf of Grantor one or more instruments of assignment of the Patents and Trademarks (or any application or registration thereof), in form suitable for filing, recording or registration in any country. Grantor agrees to pay when due all reasonable costs incurred in any such transfer of the Patents and Trademarks, including any taxes, fees and reasonable attorneys' fees;

(f) In the event of any sale, lease, assignment, license, sublicense or other disposition of any of the Patents or Trademarks pursuant to this Section, Grantor shall supply to Lender or its designee its know-how and expertise relating to the manufacture and sale of the products relating to any Patent or Trademark subject to such disposition, and its customer lists and other records relating to such Patents or Trademarks and to the distribution of said products; and

(g) For the purpose of enabling Lender to exercise rights and remedies under this Agreement at such time as Lender shall be lawfully entitled to exercise such rights and remedies, and for no other purpose, Grantor hereby grants to Lender, an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to Grantor) to use, license or sublicense at such time any Patent or Trademark, now owned or hereafter acquired by Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer and automatic machinery software and programs used for the compilation or printout thereof.

7.9 Copyrights. Upon the occurrence and during the continuance of an Event of Default:

(a) Lender may, at any time and from time to time, upon thirty (30) days' prior notice to Grantor, license or, to the extent permitted by an applicable license, sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any Copyright, for such term or terms, on such conditions, and in such manner, as Lender shall in its sole discretion determine;

(b) Lender may (without assuming any obligations or liability thereunder), at any time, enforce (and shall have the exclusive right to enforce) against any licensor, licensee or sublicensee all rights and remedies of Grantor in, to and under any one or more license or other agreements with respect to any Copyright and take or refrain from taking any action under any such license or other agreement and Grantor hereby releases Lender from, and agrees to hold Lender free and harmless from and against, any claims arising out of, any action taken or omitted to be taken with respect to any such license or agreement;

(c) Any and all payments received by Lender under or in respect of any Copyright (whether from Grantor or otherwise), or received by Lender by virtue of the

exercise of the license granted to Lender by subsection (f) below, shall be applied to the Obligations in accordance with Section 7.7;

(d) Lender may exercise in respect of the Copyrights, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC;

(e) In order to implement the sale, lease, assignment, license, sublicense or other disposition of any of the Copyrights pursuant to this Section 7.9, Lender may, at any time, execute and deliver on behalf of Grantor one or more instruments of assignment of the Copyrights (or any application or registration thereof), in form suitable for filing, recording or registration in the Copyright Office or any country where the relevant Copyright is of material economic value to Grantor. Grantor agrees to pay when due all reasonable costs incurred in any such transfer of the Copyrights, including any taxes, fees and reasonable attorneys' fees; and

(f) For the purpose of enabling Lender to exercise rights and remedies under this Agreement at such time as Lender shall be lawfully entitled to exercise such rights and remedies, and for no other purpose, Grantor hereby grants to Lender an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to Grantor) to use, license or sublicense any Copyright, now owned or hereafter acquired by Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer and automatic machinery software and programs used for the compilation or printout thereof.

ARTICLE VIII MISCELLANEOUS

8.1 No Liability on Collateral. It is understood that Lender does not in any way assume any of Grantor's obligations under any of the Collateral. Grantor hereby agrees to indemnify Lender against all liability arising in connection with or on account of any of the Collateral, except for any such liabilities arising on account of Lender's negligence or willful misconduct.

8.2 No Waiver. Lender shall not be deemed to have waived any of its rights hereunder or under any other agreement, instrument or paper signed by Grantor unless such waiver is in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

8.3 Remedies Cumulative. All rights and remedies of Lender shall be cumulative and may be exercised singularly or concurrently, at their option, and the exercise or enforcement of any one such right or remedy shall not bar or be a condition to the exercise or enforcement of any other.

8.4 Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Minnesota, except to the extent that the perfection of the security interest hereunder, or the enforcement of any remedies hereunder, with respect to any particular Collateral shall be governed by the laws of a jurisdiction other than the State of Minnesota.

8.5 Expenses. Grantor agrees to pay the reasonable attorneys' fees and legal expenses incurred by Lender in the exercise of any right or remedy available to it under this Agreement, whether or not suit is commenced, including, without limitation, attorneys' fees and legal expenses incurred in connection with any appeal of a lower court's order or judgment.

8.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of Grantor and Lender.

8.7 Recitals. The above Recitals are true and correct as of the date hereof and constitute a part of this Agreement.

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

8.9 No Obligation to Pursue Others. Lender has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and Lender may release, modify or waive any Collateral provided by any other person to secure any of the Obligations, all without affecting Lender's rights against Grantor. Grantor waives any right it may have to require Lender to pursue any third person for any of the Obligations.

8.9 Effect on Original Agreement. The Original Agreement shall be completely amended and restated by this Agreement; provided, however, that the restatement and amendment of the Original Agreement shall not affect the date of the attachment or perfection of the security interest arising under the Original Agreement, as amended and restated by this Agreement.

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IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date and year first above written.

RELS Manufacturing Corporation

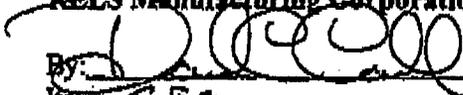
By: 
Its: CEO

EXHIBIT A

I. Financing Statements on File Listing Grantor or Any Predecessor in Title as Debtor

See Schedule 8(a) to the Loan Agreement which is incorporated herein by reference.

II. Location of Inventory

Minnesota

III. Prior Names within the last five years.

None

EXHIBIT B

COMMERCIAL TORT CLAIMS

Guarantor

ACKNOWLEDGMENT AND AGREEMENT

The undersigned has guaranteed the payment and performance of certain "Indebtedness" (as defined in the Guaranty hereinafter described (the "Indebtedness")) of RELS MANUFACTURING CORPORATION (the "Borrower") to Associated Commercial Finance, Inc., as the successor to BNC Financial Corporation (the "Lender"), pursuant to the terms of the undersigned's Guaranty dated as of July 7, 1998 (the "Guaranty"), which Indebtedness includes the obligations of the Borrower to the Lender arising under that certain Letter Loan Agreement dated as of July 7, 1998 between the Borrower and the Lender, as amended by a letter amendment dated as of September 30, 1999 and a letter amendment dated as of May 1, 2001 (as so amended, the "Original Agreement").

The Borrower has notified the undersigned and the Lender that Borrower intends to commence a proceeding for reorganization (the "Proceeding") in the United States Bankruptcy Court for the District of Minnesota (the "Court"). The undersigned acknowledges that he has received a copy of the proposed form of a Preliminary Order Approving Agreement and Authorizing Post-Petition Financing Secured by Senior Liens and Superpriority Expense Claims (the "Preliminary Post-Petition Financing Order"; and together with the final order approving Lender's post-petition financing, the "Post-Petition Financing Order") and the proposed Third Amendment to Letter Loan Agreement (the "Third Amendment") between the Borrower and Lender further amending the Original Agreement pursuant to which, among things, Lender will agree to provide post-petition financing to the Borrower.

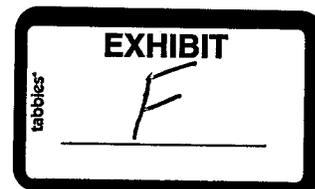
As a condition precedent to providing post-petition financing to the Borrower, Lender has required that the undersigned execute and deliver this Acknowledgment and Agreement (the "Acknowledgment").

The undersigned hereby agrees with Lender that:

- (a) the Indebtedness described in the Guaranty shall be deemed to include all debts, liabilities and obligations incurred by the Borrower to Lender pursuant to any post-petition financing provided by Lender to Borrower during the Proceeding;
- (b) Lender may permit the Borrower to use the Lender's Collateral in connection with Borrower's continued business operations during the Proceeding; and
- (c) Lender may extend post-petition financing to the Borrower in accordance with any Post-Petition Financing Order; and/or,

in either event described in subparagraph (b) or (c) above, without affecting any of Lender's rights under the Guaranty.

The undersigned: (a) acknowledges that the Third Amendment and the extension of post-petition financing to the Borrower shall not in any way impair or limit the rights of the Lender under the Guaranty or the other Loan Documents to which the undersigned is a party; and (b) confirms that: (i) the Guaranty and the other Loan Documents to which the undersigned is a party remain in full force and effect, enforceable against the undersigned in accordance with



their respective terms; and (ii) by the undersigned's Guaranty, the undersigned continues to guaranty the payment and performance of the Indebtedness including, without limitation, the Borrower's obligations to the Lender under the Original Agreement, as amended by the Third Amendment.

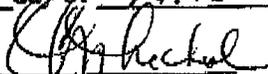
The undersigned: (a) represents and warrants to the Lender that no events have taken place and no circumstances exist at the date hereof which would give the undersigned the right to assert a defense, offset or counterclaim to any claim by the Lender for enforcement of the Guaranty or any other Loan Document to which the undersigned is a party; (b) hereby releases and forever discharges the Lender and its successors, assigns, directors, officers, agents, employees and participants from any and all actions, causes of action, suits, proceedings, debts, sums of money, covenants, contracts, controversies, claims and demands, at law or in equity, which the undersigned ever had or now has against the Lender or its successors, assigns, directors, officers, agents, employees or participants by virtue of their relationship to Borrower or any of the undersigned in connection with the Loan Documents and the transactions related thereto; and (c) acknowledges that nothing in this Acknowledgment constitutes a standstill agreement restricting the Lender from exercising its rights and remedies against the undersigned pursuant to the Guaranty, any other Loan Document to which the undersigned is a party, at law or in equity.

Nothing in this Acknowledgment requires the Lender to obtain the consent of any of the undersigned to any future amendment, modification or waiver to the Original Agreement or any other Loan Document except as expressly required by the terms of the Loan Documents to which the undersigned is a party.

Dated as of April 14, 2004


David C. Carroll

Subscribed and sworn to before me
this 14 day of APRIL, 2004.



Notary Public



STATE OF MINNESOTA
COUNTY OF HENNEPIN

DISTRICT COURT
FOURTH JUDICIAL DISTRICT
JUDGMENT

Ellen Mitchell Gallagher fka
Ellen Mitchell

Plaintiff(s)

Entered: June 30, 2004
Docketed: July 12, 2004
Time: 10:36 a.m.

-vs-

JUDGMENT ROLL

File No.: 04-7795

David C. Carroll, and RELS
Manufacturing Corporation

Defendant(s)

This cause having been regularly placed upon the calendar of the above named Court, came on for hearing on the 21st day of June, 2004, upon motion of Plaintiff, and the Court, after hearing the arguments of counsel and being advised in the premises, did, on the 28th day of June, 2004, duly make and file its order granting said motion and for judgment herein. Thereafter, on the 6th day of July, 2004, the Court did make and file its amended order for judgment.

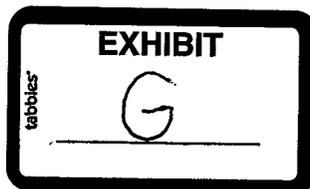
Now, pursuant to said amended order and on motion of John W. Tackett, Esq., Attorney for the Plaintiff,

IT IS HEREBY ADJUDGED:

1. That Plaintiff's motion for a default judgment against Defendant David Carroll is granted.
2. That judgment is entered in favor of the Plaintiff and against the Defendant David Carroll only, for the sum one million one hundred eighty thousand nine hundred eighteen and 54/100 (\$1,185,918.54) Dollars, the amount ordered with interest to date hereof, with costs.
3. That the memorandum of law filed on the 6th day of July, 2004, is part of this Order.
\$1,185,918.54

DISTRICT COURT ADMINISTRATOR

By *Raymond Clough*
Court Clerk



UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In Re:

Case No. BKY 04-42532

Rels Manufacturing Corporation,

Chapter 11

Debtor.

**MEMORANDUM IN SUPPORT OF
MOTION FOR EXPEDITED RELIEF FROM
THE AUTOMATIC STAY**

INTRODUCTION

Associated Commercial Finance, Inc. (“Associated”) submits this Memorandum of Law in Support of its Motion for Expedited Relief from the Automatic Stay. Associated respectfully requests this Court to enter an Order granting the relief sought here as provided for under the Financing Order or, in the alternative, under 11 U.S.C. § 362(d)(1) for “cause,” as discussed below.

FACTS

The facts supporting Associated’s request for relief are set forth in the accompanying verified motion and are summarized as follows.

Under a Letter Loan Agreement dated July 7, 1998 between Rels Manufacturing Corporation (the “Debtor”) and Associated (the “Original Agreement”), as amended by a letter amendment dated as of September 30, 1999 and a letter amendment dated as of May 1, 2001 and as further amended by that certain Amendment No. 3 to Letter Loan Agreement approved by the Court and dated April 12, 2004 (the “Third Amendment”) (the Letter Loan Agreement as so amended being the “Credit Agreement”), Associated made: (a) a Revolving Credit Loan to the Debtor in the maximum principal amount of \$750,000.00 (the “Revolving Credit Loan”); (b) a term loan of \$375,000.00 (the “Term Loan”); and together with the Revolving Credit Loan being

sometimes hereinafter referred collectively as “the Loans” and individually as a “Loan”); and (c) a mortgage loan of \$210,000.00 (the “Mortgage Loan”). The Mortgage Loan was paid in 2003.

The Credit Agreement which provides for post-petition financing by Associated in favor of the Debtor was approved by the Court under certain terms and conditions under its Final Order Approving Agreement and Authorizing Post-Petition Financing Secured by Senior Lien and Superpriority Expense Claims entered by this Court on May 27, 2004 (the “Financing Order”) and extended by further Order of this Court dated September 1, 2004. One of the terms of the financing expressly incorporated into the Financing Order provides that the automatic stay provisions of section 362 of the Bankruptcy Code were vacated and modified to the extent necessary to permit Associated to exercise, upon the occurrence of an Event of Default and the giving of the three business days' notice as provided for in the Financing Order, all rights and remedies against the Collateral provided for in the Credit Agreement and the Security Agreement. Accordingly, Paragraph I of the Financing Order provides:

Associated may, upon motion to the Bankruptcy Court and upon three (3) business days' notice to the parties in interest, seek relief from the automatic stay under Section 362 to enforce its rights under the Credit Agreement and the other Loan Documents including, without limitation, its right to foreclose its liens and security interest in the Collateral, and such other relief as Associated may request. Other than the Events of Default existing under the Credit Agreement at the time that the Debtor has commenced the instant Case, Debtor agrees that the occurrence of an Event of Default, as provided under the Credit Agreement, shall constitute sufficient grounds for relief from the automatic stay.

An “Event of Default” under the Credit Agreement occurs when any judgments are issued against any Loan Party where the aggregate of the judgments exceed \$10,000 for any or all Loan Parties. Original Agreement, paragraph 9(f). As a guarantor of the Debtor’s obligations under the Credit Agreement, David Carroll is a “Loan Party.” Original Agreement, paragraph 1(h). In connection with the Debtor’s execution of the Credit Agreement, David Carroll

executed an Acknowledgement and Agreement under the terms of which, among other things, David Carroll confirmed that his personal Guaranty dated July 7, 1998, remained in full force and effect and enforceable against him in accordance with its terms and that he continued to guaranty the payment and performance of the “Indebtedness” including, without limitation, the Debtor’s obligations under the Credit Agreement.

On June 30, 2004, the Minnesota State District Court for the Fourth Judicial District (Hennepin County) (The “District Court”), in the matter captioned *Ellen Mitchell Gallagher v. David C. Carroll, et al.*, Court Filed No. 04-7795, entered judgment against David C. Carroll and in favor of Ms. Gallagher in the amount of \$1,185,918.54 (the “Judgment”).

In addition to the occurrence of an Event of Default under Section 9(f) this past June, an additional Event of Default has occurred under Section 9(a) of the Credit Agreement. Section 2(b)(iii) and 2(c)(iii) of the Credit Agreement, which amends the Original Agreement, requires that the Debtor make interest payments to Associated as follows:

The Borrower agrees to pay interest on the outstanding principal amount of the Term Loan from the date of the Term Loan until the Term Loan is paid at the rates and at the times specified in the Term Note.

The Borrower agrees to pay interest on the outstanding principal amount of each Advance from the date of such Advance until such Advance is paid at the rates and at the times specified in the Post-Petition Revolving Credit Note shall pay to Associated

Third Amendment, Sections 2(b) and (c). Section 9(a) of the Credit Agreement, as amended under the Third Amendment, provides that it is an “Event of Default” where the Debtor to fails to make “due and punctual payment of any installment of interest . . . on the Loans an the date when due . . .” Under the Credit Agreement, interest under the Term Loan and the Revolving Loan is due on the first business day of each month. Debtor has failed to make interest payments as required under the Credit Agreement for the month of October.

Finally, under Section 9(h) of the Credit Agreement, it is also an “Event of Default” where Associated “in its sole discretion, shall determine that there has been a material adverse change in the condition of (financial or otherwise) business, property of any Loan Party.” Associated has made such a determination not only because of the Judgment, described herein, but also because over the last several weeks, the Debtor has been operating at a cash deficit, that is, it has on a daily basis issued checks to pay its creditors where the Debtor does not have sufficient proceeds to pay these checks, and, accordingly, these checks are dishonored. Despite repeated attempts by Associated to alert the Debtor to this ongoing problem, the Debtor has continued to issue what are in effect NSF checks to its creditors and employees. The primary reason for these cash flow problems is that the Debtor has been conducting its operations at a loss for the months of September and October.

ARGUMENT

A. Introduction

“On any motion for relief from stay under § 362(d), the moving party has the burden of proof on the issue of the debtor’s equity in any property involved and the party opposing the motion has the burden of proof on all other issues.” *In re Lilyerd*, 49 B.R. 109, 114 (Bankr. D. Minn. 1985); see also 11 U.S.C. § 362(g).

Associated is entitled to relief from the automatic stay pursuant to the Financing Order and, in the alternative, 11 U.S.C. § 362(d)(1). See *Production Credit Assoc. of the Midlands v. Wieseler (In re Wieseler)*, 934 F.2d 965, 968 (8th Cir. 1991) (“[Section] 362(d)(1) and § 362(d)(2) are phrased as alternative means of obtaining relief . . .”). 11 U.S.C. § 362(d) provides as follows:

(d) On request of a party in interest and after Notice and a Hearing, the Court shall grant relief from the stay provided under subsection (a) of this section, such as by terminating, annulling, modifying, or conditioning such stay

(1) for cause, including the lack of adequate protection of an interest in property of such party in interest; and

(2) with respect to a stay of an act against property under subsection (a) of this section if—

(A) the Debtor does not have an equity in such property; and

(B) such property is not necessary to an effective reorganization.

B. Expedited Relief from the automatic stay should be granted pursuant to the terms of the Financing Order.

Under the terms of the Financing Order, the automatic stay provisions of section 362 of the Bankruptcy Code were modified to the extent necessary to permit Associated to exercise, upon the occurrence of an Event of Default and three business days' notice, as provided in the Financing Order, all rights and remedies against the Debtor and the Collateral, as provided for under the Credit Agreement and the Security Agreement. Financing Order, Paragraph I. The Debtor and Associated further agreed, again with approval by the Court in the Financing Order, that in any hearing, the only issue that may be raised by any party in opposition thereto is whether, in fact, an Event of Default has occurred. Because the occurrence of Events of Default cannot be contested by the Debtor, Associated is entitled to the relief it has requested including relief on an expedited basis.

C. In the alternative, relief from the automatic stay should be granted pursuant to § 362(d)(1) "for cause."

Under Section 362(d)(1) of the Bankruptcy Code, relief from the automatic stay shall also be granted "for cause, including the lack of adequate protection of an interest in property of such party in interest."

The Bankruptcy Code does not define “for cause” under § 362(d)(1). However, various courts considering the matter in the context of agreements between parties have granted relief where the provisions of any agreement allow by respecting the agreement of the parties who looked to the Cause for relief from stay, however, is generally found when the harm that would result from continuation of the stay outweighs any harm that might be suffered by the debtor’s estate if the stay is lifted. *Peerless Ins. Co. v. Riviera*, 208 B.R. 313, 315 (Bankr. D. R.I. 1997). The courts have established a number of factors to consider: the harm to the party seeking relief from the automatic stay if the stay is not lifted; the harm to the debtor if the stay is lifted; the interest of the creditors; and the effect on the fair and efficient administration of justice. *Id.*

The factors as set forth in *Peerless*, as applied to the facts in this case, demonstrate that cause exists under § 362(d)(1). The Debtor’s debt to Associated remains unpaid. The Debtor is operating at a loss. The losses have resulted in bounced checks to creditors and employees. There is no reasonable prospect that the Debtor will be able to turn around its financial affairs: the fact that these financial problems arise after the Debtor has been protected by the provisions of the Bankruptcy Code since March demonstrates the bleak financial and business prospects for the Debtor. Indeed, the continuation of the Debtor’s business only results in the further erosion of Associated’s collateral position to Associated’s loss. In its Disclosure Statement, the Debtor has stated that liquidation of its assets, which secure repayment of its debt to Associated, are insufficient to satisfy its obligations in favor of Associated.¹

¹ In Exhibit 6.1 to the Debtor’s Disclosure Statement, the Debtor estimated the liquidation value of its assets to be \$706,197 prior to the losses the Debtor incurred during October. The Debtor also estimated debt owed to Associated to approximately \$692,233 prior to the interest accrual and additional expenses to Associated during the month of October. After deducting estimated liquidation expenses of approximately \$122,300 from the liquidation value of the assets, the Debtor calculates that its assets were of insufficient value in September to satisfy its financial obligations in favor of Associated.

In addition, “cause” is present here for the additional reason that the Court in its Financing Order provided that Associated is entitled to relief from the automatic stay on the basis set forth herein as an integral provision of the post-petition financing the Court approved. See, e.g., *In re Excelsior Henderson Motorcycle Manufacturing Co.*, 273 B.R. 920 (Bankr. S.D. Fla. 2002) finding “cause” for relief from the automatic stay because of an agreement between the debtor and one of its creditors, approved by this Court in the context of the approval of a plan of reorganization (“the Debtor bargained away the protection of the automatic stay as part of a plan of reorganization which was confirmed by the court. As part of the Debtor's Plan in the Minnesota Case, in exchange for the Debtor's waiver of the automatic stay, the Debtor received significant consideration under the Note and Plan.”); *In re Atrium High Point Ltd. Partnership*, 189 B.R. 599 (Bankr. M.D.N.C. 1995) finding “cause” for relief from the automatic stay under circumstances similar to that in *In re Excelsior Henderson Motorcycle Manufacturing Co.*

In the instant case, Paragraph I of the Financing Order was relied upon by Associated and approved by this Court without objection from any party after due notice to them. The Debtor and Associated have operated under the provisions of the Credit Agreement and the Financing Order since April 12, 2004. More recently, the Financing Order was extended by this Court by its Order of September 1, 2004, again after notice and hearing without objection by any party. Finally, the Debtor cannot contest that there have occurred and are continuing Events of Default, as described by Associated in this motion. Given these circumstances, Associated has established “cause” under § 362(d)(1), as the parties themselves have defined it with approval of this Court in the Financing Order, and, accordingly, Associated is entitled to the relief it seeks on an expedited basis, namely, on three business days’ notice, as provided in the Financing Order.

CONCLUSION

Based on the foregoing Associated respectfully requests that the Court grant its motion for relief from the automatic stay pursuant to the Financing Order or, in the alternative, § 362(d)(1).

Dated: October 27, 2004

FABYANSKE, WESTRA & HART, P.A.

By: /e/ Paul L. Ratelle
Paul L. Ratelle (#127632)
Michael A. Rosow (#317998)
800 LaSalle Avenue, Suite 1900
Minneapolis, MN 55402
(612) 338-0115
ATTORNEYS FOR ASSOCIATED
COMMERCIAL FINANCE, INC.

CERTIFICATE OF SERVICE

In Re:)
)
RELS Manufacturing Corporation) Bankruptcy No. 04-42532
)
 Debtor(s)) Chapter 11 Case
)
)

I, Michael A. Rosow, declare under penalty of perjury that on October 28, 2004, I served a copy of:

1. Notice of Motion and Motion for Expedited Relief from the Automatic Stay;
2. Memorandum in Support of Motion for Expedited Relief from the Automatic Stay; and
3. Proposed Order.

by U.S. Mail, postage prepaid, or by messenger as indicated below:

RELS Manufacturing Corporation 6700 Bleck Drive Rockford, MN 55373 By Messenger	Michael L. Meyer Ravich Meyer Kirkman McGrath & Nauman 4545 IDS Center 80 South 8th Street Minneapolis, MN 55402 By Messenger	US Attorney 600 US Courthouse 300 South Fourth Street Minneapolis, MN 55415
MN Dept. of Revenue Collection Enforcement 551 Bankruptcy Section PO Box 64447 St. Paul, MN 55107	Pier Foundry 51 State Street St. Paul, MN 55107	Unsecured Creditors Committee in the Chapter 11 Case of Shark Industries, Inc Matthew R. Burton Leonard O'Brien Spencer Gale & Sayre 100 South 5th Street, Suite 2500 Minneapolis, MN 55402
Michael R. Fadlovich United States Trustee 300 South Fourth Street 1015 U.S. Courthouse Minneapolis, MN 55415 By Messenger	IRS District Director Stop 5700 316 North Robert Street St. Paul, MN 55101	IRS Office of Chief Counsel 650 Galtier Plaza 175 East 5th Street St. Paul, MN 55101 By Messenger

Securities & Exchange Commission 500 W. Madison, #1400 Chicago, IL 60661	Securities & Exchange Commission Attn Bankruptcy Division 175 West Jackson Blvd, #900 Chicago, IL 60604	Margaret Fernandez 12600 Deerfield Parkway, Suite 100 Alpharetta, GA 30004
Earl M. Jorgensen Co. 1775 101st Avenue, N.E. Minneapolis, MN 55449	Electric Motor Service 2020 Division Street St. Cloud, MN 56302	Gear & Broach Inc. 7204 Winnetka Avenue No. Minneapolis, MN 55428
Innovative Metals, Inc. 1040 Commerce Blvd. Howard Lake, MN 55349	Metal Coatings 441 West Dual Blvd. Isanti, MN 55040	Shark Industries, Ltd. 6700 Bleck Drive Rockford, MN 55373
Sican Canada 515 Woodward Avenue Milton, Ontario Canada	Source Transport 5501 Executive Center Drive Suite 204 Charlotte, NC 28212	Tomahawk Foundry 2337 29th Street Rice Lake, WI 54868
Yellow Freight PO Box 73149 Chicago, IL 60673	BL Systems Inc. C/O Malcom P. Terry 150 South 5th Street, Suite 1800 Minneapolis, MN 55402 By Messenger	Paul W. Chamberlain Chamberlain Law Firm 1907 Wayzata Boulevard, Suite 130 Wayzata, MN 55391 By Messenger

Dated: October 28, 2004

By: /e/ Michael A. Rosow

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In Re:

Case No. BKY 04-42532

Rels Manufacturing Corporation,

Chapter 11

Debtor.

ORDER

THIS MATTER came on for hearing before the undersigned Judge of this Court at the United States Courthouse, Courtroom No. 8 West, 300 South Fourth Street, Minneapolis, Minnesota, on November 3, 2004, upon a motion by Associated Commercial Finance, Inc. ("Associated"). Appearances are noted on the record. Based upon the evidence adduced at the hearing, the arguments of counsel, and on all files and records herein, the Court issues the following Order.

IT IS HEREBY ORDERED THAT:

1. Associated's Motion for Expedited Relief from Automatic Stay is **GRANTED**.
2. The automatic stay of 11 U.S.C. § 362(a) of the United States Bankruptcy Code is hereby immediately terminated as to Associated and, accordingly, Associated is authorized to exercise and/or enforce any and all rights and remedies as to the Debtor and the Debtor's property under applicable law including, without limitation, taking immediate possession of any and all of the Debtor's property including, without limitation, accounts, chattel paper, controlled property, Commercial Tort Claims, deposit accounts, data processing records and systems, electronic chattel paper, documents, goods, payment intangibles, supporting obligations, equipment and fixtures, general intangibles, instruments, inventory, proceeds, and products of the foregoing including, without limitation, all of Debtor's accounts, chattel paper, controlled

property, documents, equipment and fixtures, general intangibles, instruments, inventory, proceeds, and products of the foregoing, as more fully set forth in the Security Agreement between the Debtor and Associated dated April 12, 2004. Notwithstanding Federal Rules of Bankruptcy Procedure 4001(a)(3), this order is effective immediately.

Dated: _____, 2004

BY THE COURT:

ROBERT J. KRESSEL
COURT JUDGE