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Monica R. Borne
Ellen Ann G. Sands

June 30, 1998

Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

980 801-71

RE: Notification by Coyote Network Systems, Inc. and
INET Interactive Network Systems, Inc.
of Stock Acquisition By Merger Agreement

Dear Sir:

On behalf of Coyote Network Systems, Inc. ("Coyote") and INET Interactive Network Systems, Inc. ("INET"), this letter is to advise the Commission of a Stock Acquisition By Merger Agreement (the "Agreement") which the companies propose to consummate. It is our understanding, based upon review of the applicable statutes and regulations, that this transaction does not require prior Commission approval. Accordingly, absent written notice to the contrary within thirty (30) days, the parties will proceed to consummate the transaction in timely fashion.

Coyote and INET propose a Stock Acquisition by Merger Agreement whereby INET will become a wholly owned subsidiary of Coyote, and the present shareholders of INET ("Members") will receive consideration consisting of cash and Coyote common stock plus additional contingent stock consideration depending upon the performance of INET following consummation of the proposed transaction.¹

Coyote is a publicly held California corporation with principal offices located at 4360 Park Terrace Drive, Westlake Village, California 91361. Coyote is a holding company which does not directly offer long distance telecommunications services, but rather intends to own and operate other wholly owned subsidiaries which offer such services pursuant to the FCC's *Competitive Carrier* policies.

INET is a privately held California corporation with principal offices located at 1640 S. Sepulveda Blvd., Suite 320, Los Angeles, California 90025. INET is a non-dominant carrier that resells domestic interstate and international long distance service purchased

¹ A draft copy of the proposed Stock Acquisition By Merger Agreement is attached as Exhibit "A".

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies. INET is authorized by the FCC to offer domestic interstate and international services in all fifty (50) states and the District of Columbia as a non-dominant carrier. INET currently originates interstate and international traffic in eight (8) states, and provides intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated basis, in eight (8) states. INET is a certificated carrier in the State of Florida.²

Applicants propose a transaction which will accomplish the following:

1. The present record and beneficial holders of 100% of the issued and outstanding shares of common stock of INET shall transfer and deliver into Coyote all of their right, title and interest in and to said shares;
2. Coyote shall issue and deliver to the present INET shareholders cash, Coyote Common Stock and contingent consideration (collectively, "Purchase Consideration") as provided for and specifically set forth in the Agreement, Exhibit "A";
3. The Purchase Consideration shall be allocated to the INET record and beneficial shareholders on the basis of the percentage ownership of each shareholder.
4. INET will merge, by virtue of the Agreement, into a wholly owned subsidiary of Coyote ("Acquisition Sub"), and
5. Acquisition Sub operate as a regulated entity pursuant to INET's present certifications, registrations, tariff requirements and rate structures, or on an unregulated basis, as provided by and pursuant to applicable law.

Critical to the proposed Agreement is the need to ensure the continuation of high quality service to all customers currently served by INET. The proposed transaction will serve the public interest for several reasons. First, it will enable the companies to operate with a more streamlined and transaction will enhance the operating efficiencies, including market efficiencies, of both Applicants. Second, it will increase the appeal to present and

² In Florida, INET provides intrastate telecommunications services pursuant to certification under Docket Number 950742-TI, Order Number PSC-95-1225-FOF-TI, issued 10/3/95 amended in Order No. PSC-97-0270-FOF-TI, issued 3/11/97.

potential customers of INET as can provide savings because of discounts on quantity ordering of materials and services for INET.

Current financial information for Coyote is attached hereto as Exhibit "B".³ Current financial information for INET is attached hereto as Exhibit "C".⁴

The parties are forwarding this letter to the Commission for informational purposes, to be included in the appropriate file. Absent receipt of written notification to the contrary within thirty (30) days, we will proceed on our understanding that no approval or other formal action is required by the Commission prior to consummation of the proposed transaction.

Enclosed are the original and thirteen (13) copies of this letter. Please return one (1) of the copies file-stamped in the envelope provided. If you need any further information or have any questions regarding the matters discussed herein, please do not hesitate to contact the undersigned.

Thank you for your assistance in this matter.

Respectfully submitted,



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Counsel for Coyote Network Systems, Inc. and
INET Interactive Network Systems, Inc.

³ Exhibit "B" consists of Coyote's unaudited financial statements for the period ending 12/31/97.

⁴ Exhibit "C" consists of copies of INET's unaudited financial statements for the period ending 12/31/97.

STATE OF Louisiana
COUNTY OF Orleans

VERIFICATION

I, CLAUDE BUCHERT, am the PRESIDENT of Interactive Network Systems ("INET"), and am authorized to make this verification on its behalf. The statements made in the foregoing Application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

By: Claude Buchert Jr
Name: CLAUDE BUCHERT
Title: PRESIDENT

Sworn to and subscribed before me, Notary Public, in and for the State and County named above, this 24th day of June, 1992.

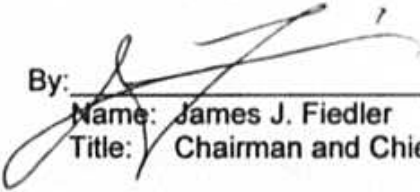
Emile Sch
Notary Public

My commission expires: at death

STATE OF California
COUNTY OF Los Angeles

VERIFICATION

I, James J. Fiedler, am the Chairman and Chief Executive Officer of Coyote Network Systems, Inc., and am authorized to make this verification on its behalf. The statements made in the foregoing Application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

By: 
Name: James J. Fiedler
Title: Chairman and Chief Executive Officer

Sworn to and subscribed before me, Notary Public, in and for the State and County named above, this 25th day of June, 1998.


Notary Public

My commission expires Feb. 9, 2001



EXHIBIT A

STOCK ACQUISITION BY MERGER AGREEMENT

among

COYOTE NETWORK SYSTEMS, INC., AND SUBSIDIARY, INC.

and

CLAUDE BUCHERT, HELENE LEGENDRE

and

INTERACTIVE NETWORK SYSTEMS, INC

Dated: June _____, 1998

STOCK ACQUISITION BY MERGER AGREEMENT

THIS AGREEMENT, dated as of this ____ day of June, 1998, by and among Coyote Network Systems, Inc., a corporation organized under the laws of the State of California ("Coyote"), INET Interactive Network Systems, Inc. a corporation organized under the laws of the State of California ("INET") and among Claude Buchert ("Buchert"), an individual residing at _____ and Helene Legendre ("Legendre"), an individual residing at _____. Buchert and Legendre are sometimes hereinafter referred to collectively as "Sellers" or "Shareholders"; Buchert, Legendre, INET and Coyote are sometimes hereinafter referred to collectively as "Parties".

WHEREAS, the Shareholders are the owners of all of the issued and outstanding shares of capital stock of the INET; and

WHEREAS, Coyote desires to acquire all of the issued and outstanding shares of capital stock of the INET (hereinafter called "INET Shares") by merger of the INET into Subsidiary, Inc., a wholly-owned subsidiary of Coyote (hereafter called "Merger"), upon the terms and conditions hereinafter set forth;

WHEREAS, for federal income tax purposes, it is intended that this Merger shall constitute reorganization within the meaning of Section 368 (a) of the Internal Revenue Code.

NOW THEREFORE, for and in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND PLAN MERGER

1.1 **Definitions.** Whenever used in this Agreement, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the following meanings:

"Agreement" shall mean this stock acquisition by merger agreement, as it may be amended or supplemented from time to time.

"Article" or "Section" shall refer to the numbered Article or Section of this agreement unless otherwise specified.

"Dividends" shall mean dividends or any other distributions on INET's Capital Stock or any other interest, or participation in, or measured by INET's profits.

"Hereof," "hereto" and "hereunder" and similar expressions shall refer to this Agreement and not to any particular Article or Section unless specifically stated.

"Knowledge" shall mean actual knowledge of the person making the statement after such person has made due and diligent inquiry.

"Material", "Materially" and similar expressions shall mean as to an individual representation, warranty, covenant or claim an amount, claim or damage exceeding ten thousand dollars (\$10,000).

"Persons" shall include an individual, firm, corporation, partnership, trust, governmental authority or body, association, unincorporated organization or other entity, as the context may require.

"Schedules" shall mean the various schedules attached hereto and made a part hereof, and the term "Schedule" shall mean any one of such Schedules, as specified.

1.2 Plan of Merger. Effective as of the Closing Date (as hereinafter defined) INET shall be merged (hereinafter called the "Merger") into Subsidiary, Inc., a _____ corporation and a wholly-owned subsidiary of Coyote ("Sub") in accordance with the terms of this Agreement and the Plan of Merger set forth in Exhibit A hereto. Sub shall be the corporation surviving the Merger and the separate existence of INET shall cease as of the Merger. Sub shall then be vested with and possess all of the assets, property, rights, privileges, immunities, powers, franchises and authority of INET without further act or deed and shall have assumed and be liable for all obligations of INET.

ARTICLE II

PURCHASE PRICE AND RELATED MATTERS

2.1 Acquisition of INET. In reliance on the representations and warranties and covenants of Sellers and INET contained herein and subject to the terms and conditions of this Agreement, Coyote shall acquire INET from Sellers by payment of the Purchase Price (as defined hereinafter).

2.2 Purchase Price: Payment. The Purchase Price (as defined hereinafter) is payable as follows and in the following order:

2.2.1 Cash Consideration. Cash in the amount of One Million Dollars (\$1,000,000.00) or such lesser amount as may be determined in accordance with this Agreement ("Closing Cash"). The Closing Cash shall be paid at Closing (as that term is defined in Section 2.6).

2.2.2 Coyote Stock. The aggregate number of shares of Coyote Common Stock ("Shares") to be issued at Closing shall be determined by dividing eight hundred thousand dollars (\$800,000.00) by the average closing bid price of the Shares for the ten (10) trading days immediately prior to the Closing date. Provided however, that if the average of the closing bid price of the Shares for the twenty (20) consecutive days immediately prior to the Closing date is less than four dollars (\$4.00) per share, such price will be adjusted to equal the lesser of one hundred and ten percent (110 %) of such twenty (20) consecutive trading day average of the closing bid price or four dollars (\$4.00) per share.

2.2.3 Earn Out Shares. Sellers may earn additional shares of Coyote Common Stock ("Earn Out Shares") in the amount and pursuant to the terms set forth in the attached Exhibit B.

2.2.4 Purchase Price. The "Purchase Price" shall be the total of the 2.2.1, 2.2.2 and 2.2.3.

2.2.5 Pro rata Distribution. The Shares to be issued upon Closing shall be issued to each Shareholder in proportion to the amount of INET Shares held by each. Any Shareholder, who would otherwise be entitled to a fractional value of Shares, shall receive at the Closing in lieu of such fractional share, an amount payable by Coyote check, equal to the proportional value of such Share determined in accordance with the section 2.2.2. Such amount is not separately bargain for consideration and is intended merely as a mathematical rounding off for the purposes of simplifying the corporate accounting problems which would be caused by the issuance of fractional Shares.

2.2.6 Payment. Payment of the Closing Cash shall be in U.S. Dollars. The Closing Cash shall be paid by Coyote to Sellers at the Closing by wire transfer in immediately available funds to such accounts in such banks as each of Shareholders shall reasonably designate in writing to Coyote.

2.2.7 At the Closing, all of item 2.2.1 and eighty percent (80%) 2.2.2 of the Purchase Price will be delivered to Shareholders. Twenty percent (20%) of item 2.2.2 of the Purchase Price shall be placed in escrow as hereinafter provided.

2.2.8 If INET declares or authorizes any Dividends after December 31, 1997 and prior to the Closing Date, whether or not such Dividends are payable prior to, on or after the Closing Date, the Closing Cash shall be equal to \$1,000,00.00 minus two times (2x) the aggregate amount of all such Dividends.

2.3 Purchase Price Adjustment.

[This section is intentionally blank]

2.4 Escrow.

2.4.1 Coyote agrees to establish and maintain a separate account with _____, titled in such a manner as to appropriately identify the nature of such account, and such account shall be known as the "Escrow Account". The Escrow Account shall be governed by the terms of the Agreement attached hereto as Exhibit C. (herein called the "Escrow Agreement") to be entered into among the Escrow Agent, the Shareholders and Coyote. Coyote shall not commingle any other of its funds or Shares in the Escrow Account.

2.4.2 At the Closing, as security for any indemnification which may be required under this Agreement, the shareholder shall deposit in escrow, in proportion to the number of shares held by each of them, 20 percent (20%) of the Shares to be issued to Shareholders pursuant Section 2.2.2 of this Agreement ("Escrowed Shares").

2.4.3 The total of the Escrowed Shares shall be known as the Escrow Amount.

2.4.4 The Escrow Amount shall be reduced by withdrawals by Coyote in accordance with and as provided for in this Section 2.4. The Escrow Amount in the Escrow Account after deduction for adjustments permitted by this Agreement and subject to the prorations described below, will be known as the "Remaining Escrow Balance". Following withdrawal by Coyote of the funds to which is entitled hereunder from the Escrow Account based upon the applicable provisions of this Agreement, the Escrow Agent will pay to Sellers the Remaining Escrow Balance plus all interest earned by the Remaining Escrow Balance from the date of creation of the Escrow Account until payment of the Remaining Escrow Amount. All interest on that portion, if any, of the Escrow Amount not included in the Remaining Escrow Balance shall belong to Coyote. Any cash dividend which may be declared unpaid by Coyote in respect of the Escrowed Shares shall be paid directly to the Shareholders, in proportion to the number of Shares owned by each being held in escrow, and the Shareholders shall have the right to vote the Escrowed Shares as long as such Shares remain in escrow. All shares of stock received by the Shareholders prior to the termination date of the Escrow Agreement as result of any stock split or other corporate non-cash distribution (including stock dividends) with respect to the Escrowed Shares shall be promptly deposited with the Escrow Agent by the Shareholders, together with stock powers executed by the Shareholders (with signatures guaranteed). The value to the Escrowed Shares for the purposes of determining the number Shares to return to Coyote pursuant to the Escrow Agreement as a result of any claim made under this Agreement shall be the value of Coyote's Common Stock as determined in accordance with Section 2.2.2 hereof, adjusted proportional to reflect any stock split or stock dividend.

2.4.5 Coyote agrees to provide Shareholders with prior written notice of the facts and section of this Agreement pursuant to which any withdrawal from the Escrow Account is being made.

2.5 Transfer of the Shares. At the Closing, against payment of the Closing Cash, the establishment of the Escrow Account by Coyote and Shareholders' rights hereunder, in the

Escrow Account, and the other terms and conditions herein set forth, Shareholders shall sell, transfer, convey, assign and deliver to Coyote, or cause to be sold, transferred, conveyed, assigned and delivered to Coyote, the INET Shares, free and clear of any lien, pledge, charge, transfer tax, or other encumbrance of any nature whatsoever, together with such certificates, stock powers, endorsements, assignments, signature guarantees, and other good and sufficient instruments of transfer and conveyance as shall be necessary or appropriate to vest in or confirm to Coyote all of the right, title and interest of Sellers in and to the INET Shares, all in negotiable form, and with all stock transfer and such other required documentary stamps affixed thereto. Shareholders shall deliver at the Closing certificates representing such shares duly endorsed in blank, in each case in proper form for transfer.

2.6 Closing. The closing of the Merger under this Agreement shall commence at 10:00 A.M. on June ____, 1998, or as soon thereafter as the conditions to the Closing shall be satisfied or waived as provided for herein at the offices of Coyote Technologies, LLC, Westlake Village, California, or at such other time and place as may be mutually agreed by Coyote and Sellers ("Closing"). All transactions at the Closing shall be considered to take place simultaneously, and no transaction shall be deemed to have occurred until all such transactions are completed. The time and date of the Closing are herein referred to as the "Closing Date". At the Closing the parties shall deliver the documents referred to in Article IX.

ARTICLE III

REPRESENTATION AND WARRANTIES OF BUCHERT AND LEGENDRE

Shareholders and INET hereby jointly and severally represent and warrant to Coyote that, except as otherwise provided herein, on the Schedules attached hereto, or any certificate or document delivered pursuant to this Agreement, as of the date hereof:

3.1 Corporate Existence; Corporate Power; Qualification. Shareholders own directly all the outstanding shares of INET Shares. Schedule 3.1 correctly sets forth as to INET, its place

of incorporation, principal place of business, jurisdictions in which it is qualified to do business, and the business which it presently conducts. INET is a corporation duly organized, validly existing and in good standing under the laws of its jurisdictions of incorporation, with all requisite power and authority and all necessary consents, authorizations, approvals, orders, licenses, certificates, and permits of and from, and declarations and filings with, all federal, state, local and other governmental authorities and all courts and tribunals, to own, lease, license and use their respective properties and assets and to carry on the business in which it is now engaged. INET is qualified to transact the business in which it is engaged and is in good standing as a foreign corporation in every jurisdiction in which the character of its property or its ownership, leasing, licensing or use of property or assets, or where the nature or the conduct of its business, makes such qualification necessary, except where such failure to qualify will not have a material and adverse effect on INET.

3.2 Investments; Subsidiaries. Except as described in Schedule 3.2, INET does not own any shares of capital stock of, or have any equity interest whatsoever in, any other corporation, business trust, partnership, association or other business entity.

3.3 Capitalization. All of the outstanding INET Shares have been duly and validly issued, authorized and are fully paid and non-assessable and are registered in the name of Sellers. Except as set forth on Schedule 3.3, there are no outstanding options, rights, warrants or other securities evidencing the right to purchase any INET Shares from Sellers, or convertible into any INET Shares; and Sellers are not a party to any agreement which grants to any person the right to purchase or otherwise acquire any of the INET Shares or otherwise acquire any securities of INET.

3.4 Share Ownership. Sellers represent and warrant that they are the lawful owner of, with good title to, all of the Capital Stock, which at Closing shall be free and clear of any encumbrances, and the delivery of certificates therefor to Coyote pursuant to the provisions of this Agreement will transfer to Coyote valid, good title thereto, free and clear of all liens, claims,

pledges, options, preemptive rights, rights of first refusal and any other encumbrances whatsoever.

3.5 Authority of Sellers and INET. Sellers and INET have all requisite power and authority to execute, deliver and perform this Agreement. Sellers and INET have taken all necessary action to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly authorized, executed and delivered by Sellers and INET and constitutes the legal, valid, binding obligation of both Sellers and INET, and is enforceable as to each in accordance with its terms except as subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditor's rights and remedies generally and subject, as to enforceability, to general principles of equity, including commercial reasonableness, good faith and fair dealing, regardless of whether enforcement is sought in a proceeding at law or in equity. Except as set forth on Schedule 3.5, no consent, authorization, approval, order, license, certificate or permit of or from or declaration or filing with any federal, state, local or other governmental authority or any court or other tribunal is required by Sellers or INET for the execution, delivery and performance of this Agreement. No consent of any party to any contract, agreement, lease, license, arrangement or understanding to which Sellers or INET are a party, or to which they or any of their properties or rights are subject, is required for the execution, delivery or performance of this Agreement (except such consents referred to in Schedule 3.5 which have been obtained at or prior to the date of the Agreement). Except as set forth in Schedule 3.5, the execution and delivery of this Agreement will not violate, result in a breach or conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any term of any such contract, agreement, instrument, lease, license, arrangement or understanding or violate or result in a breach of any term of the articles of incorporation or other charter document (or bylaws of INET) or violate, or result in a breach of or conflict with any law, rule, regulation, order, judgment or decree binding on Sellers or INET or to which any of its operations, business properties or assets are subject.

3.6 Financial Statements. Sellers have furnished to Coyote the balance sheet of INET as at December 31, 1997, ("Balance Sheet") and the schedules thereto and the related statements

of income and retained earnings for the periods then ended (the Balance Sheet, the schedules thereto and related statements of income and retained earnings, including the notes thereto, are collectively referred to as "Financial Statements," copies of which are set forth as Schedule 3.6. The Financial Statements (i) were prepared from the books of account and records of INET and (ii) have been prepared on a consistent basis throughout the periods concerned. INET owns all the assets, rights and properties reflected on the Financial Statements as at December 31, 1997, or acquired after said date, in each case free and clear of all liens, claims, pledges, security interests, and any other encumbrances whatsoever except as indicated on said Financial Statements or on Schedule 3.6.

Since December 31, 1997, INET has maintained its books and records accurately and in accordance with generally accepted accounting principles and standards consistent with past practices.

The profits (if any) made by INET as reflected on the Financial Statements, and for the period beginning on January 1, 1998 and ending on the Closing Date and the trend of profits thereby shown have not and will not have (except as therein disclosed) been affected by inconsistencies of accounting practice, by the inclusion of non-recurring items of income or expenditure, or by transactions entered into otherwise than in the ordinary course of business.

3.7 Absence of Undisclosed Liabilities. Except as and to the extent reflected on or reserved against in the Financial Statements, or set forth on Schedule 3.7 attached hereto, to the best knowledge of Shareholders, INET does not have any liabilities or obligations secured or unsecured (whether accrued, absolute, contingent, determinable, indeterminable, or otherwise) including, without limitation, tax liabilities, whether: (a) incurred in respect of or measured by INET's income for any period prior to the date of the Financial Statements; (b) arising out of transactions entered into prior to the date of the Financial Statements; or (c) arising out of any state of facts existing prior to the date of the Financial Statements, in each case, of a nature that would normally be reflected in a corporate balance sheet or in the notes thereto prepared in

accordance with generally accepted accounting principles consistently applied throughout the periods concerned.

3.8 Tax Matters. Except as set forth on Schedule 3.8, the provision for taxes reflected in the Balance Sheet is sufficient for the payment of all accrued and unpaid federal, state, county, local and all other taxes of INET (including any penalties of interest payable in respect to such taxes), whether or not disputed, for the period prior thereto. INET has filed when due all federal, state and local income tax returns and has filed when due all other returns with respect to taxes (including, without limitation, sales and excise taxes however termed) which are required to be filed with the appropriate authorities of the State of California and of any other jurisdiction where business is transacted by INET or where such returns are required to be filed. All amounts, if any required to be paid, as shown on such returns, and any amount due and owing with respect thereto, have been paid by INET. All items and entries provided for or reflected in such returns are correct and are made on a proper basis. None of the federal income tax returns of INET have been audited by the United States Internal Revenue Service. Except as shown on Schedule 3.8, there are no currently pending or proposed audits of INET or Sellers with respect to INET by any taxing authority and Sellers have not received any notice of audit or investigation with respect to INET for any year.

3.9 Accounts and Notes Receivable. The accounts and notes receivable of INET shown on the Balance Sheet, and the accounts and notes receivable resulting from sales by INET subsequent to December 31, 1997 and prior to Closing are bona fide and have arisen in the ordinary course of business.

3.10 Real and Other Property.

3.10.1 Attached, as Schedule 3.10.1 is a true and complete list and description of all real and other properties owned, leased or under license to INET. All of the leases or other agreements for the utilization of real property listed in said Schedule are valid and in full force. INET has not breached any covenant or received any notice of its

default of any such lease, and, to Sellers' knowledge, there does not exist any condition or fact which with the lapse of time or the giving or failure to give notice would constitute a default by Sellers under any such lease.

3.10.2 Except as otherwise specified in Schedule 3.10.1, or except to an extent which does not materially and adversely affect the business, operations or property of INET, taken as a whole, (i) INET does not occupy and is not dependent on the right to use the property of others except under valid and enforceable leases, contacts or other agreements, (ii) all buildings leased by INET conform with all applicable ordinances, regulations and zoning or other laws and do not encroach on property of others, and (iii) there are, to Sellers' knowledge, no pending or threatened change of any such ordinance, regulation or zoning or other law, and there is no threatened condemnation of any such property.

3.10.3 Except as shown on Schedule 3.10.3, all real and other tangible properties and assets owned, leased or under license to INET are in good and usable condition (normal wear and tear which is not such as to affect materially and adversely the operation of the business of INET excepted).

3.10.4 No real property leased by INET lies in an area which, to the knowledge of Sellers, is or will be subject to zoning, use or building code restrictions which would prohibit Sellers' continued use and to Sellers' knowledge, no state of facts relating to the actions or inaction's of another person, its ownership, leasing, licensing or use of any real or personal property exists which would prevent the continued effective ownership, leasing, licensing or use of that property in the business in which INET is now engaged.

3.10.5 The real and other properties owned, leased or under license to INET constitute all such properties and assets which are necessary to the business of INET as presently conducted.

3.11 Personal Property. Attached hereto as Schedule 3.11 is a complete and accurate list describing and specifying the location of all trucks, automobiles, machinery, equipment, furniture, supplies, and all other tangible property owned by, in the possession of, or used by INET in connection with its business and a list and brief description of all leases or agreements under which INET leases, holds or utilizes any such property not owned by it with a value of over five thousand dollars (\$5,000.00). The property listed in Schedule 3.11 constitutes all of the tangible personal property necessary for the conduct by INET of its business as now conducted. Except as set forth in Schedule 3.11, no personal property used by INET in connection with its business is held under any lease, security, agreement, conditional sales contract, or other title retention or security arrangement, or is located other than in the possession of INET.

Except as set forth in Schedule 3.11, (i) INET has a valid leasehold interest in the leased property listed therein, (ii) INET has good title to all of the personal property and assets used in connection with its business, in each case free and clear of any rental contract or leasehold interests and of all liens, security interests or other encumbrances. Each lease listed on Schedule 3.11 is valid and binding, INET has not breached any covenant or received any notice of any default of any such lease, and to Sellers' knowledge, there does not exist any condition of fact which with the lapse of time or giving of notice or failure to give such notice would constitute a default by Sellers under any such lease.

3.12 Plant and Equipment. INET's main office and facility is located at 1640 S. Sepulveda Blvd., Suite 320, Los Angeles, CA, 90025. The machinery and equipment used or stored at all locations and the equipment owned by INET and used or stored elsewhere, are in good operating condition and reasonable state of repair, normal wear and tear and normal maintenance requirements excepted, and to the best of Seller's knowledge are in conformity with all applicable ordinances and regulations, and environmental, building, zoning, and other laws. Such facilities and equipment, taken as a whole, are sufficient for the continuation of the business of INET on a basis consistent with the past practices and uses of INET. No person other than INET owns any vehicles, equipment of other tangible assets or properties that are used

in INET's business and that are on the premises which INET leases, except for leased items disclosed on other Schedules hereto and for items of immaterial value.

3.13 Books of Account and Reports. To the best knowledge of Seller's the books and records of INET are sufficient to ascertain all of the respective items of income and expense, and all of the respective assets, liabilities and accruals, and are and have been maintained in form and substance adequate for preparing audited financial statements in accordance with generally accepted accounting principles. INET has filed all reports required by law or regulation to be filed and has duly paid or accrued on its books of account all applicable duties and charges due (or assessed against it) pursuant to such reports.

3.14 Employee Benefit Plans.

3.14.1 Definitions.

(A) The term "Employees" shall mean all current employees, former employees and retired employees of INET and any predecessor, and the term "Employee" shall mean any of the Employees.

(B) The term "Employee Benefit Plan" means any employee benefit plan as defined in section 3 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") maintained or contributed to by INET or any predecessor and which provides benefits to Employees.

(C) The term "Benefit Arrangement" shall mean any life and health insurance, hospitalization, savings, bonus, deferred compensation, incentive compensation, holiday, vacation, severance pay, sick pay, sick leave, disability, tuition refund, service award, company car, scholarship, relocation, patent award, fringe benefit contract, collective bargaining agreement, individual employment consultancy or severance contract, or any other policy or practice of INET or any predecessor providing compensation or benefits to Employees, other than Employee Benefit Plans.

3.14.2 Schedule 3.14 lists all Employee Benefit Plans and all Benefit Arrangements of INET or any predecessor.

3.14.3 Except as shown on Schedule 3.14 INET has not and is not obligated to contribute to any, and has not been obligated to contribute to any Employee Benefit Plans with respect to the employees.

3.14.4 INET does not and has not maintained or contributed to any retiree life, retiree health insurance, or retiree disability plan that is an Employee Benefit Plan or which is a "welfare benefit plan" within meaning of ERISA, as amended, with respect to the Employees and which provides for continuing benefits or coverage for any participant or any beneficiary of a participant except as may be required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA").

3.14.5 INET has no liability by reason of the operation or existence of any Employee Benefit Plan maintained or contribute to with respect to the Employees except as set forth on Schedule 3.14.

3.14.6 All liabilities for Benefit Arrangements and Employee Benefit Plans required to be reflected in the Financial Statements are properly reflected therein.

3.15 Minute Books, Stock Record Books. The minute books of INET contain complete and accurate records of all meetings and other corporate actions of its stockholders and Board of Directors except where such failure would not have a material or adverse effect on INET. The stock ledgers and stock transfer books and the minute book records of INET relating to all issuance's and transfers of stock by INET and all proceedings of the Stockholders and Board of Directors and committees thereof of INET since its incorporation are the original stock ledgers and stock transfer books and minute book records of INET or exact copies thereof.

3.16 Patents, Trademarks, Copyrights and Other Proprietary Rights. Except as set forth on Schedule 3.16, INET owns, is permitted to use, or is licensed under all Proprietary Rights (if any, used by it in its present business) except where such failure would not have a material or adverse effect on INET. Proprietary Rights include, but are not limited to, all computer software, software programs, patents, processes, formulae, registered trademarks, trademarks, registered copyrights, copyrights, registered trade names, trade names, trade secrets, inventions, drawings, designs, mask work, marketing and sales information and customer lists. In addition, Proprietary Rights consist of Know-How, Technical Information and Proprietary Information (as those capitalized terms are defined below). Except as set forth on Schedule 3.16, the operation of INET as it is currently conducted does not infringe or misappropriate, and no one has asserted that such operation, as now or heretofore conducted, infringes or misappropriates, any rights of any third party. To the best of Seller's knowledge, other than designs or devices which INET has a lawful right use, no person owns or has any proprietary, financial or other interest, direct or indirect, in any design or device which INET is using or the use of which is necessary in the operation or INET's business as now or heretofore conducted.

The undefined capitalized terms used in the preceding paragraph shall have the following meanings:

"Know-how" shall mean all factual knowledge or information acquired over time by Sellers or INET, with respect to the use, marketing or sale of INET's products, whether or not in graphic or printed form, which may not be capable of precise, separate description, but which, in an accumulated form, gives to INET an ability to design, produce and market its products with an accuracy, precision, quality or efficiency which another party would lack.

"Technical Information" shall mean (i) all scientific, technical and other information existing in graphic or printed form, including but not limited to drawings, blueprints, design information, diagrams, charts, and other data and information, including any information embodied in any patents, patent rights, or patent applications

and printed material relating to the products of INET disseminated to distributors or customers of INET and (ii) all production processes, manufacturing know-how, design information and trade secrets, whether on not in writing, that are connected with the design or production of INET's products and that Sellers, INET, own or control.

"Proprietary Information" shall mean all Technical Information, Know-How, and all other information which is designated as proprietary by INET or Sellers and is not provided by INET to others except on a confidential basis, regardless of whether such information is patentable or otherwise protectible or whether such information constitutes or contains trade secrets; provided that "Proprietary Information" shall not include information which is publicly available, or readily available from parties unaffiliated with INET or Sellers other than as a result of a breach of this Agreement or breached of other agreements between them or their affiliates and third parties.

To the best of Seller's knowledge, neither any stock holder, any director, officer or employee of INET, any relative or affiliate of any stockholder or of any such director, officer or employee nor any other corporation or enterprise in which any stock holder or any such director, officer, employee or any such relative or affiliate had or now has a five percent or greater equity or voting or other substantial interests in any entity which possesses any Proprietary Right which relates to the business of INET.

3.17 Customers and Sales. To Sellers' knowledge, except as set forth on Schedule 3.17, neither Sellers nor INET has any information, or is aware of any facts, that customers of INET, as shown on its books and records made available to Coyote, intend to cease doing business with INET or, alter the amount of business they it presently do with INET such that it would be material as to INET's business taken as a whole

3.18 Contracts, Agreements and Plans. Schedule 3.18 accurately and completely sets forth the information required to be contained therein with respect to INET as set forth in this Section. Sellers have shown to Coyote the following: (i) true and correct copies of all the

contracts, agreements, and instruments referred to in Schedule 3.18; (ii) true and correct copies of all leases and licenses referred to in Schedule 3.10.1, 3.10.3 or 3.18; and (iii) true and correct copies of all supply, distribution, agency, financing, or other arrangements or understandings referred to in Schedule 3.18. To the knowledge of Sellers, no party to any such contract, agreement, instrument, lease, or license is now, or has given notice that in the future it expects to be, in violation or breach of, or in default with respect to complying with, any material provision thereof, and each such contract, agreement, instrument, lease, or license is in full force and is the legal, valid, and binding obligation of the parties thereto and is enforceable as to them in accordance with its terms. Neither INET nor any other party to any such arrangement or understanding has given notice of termination or taken any action inconsistent with the continuance of that arrangement or understanding. The execution, delivery, and performance of this Agreement will not result in a breach of any such arrangement or understanding in any way. INET is not a party to or bound by any contract, agreement, instrument, lease, license, arrangement, or understanding, or subject to any charter or other restriction, which has had or, to the knowledge of Sellers, would in the future have a material adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, of future prospects of INET. INET has not within the last five years engaged in, is engaging in, or, pursuant to the business plan disclosed to Coyote, plans to enter into any transaction, contract, agreement, lease, license, arrangement, or understanding with any director, officer, or employee of shareholder of INET or Sellers (except for employment or compensation arrangements described in Schedule 3.14), or any relative or affiliate of such stockholder, director, officer, or employees, or of any other corporation or enterprise in which any such stockholder, director, officer, or employee, or any such relative or affiliate then had or now has a 5% or greater equity, voting or other substantial interest other than contracts and agreement listed and so specified in Schedule 3.18. Except for the contracts, agreements, plans and commitments listed and briefly described in the Schedules attached hereto, or any other Schedule referred to in this Agreement, INET is not a party to or subject to any or the following, whether written or oral:

3.18.1 Any management or employment contract or material contract for services which is not by its terms terminable by INET at will without charge or penalty;

3.18.2 Any profit-sharing, bonus, stock option, pension, retirement, stock purchase, hospitalization, insurance or similar plan or agreement, formal or informal, providing benefits to any current or former director, officer, employee, consultant, stockholder or the like of INET;

3.18.3 Any marketing agreement, sales representative or distributor agreement, or similar plan or agreement;

3.18.4 Any plan, contract or arrangement providing for insurance on or for any current or former officer, consultant, director, employee or member of their families;

3.18.5 Any collective bargaining agreement or similar contract or agreement with any labor organization;

3.18.6 Contracts, commitments or agreements, other than in relation to the purchase of inventory in the ordinary course, any one of which involve expenditure by INET after the date hereof of more than fifteen thousand dollars (\$15,000.00);

3.18.7 Any contract or agreement containing covenants by INET not to compete in any line of business with any person;

3.18.8 Any contract, agreement, arrangement or understanding upon which any part of the business of INET is dependent, or which affects the business, property or condition (financial or otherwise) of INET;

3.18.9 Any contract or commitment of any other nature with any current or former director, officer, employee or consultant of INET or any associate of any such director, officer, employee or consultant;

3.18.10 Any contract or commitment for charitable contributions aggregating in excess of five thousand dollars (\$5,000.00) for all such contracts or commitments;

3.18.11 Any contracts or commitment for capital expenditures in excess of fifteen thousand dollars (\$15,000.00) in the aggregate; or

3.18.12 Any license, or right of use agreement regarding patents, trademarks, trade names, copyrights or proprietary rights of third parties.

3.18.13 Any other contracts or commitments material to, or not made in the ordinary course of its business.

3.19 Compliance with Contract. INET has performed all material obligations required to be performed by it to date under all agreements, contract, and understandings to which is a party. To the best of Sellers' knowledge, except as set forth in Schedule 3.19: (i) each contract or other commitment of INET listed in Schedule 3.18 is in effect, (ii), Sellers and INET have no knowledge, and no reasonable basis to believe, that performance by the parties to all such contract, bids or other commitments would individually or in the aggregate have an adverse effect upon the business or financial position of INET, (iii) INET is not in default under any agreement listed therein, and there does not exist any condition of fact which with the lapse of time or the giving of notice or the failure to give notice would constitute a default under any such agreement or instruments, and (iv) no contract or agreement to which INET is a party can be terminated by the other party as a result of a change of ownership of INET.

3.20 Certain Salaried Employees. Schedule 3.20 contains a list of the names and annual salary rates of all present directors and officers of INET and of all employees or consultants of INET whose annual rate of compensation is twenty thousand dollars (\$20,000.00) or more, together with a notation of those entitled to commissions of bonuses of any kind.

3.21 Loan and Credit Agreements, etc. Schedule 3.21 contains a list of all mortgages, indentures, promissory notes, deeds of trust, loan or credit agreements, guarantees, or similar instruments to which INET is a party and all amendments or modifications thereto and are accompanied by true and correct copies thereof, including all ancillary documents. INET is not in default under any of such agreements or instruments, and there does not exist any condition or fact which with the lapse of time or the giving of notice of the failure to give notice would constitute a default under any such agreement or instruments.

3.22 Insurance. The assets, properties and business of INET are and have been continuously insured under various policies of general liability, products liability, and other form of insurance, as set forth on Schedule 3.22 hereto. INET has not failed to give any notice or present any claim under any such policy, and all existing notices and claims are listed on Schedule 3.22. No notice of cancellation or nonrenewal with respect to, or disallowance of any claim under, any such policy has been received by INET or Sellers. There are no outstanding unpaid premiums or claims, and there are no provisions for retroactive or retrospective premium adjustments. Neither INET nor Sellers has knowledge of any state of facts or the occurrence of any event which is likely to materially increase the insurance premiums payable under any such policy. Schedule 3.22 also contains a true and complete description of all outstanding bonds and other surety arrangements issued or entered into in connection with the business of and operations of INET or Subsidiary. There has been no default in the payment of premiums on any such policy; there is no grounds for cancellation or avoidance of any coverage thereof or for reduction of the coverage provided thereby; and none of the policies will terminate because of the acquisition by Coyote of the INET Stock. Such policies are in amounts and are upon terms commercially reasonable with respect the protection of the business of INET against risk, including but not limited to, risk of claims involving personal injury or property damage caused by or related to the use of products manufactured on sold by INET or any of the companies previously acquired by INET. Except as set forth on Schedule 3.22, during the twelve (12) months prior to the Closing Date there were no outstanding claims by INET under any policies of insurance, and no losses arose during the said twelve (12) month period in respect of matters customarily covered by insurance by companies similar to INET which were not so covered.

3.23 Compliance with Laws. To the Sellers' best knowledge, INET has complied with each, and is not in violation of, any law, rule or regulation to which it or its business, operations, assets or properties are subject and has not failed to obtain or to adhere to the requirements of any license, permit or authorization necessary to the ownership of its assets and properties or to the conduct of its business, which noncompliance, violation or failure to obtain or adhere to would materially and adversely affect its business, operations, assets, properties, prospects or condition (financial or otherwise). Neither INET nor Sellers, nor any officer, employee, or agent authorized by and acting pursuant to the authority granted by INET, nor to the Sellers' best knowledge, any consultant to INET or Sellers, has unlawfully offered, paid or agreed to pay, directly or indirectly, on behalf of or for INET, any money or anything of value to, or for the benefit of, any individual who is or was candidate for public office (other than lawful campaign contributions), or any official or employee of any governmental or regulatory body or authority or an officer or employee of any client, customer or supplier of INET. INET has not engaged in any transaction, maintained any bank account or used any corporate funds except for transactions, bank accounts and funds, which have been and are reflected in its normally maintained books and records. Neither INET nor Sellers has directly or indirectly established or maintained any unlawful or unrecorded fund of corporate monies or other assets or made any false or fictitious entry on the books and records of INET.

3.24 Litigation. Except as specified in Schedule 3.24 attached hereto, there are no actions, claims, suits or proceedings pending or, to Sellers' knowledge, threatened against or affecting INET, its officers or directors, or any of its property, assets or business, nor has any complaint been filed against INET with any governmental agency, and Sellers know of no reasonable basis for the assertion of any such action, claim, suit or proceeding and neither INET nor Sellers is subject to any judgment, award, order or decree or is involved in any governmental action or any proceeding in which relief is sought naming INET or Sellers, which materially and adversely affects INET in the operation of its business or its assets or which would prevent, hamper or make illegal the transactions contemplated by the Agreement.

3.25 Judgments. Except as set forth on Schedule 3.25 INET is not a party to or subject to the provisions of any decree or judgment of any court having jurisdiction, of any governmental agency, or of any arbitrator.

3.26 Absence of Certain Changes or Events Since December 31, 1997. Except as otherwise disclosed on Schedule 3.26, or in any Schedules attached hereto, INET has not, since December 31, 1997:

3.26.1 Issued any shares or any options or any other rights for the issue or purchase of shares or other securities of, or any securities convertible into securities of INET;

3.26.2 Incurred any liability (absolute or contingent) in excess of five thousand dollars (\$5,000.00) except, current liabilities incurred under contracts entered into, in the ordinary course of business;

3.26.3 Discharged or satisfied any lien or encumbrance, or paid any obligation or liability (absolute or contingent) other than current liabilities shown on its Balance Sheet as of that date or current liabilities incurred since the date of said Balance Sheet in the ordinary course of business;

3.26.4 Declared or paid any dividend or made any other distribution to its stockholders or purchased any of its stock;

3.26.5 Reclassified its shares;

3.26.6 Mortgaged, pledged or subjected to any lien, claim, security interest or encumbrance of any kind, any of its assets, tangible or intangible, except liens for current property taxes not yet due and payable and those encumbrances which arise by operation of law;

3.26.7 Sold, assigned, or transferred any of its tangible assets or canceled any debts or claims (except in the ordinary course of business);

3.26.8 Sold, assigned or transferred any contracts, licenses, patents, trademarks, trade names, copyrights or other intangible assets other than in the ordinary course of business;

3.26.9 Suffered any extraordinary losses or waived any rights of substantial value;

3.26.10 Made or agreed to make any changes in the compensation of any director, officer, or consultant involving compensation of more than five thousand dollars (\$5,000) per year;

3.26.11 Made or agreed to make any changes in the compensation of the all or substantially all of employees of INET;

3.26.12 Incurred or agreed to incur any other non-business expenses in excess of five thousand dollars (\$5,000.00) in the aggregate;

3.26.13 Advanced or agreed to advance funds in excess of five thousand dollars (\$5,000.00) in the aggregate to any person except in the ordinary course of business;

3.26.14 Entered into any other transaction which is material except in the ordinary course of business.

3.27 Condition of INET. Other than as set forth on Schedule 3.27, since December 31, 1997, there has not been any material change in the condition, financial or otherwise, of INET other than changes occurring in the ordinary course of business, which changes occurring

in the ordinary course of business have not materially adversely affected the business, properties or financial condition of INET, and since December 31, 1997, INET and Subsidiary have carried on their business in substantially the same manner as it was carried on prior to December 31, 1997. To the best of Sellers' knowledge, there are no conditions existing with respect to INET's products, services, clients, customers, facilities, personnel or suppliers which are known to INET which would materially and adversely affect the business operations or prospects of INET as represented to Coyote in the business plan of INET presented to Coyote (attached as Schedule 3.27) other than such conditions as may affect as a whole the industry in which INET operates. Sellers and INET have used their best efforts to keep available for Coyote the services of the officers, employees, and agents of INET. It is understood that INET and Sellers express no opinion as to political, economic, or industry matters of general application.

3.28 Bank Accounts. Attached hereto as Schedule 3.28 is a list setting forth the name of each bank or other financial institution in which INET has an account or a safe deposit box and the names of all persons having authorization to draw thereon or having access thereto.

3.29 Changes in Laws or Regulations. Sellers have no actual knowledge of any event or of any change in any law, regulation or ordinance (including pending or threatened changes) which would materially and adversely affect the value of the property or business owned and conducted by INET.

3.30 Conditions Affecting INET's Business. To the best of Sellers' knowledge, the execution of this Agreement and the consummation of the transactions contemplated hereby do not and will not materially and adversely affect INET's supply of raw materials, existing facilities and equipment. Except as otherwise disclosed in this Agreement or the Schedules hereto, to Sellers' knowledge, no event has occurred since December 31, 1997, and no condition exists which materially and adversely affects, now or in the immediate future, affect INET's supply of raw materials, existing facilities and equipment.

3.31 Conflicts of Interest. Except as specified in Schedule 3.31 attached hereto, no officer, director, shareholder, or family member thereof, of INET has, whether directly or indirectly, (a) any beneficial interest in any contract or agreement which INET is a party to or by which it may be bound or (b) any beneficial interest in any person, firm or corporation that has such an interest. For the purposes of this paragraph, there shall be disregarded any interest which arises solely from the ownership of less than one percent (1%) equity interest in a company whose stock is listed on any national securities exchange or traded in the over-the-counter market.

3.32 Investments of Grants. INET is not under any liability (actual, contingent or future) to repay any investment or any grant made to it by any governmental (whether state or federal) department or agency or organization and no circumstances have arisen in which any such body would or might be entitled to require payment of any such grant either in whole or in part.

3.33 Joint Ventures; Branches. Except as shown in Schedule 3.33, INET is not a party to nor bound by any partnership, joint venture, consortium or other joint partnership arrangement or agreement or similar agreement for the conduct of any business, nor does it have any branch or any permanent establishment outside the United States of America.

3.34 Power of Attorney. INET has not delegated any powers under a power of attorney, which remains in effect.

3.35 Disposition of Leasehold Properties. INET has not at any time assigned or otherwise disposed of, any leasehold property in such a way as it retains any residual liability in respect thereof.

3.36 Environmental.

3.36.1 Except as set forth in Schedule 3.36, INET and the Shareholders, with respect to INET, is and has at all times been in full compliance with all Environmental Laws governing its business, operations, properties and assets, including, without limitation: (i) all requirements relating to the discharge and handling of Hazardous Substances; (ii) all requirements relating to notice, record keeping and reporting; (iii) all requirements relating to obtaining and maintaining Licenses (as defined herein) for the ownership by INET of its properties and assets and the operation of its business as presently conducted or the ownership by INET; and (iv) all applicable writs, orders, judgments, injunctions, decrees, informational requests or demands issued pursuant to, or arising under, any Environmental Laws.

3.36.2 Except as set forth in Schedule 3.36, there are no (and to the knowledge of the Shareholders and INET, there is no) basis for any non-compliance orders, warning letters, notices of violation (collectively "Notices"), claims, suits, actions, judgments, penalties, fines, or administrative or judicial investigations of any nature or proceedings (collectively "Proceedings") pending or threatened against or involving INET, its business, operations, properties or assets, issued by any Governmental Authority or third party with respect to any Environmental Laws or Licenses issued to INET thereunder in connection with, related to or arising out of the ownership by INET of its properties or assets or the operation of its businesses, which have not been resolved to the satisfaction of the issuing Governmental Authority or third party in a manner that would not impose any obligation, burden or continuing liability on Coyote or any surviving corporation in the event that the transactions contemplated by this Agreement are consummated.

3.36.3 Except as set forth in Schedule 3.36, neither INET nor the Shareholders has at any time Handled or Discharged, nor has it at any time allowed or arranged for any third party to Handle or Discharge, Hazardous Substances to, at or upon: (i) any location other than a site lawfully permitted to receive such Hazardous Substances; (ii) any parcel of real property owned or leased at any time by INET, except in compliance with applicable Environmental Laws; or (iii) any site which, pursuant to CERCLA or any

similar state law (a) has been placed on the National Priorities List or its state equivalent, or (b) the Environmental Protection Agency or any relevant state agency has notified any of the Acquired Entities that it has proposed or is proposing to place on the National Priorities List or its state equivalent. Except as set forth in Schedule 3.36, there has not occurred, nor is there presently occurring, a Discharge, or threatened Discharge of any Hazardous Substance on, into or directly beneath the surface of any real property owned or leased at any time by INET.

3.36.4 For purposes of this Section, the following terms shall have the meanings ascribed to them below:

"Discharge" means any manner of spilling, leaking, dumping, discharging, releasing, migrating or emitting, as any of such terms may further be defined in any Environmental Law, into or through any medium including, without limitation, ground water, surface water, land, soil or air.

"Environmental Laws" means all federal, state, regional, or local statutes, laws, rules, regulations, codes, ordinances, orders, plans, injunctions, decrees, rulings, licenses issued, or promulgated, any of which govern, purport to govern or relate to pollution, protection of the environment, public health and safety, air emissions, water discharges, waste disposal, hazardous or toxic substances, solid or hazardous waste, occupational health and safety, as any of these terms are or may be defined in such statutes, laws, rules, regulations, codes, orders, ordinances, plans, injunctions, decrees, rulings, licenses, including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986, 42 U.S.C. Section 9601, *et seq.* (herein, collectively, "CERCLA"); the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and subsequent Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. Section 6901 *et seq.* (herein, collectively "RCRA"); the Hazardous Materials Transportation Act"; as amended, 49 U.S.C. Section 1801, *et seq.* (the

"Hazardous Materials Transportation Act"); the Clean Water Act, as amended, 33 U.S.C. Section 1311, *et seq.* (the "Clean Water Act"); the Clean Air Act, as amended 42 U.S.C. Section 7401-7642, (the "Clean Air Act"); the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 *et seq.*, (the "Toxic Substances Control Act"); the Federal Insecticide, Fungicide, and Rodenticide Act as amended, 7 U.S.C. Section 136-136y ("FIFRA"); the Emergency Planning and Community Right-to-Know Act of 1986 as amended 42 U.S.C. Section 11001, *et seq.* (Title III of SARA) ("EPCRA"); and the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. Section 651, *et seq.* ("OSHA").

"Handle" means any manner of generating, accumulating, storing, treating, disposing of, transporting, transferring, labeling, handling, manufacturing or using, as any of such items may further be defined in any Environmental Law.

"Hazardous Substances" shall be construed broadly to include any toxic or hazardous substance, material or waste, and any other contaminant, pollutant or constituent thereof, whether liquid, solid, semi-solid, sludge and/or gaseous, including without limitation, chemicals, compounds, by-products, pesticides, asbestos containing materials, petroleum or petroleum products, and polychlorinated biphenyls, the presence of which requires investigation or remediation under any Environmental Law or which are listed or controlled by, under or pursuant to any Environmental Law.

"Licenses" means, all licenses, certificates, permits, approvals, decrees and registrations required under the Environmental Laws.

3.37 **Labor.** Except as set forth on Schedule 3.37, INET is not a party to any union contract or collective bargaining agreement. To its knowledge: (i) INET is in compliance in all material respects with all material applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours; and (ii) INET is not engaged in any unfair labor practice. There is no labor strike, dispute, slowdown or stoppage

pending (or, to the knowledge of INET, any labor strike, dispute, slowdown or stoppage threatened) which has or poses a substantial risk of a material adverse effect upon the condition of INET (financial or otherwise) or the results of operations or prospects of INET. No petition for certification has been filed and is pending before the National Labor Relations Board with respect to any employees of INET.

3.38 Trade Organization. Except as set forth on Schedule 3.38, INET is not a member of a customer or user organization or of a trade association.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF COYOTE

Coyote hereby represents and warrants to Sellers as follows:

4.1 Incorporation: Corporate Power. Coyote is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has full corporate power and authority to own or lease its properties and conduct its business as such business is now conducted. Coyote is qualified to transact the business in which it is engaged and is in good standing as a foreign corporation in every jurisdiction in which the character of its property or its ownership, leasing, licensing or use of property or assets, or where the nature or the conduct of its business, makes such qualification necessary, except where such failure to qualify will not have a material and adverse effect on Coyote.

4.2 Due Authorization of Agreement: No Conflict with Other Instruments. Coyote has taken all necessary and required action to authorize, ratify and approve this Agreement, the consummation of the transactions contemplated hereby and the performance by Coyote of all the terms and conditions hereof on the part of Coyote to be performed. This Agreement has been duly executed and delivered by duly authorized officers of Coyote and constitutes a valid and binding obligation of Coyote enforceable in accordance with its terms and conditions subject to

applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditor's rights and remedies generally and subject, as to enforceability, to general principles of equity, including commercial reasonableness, good faith and fair dealing, regardless of whether enforcement is sought in a proceeding at law or in equity. The execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, and the fulfillment of and compliance with the terms and provisions hereof do not and will not (i) violate any applicable law or regulation or any provision of any judicial or administrative order, award, judgment or decree applicable to Coyote or (ii) conflict with any of the terms, conditions or provisions of the Certificate of Incorporation or Bylaws of Coyote, of (iii) conflict with, result in the breach of or constitute a default under any mortgage, indenture, agreement or other instrument to which Coyote is a party of by which it is bound.

4.3 Authorization and Delivery of Shares. Coyote shall cause to be delivered to the Shareholders the number of Shares of Coyote common stock required under this Agreement. All Shares of Coyote common stock required to be delivered hereunder will at the time of such delivery be duly authorized and validly issued, fully paid and nonassessable, with all requisite Federal, state and local transfer taxes fully paid, free and clear of all liens, pledges, encumbrances, claims, equities and conditions enforceable by third parties (except to the extent, if any, that the Investment Letter, hereinafter referred to, constitutes such a condition) but subject to the Escrow Agreement hereinafter referred to as to those shares deposited in escrow thereunder.

4.4 Governmental Consents. Except as set forth in Schedule 4.4 or elsewhere herein, no material consent, approval, or authorization of, or exemption by, or filing with, any governmental or regulatory authority is required to effect the execution, delivery, and performance of this Agreement or the taking of any other action contemplated hereby, excluding, however, consents, approvals, authorizations, exemptions and filings, if any, that Sellers is required to obtain or make.

4.5 Absence of Material Changes. Except as set forth in its latest filing with the Securities and Exchange Commission, there are no lawsuits, government proceedings or investigations pending or threatened against Coyote which if determined adverse to Coyote would have a material and adverse effect on Coyote.

ARTICLE V

COVENANTS AND AGREEMENTS OF SELLERS AND INET PENDING CLOSING

Sellers and INET jointly and severally hereby covenant and agree with Coyote that:

5.1 Access to Records. From and after the date of this Agreement through the Closing Date, Sellers shall give, and shall cause INET to give, to the officers, independent accountants, attorneys and other accredited representatives of Coyote free and full access at reasonable times, upon reasonable notice, upon the premises of INET, to (i) the properties, books, records and all documents of or relating to INET, including any such records relating to INET that may be in the possession or custody of Sellers, (ii) the audit work papers and other records of INET of the independent accountants or INET; and (iii) such additional financial and operating data and other information concerning the business and properties of INET as Coyote shall from time to time reasonably request in writing, and shall provide adequate copying facilities; all in order that Coyote may have full opportunity to make such investigation as it shall reasonably desire of the condition and affairs of INET.

5.2 Compliance with Agreements; Preservation of Business. Sellers shall use their best efforts through the Closing Date to (i) cause INET and its officers and employees to comply with all applicable provisions and conditions of this Agreement, (ii) maintain adequate lines of credit to INET, (iii) maintain and preserve and cause INET and its officers and employees to maintain and preserve the properties and business of INET with its customers, employees, suppliers and others having business relationships with INET, and (iv) cause the business of INET to be conducted diligently and only in the ordinary course.

5.3 Conduct of Business. Sellers will use their best efforts, and Sellers will cause INET to use its best efforts, to conduct their affairs so that at Closing no representation or warranty of Sellers or INET will be inaccurate in any material respect. No covenant or agreement of Sellers will be breached and no condition in this Agreement will remain unfulfilled by reason of the actions or omissions of INET or Sellers.

5.4 Execution of Documents. Sellers will execute and deliver, or cause to be executed and delivered, such additional of further transfers, assignment, endorsements and other instruments as Coyote may reasonably request in writing for the purpose of carrying out this Agreement.

5.5 Insurance. Through the Closing Date, Sellers will cause INET to continue to carry its existing insurance, subject to variations in amount required by the ordinary operation of its business.

5.6 Consents and Approvals. Immediately upon the execution of this Agreement, Sellers shall make any and all appropriate filings and shall use its reasonable best efforts to obtain or make at the earliest practicable date and in any event before the Closing, all consents, governmental approvals and filings necessary to the consummation of the transactions contemplated hereby which are necessary to be obtained or made by Sellers and INET or which are reasonably requested by Sellers.

5.7 Advice of Changes. Until the Closing or the earlier rightful termination of this Agreement, INET and Sellers will immediately provide Coyote detailed written notice of any fact or occurrence or any pending or threatened occurrence of which any of them obtains knowledge in which (if existing and known at the date of the execution of this Agreement) would have been required to be set forth or disclosed in or pursuant to this Agreement or any Schedule hereto and which (if existing and known at any time prior to or at the Closing) would make the performance by any Party of a covenant contained in the Agreement impossible or make such performance materially more difficult than in the absence of such fact or occurrence or which (if

existing and known at the time of the Closing) would cause a condition to any Party's obligations under this Agreement not to be fully satisfied.

5.8 Best Efforts. Between the date hereof and the Closing Date, Sellers shall use their reasonable best efforts (i) to fulfill the conditions set forth in Article VII hereof and (ii) to cause the representations and warranties set forth in Article III hereof to remain true and correct. Notwithstanding the foregoing, Coyote's obligation to close hereunder shall not arise unless and until Sellers shall have fulfilled completely the conditions and obligations of Sellers contained in Article VII and the subsections thereof.

5.9 Confidentiality. Sellers will not, subsequent to Closing, disclose to anyone other than officer, advisors or agents of Coyote any confidential information concerning the business, accounts, finance, or contractual arrangements or any other dealings or transaction or affairs of INET. The terms and conditions of the Agreement shall be treated as confidential by all Parties, except, in each case, such information may be disclosed (i) where necessary to lenders and to any regulatory authorities or governmental agencies; (ii) if required by court order or decree or applicable law; (iii) if it is publicly available other than as the result of an unauthorized disclosure by Coyote; or (iv) if it is otherwise contemplated herein.

ARTICLE VI

COVENANTS AND AGREEMENTS OF COYOTE PENDING THE CLOSING

Coyote covenants and agrees that, except as otherwise consented to in writing by Sellers, prior to the Closing:

6.1 Consent and Approvals. Immediately upon the execution of this Agreement, Coyote shall use its reasonable best efforts to obtain or make at the earliest practicable date and in any event before the Closing, all consents, governmental approvals and filings necessary to the consummation of the transactions contemplated hereby which are necessary to be obtained or made by Coyote or which are reasonably requested by Sellers.

6.2 Full Disclosure. Until the Closing, Coyote shall, upon written request, provide Sellers, its officers, counsel, agents and other authorized representatives with such information and documentation concerning Coyote as may be reasonably necessary for Sellers to verify performance of and compliance with Coyote's representations, warranties, covenants and conditions herein contained.

6.3 Confidentiality. Unless and until the transactions contemplated hereby have been consummated or this Agreement is terminated pursuant to the terms contained herein, Coyote shall, and shall cause its officers, counsel, agents and other authorized representatives and affiliated parties to, hold in strict confidence, and not disclose to any other person or use in any way except in connection with the transactions contemplated hereby, without the prior written consent of Sellers, any information obtained from Sellers in connection with the transactions contemplated by this Agreement, except such information may be disclosed (i) where necessary to lenders and to any regulatory authorities or governmental agencies; (ii) if required by court order or decree or applicable law; (iii) if it is publicly available other than as the result of an unauthorized disclosure by Coyote; or (iv) if it is otherwise contemplated herein.

6.4 Best Efforts. Between the date hereof and the Closing Date, Coyote shall use its reasonable best efforts (i) to fulfill the conditions set forth in Article VIII hereof and (ii) to cause the representations and warranties set forth in Article IV hereof to remain true and correct.

6.5 Advice of Changes. Until the Closing or the earlier rightful termination of the Agreement, Coyote will immediately provide Sellers and INET detailed written notice of any fact or occurrence or any pending or threatened occurrence of which it obtains knowledge which (if existing and known at the date of the execution of this Agreement) would have been required to be set forth or disclosed in or pursuant to the Agreement or any Schedule hereto and which (if existing and known at any time prior to or at the Closing) would make the performance by any party of a covenant contained in this Agreement impossible or make such performance materially more difficult than in the absence of such fact or occurrence or which (if existing and know at the

time of the Closing) would cause a condition to any party's obligation under this Agreement not to be fully satisfied.

ARTICLE VII

CONDITIONS PRECEDENT TO OBLIGATIONS OF COYOTE TO CLOSE

All obligations of Coyote under this Agreement are subject to the fulfillment, prior to or at the Closing, of all of the conditions precedent set forth below. If Coyote in its reasonable judgment believes that Sellers are not in compliance, or are not likely to be in compliance with any of the following conditions, Coyote shall promptly notify Sellers in writing and give Sellers five (5) business days to cure such non-compliance.

7.1 Satisfaction of Coyote's Counsel. All actions, proceedings, instruments, opinions and all other related legal matters, shall be satisfied in form and substance to Counsel for Coyote in the exercise of reasonable judgment.

7.2 Representations and Warranties. All representations and warranties of Sellers or INET contained in this Agreement shall be accurate in all material respects when made and in addition shall be accurate in all material respects as of the Closing as though such representations and warranties were then made in exactly the same language by Sellers and, except as otherwise set forth herein, regardless of knowledge or lack thereof on the part of Sellers. Coyote shall have received a certificate signed by the Chief Executive Officer and the Chief Financial Officer of INET and on behalf of Sellers by _____, dated the Closing Date substantially in the form of Schedule 7.2.

7.3 Performance by Sellers. Sellers shall have performed and complied in all material respects with each and every covenant, agreement and condition required by the Agreement to be performed or complied with by them prior to or on the Closing Date.

7.4 Continuation of Employees. All of the employees set forth on Schedule 7.4 shall have agreed to continue in the employ of INET (or any successor to the assets and business of INET) upon such terms and conditions as shall be satisfactory to Coyote.

7.5 Articles of Incorporation and Bylaws. Sellers shall have delivered to Coyote a copy of the Articles of Incorporation and a Certificate of Good Standing for INET, certified by the Secretary of State of California not more than five (5) days prior to the Closing Date, and a copy of INET's Bylaws, certified by the Secretary of INET as of the Closing Date.

7.6 Opinion of Seller's Counsel. Sellers shall have delivered to Coyote an opinion of counsel to Sellers, dated the Closing Date, satisfactory in form and substance to Coyote and its counsel, to the effect that:

7.6.1 Sellers and INET, respectively, have all requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby to be performed by them.

7.6.2 This Agreement has been duly authorized, executed and delivered by Sellers and INET and, assuming due authorization, execution and delivery by Coyote, is the legal, valid and binding obligation of Sellers enforceable against Sellers in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity, including commercial reasonableness, good faith and fair dealing, regardless of whether enforcement is sought in a proceeding at law or in equity.

7.6.3 No consent, approval or authorization of any governmental or regulatory authority is required in connection with the execution and delivery by Sellers of this Agreement or the consummation by Sellers of the transaction contemplated hereby to be performed by it, other than such as may have been obtained.

7.6.4 All of the issued and outstanding INET Stock has been validly issued, is fully paid and nonassessable and is registered in the stock register of INET in the name of Sellers.

7.6.5 The offer, transfer and sale of the shares of INET to Coyote do not require registration under the Securities Act of 1933 and there exists an applicable exemption from the registration requirements of the Securities Act of 1933.

In rendering such opinion, such counsel may rely to the extent such reliance is reasonable (i) as to factual matters upon certificates and other documents furnished by INET or Sellers, by officers or directors of either Sellers or INET or by governmental official; (ii) opinions of local counsel, and (iii) upon such other documents and information as such counsel may deem appropriate and reasonable as a basis for such opinion. Such opinion may be limited to the laws of the State of California, federal laws of the United States and contain customary qualifications and exceptions.

7.7 Satisfaction of Federal, State and Local Tax Liability. Sellers shall have delivered to Coyote such documentation as Coyote shall reasonably require to evidence that INET has made all payments due at or before the Closing Date with respect to any applicable federal, state and local taxes.

7.8 Legal Actions. There shall not have been instituted or threatened any legal proceeding relating to or seeking to prohibit or otherwise challenge consummation of transactions contemplated by this Agreement or to obtain substantial damages with respect thereto.

7.9 Other Consents or Information Needed. Sellers shall have obtained and provided to Coyote, at or prior to the Closing, all the consents for the agreements set forth on Schedule 7.9 in addition to those required for the consummation of the transactions contemplated by this

Agreement from any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which any of them or any subsidiary is a party or to which any of their respective business properties or assets are subject.

7.10 Closing Documents. Sellers shall have delivered to Coyote at Closing all of the Documents set forth in Section 9.1 and such other documents as Coyote may reasonably request in writing at least two business days prior to Closing.

7.11 Releases. Coyote shall have received releases, which shall be satisfactory in form and substance to counsel for Coyote in the exercise of its reasonable judgment, from the following:

7.11.1 Individuals

- (a) Julia Panama
- (b) Helene Legendre
- (c) Genevieve Gombert
- (d) Claude Buchert
- (e) Scott Nauert

7.11.2 Corporations

- (a) Receivables Funding Corporation under the Warrant Agreement dated February 13, 1996 or any other agreement or instruments convertible into equity.

7.11.3 Schedule of Debt

(a) Short Term Loan - Master Communications	\$15,000.00
(b) Short Term Loan - Julia Panama	\$60,388.76
(c) Short Term Loan - Claude Buchert	\$(26,752.24)
(d) Short Term Loan - Helene Legendre	\$10,903.82
(e) Short Term Loan - Genevieve Gombert	\$41,788.00

(f) Short Term Loan - Gilcrest	\$97,200.00
(g) Accrued Interest Short Term Loan	\$43,239.90
Subtotal	\$241,768.24

7.12 Closing Certificate. Coyote shall have received a certificate dated the Closing Date and signed by officers of INET and Sellers certifying, as appropriate, the satisfaction of the conditions set forth in this Article VII.

7.13 Subscription Agreement. Coyote shall have received from each Seller signed subscription agreements attached hereto as Exhibit D ("Subscription Agreement") and such other documents as Coyote may reasonably request in connection therewith.

ARTICLE VIII

CONDITION PRECEDENT TO OBLIGATIONS OF SELLERS TO CLOSE

All obligations of Sellers under this Agreement are, at Sellers' option, subject to the fulfillment, prior to or at the Closing, of the conditions precedent that all actions, proceedings, instrument, opinions and documents required to carry out this Agreement or incident thereto, and all other related legal matters, shall be satisfactory in form and substance to counsel for Sellers. If Sellers, in its reasonable judgment, believes that Coyote is not in compliance or is not likely to be in compliance with the following conditions, Sellers shall promptly notify Coyote in writing five (5) business days to cure such non-compliance.

8.1 Satisfaction of Sellers' Counsel. All actions, proceedings, instruments, opinions and all other related legal matters, shall be satisfactory in form and substance to counsel for Sellers in the exercise of its reasonable judgment.

8.2 Representations and Warranties True. The representations and warranties contained in Article IV hereof and in all certificates delivered by Coyote to Sellers pursuant hereto or in connection with the transactions contemplated hereby shall be true and accurate as of

the date when made and shall be deemed to be made again at and as of the closing Date and shall then be true and accurate in all material respects. INET shall have received a certificate signed by the Controller of Coyote dated the Closing Date substantially in the form of Schedule 7.2.

8.3 Performance of Covenants. Coyote shall have performed and complied in all material respects, with each and every covenant, agreement and condition required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

8.4 No Governmental or Other Order. No order of any court or administrative agency shall be in effect, which restrains or prohibits the transactions contemplated hereby.

8.5 Opinion of Coyote's Counsel. Coyote shall have delivered to Sellers an opinion of counsel to Coyote, dated the Closing Date, in a form satisfactory to Seller and its counsel, to the effect that:

8.5.1 Coyote has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby to be performed by it.

8.5.2 This Agreement has been duly authorized, executed and delivered by Coyote and, assuming due authorization, execution and delivery by Sellers and INET, is the legal, valid and binding obligation of Coyote enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity, including commercial reasonableness, good faith and fair dealing, regardless of whether enforcement is sought in a proceeding at law or in equity.

8.5.3 No consent, approval or authorization of any governmental or regulatory authority is required in connection with the execution and delivery by Coyote of this

Agreement or the consummation by Coyote of the transactions contemplated hereby to be performed by them other than such as may have been obtained.

8.5.4 The Shares of Coyote being issued pursuant to this Agreement will be duly authorized and validly issued and are fully paid and non-assessable.

In rendering such opinion, such counsel may rely to the extent such reliance is reasonable (i) as to factual matters upon certificates and other documents furnished by Coyote, by officers or directors of Coyote or by governmental official; (ii) opinions of local counsel, and (iii) upon such other documents and information as such counsel may deem appropriate and reasonable as a basis for such opinion. Such opinion may also be limited to the federal laws of the United States and the law of the State of California and contain customary qualifications and exceptions.

8.6 Closing Certificate. Sellers shall have received a certificate dated the Closing Date and signed by officers of Coyote certifying as appropriate as to the satisfaction of the conditions set forth in this Article VIII

8.7 Legal Actions. There shall not have been instituted or threatened any legal proceeding relating to or seeking to prohibit or otherwise challenge consummation of transactions contemplated by the Agreement or to obtain substantial damages with respect thereto.

ARTICLE IX

DOCUMENTS TO BE DELIVERED AT CLOSING

9.1 Documents to be Delivered by Sellers. At or prior to the Closing, Sellers shall deliver, or cause to be delivered, the following:

9.1.1 Share certificates and transfer forms for the Capital Stock.

9.1.2 Minute Books of INET.

9.1.3 Bylaws of INET.

9.1.4 Stock Ledgers and Stock Transfer Books of INET.

9.1.5 A certificate dated as of the Closing Date signed by _____, certifying that the conditions set forth in Sections 7.2 and 7.3 have been satisfied.

9.1.6 The opinion of counsel called for in Section 7.6

9.1.7 A letter of direction from Sellers regarding direction for payment of the Closing Cash of the Purchase Price.

9.1.8 INET Secretary's Certificate and a certificate copy of the Certificate of Incorporation of INET.

9.1.9 Copies of the resolutions of the board of directors of INET with respect to their authority to enter into and consummate the transactions contemplated hereunder

9.1.10 The releases called for by Section 7.11.

9.1.11 Executed Subscription Agreements called for in Section 7.13.

9.2 Documents to be Delivered by Coyote. At or prior to the Closing, Coyote shall deliver, or cause to be delivered, the following:

- 9.2.1 Evidence of the wire transfer.
- 9.2.2 Evidence of the establishment of the Escrow Account.
- 9.2.3 The opinion of counsel provided for in Section 8.5.

9.2.4 A copy of the resolutions of the board of directors of Coyote with respect to its authority to enter into and consummate the transactions contemplated hereunder.

9.2.5 A Certificate dated as of the Closing Date signed by Chief Financial Officer of Coyote certifying that the conditions set forth in Sections 9.2 and 9.3 have been satisfied.

ARTICLE X TERMINATION

10.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

10.1.1 by mutual consent of the parties;

10.1.2 by any Party if the Closing has not been held on or before June 30, 1998, because the conditions in Articles VII and VIII have not been satisfied, subject to the terms of this Article XI, by giving written notice to the other Parties, provided that the failure to close is not due to the willful breach or delay of the Party seeking to terminate this Agreement;

10.1.3 by either Sellers, on the one hand, or Coyote, on the other hand, if there has been a material misrepresentation of material breach on the part of the other Party in the representations, warranties, or covenants set forth in this Agreement which is not cured within five (5) business days after such other party has been notified of the intent to terminate this Agreement pursuant to this clause 10.1.3; or

10.1.4 by Coyote with two (2) business days after Coyote has received notice under Article 5 of a supplement or amendment to any Schedule which has disclosed any material adverse change in the financial condition, assets, properties or business of Sellers.

10.2 Effect of Termination. In the event of termination of this Agreement as expressly permitted under Section 10.1 hereof, this Agreement, except for the obligations of the Parties contained in this Section 10.2 and in Section 6.3, 10.1, 11.2 and 11.3, each of which shall survive and be a continuing obligation, shall forthwith become void and there shall be no liability on the part of any party hereto or any of their respective officers, directors, or affiliates. In the event of termination hereunder Coyote shall return promptly to Sellers or certify to Sellers that it has destroyed all documents, work papers and other material of Sellers furnished or made available to Coyote or its representatives or agents, and all copies thereof, and agrees that no information received from Sellers or INET or their respective representatives or agents shall be revealed by Coyote or its representatives or agents to any third party or used for the advantage of Coyote or any other person.

10.3 Extension: Waiver. At any time prior to the Closing Date, either Sellers, on the one hand, or Coyote, on the other hand, may: (i) extend the time for the performance of any of the obligations of other acts of the other Party hereto; (ii) waive any inaccuracies in the representations and warranties of the other Party hereto contained herein or in any document delivered pursuant hereto; (iii) waive compliance with any of the agreements or conditions of or relating to another Party contained herein. Any agreement on the part of a Party hereto to any such extension or waiver shall be valid if set forth in any instrument in writing signed on behalf

of such Party. The waiver by any Party hereto of a breach of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

ARTICLE XI

OTHER AGREEMENTS AND COVENANTS

11.1 Fees and Expenses. Sellers shall bear all expenses incurred by the Sellers and INET shall bear no expenses in connection herewith. Coyote shall bear its own fees and expenses incurred in connection herewith.

11.2 Sellers' Indemnification. Except as otherwise provided in Section 11.5, from and after the Closing, Sellers hereby agree to indemnify Coyote and INET, and any successor to the business or assets of Coyote and INET, and hold them harmless from and in respect of any loss, liability, damages, deficiencies, costs or expenses accruing from or resulting by reason of any breach of any of the representations, warranties, covenants or agreements made or to be performed by Sellers or INET pursuant to this Agreement or from any misrepresentations in, or from any instrument furnished or to be furnished hereunder. Sellers shall indemnify and hold harmless Coyote and INET, and any successor to the business of Coyote or INET, from all suits, actions, proceedings, demands, assessments, judgments, costs, reasonable attorneys' fees and expenses incidental to any of the foregoing. Coyote or INET shall notify Sellers in writing of the existence of any matter to which the obligations set forth in this Section 11.2 shall apply, in the manner specified in Section 11.4 hereof which shall set forth the amount of the indemnity claim to be paid to Coyote, if known to Coyote. Sellers agree to pay to Coyote the amount of the indemnity claim within ten (10) days of receipt of Coyote's notice, or Sellers shall dispute its obligation to pay such amount in full to Coyote by setting forth the basis of its objection in a written notice to Coyote with in such ten (10) business day period. If the amount is agreed to and not timely paid, or is not timely disputed, Coyote may obtain payment for such claim by a draw against the Escrow. The Parties specifically agree that, subject to the provisions of Section 11.5, the indemnification provided herein shall apply according to its terms regardless of the materiality or lack thereof with respect to any claim Coyote may have pursuant to the indemnity provided therein, without limiting the generality of the foregoing.

11.2.1 From and after the Closing, but subject to the limitations set forth elsewhere in this Section 11, Sellers shall indemnify and hold Coyote and INET harmless from and against any loss, liability, expense (including its reasonable attorneys' fees) of other damage incurred based upon or caused by or arising out of the use, storage or disposal of any hazardous material in the course of carrying on the business of INET up to and including the Closing Date.

11.2.2 Sellers hereby agree to indemnify and hold Coyote and INET and their respective officers and directors harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, reasonable fees and disbursements of counsel) which may be incurred by or asserted against Coyote or INET arising out of or in connection with any investigation, litigation or proceeding related to the acquisition of INET.

11.2.3 Sellers hereby agree to indemnify and hold Coyote and INET harmless from and against any claims arising out of or related to the employment and termination of any executive of INET whose employment was terminated by INET prior to the Closing Date.

11.3 Coyote's Indemnification. Coyote hereby agrees to indemnify Sellers and hold them harmless from and in respect of any loss, liability, damages or deficiencies, costs or expenses accruing from or resulting by reason of any breach of any of the representations, warranties, covenants or agreements made or to be performed by Coyote pursuant to this Agreement or from any misrepresentations in, or from any instrument furnished or to be furnished hereunder. Sellers shall notify Coyote in writing in accordance with Section 11.7 herein of the existence of any matter to which this indemnification obligation shall apply.

11.4 Duty to Defend. The liability of Sellers to indemnify Coyote or INET against any claims or liabilities asserted them pursuant to Section 11.2 hereof shall be conditioned upon the

giving of written notice, by certified or registered mail, by Coyote or INET, its assigns or successors, to Sellers as provided herein, of the assertion of any such claim or liability, within a reasonable period from the receipt thereof by Coyote or INET. Promptly, after receipt of such notice (and in any event within applicable periods prescribed by law and court rules and regulations), Sellers may either, at its option, compromise (without the written consent of Coyote or INET if only money damages are in issue, and otherwise subject to the prior written consent of Coyote or INET, such consent not to be unreasonably withheld) or defend such claim or liability by counsel of Sellers' own choosing, at Sellers' own expense. If the defense of such matter is tendered to Sellers by the notice set forth above and Sellers decline or otherwise fail to (i) promptly pay or settle the same or (ii) vigorously investigate and defend the same, Coyote or INET may investigate and defend the same and Sellers will reimburse Coyote or INET for all judgments, settlement payments, costs and reasonable expenses, including reasonable attorneys' fees as incurred, in connection therewith. In the event Coyote or INET shall receive a notice of investigation or audit from the U.S. Internal Revenue Service or other taxing authority, which investigation or audit includes or pertains to any period of time prior to the Closing, then Coyote or INET shall send written notice of such notice of investigation or audit to Sellers within ten (10) days of receipt thereof. Sellers shall have the right to participate in, but not control, such investigation or audit.

11.5 Minimum for Indemnification. No claims shall be made for indemnification under Section 11.2 or 11.3 or for breach of any representation, warranty or covenant unless and until, in the aggregate, the amount of such claims exceeds one hundred thousand dollars (\$100,000.00) and then only to the extent such claims in the aggregate exceed one hundred thousand dollars (\$100,000.00) provided, however, that no amount greater than the Purchase Price may be recovered by either party from the other pursuant to this Section 11.

11.6 Other Rights and Remedies Not Affected. Except to the extent limited by Section 11.5, the indemnification rights of Coyote or INET under this Article XI are independent of and in addition to such rights and remedies as Coyote or INET may have at law or in equity or otherwise for any misrepresentation, breach of warranty or failure to fulfill any agreement or

covenant hereunder on the part of the Seller, including without limitation the right to seek specific performance, rescission or restitution, none of which rights or remedies shall be affected or diminished hereby.

11.7 No Solicitation of Hiring. Sellers agree that after the date hereof, they will not solicit for employment or employ or in any other fashion hire persons who are employees of INET on the date hereof for a period ending two (2) years after the Closing, unless such persons have been discharged by INET.

11.8 Covenant not to Compete. The Parties acknowledge this is a transfer of all capital shares of INET stock held by the Sellers and that the Sellers fall within the exception, provided by California Code, to the general rule invalidating non-compete agreements and except as provided herein, Sellers will not, for a period of three (3) years from and after the Closing Date, directly or indirectly, own, manage, operate, finance, join, control or participate in the ownership, management, operation, financing or control of, or be connected in any material way as partner, principal, agent, representative, consultant or otherwise with, or use or permit their names to be used in connection with, that part or any business or enterprise engaged in a business competitive to INET. In the event that the provisions of this Section 11.8 should ever be deemed to exceed the time, geographic, product or other limitations permitted by applicable law in any jurisdiction, then such provision shall be deemed reformed in such jurisdiction to the maximum time, geographic, product, or other limitation permitted by applicable. Sellers specifically acknowledge and agree that the foregoing restrictions are reasonable and necessary to protect the legitimate interests of Coyote, that Coyote would not have entered into this Agreement in the absence of such restrictions, that any violation of such restrictions will result in irreparable injury to Coyote, that the remedy at law for any breach of the foregoing restrictions will be inadequate, and that, in the event of any such breach, Coyote, in addition to any other relief available to it, shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damages. Sellers further specifically acknowledge and agree that Coyote shall be entitled to an equitable accounting of all earnings, profits and other benefits arising from any such breach, and further agrees to pay the reasonable legal fees, costs and expenses incurred by

Coyote or any successor of permitted assign thereof in enforcing the restrictions contained in this Section 11.

ARTICLE XII
GENERAL PROVISIONS

12.1 Survival. The representations, warranties, covenants and agreements contained in or made pursuant to this Agreement by Sellers shall survive the Closing date for a period of eighteen (18) months irrespective of any investigation made by or on behalf of Coyote. The decision of Coyote to complete the Closing and the delivery of the Purchase Price shall not be deemed to be a waiver of Coyotes' rights hereunder.

12.2 Counterparts. This Agreement may be executed in any number of counterparts, and any party hereto may execute any such counter part, each of which when executed and delivered shall be deemed to be an original, and all of which counterparts taken together shall constitute but one and the same instrument. This Agreement shall become binding when one or more counterparts taken together shall have been fully executed and delivered by the parties. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other fully executed counterparts.

12.3 Successors and Assigns. The rights and obligations of Sellers under this Agreement shall not be assignable without the written consent of Coyote. The rights and obligations of Coyote hereunder shall not be assignable without the written consent of Sellers except to any entity controlling, controlled by or under common control with Coyote. Subject to the foregoing limitation on assignment, the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Nothing herein expressed or implied is intended to confer upon any person, other than the parties hereto or named herein and their respective successors or permitted assigns, any right, remedy, obligation or liability under or by reason of the Agreement.

12.4 Finders. Each party hereto represents and warrants to the other that it has had no dealing with any broker or finder in connection with the transactions contemplated by the Agreement except for Mr. Scott Nauert on behalf of the Sellers and that Sellers shall pay all fees and expenses incurred by it with respect to such broker or finder in connection with the transactions contemplated herein.

12.5 Attorney's Fees. In the event suit is brought to enforce or interpret any part of this Agreement or the rights or obligations of any party to this Agreement, the prevailing party shall be entitled to recover as an element of such party's cost of suit, and not as damages, a reasonable attorney's fee to be fixed by the court. The prevailing party shall be the party who is entitled to recover his costs of suit whether or not the suit proceeds to final judgment. A party not entitled to recover his costs shall not recover attorney's fees. No sum for attorney's fees shall be counted in calculating the amount of the judgment for purposes of determining whether a party is entitled to recover his costs or attorney's fees.

12.6 Entire Agreement. The Agreement constitutes and contains the entire and only agreement between the Parties concerning the subject matter hereof and supersedes and cancels any and all pre-existing agreements and understandings between the Parties relating to the subject matter hereof.

12.7 Amendments. This Agreement may be amended only by a written instrument executed by or on behalf of each of the Parties hereto.

12.8 Notices. Any notice, request or other document to be given hereunder to a Party shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed to such Party as follows:

If to Sellers:

Copy to:

If to INET:

or to such other address as Sellers or INET, as the case may be, may from time to time designate by written notice to Coyote.

If to Coyote:

Mr. Daniel Latham
President
Coyote Technologies, LLC
4360 Park Terrace Drive
Westlake Village, CA 9136

Copy to:

Joseph E. Carpenter, Jr., PA
6682 NW 16th Terrace
Ft. Lauderdale, FL 33309

or such other address as Coyote may from time to time designate by written notice to Sellers.

12.9 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

12.10 Paragraph, Article and Section Heading. The paragraph, article and section headings used herein are for convenience of reference only and are not a part of this Agreement and shall not be used as such.

12.11 Schedules and Recitals. The recitals and schedules attached hereto are made a part of this Agreement as if fully included in the text hereof.

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

Interactive Network Systems, Inc

By: _____

Date: _____

Claude Buchert

By: _____

Date: _____

Helene Legendre

By: _____

Date: _____

Coyote Network Systems, Inc.

By: _____

Date: _____

EXHIBIT A
PLAN OF MERGER

EXHIBIT B
EARN OUT AGREEMENT

EXHIBIT C
ESCROW AGREEMENT

EXHIBIT D
SUBSCRIPTION AGREEMENT

EXHIBIT B

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
(In Thousands)

	December 31, 1997	March 31, 1997
	(Unaudited)	

Assets

Current assets		
Cash and cash equivalents	\$ 6,795	\$ 81
Marketable securities	1,180	—
Receivables	999	4,594
Inventories	3,298	2,937
Net assets of discontinued operations	—	893
Other current assets	913	1,716
Total current assets	13,185	10,221
Property and equipment	1,672	1,944
Intangible assets	3,595	3,755
Net assets of discontinued operations	3,123	7,308
Other assets	2,948	16
	\$ 24,523	\$ 23,244

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable	\$ 1,635	\$ 2,559
Accrued liabilities	1,227	1,360
Accrued common stock conversion expense	5,522	—
Accrued common stock warrant expense	494	—
Current portion of long-term debt	141	141
Total current liabilities	9,019	4,060
11.25% subordinated debentures, due 2002	1,676	1,817
8.0% convertible notes, due 2000	5,000	—
Other liabilities	513	533
Shareholders' equity		
Preferred stock - \$.01 par value	—	—
Common stock - \$1 par value	8,816	6,007
Additional paid-in capital	84,847	80,124
Accumulated deficit	(79,411)	(63,540)
Unrealized (loss) on marketable securities	(180)	—
Treasury stock	(5,757)	(5,757)
Total Shareholders' equity	8,315	16,834
	\$ 24,523	\$ 23,244

COYOTE NETWORK SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(In Thousands, Except Per Share Amounts)

	3 Months Ended <u>Dec 31, 1997</u>	12 Weeks Ended <u>Jan 4, 1997</u>	9 Months Ended <u>Dec 31, 1997</u>	40 Weeks Ended <u>Jan 4, 1997</u>
Net Sales	\$ 1,659	\$ 2,552	\$ 2,709	\$ 7,059
Cost of sales	<u>516</u>	<u>710</u>	<u>958</u>	<u>1,747</u>
Gross profit	1,143	1,842	1,751	5,312
Selling and Administrative expenses	3,056	3,965	9,182	8,555
Engineering, Research and Development	<u>1,395</u>	<u>1,798</u>	<u>2,692</u>	<u>3,035</u>
Total operating expenses	<u>4,451</u>	<u>5,763</u>	<u>11,874</u>	<u>11,590</u>
Operating loss	(3,308)	(3,921)	(10,123)	(6,278)
Interest expense	(150)	(7)	(273)	(52)
Non-operating income (loss)	44	(626)	48	(281)
Non-operating expense	—	—	(5,522)	—
Minority interest	—	55	—	181
Income tax credit	<u>—</u>	<u>836</u>	<u>—</u>	<u>836</u>
Loss from continuing operations	(3,414)	(3,663)	(15,870)	(5,594)
Loss from discontinued operations	—	(223)	—	(625)
Estimated loss on disposal of discontinued operations	<u>—</u>	<u>(2,050)</u>	<u>—</u>	<u>(5,550)</u>
Loss before extraordinary item	(3,414)	(5,936)	(15,870)	(11,769)
Extraordinary item	<u>—</u>	<u>—</u>	<u>—</u>	<u>(227)</u>
Net loss	<u>\$ (3,414)</u>	<u>\$ (5,936)</u>	<u>\$ (15,870)</u>	<u>\$ (11,996)</u>
Loss per common share (basic & diluted):				
Continuing operations	\$ (.44)	\$ (.69)	\$ (2.37)	\$ (1.06)
Discontinued operations	—	(.04)	—	(.12)
Estimated loss on disposal	—	(.39)	—	(1.06)
Extraordinary item	<u>—</u>	<u>—</u>	<u>—</u>	<u>(.04)</u>
Net loss per common share (basic & diluted)	<u>\$ (.44)</u>	<u>\$ (1.12)</u>	<u>\$ (2.37)</u>	<u>\$ (2.28)</u>
Weighted average number of common shares outstanding (basic & diluted)	7,844	5,294	6,685	5,263

EXHIBIT C

Interactive Network System, Inc. (INE)
Income Statement

	FY96	FY97
INCOME/EXPENSES		
Sales		
Direct Billing	\$417,126	\$544,829
Local Carriers	\$2,576,738	\$5,344,268
Bad Debt Reserve not reimb by LEC/OAN	(\$16,010)	
Rejected Calls	(\$25,472)	(\$62,737)
Frontier Duplicate Calls	(\$65,935)	
Cross T-1 Wholesale		\$52,391
Direct Billing (Merchant Sales)		\$422,022
Prepaid Cards Merchant Sales	\$164,001	
Merchant Sales Direct Billing	\$35,317	
Softalk		\$12,597
Total Sales	\$3,086,785	\$6,313,170
TOTAL INCOME	\$3,086,785	\$6,313,170
Network Cost		
Frontier		\$3,109,431
Reimb. duplicate calls (Frontier)		\$110,674
Frontier Calling Card		\$177,582
Fraud Calling Cards (Frontier)		\$16,316
Frontier 800		\$16,628
Prepaid Cards		\$10,999
Call Back		\$82,051
Frontier Misc.		\$2,343
Star Telecommunications		\$320,410
USAGL		\$335,586
ICG Switch		\$205,445
Cable Wireless/TNET		\$268,587
T CAST		\$56,376
Pacific Gateway Exchange		\$100,040
Total Network Cost	\$2,782,534	\$4,812,466
Outsource Billing Cost		
Clearing House OAN		\$122,691
NBE		\$32,989
LEC		\$86,624
Profitac		\$16,071
GTE		\$40,653
Billing Other		\$635
Total Outsource Billing Cost	\$166,817	\$299,665