SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D
Under the Securities Exchange Act of 1934

NESTOR, INC.
(Name of Issuer)

Common Stock, $0.01 par value
(Title of Class of Securities)

64107410
(CUSIP Number)

David P. Stokes
Transaction Systems Architects, Inc.
224 South 108th Avenue
Omaha, Nebraska 68154
(402) 334-5101
(Name, Address and Telephone Number of Person Authorized
to receive Notices and Communications)

Copy to:

Neal A. Klegerman
Baker & McKenzie
One Prudential Plaza
130 East Randolph Drive
Chicago, Illinois 60601
(312) 861-8000

April 28, 1998
(Dates of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of $240.13d-1(e), 240.13d-1(f) or 240.13d-1(g) check the following box [ ].

Note: Schedules filed in paper format shall include a signed original and five copies of the Schedule, including all exhibits. See $240.13d-7(b) for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 64107 410

13D

1. Name of reporting person S.S. or I.R.S. Identification No. of above person

   Transaction Systems Architects, Inc., I.R.S. Identification No.: 47-0772104

2. Check the appropriate box if a member of a group (a)
   (b)

3. SEC Use Only

4. Sources of Funds

   WC

5. Check if disclosure of legal proceedings is required pursuant to Items 2(d) or 2(e)

6. Citizenship or place of organization Delaware

Number of Shares Beneficially Owned by Each Reporting Person with:	7.	Sole Voting Power 5,000,000
	8.	Shared Voting Power 0
	9.	Sole Dispositive Power 5,000,000
	10.	Shared Dispositive Power 0

11. Aggregate amount beneficially owned by each reporting person 5,000,000 shares of Common Stock

12. Check box if the aggregate amount in row (11) excludes certain shares x

13. Percent of class represented by amount in row (11)
26.7%

14. Type of reporting person
HC, CO

Item 1. Security and Issuer

The class of equity securities to which this statement relates is shares of common stock, par value $.01 per share (the "Common Stock") of Nestor, Inc., a Delaware corporation (the "Company"). The principal executive offices of the Company are located at One Richmond Square, Providence, Rhode Island 02906.

Item 2. Identity and Background.

(a)-(c), (f) This statement is filed by Transaction Systems Architects, Inc., a Delaware corporation ("TSA"). TSA develops, markets and supports a broad line of software products and services primarily focused on facilitating electronic payments. The principal executive offices of TSA are located at 224 South 108th Avenue, Omaha, Nebraska 68154.

The name, business address and present principal occupation or employment of each director and executive officer of TSA and the name, principal business and address of any corporation or other organization in which such employment is conducted is set forth below. Each such person is a citizen of the United States of America, except for Don McLarty who is a citizen of Canada. Unless otherwise indicated below, the business address of each such person is 224 South 108th Avenue, Omaha, Nebraska 68154.

William E. Fisher is a director and President and Chief Executive Officer of TSA and Chief Executive Officer of Applied Communications, Inc., a wholly-owned subsidiary of the Company ("ACI")

David C. Russell is a director and Senior Vice President of TSA and President of ACI.

Promod Haque, a director of TSA, is Vice President and General Partner of Norwest Venture Capital, Inc. The business address of Mr. Haque is Norwest Venture Capital, Inc., 245 Lytton Avenue, Suite 250, Palo Alto, CA 94301.

Charles E. Noell, III, a director of TSA, is the Managing Partner of JMI Equity Fund, L.P., a private investment fund. The business address of Mr. Noell is JMI Equity Fund, L.P., 12680 High Bluff Drive, Number 200, San Diego, CA 92130-2002.

Jim D. Kever, a director of TSA, is President and Co-Chief Executive Officer of Envoy Corporation. Envoy provides electronic processing services, primarily to the healthcare industry. The business address of Mr. Kever is Envoy Corporation, Two Lakeview Place, 15 Century Boulevard, Suite 600, Nashville, NC 37214.

Larry G. Fendley, a director of TSA, is Executive Vice President, Product Delivery Services for CSG Systems, Inc., a subsidiary of CSG Systems International, Inc. CSG Systems provides customer management solutions to the communications industry. The business address of Mr. Fendley is CSG Systems, Inc., 2525 North 117th Avenue, Omaha, NE 68164.

David P. Stokes is General Counsel of TSA.

Gregory J. Duman is Chief Financial Officer and Treasurer of TSA.

Edward H. Mangold is Senior Vice President- Americas Region of TSA.

Thomas H. Boje is Vice President-EMEA Region of TSA. The business address of Mr. Boje is 59 Clarendon Road, Watford, Herts WD1 1LA, England.

Don McLarty is Vice President-Asia/Pacific Region of TSA. Mr. McLarty's business address is 182 Clemenceau Avenue, #04-00, Singapore 239923.

Fred L. Grabher is Vice President-Crystal Clear of TSA and President of Crystal Clear Technology, a wholly-owned subsidiary of TSA. Mr. Grabher's business address is 212 South 108th Avenue, Omaha, NE 68154.

Mark R. Vipond is Vice President-USSI of TSA and President of U.S. Software, Inc., a wholly-owned subsidiary of TSA. Mr. Vipond's business address is 2200 Abbott Drive, Carter Lake, IA 51510.

Stephen J. Royer is Vice President-Grapevine of TSA and President of Grapevine, a wholly-owned subsidiary of TSA. Mr. Royer's business address is 218 South 108th Avenue, Omaha, NE 68154.

Jeffrey S. Hale is Vice President-Product Company of TSA.

Dwight G. Hanson is a Vice President of TSA.

(d) and (e) Neither TSA nor, to the knowledge of TSA, any of the other persons specified in Item 2 above has during the last five years (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

Pursuant to a Securities Purchase Agreement dated as of April 28, 1998 between the Company and TSA (the "Securities Purchase Agreement"), which is attached hereto as Exhibit 1 and incorporated herein by reference, TSA acquired (i) 2,500,000 shares of Common Stock of the Company (the "Shares") and (ii) a Warrant to purchase up to 2,500,000 additional shares of Common Stock of the Company at an exercise price of $3.00 per share, a copy of which is attached hereto as Exhibit 2 and incorporated herein by reference (the "Warrant"). The aggregate purchase price for the Shares and Warrant was $5,000,000, $4,500,000 of which was paid in cash and the balance of $500,000 was paid through the forgiveness by TSA of the outstanding principal under a Loan Agreement between TSA and the Company dated March 25, 1998 further described in Item 6 below, which is attached hereto as Exhibit 3 and incorporated herein by reference (the "Loan Agreement"). The Warrant is presently exercisable.

The purchase of the Shares and Warrant was consummated on April 28, 1998. TSA used working capital for the purchase of the Shares and Warrant. As of the date hereof, it is expected that if and when TSA elects to exercise the Warrant, the source of the necessary funds would be working capital.

ACI and the Company were parties to a Prism Non-Exclusive License Agreement dated September 19, 1996 as amended April 19, 1997 and January 14, 1998. Concurrently and in connection with entering into the Securities Purchase Agreement, ACI and the Company entered into an Amended and Restated License Agreement, which is attached hereto as Exhibit 4 and incorporated herein by reference (the "License Agreement"), providing for distribution, licensing and support of Nestor's suite of fraud detection software products.

Three executive officers of TSA beneficially own shares of Common Stock of the Company. Edward H. Mangold has purchased using personal funds an aggregate of 20,000 shares of Common Stock for an aggregate purchase price, excluding brokerage commissions, of $43,621 in open market transactions through a broker. Stephen J. Royer has purchased using personal funds an aggregate of 10,000 shares of Common Stock for an aggregate purchase price, excluding brokerage commissions, of $19,187.50 in open market transactions through a broker. Gregory J. Duman has purchased using personal funds an aggregate of 1,000 shares of Common Stock for an aggregate purchase price, excluding brokerage commissions, of $1,312 in open market transactions through a broker.

Item 4. Purpose of Transaction.

TSA purchased the Shares and the Warrant for investment purposes concurrently and in connection with entering into the License Agreement. TSA

will continue to evaluate its investment in the Company on the basis of various factors, including the Company's business, financial condition, results of operations and prospects, general economic and industry conditions, the securities markets in general and those for the Company's securities in particular, TSA's own financial condition, other investment opportunities and other future developments. Based upon such evaluation, TSA will take such actions in the future as TSA may deem appropriate in light of the circumstances existing from time to time. Depending on market and other factors, TSA may exercise the Warrant, seek to acquire additional shares of Common Stock of the Company in the open market or in private transactions, determine to dispose of all or a portion of the Shares or the shares of Common Stock underlying the Warrant or to enter into option or other transactions (including, without limitation, hedging transactions) with third parties with respect to the Common Stock of the Company.

Concurrently and in connection with entering into the Securities Purchase Agreement, the Company and TSA entered into a Registration Rights Agreement, which is attached hereto as Exhibit 5 and incorporated herein by reference (the "Registration Rights Agreement"). Subject to the terms of the Registration Rights Agreement, TSA may dispose of the Shares or the shares underlying the Warrant.

The three executive officers of TSA that hold shares of Common Stock of the Company (each, an "Individual Holder") purchased such shares for investment purposes. Each Individual Holder will continue to evaluate his investment in the Company on the basis of various factors, including the Company's business, financial condition, results of operations and prospects, general economic and industry conditions, the securities markets in general and those for the Company's securities in particular, the financial condition of such Individual Holder, other investment opportunities and other future developments. Based upon such evaluation, each Individual Holder will take such actions in the future as he may deem appropriate in light of the circumstances existing from time to time. Depending on market and other factors, each Individual Holder may seek to acquire additional shares of Common Stock of the Company in the open market, determine to dispose of all or a portion of his shares of Common Stock or to enter into option or other transactions (including, without limitation, hedging transactions) with third parties with respect to the Common Stock of the Company.

Neither TSA nor, to the knowledge of TSA, any executive officer or director of TSA, has any plans or proposals with respect to any of the actions specified in clauses (a) through (j) of Item 4 of Schedule 13D, except as set forth in this Item 4 and Item 6 below.

Item 5. Interest in Securities of the Issuer.

(a) As of the date hereof, TSA beneficially owns 5,000,000 shares of Common Stock of the Company including 2,500,000 shares which may be purchased by TSA upon exercise of the Warrant which is currently exercisable. Assuming exercise of the Warrant in full, such 5,000,000 shares represent approximately 26.7% of the outstanding shares of Common Stock of the Company (calculated on the basis of 16,253,270 shares of Common Stock outstanding immediately following the consummation of TSA's purchase of the Shares and Warrant, as specified in Section 3(c) of the Securities Purchase Agreement, plus 2,500,000 shares issuable upon exercise of the Warrant). To the knowledge of TSA, none of the executive officers and directors of TSA beneficially own any shares of Common Stock of the Company, except for Messrs. Mangold, Royer and Duman who beneficially own 20,000, 10,000 and 1,000 shares of Common Stock, respectively. Assuming exercise of the Warrant in full, the number of shares held by Messrs. Mangold, Royer and Duman represent in the aggregate approximately 0.2% of the outstanding shares of Common Stock of the Company (calculated on the same basis as the percentage held by TSA as described above). TSA disclaims beneficial ownership of the shares held by Messrs. Mangold, Royer and Duman.

(b) TSA has the sole power to vote or to direct the vote, and to dispose or to direct the disposition of, all of the Shares and, upon exercise of the Warrant, the shares of Common Stock issuable to TSA upon exercise thereof. Each of Mr. Mangold, Mr. Royer and Mr. Duman has the sole power to vote or to direct the vote, and to dispose or to direct the disposition of, the shares of Common Stock beneficially owned by him.

(c) Except as set forth herein, TSA has not effected any transactions in the Common Stock during the past 60 days. To the knowledge of TSA, no executive officer or director of TSA has effected any transactions in the Common Stock during the past 60 days.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to

Securities of the Issuer.

TSA agreed to lend the Company up to $1,500,000 under the terms and conditions of the Loan Agreement, of which $500,000 of principal was outstanding immediately prior to the consummation of the purchase of the Shares and the Warrant by TSA. TSA forgave the outstanding principal in connection with its purchase of the Shares and the Warrant as described in Item 2 above and, pursuant to the terms of the Securities Purchase Agreement, any obligation of TSA to make any loans under the Loan Agreement terminated upon closing of the sale of the Shares and the Warrant to TSA.

Pursuant to the terms of the Securities Purchase Agreement, for so long as TSA or any of its wholly-owned subsidiaries shall own and/or have the right to acquire from the Company at least 2,500,000 million shares (subject to adjustment for stock splits, stock dividends, subdivisions, etc.) of Common Stock in the aggregate, TSA is entitled to propose one candidate (the "TSA Designee") for election to the Board of Directors of the Company. The Company agreed, subject to its fiduciary duties to stockholders, to recommend to its stockholders that the TSA Designee be elected to the Company's Board of Directors.

Under the terms of the Securities Purchase Agreement, the Company agreed to, as soon as practicable, but in no event more than 30 days after the bid price of the Common Stock closes at the minimum amount for any minimum time period required by The Nasdaq SmallCap Market initial listing requirements, complete and file a listing application for the Common Stock together with all required documents and to use its best efforts to cause the Common Stock including the Shares and the shares issuable upon exercise of the Warrant to be listed and to continue to be listed on The Nasdaq SmallCap Market.

To satisfy a condition to the obligation of TSA to purchase the Shares and the Warrant pursuant to the Securities Purchase Agreement, Wand (Nestor) Inc. converted all shares of Series E, Series F, Series G and Series H Preferred Stock of the Company, including all accrued dividends thereon, into Common Stock. Under the Securities Purchase Agreement, the Company agreed to use its best efforts to take, or cause to be taken, all reasonable actions, and to do, and cause to be done, all things reasonably necessary for the conversion of the shares of Series B and Series D Preferred Stock of the Company including all accrued dividends thereon into Common Stock at the applicable conversion rates provided in the respective terms of such series as soon as practicable.

Pursuant to the Registration Rights Agreement, after March 31, 1999 TSA has the right to require the Company to register the Shares and the shares underlying the Warrant.

Except as described in this Statement, to the knowledge of TSA, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the persons named in Item 2 hereof and between such persons and any other person with respect to any securities of the Company, including, but not limited to, transfer or voting of any of such securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

The information set forth herein is qualified in its entirety by reference to the Securities Purchase Agreement, Warrant, Loan Agreement, License Agreement and Registration Rights Agreement, each of which is incorporated herein by reference.

Item 7. Material to be Filed as Exhibits.

(1) Securities Purchase Agreement between the Company and TSA
(2) Common Stock Purchase Warrant
(3) Loan Agreement between TSA and the Company
(4) Amended and Restated License Agreement between ACI and the Company
(5) Registration Rights Agreement between the Company and TSA

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Amendment is true, complete and correct.

Date: May 8, 1998

TRANSACTION SYSTEMS ARCHITECTS, INC.

By: /s/ Dwight G. Hanson

Name: Dwight G. Hanson

Title: Vice President

INDEX TO EXHIBITS

Exhibit
Number

(1) Securities Purchase Agreement between the Company and TSA

(2) Common Stock Purchase Warrant

(3) Loan Agreement between TSA and the Company

(4) Amended and Restated License Agreement between ACI and the Company

(5) Registration Rights Agreement between the Company and TSA

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT ("Agreement") is made as of the day of April 28, 1998 by and between Nestor, Inc., a Delaware corporation (the "Company") and Transaction Systems Architects, Inc., a Delaware corporation (the "Purchaser").

RECITALS

A. The Purchaser and the Company entered into a Loan Agreement dated March 25, 1998 (the "Loan Agreement") pursuant to which the Purchaser agreed to lend the Company up to $1,500,000 subject to the terms and conditions thereof, of which $500,000 of principal is outstanding as of the date hereof as evidenced by a Note (the "Note").

B. Applied Communications, Inc., a wholly-owned subsidiary of the Purchaser ("ACI"), and the Company are parties to a Prism Non-Exclusive License Agreement dated September 19, 1996 as amended April 19, 1997 and January 14, 1998. Concurrently herewith, ACI and the Company are entering into an Amended and Restated License Agreement (the "License Agreement") in the form of Exhibit I.

C. The Company desires to sell to the Purchaser, and the Purchaser desires to purchase from the Company, (1) 2,500,000 shares of Common Stock of the Company, par value $.01 per share (the "Common Stock"), and (2) a Warrant to purchase up to an aggregate of 2,500,000 shares of Common Stock in the form set forth as Exhibit II (the "Warrant").

D. Concurrently herewith the Company and the Purchaser are entering into the Registration Rights Agreement in the form set forth as Exhibit III (the "Registration Rights Agreement").

E. Concurrently with the consummation of this Agreement, the Company and certain stockholders of the Company will enter into the amendments (the "Revised Agreements") set forth as Exhibit IV hereto to certain existing agreements and securities of the Company for the purpose of conforming such agreements and securities to the terms of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, each intending to be legally bound, do hereby agree as follows:

1. SALE AND PURCHASE OF COMPANY SECURITIES; OTHER TRANSACTIONS.

The Company has authorized the issuance and sale to the Purchaser of, (i) 2,500,000 shares of Common Stock ("the Shares") and (ii) the Warrant. Subject to the terms and conditions herein set forth, the Company will issue and sell to the Purchaser, and the Purchaser will purchase from the Company, at the Closing (as defined below) the Shares and the Warrant. The aggregate purchase price for the Shares and Warrant shall be $5,000,000 (the "Purchase Price") payable as follows: (i) $4,500,000 in cash and (ii) surrender of the Note.

2. CLOSING.

(a) Subject to the applicable provisions of Sections 7, 8, and 9 hereof, the closing of the sale of the Shares and the Warrant (the "Closing") shall take place at a mutually agreed location as soon as practicable following the satisfaction or waiver of the applicable conditions set forth in Sections 7, 8 and 9 hereof.

(b) At the Closing, (i) the Company shall deliver to the Purchaser certificates evidencing the Shares and the Warrant to be purchased by the Purchaser, (ii) the Company shall pay to the Purchaser the amount of all interest on the Note accrued through the Closing in the form of a check or wire transfer of immediately available funds to an account designated by the Purchaser (iii) the Purchaser shall deliver to the Company the Purchase Price in the form of wire transfer of immediately available funds to an account designated by the Company in the amount of $4,500,000 and the delivery of the Note marked as cancelled, and (iii) the parties shall make such other deliveries as are contemplated hereby.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company hereby represents and warrants to the Purchaser as follows:

(a) Organization, Standing and Power of the Company. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite power and authority to own, lease and operate its properties, assets and business and to conduct its business as now being conducted and is duly qualified to do business as a foreign corporation in good standing in those jurisdictions, other than the state of its incorporation, in which the nature of the business conducted or property owned by it makes such qualification necessary, except for any failures so to qualify which would not have, individually or in the aggregate, a material adverse effect on the business, condition or results of operations of the Company (a "Company Material Adverse Effect").

(b) Authority; Enforceability; No Conflict. The Company has all requisite corporate power and authority to enter into this Agreement, the Registration Rights Agreement, the Warrant and the Revised Agreements (such agreements other than this Agreement are collectively referred to hereafter as the "Related Agreements") to issue and sell the Shares and the Warrant, and to carry out its obligations hereunder and under the Related Agreements. The execution, delivery and performance of this Agreement and the Related Agreements by the Company and the issuance and sale of the Shares and the Warrant by the Company have been duly and validly authorized by all requisite corporate proceedings on the part of the Company. This Agreement is, and the Related Agreements when executed and delivered by the Company will be, and when issued and sold the Warrant will be, a valid and binding obligation of the Company, enforceable against it in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium, rehabilitation, liquidation, conservatorship, receivership or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. Subject to the receipt of the consents or approvals set forth in Section 3(b) of the disclosure schedule delivered by the Company to the Purchasers concurrently with the execution and delivery of this Agreement (the "Disclosure Schedule"), the execution and delivery of this Agreement and each Related Agreement by the Company do not, and the consummation by the Company of the transactions contemplated hereby and thereby will not, the issuance and sale of the Shares and the Warrant will not, and the performance by the Company of its obligations under the terms of the Shares and the Warrant will not, result in or constitute: (i) a default, breach or violation of or under the Certificate of Incorporation or the By-laws of the Company, or (ii) a default, breach or violation of or under any mortgage, deed of trust, indenture, note, bond, license, lease agreement or other instrument or obligation to which the Company is a party or by which any of their properties or assets are bound, except for any defaults, breaches or violations which would not have, individually or in the aggregate, a Company Material Adverse Effect, or (iii) a violation of any statute, rule, regulation, order, judgment or decree of any court, public body or authority by which the Company or any of its properties or assets are bound, except for any violations which would not have, individually or in the aggregate, a Company Material Adverse Effect, or (iv) an event which (with notice or lapse of time or both) would permit any person to terminate, accelerate the performance required by, or accelerate the maturity of, any indebtedness or obligation of the Company under any agreement or commitment to which the Company is a party or by which the Company is bound or by which any of its properties or assets are bound, except for any accelerations or terminations which would not have, individually or in the aggregate, a Company Material Adverse Effect, or (v) the creation or imposition of any lien, charge or encumbrance on any property of the Company under any agreement or commitment to which the Company is a party or by which the Company is bound or by which any of its respective properties or assets are bound, except for any liens, charges or encumbrances which would not have, individually or in the aggregate, a Company Material Adverse Effect, or (vi) an event which would require any consent under any agreement to which the Company is a party or by which the Company is bound or by which any of its respective properties or assets are bound, except for any consents which, if not received, would not have, individually or in the aggregate, a Company Material Adverse Effect.

(c) Capitalization. The authorized capital stock of the Company consists of (i) 30,000,000 shares of Common Stock, par value $.01 per share, of which 9,486,273 shares (excluding shares held in treasury) are outstanding as of the close of business on April 16, 1998 and 10,000,000 shares of preferred stock, par value $1.00 per share (the "Preferred Stock"), of which 1,363,250 shares of Series B, 170,171 shares of Series D, 1,444 shares of Series E, 599 shares of Series F, 777 share of Series G, and 2,026 shares of Series H Preferred Stock are outstanding as of the close of business on April 16, 1998. All of the outstanding shares of Common Stock and Preferred Stock have been duly authorized and validly issued, and are fully paid and non-assessable. Immediately following the Closing, 16,253,270 shares of Common Stock will be outstanding and no shares of Preferred Stock will be outstanding except for 1,363,250 shares of Series B and 170,171 shares of Series D Preferred Stock. Except for the outstanding

shares of Series B and Series D Preferred Stock, and except as set forth in Section 3(c) of the Disclosure Schedule, there are no outstanding preemptive, conversion or other rights, options, warrants or agreements granted or issued by or binding upon the Company for the purchase or acquisition of any shares of capital stock of the Company or any other securities convertible into, exchangeable for or evidencing the right to subscribe for any shares of such capital stock. The Company is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of the capital stock of the Company or any convertible securities, rights or options of the type described in the preceding sentence. The Company is not a party to, and does not have knowledge of, any agreement expressly restricting the transfer of any shares of the capital stock of the Company. Upon the Closing and giving effect to the transactions contemplated hereby and the satisfaction of the conditions provided for herein, the Shares will constitute 11% of the outstanding Common Stock on a fully diluted basis and 14% of the total voting power of the Company, and the Shares together with the shares of Common Stock issuable upon exercise of the Warrant will constitute 19.9% of the Common Stock on a fully diluted basis and 24.6% of the total voting power of the Company.

(d) No Subsidiaries or Other Ventures. Except as set forth in Section 3(d)(i) of the Disclosure Schedule, the Company has no subsidiaries. Except as set forth in Section 3(d)(i) of the Disclosure Schedule, the Company does not own, directly or indirectly, any interest in any corporation, partnership, joint venture, association or other entity.

(e) Status of Shares. The Shares to be issued at the Closing have been duly authorized by all necessary corporate action on the part of the Company. When issued and paid for as provided in this Agreement, the Shares will be validly issued and outstanding, fully paid and nonassessable, and the issuance of the Shares is not and will not be subject to preemptive rights of any other stockholder of the Company. The shares of Common Stock to be issued upon exercise of the Warrant have been duly authorized by all necessary corporate action on the part of the Company and, as of the Closing, will be duly reserved for issuance. When the shares of Common Stock are issued upon exercise of the Warrant, such shares will be validly issued and outstanding, fully paid and nonassessable and the issuance of such shares will not be subject to preemptive rights of any other stockholder of the Company.

(f) Financial Statements.

(1) The Company has heretofore delivered or made available to the Purchaser the audited consolidated balance sheets at December 31, 1997 and 1996, and June 30, 1996 of the Company and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, including the related notes and auditor's report thereon (the "Financial Statements"). The Financial Statements (i) present fairly the consolidated financial condition of the Company at the dates thereof and present fairly its consolidated results of operations and cash flows for the periods then ended and (ii) have been prepared in conformity with generally accepted accounting principles ("GAAP") applied consistently with respect to the immediately preceding fiscal period except as set forth in the notes to the Financial Statements or in the auditor's report thereon.

(2) The Company has heretofore delivered or made available to the Purchaser the unaudited consolidated balance sheet at February 28, 1998 of the Company (the "February Balance Sheet") and the related consolidated statements of income and cash flows for the two months then ended (such February Balance Sheet and related consolidated statements, collectively, the "February Financial Statements"), each of which (i) presents fairly, in all material respects, the consolidated financial condition of the Company at February 28, 1998, and presents fairly its consolidated results of operations and cash flows for the two months then ended and (ii) has been prepared in compliance with all of the requirements of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and the applicable rules and regulations thereunder.

(g) SEC Reports. The Company has filed all reports, statements, forms and documents with the Securities Exchange Commission ("SEC") that it was required to file since December 31, 1990 (the "SEC Reports"), all of which have complied in all material respects with all applicable requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. As of their respective dates, each such report, statement, form or document, including without limitation any financial statements or schedules included therein, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(h) Liabilities. As of the date hereof, except (i) as set forth on the February Balance Sheet, (ii) as set forth in Section 3(h) of the Disclosure Schedule or (iii) for liabilities or obligations which were incurred after February 28, 1998 in the ordinary course of business and consistent with past

practices, the Company has no liabilities, obligations, claims or losses (whether liquidated or unliquidated, secured or unsecured, absolute, accrued, contingent or otherwise) that would be required to be disclosed on a consolidated balance sheet of the Company (including the notes thereto) in conformity with GAAP.

(i) Indebtedness of the Company. Section 3(i) of the Disclosure Schedule sets forth all outstanding secured and unsecured Indebtedness (as defined hereinafter) of the Company in excess of $50,000 in any individual case, or for which the Company has commitments, on the date of this Agreement. The Company is not in default with respect to any such Indebtedness. "Indebtedness" means at any time, (i) all indebtedness for borrowed money, (ii) all obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) all reimbursement obligations and other liabilities under letters of credit, (iv) all obligations to pay the deferred purchase price of property or services, other than normal trade creditors in the ordinary course, (v) all obligations in respect of capitalized leases, (vi) all guarantees and contractual obligations of the Company, contingent or otherwise, with respect to any indebtedness or obligation of another, and (vii) all obligations of the Company secured by any mortgage, pledge, lien, security interest or other encumbrance on any asset or property of the Company, whether or not such obligation has been assumed.

(j) Title to Properties; Liens. The Company does not own any real property. Section 3(j) of the Disclosure Schedule correctly describes all real property leased by the Company, together with a description of the lease payment obligations and lease termination provisions relating thereto. The Company enjoys peaceful and undisturbed possession under all leases necessary in any material respect for the operation of its properties and assets, and all such leases are valid and subsisting and are in full force and effect.

(k) Actions Pending. There is no action, suit, claim, investigation or proceeding pending or, to the knowledge of the Company, threatened, against the Company which questions the validity of this Agreement or the Related Agreements or any action taken or to be taken pursuant hereto or thereto. Except as disclosed in Section 3(k) of the Disclosure Schedule, there is no action, suit, claim, investigation or proceeding pending or, to the knowledge of the Company, threatened, against or involving the Company or any of its properties or assets. There are no outstanding orders, judgments, injunctions, awards or decrees of any court, arbitrator or governmental or regulatory body against the Company.

(l) Compliance with Law. The business of the Company has been and is presently being conducted so as to comply with all applicable federal, state, and local governmental laws, rules, regulations and ordinances. The Company has all material franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals necessary for the conduct of its business as now being conducted by it, and the Company is in compliance therewith except for any non-compliances which would not, individually or in the aggregate, have a Company Material Adverse Effect.

(m) No Violations. Except as disclosed in Section 3(m) of the Disclosure Schedule, the Company is not in violation of or default under (i) any term of its Certificate of Incorporation or By-Laws, (ii) any of its contracts or agreements or under any instrument by which the Company is bound, or (iii) any outstanding indenture or other debt instrument or with respect to the payment of principal of or interest on any outstanding obligations for borrowed money.

(n) Taxes.

(i) The Company has duly and timely filed, or caused to be filed, and will duly and timely file, or cause to file, with the appropriate taxing authority all Tax Returns (as defined below) required to be filed on or before the date hereof by or with respect to the Company and such Tax Returns were or will be true, correct and complete in all material respects when filed.

(ii) The Company has paid or caused to be paid in full or has made adequate provision for on its balance sheet all material Taxes (as defined below) shown to be due on such Tax Returns. There are no liens for Taxes upon the assets of either the Company except for statutory Liens for current Taxes not yet due.

(iii) None of the Tax Returns filed by or on behalf of the Company has been examined by the appropriate taxing authorities.

(iv) Except as set forth in Schedule 3(n)(iv) hereto, the Company has not received any notice of deficiency or assessment from any taxing authority with respect to liabilities or obligations for Taxes with respect to the Company which has not been fully paid or finally settled, and any such deficiency or assessment shown in Schedule 3(n)(iv) hereto is being contested in good faith through appropriate proceedings. The Company has not given any outstanding waivers or comparable consents extending the

application of the statute of limitations with respect to any Taxes or Tax Returns with respect to the Company.

(v) The Company has complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of payroll and employment taxes and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all material payroll and employment taxes required to be so withheld and paid over.

(vi) No audit or other administrative proceeding or court proceeding which is material to the financial condition of Company is presently pending with regard to any Taxes or Tax Returns.

(vii) The amount and character of the tax loss carryforwards as set forth in the Company's financial statements for the year ended December 31, 1997 are materially accurate and, to the Company's best knowledge, are not subject to any "Section 382 limitation" under Section 382 of the Code, and any regulations promulgated thereunder. To the Company's best knowledge, at the Closing Date, the issuance of the Shares and the Warrant in accordance with the terms of this Agreement and the Related Agreements will not result in an "ownership change" under Section 382 of the Code, and any regulations promulgated thereunder. As of the Closing Date, the Company shall not have any plan or intention to take any action after the Closing Date, which to its best knowledge would result in an "ownership change" under Section 382 of the Code and any regulations promulgated thereunder.

(viii) For purposes of this Agreement, "Taxes" shall mean any and all taxes, charges, fees, levies or other like assessments (and all related interest, additions to tax and penalties), including, but not limited to, income, transfer, gains, gross receipts, excise, inventory, property (real, personal or intangible), custom, duty, sales, use, license, withholding, payroll, employment, capital stock and franchise taxes, imposed by the United States, or any state, local or foreign taxing authority, whether computed on a unitary, combined or any other basis and "Tax Return" shall mean any report, return or other information filed with any taxing authority with respect to Taxes imposed upon or attributable to the operations of the Company.

(o) ERISA. Section 3(o) of the Disclosure Schedule contains a true and complete list of each employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any other bonus, severance or termination pay, stock option or stock purchase, incentive pay or other plan, program or arrangement covering present or former employees of the Company which is maintained or contributed to by the Company or any of its subsidiaries (the "Plans"). None of the Plans is subject to the provisions of Title IV of ERISA, and none of the Plans is a multiemployer Plan as defined in Section 3(37) of ERISA (a "Multiemployer Plan"). The Company has not incurred (directly or indirectly) any liability to the Pension Benefit Guaranty Corporation or with respect to a Multiemployer Plan. None of the Plans is subject to the minimum funding standards set forth in Section 302 of ERISA or Section 412 of the Internal Revenue Code of 1986, as amended (the "Code"). None of the Company or any of its officers or employees has engaged in a "prohibited transaction" as defined in Section 406 of ERISA or Section 4975 of the Code with respect to any Plan which would subject any of such parties to a civil penalty under Section 502(i) of ERISA or an excise tax under Section 4975 of the Code. Each of the Plans has been operated in all material respects in accordance with applicable law, including ERISA and the Code. None of the Plans is an employee welfare plan, as defined in Section 3(1) of ERISA, which provides health or life insurance benefits to employees of the Company following their retirement (other than coverage mandated by applicable law). Each Plan that is intended to be qualified under Section 401(a) of the Code is so qualified.

(p) Absence of Specified Changes. Except as set forth in Section 3(p) of the Disclosure Schedule, during the period from February 28, 1998 to the date hereof, there has not been any:

(1) material adverse change in the business, condition or results of operations of the Company;

(2) transactions involving the Company except in the ordinary course of business;

(3) change in accounting principles, methods or practices of the Company;

(4) amendment to the Certificate of Incorporation or By-Laws of the Company; or

(5) agreement or understanding to take any of the actions described above in this paragraph.

(q) Certain Fees. No broker's, finder's or financial advisory fees or commissions will be payable by the Company with respect to the transactions contemplated by this Agreement and the Related Agreements.

(r) Use of Proceeds. The Company will apply the proceeds from the sale of the Shares and the Warrant to general working capital purposes.

(s) Intellectual Property Rights.

(i) The Company is the owner of or has rights to use (including the right to sue for past infringement) the intellectual and similar property of every kind and nature used at any time in or necessary for the conduct of its business, including without limitation, (A) Patents (meaning all United States and foreign patents and patent applications, patent disclosures and inventions, and all patents issued upon said patent applications or based upon said disclosures and inventions, including all reissues, divisions, continuations, continuations-in-part, substitutions, extensions or renewals of any of the foregoing), (B) Trademarks (meaning all United States, any political subdivision thereof, and foreign trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, logos, designs and general intangibles of like nature, all registrations and recordings thereof, and all applications in connection therewith, including registrations, recordings and applications in the United States Patent and Trademark Office (the "PTO"), any State of the United States or any other country or jurisdiction or any political subdivision thereof, and all goodwill symbolized thereby and/or associated therewith and all extensions or renewals thereof,), (C) Copyrights (meaning all copyrights, United States and foreign copyright registrations, and applications to register copyrights), (D) inventions, formulae, processes, designs, know-how, show-how or other data or information, (E) confidential or proprietary technical and business information, processes and trade secrets, (F) computer software and databases (including all embodiments or fixations thereof and related documentation, registrations and franchises, and all additions, improvements, enhancements, updated and accessions thereto), (G) all technical manuals and documentation made or used in connection with any of the foregoing, and (H) all licenses and rights with respect to the foregoing or property of like nature, in each case as any of the foregoing have been at any time used in or necessary for the conduct of the business of the Company (collectively, the "Intellectual Property Rights").

(ii) Section 3(s)(ii) of the Disclosure Schedule sets forth a complete and accurate list of all Copyrights, Patents, and Trademarks owned by or under obligation of assignment to the Company. Each owner identified thereon is listed in the records of the appropriate United States, State or foreign agency as the sole owner of record.

(iii) Section 3(s)(iii) of the Disclosure Schedule sets forth a complete and accurate list of (a) all material agreements and (b) all other agreements entered into since January 1, 1990, in each case between the Company and any third party granting any right to use or practice any rights under any Intellectual Property Right (collectively, the "Intellectual Property Licenses"), except for single-user licenses granting the right to use on a single personal computer a single copy of application software incorporating any of the Company's Intellectual Property Rights.

(iv) There is no restriction or limitation on the right of the Company to transfer any of the Intellectual Property Rights.

(v) No trade secret, formula, process, invention, design, know-how, show-how or any other confidential information relating to the Company's business has been disclosed or authorized to be disclosed to any third party unless any such third party has entered into, or is bound by, a confidentiality agreement that is sufficient to protect fully the Company's proprietary interest and right in and to such Intellectual Property Right.

(vi) The use of the Intellectual Property Rights by the Company is not in conflict with the rights of others. There are no pending legal or governmental proceedings, including oppositions, interferences, proceedings or suits, relating to the Intellectual Property Rights, and, to the best knowledge of the Company, no such proceedings are threatened. To the best knowledge of the Company, the conduct of the business of the Company and the exercise of the

Intellectual Property Rights does not infringe upon or otherwise violate, and the exercise of any rights granted to the Company under any Intellectual Property License would not infringe upon or violate any intellectual property rights of any third party. To the best knowledge of the Company, except as set forth in Section 3(s)(vi), no person is infringing upon or otherwise violating any of the Intellectual Property Rights. None of the Company or its affiliates has received notice of any claims, and there are no pending claims, of any persons relating to the scope, ownership or use of any of the Intellectual Property Rights.

(vii) Each copyright registration, patent, and registered trademark and application therefor listed in Section 3(s)(ii) of the Disclosure Schedule is valid, subsisting and in proper form, and has been duly maintained, including the submission of all necessary filings in accordance with the legal and administrative requirements of the appropriate jurisdictions. There have been no failures in complying with such requirements. Except as provided in Section 3(s)(ii) of the Disclosure Schedule, no such Copyright, Patent or Trademark has lapsed and there has been no cancellation or abandonment thereof.

(viii) With respect to each patent and patent application listed in Section 3(s) of the Disclosure Schedule, there are no defects of form in the preparation or filing of the applications thereof. Each pending application is being diligently prosecuted. During the prosecution of each Patent, (A) all pertinent prior art references known to the Company or its counsel was properly disclosed to the PTO, and (B) neither such counsel nor the Company made any misrepresentation to, or concealed any material fact from, the PTO.

(ix) The execution and delivery of this Agreement and the Related Agreements and the taking of the actions contemplated hereby and thereby will not alter any of the rights of the Company in or to the Intellectual Property Rights.

(t) Environmental Matters. The Company is in compliance with the provisions of all federal, state and local laws relating to pollution or protection of the environment applicable to it or to real property leased by it or to the use, operation or occupancy thereof, except for violations or liabilities which individually or in the aggregate could not reasonably be expected to have a Company Material Adverse Effect. The Company has not engaged in any activity in violation of any provision of any federal, state or local law relating to pollution or protection of the environment, which violation could reasonably be expected to have a Company Material Adverse Effect. The Company has no liability, absolute or contingent, under any federal, state or local law relating to pollution or protection of the environment, except for liabilities which individually or in the aggregate could not reasonably be expected to have a Company Material Adverse Effect.

(u) Registration Rights. Except as set forth in Section 3(u) of the Disclosure Schedule, the Company is not a party to any agreement granting registration rights to any person with respect to any of its equity or debt securities. Upon execution of the Revised Agreements and the consents listed in Section 3(b) of the Disclosure Schedule, the Purchaser's rights under the Registration Rights Agreement will not be subordinated to the registration rights of any other person.

(v) Agreements. Section 3(v) of the Disclosure Schedule contains a list of each agreement or instrument (including any and all amendments thereto) to which the Company is a party as of the date hereof and which is or, immediately following the consummation of the transactions contemplated by this Agreement, will be, material to the business, condition or results of operations of the Company. Each such agreement or instrument (including any and all amendments thereto) is in full force and effect and constitutes a legal, valid and binding obligation of (i) the Company and (ii) to the best knowledge of the Company, the other respective parties thereto, and, to the best knowledge of the Company, no person is in default or breach of (with or without the giving of notice or the passage of time) any such agreement or instrument.

(w) Availability of Documents. Section 3(w) of the Disclosure Schedule contains a true, correct and complete copy of the Company's Certificate of Incorporation, together with all amendments thereto. The Company has also heretofore provided or made available to the Purchaser an accurate copy of its by-laws and has heretofore made available for inspection by the Purchaser all written agreements, arrangements, commitments and documents referred to herein or in the Disclosure Schedule, in each case, together with all amendments and supplements thereto. The Company has heretofore made available for inspection by the Purchaser its corporate minute books. Such corporate minute books contain the minutes of all the meetings of

stockholders, board of directors and any committees thereof which have been held since the Company's date of incorporation and all written consents to action executed in lieu thereof.

(x) Business Relations. To the knowledge of the Company,no client, customer or supplier will cease to do business with the Company due to the consummation of the transactions contemplated by this Agreement or the Related Agreements.

(y) Interest in Competitors, Suppliers, Customers, etc. Except as set forth on Section 3(y) of the Disclosure Schedule or with respect to the ownership of less than 1% of the outstanding publicly traded securities of an entity, neither the Company nor its officers, directors, or affiliates have any ownership interest in any competitor, supplier, customer or franchisee of the Company.

(z) Private Offering. Assuming the accuracy of the Purchaser's representations set forth in Section 4(c) herein, the offer and sale of the Shares and the Warrant hereunder is exempt from the registration and prospectus delivery requirements of the Securities Act. Neither the Company nor any person acting on behalf of it has taken or will take any action which would subject the offering and issuance of any of such securities to the provisions of Section 5 of the Securities Act or to the provisions of any securities law, rule or regulation of any applicable jurisdiction.

(aa) NASDAQ Listing Qualifications. Except for the minimum bid price, upon Closing, the Company will be in full compliance with the initial listing requirements of The Nasdaq SmallCap Market and after due inquiry the Company has no knowledge of any condition, event, or circumstance relating to the Company, its officers, directors, or significant stockholders which would cause the Company's application to list the Common Stock on The Nasdaq SmallCap Market not to be approved.

(bb) Disclosure. No representation or warranty to Purchaser contained in this Agreement and no statement contained in the Disclosure Schedule or any Officer's Certificate of the Company furnished pursuant to the provisions hereof, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER.

The Purchaser represents and warrants to the Company as follows:

(a) Organization and Standing of the Purchaser. The Purchaser is a corporation duly organized, validly existing and in good standing (to the extent such concept exists) under the laws of the State of Delaware.

(b) Authority; Enforceability; No Conflict. The Purchaser has all requisite corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution, delivery and performance of this Agreement by the Purchaser have been duly and validly authorized by all requisite corporate proceedings on the part of the Purchaser. This Agreement is a valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium, rehabilitation, liquidation, conservatorship, receivership or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. The execution and delivery of this Agreement by the Purchaser do not, and consummation by the Purchaser of the transactions contemplated hereby will not, result in or constitute (i) a default, breach or violation of or under the organizational documents of the Purchaser, or (ii) a default, breach or violation of or under any mortgage, deed of trust, indenture, note, bond, license, lease agreement or other instrument or obligation to which the Purchaser is a party or by which any of its properties or assets are bound, except for any defaults, breaches or violations which would not, individually or in the aggregate, have a material adverse effect on the Purchaser or prevent or materially delay the consummation by the Purchaser of the transactions contemplated hereby, or (iii) a violation of any statute, rule, regulation, order, judgment or decree of any court, public body or authority, except for any violations which would not, individually or in the aggregate, have a material adverse effect on the Purchaser or prevent or materially delay the consummation by the Purchaser of the transactions contemplated hereby.

(c) Acquisition for Investment. The Purchaser is either an "accredited investor," as that term is defined in 230.501(a) of the rules and regulations promulgated by the SEC under the 1933 Act or a person described in 230.506(b)(ii) of such rules and regulations. The Purchaser is acquiring the

Shares and the Warrant solely for its own account for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, and has no present intention or plan to effect any distribution of such Shares or the Warrant. The Purchaser acknowledges that it is able to bear the financial risks associated with an investment in the Shares and the Warrant. The Shares and Warrant may bear a legend to the following effect:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION THEREUNDER. THE SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER OF SUCH SECURITIES IS SUBJECT TO COMPLIANCE WITH APPLICABLE SECURITIES LAWS AND REGULATIONS."

5. CONDUCT OF BUSINESS OF THE COMPANY.

Except as expressly contemplated by this Agreement or the Related Agreements, during the period from the date hereof through the Closing, the Company will conduct its operations according to its ordinary course of business and consistent with past practice, and the Company will use its best efforts to preserve intact its business organization, to keep available the services of its officers and employees and to maintain existing relationships with customers and others having business relationships with it. Without limiting the generality of the foregoing, and except as otherwise expressly contemplated by this Agreement or the Related Agreements or as set forth in Section 5 of the Disclosure Schedule, prior to the Closing, the Company will not, without the prior written consent of the Purchaser:

(a) amend its Certificate of Incorporation or By-Laws;

(b) (i) except in accordance with the existing terms of the convertible securities, warrants, options and other agreements disclosed on Section 3(c) of the Disclosure Schedule, authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any securities of any class, or (ii) amend in any respect any of the terms of any such securities outstanding as of the date hereof, except to the extent required by the express terms on the date hereof of such securities;

(c) split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock, or property or any combination thereof) in respect of its capital stock (except for dividends on the existing preferred stock in accordance with its terms), or redeem, retire, repurchase or otherwise acquire, directly or indirectly, any of its securities or adopt a plan of complete or partial liquidation or resolutions providing for or authorizing any such liquidation;

(d) incur any additional Indebtedness, except for short-term borrowings or other Indebtedness incurred in the ordinary course of business, or mortgage or pledge any of its assets, tangible or intangible;

(e) acquire, sell, lease or dispose of any assets outside the ordinary course of business;

(f) make any change in any of the accounting principles or practices, methods or practices or business policies used by it;

(g) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof;

(h) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, contingent or otherwise), other than pursuant to the terms of this Agreement, the payment, discharge or satisfaction in the ordinary course of business consistent with past practice or, in accordance with their terms, of liabilities reflected or reserved against in the February Balance Sheet (or the notes thereto) or incurred in the ordinary course of business consistent with past practice;

(i) increase the compensation payable to the officers and employees of the Company, except for increases in salary or wages (a) in accordance with past practice or (b) in conjunction with promotions or other changes in job status in the ordinary course of business;

(j) pay, loan or advance any amounts to, transfer or lease any properties or assets to or enter into any contract or agreement with any officers, directors, employees or shareholders of the Company, except with respect to directors' fees and compensation to officers and employees at rates in accordance with past practice, and except with respect to reimbursable business expenses of a nature and in amounts reasonably related to the requirements of the business of the Company;

(k) waive or release any rights of material value or terminate or fail to renew any material contract; or

(l) take, or agree in writing or otherwise to take, directly or indirectly, any of the actions described in Sections 5(a) through 5(k).

6. ADDITIONAL AGREEMENTS.

(a) Access to Information; Confidentiality. From the date hereof to the Closing, the Company shall afford the officers, employees and agents of the Purchaser access during normal business hours to the Company's officers, employees, agents, properties, offices and all books and records of the Company, and shall furnish the Purchaser with all financial, operating and other data and information concerning the Company as the Purchaser, through its officers, employees or agents, may request and shall cooperate fully with the Purchaser and its representatives in their examination of the Company.

The Purchaser will, and will cause its affiliates, partners, directors, officers, employees, agents, representatives and financial advisors (collectively, "Representatives") to, hold in strict confidence all Confidential Information (as hereinafter defined), and not disclose the same to any person without the prior consent of the Company, unless compelled to disclose any such Confidential Information by judicial or administrative process or, in the written opinion of their counsel, by other requirements of law. Prior to disclosing any Confidential Information to any such person, the Purchaser will inform such person and its representatives of the confidential nature thereof and will obtain from such person its agreement to be bound by the provisions of this paragraph as if references herein to the Purchaser were references to such person. If this Agreement is terminated, the Purchaser will promptly return to the Company or destroy all documents (including all copies thereof) furnished by the Company and received by the Purchaser or any of its Representatives containing such Confidential Information. For purposes hereof, "Confidential Information" shall mean all confidential nonpublic information concerning the Company that the Purchaser obtains from the Company, or its representatives, excluding any such information that subsequently becomes publicly available (other than directly or indirectly through acts of the Purchaser) and excluding any such information which is currently in the possession of the Purchaser or its affiliates or obtained by them from the Company in connection with the performance of the License Agreement.

(b) Best Efforts. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement and the Related Agreements as promptly as practicable. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement and the Related Agreements, the proper officers and directors of each party hereto shall take all such reasonable and necessary action.

(c) Public Announcements. The Purchaser and the Company will consult with each other before issuing any press release or otherwise making any public statements with respect to the transactions contemplated by this Agreement and the Related Agreements, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law, and then only after reasonable prior notice and giving reasonable opportunity to comment to the other party. The Company shall not disclose the identity of the Purchaser in any such press release or other public statement without the prior written consent of the Purchaser, except as may be required by applicable law, and then only after giving the Purchaser reasonable prior notice and reasonable opportunity to comment of the disclosure.

(d) Supplements to Disclosure Schedule. Prior to the Closing, the Company will supplement or amend the Disclosure Schedule with respect to any matter hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in the Disclosure Schedule. No supplement or amendment of the Disclosure Schedule made pursuant to this section shall be deemed to cure any breach of any representation or warranty made in this Agreement unless the Purchaser specifically agrees thereto in writing.

(e) Directors. For so long as the Purchaser or any of its wholly-owned subsidiaries shall own and/or have the right to acquire from the Company at least 2,500,000 million shares (subject to adjustment for stock splits, stock dividends, subdivisions, etc.) of Common Stock in the aggregate, the Purchaser shall be entitled to propose one candidate (the "Purchaser Designee") for election to the Board of Directors of the Company. Subject to its fiduciary duties to stockholders, the Company will recommend to its stockholders that the Purchaser Designee be elected to the Company's Board of Directors.

(f) NASDAQ Listing Application. As soon as practicable, but in no event more than 30 days after the bid price of the Common Stock closes at the minimum amount for any minimum time period required by The Nasdaq SmallCap Market initial listing requirements, the Company will complete and file a listing application for the Common Stock together with all required documents and shall use its best efforts to cause the Common Stock including the Shares and the shares issuable upon exercise of the Warrant to be listed and to continue to be listed on The Nasdaq SmallCap Market.

(g) Termination of Loan Agreement. Any obligation of the Purchaser to make any loans under the Loan Agreement shall terminate upon the Closing. The Purchaser shall file a Uniform Commercial Code statement to terminate its security interest in collateral for loans under the Loan Agreement.

(h) Conversion of Preferred Stock. The Company agrees to use its reasonable efforts to take, or cause to be taken, all reasonable actions, and to do, and cause to be done, all things reasonably necessary for the conversion of the shares of Series B and Series D Preferred Stock of the Company including all accrued dividends thereon into Common Stock at the applicable conversion rates provided in the respective terms of such series as soon as practicable after the Closing.

7. CONDITIONS PRECEDENT TO THE OBLIGATION OF THE COMPANY TO ISSUE THE SHARES AND WARRANT AND OF THE PURCHASER TO PURCHASE THE SHARES AND THE WARRANT.

The respective obligations hereunder of the Company to issue and sell the Shares and the Warrant and of the Purchaser to purchase the Shares and the Warrant are subject to the satisfaction, at or before the Closing, of each of the following conditions set forth in paragraphs (a) through (c) below.

(a) Consents. The consents and approvals set forth in Section 3(b) of the Disclosure Schedule shall have been obtained.

(b) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or enforced by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

(c) Related Agreements. The Related Agreements shall have been executed and delivered by the parties thereto.

8. CONDITIONS PRECEDENT TO THE OBLIGATION OF THE COMPANY TO SELL THE SHARES AND WARRANT.

The obligation hereunder of the Company to sell the Shares and Warrant to the Purchaser is further subject to the satisfaction, at or before the Closing, of each of the following conditions set forth in paragraphs (a) and (b) below. These conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

(a) Accuracy of the Purchaser's Representations and Warranties. The representations and warranties of the Purchaser shall be true and correct in all material respects as of the date when made and as of the Closing as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by the Purchaser. The Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Purchaser at or prior to the Closing.

9. CONDITIONS PRECEDENT TO THE OBLIGATION OF THE PURCHASER TO PURCHASE THE SHARES AND WARRANT.

The obligation of the Purchaser hereunder to acquire and pay for the Shares and Warrant is subject to the satisfaction, at or before the Closing, of each of the following conditions set forth in paragraphs (a) through (h) below. These conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in its sole discretion.

(a) Accuracy of the Company's Representations and Warranties. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by the Company. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and

conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing.

(c) Legal Opinion. The Purchaser shall have received the opinion of Baer Marks & Upham, substantially in the form set forth in Exhibit V hereto.

(d) Compliance with Securities Laws. The offering and sale by the Company, at or prior to the Closing, of the Shares and Warrant shall have been made in compliance with all applicable requirements of federal and state securities laws and the Purchaser shall have received evidence thereof in form and substance reasonably satisfactory to it.

(e) No Offerings. Neither the Company nor any of its subsidiaries shall have offered, placed or sold, or caused or agreed to be offered, placed or sold, any securities or other obligations other than as part of the contemplated sale of the Shares and Warrant and the capital structure as reflected herein.

(f) Regulatory Approvals. All regulatory approvals shall have been obtained by the Purchaser.

(g) Conversion of Preferred Stock. All shares of Series E, Series F, Series G and Series H Preferred Stock of the Company including all accrued dividends thereon shall be converted into Common Stock at the applicable conversion rates provided in the respective terms of such series.

(h) Cancellation of Warrants for Preferred Stock. All warrants for Preferred Stock or other rights to acquire any shares of Preferred Stock of the Company shall be cancelled or converted to warrants or other rights to acquire Common Stock at a price per share no less than would have been payable for the Common Shares if the warrants or other rights had been exercised and the Preferred Stock thereby acquired converted into Common Stock.

10. TERMINATION.

(a) Right To Terminate. Notwithstanding anything to the contrary set forth in this Agreement, this Agreement may be terminated and the transactions contemplated herein abandoned at any time prior to the Closing:

(i) at any time by mutual written consent of the Company and the Purchaser;

(ii) by either the Company or the Purchaser if the Closing shall not have occurred by June 30, 1998; provided, however, that the right to terminate this Agreement under this Section 10(a)(ii) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date; or

(iii) by either the Company or the Purchaser if a court of competent jurisdiction shall have issued an order, decree or ruling permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable.

(b) Obligations to Cease. In the event that this Agreement shall be terminated pursuant to Section 10(a) hereof, all obligations of the parties hereto under this Agreement shall terminate and there shall be no liability of any party hereto to any other party except that (i) the provisions of the second paragraph of Section 6(a), Section 11, and Section 12(b) shall survive, and shall be and remain in full force and effect and (ii) nothing herein will relieve any party from liability for any willful breach of this Agreement.

11. INDEMNIFICATION.

(a) General Indemnity. The Company agrees to indemnify and save harmless the Purchaser (and its directors, officers, partners, affiliates, representatives, advisors, successors and assigns) from and against any and all losses, liabilities, deficiencies, costs, damages and expenses (including, without limitation, interest, penalties, reasonable attorneys' fees, charges and disbursements) incurred by the Purchaser as a result of (i) any breach of the representations, warranties or covenants made by the Company herein or in the Related Agreements or (ii) any action, proceeding or claim commenced or threatened by a third party in connection with this Agreement, the Related Agreements and the transactions contemplated hereby and thereby. The Purchaser agrees to indemnify and save harmless the Company (and its directors, officers, partners, affiliates, representatives, advisors, successors and assigns) from and against any and all losses, liabilities, deficiencies, costs, damages and expenses (including, without limitation, interest, penalties, reasonable attorneys' fees, charges and disbursements) incurred by the Company as a result of any breach of the representations, warranties or covenants made by the Purchaser herein or in the Related Agreements. No party shall be entitled to

indemnification hereunder unless and until the aggregate amount of such party's indemnification claims exceeds $15,000 and then to the full extent of such claims.

(b) Indemnification Procedure. Any party entitled to indemnification under this Section 11 (an "indemnified party") will give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification promptly after the discovery by such party of any matters giving rise to a claim for indemnification; provided that the failure of any party entitled to indemnification hereunder to give notice as provided herein shall not relieve the indemnifying party of its obligations under this Section 11 except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any action, proceeding or claim is brought against an indemnified party in respect of which indemnification is sought hereunder, the indemnifying party shall be entitled to participate in and, unless in the reasonable judgment of the indemnified party a conflict of interest between it and the indemnifying party may exist in respect of such action, proceeding or claim, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified party. In the event that the indemnifying party advises an indemnified party that it will contest such a claim for indemnification hereunder, or fails, within thirty (30) days of receipt of any indemnification notice to notify, in writing, such person of its election to defend, settle or compromise, at its sole cost and expense, any action, proceeding or claim (or discontinues its defense at any time after it commences such defense), then the indemnified party may, at its option, defend, settle or otherwise compromise or pay such action or claim. In any event, unless and until the indemnifying party elects in writing to assume and does so assume the defense of any such claim, proceeding or action, the indemnified party's costs and expenses arising out of the defense, settlement or compromise of any such action, claim or proceeding shall be losses subject to indemnification hereunder. The indemnified party shall cooperate fully with the indemnifying party in connection with any negotiation or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the indemnified party which relates to such action or claim. The indemnifying party shall keep the indemnified party fully apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. If the indemnifying party elects to defend any such action or claim, then the indemnified party shall be entitled to participate in such defense with counsel of its choice at its sole cost and expense. The indemnifying party shall not be liable for any settlement of any action, claim or proceeding effected without its written consent, provided, however, that the indemnifying party shall not unreasonably withhold, delay or condition its consent. Anything in this Section 11 to the contrary notwithstanding, the indemnifying party shall not, without the indemnified party's prior written consent, settle or compromise any claim or consent to entry of any judgment in respect thereof which imposes any future obligation on the indemnified party or which does not include, as an unconditional term thereof, the giving by the claimant or the plaintiff to the indemnified party of a release from all liability in respect of such claim. The indemnification required by this Section 11 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred. The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the indemnified party against the indemnifying party or others, (ii) the indemnification rights of the indemnified party under any other agreement, and (iii) any liabilities the indemnifying party may be subject to pursuant to the law.

12. MISCELLANEOUS.

(a) Brokers. The Company and the Purchaser represent and warrant to each other that they have not taken any action which will result in any liability of the other to pay any broker's or finder's fee with respect to this Agreement or the transactions contemplated hereby.

(b) Expenses. Each party hereto shall pay its own fees and expenses incurred in connection with this Agreement.

(c) Survival of Representations, Warranties and Covenants. The representations and warranties set forth herein shall survive the Closing until sixty days after the Company shall have delivered to the Purchaser the audited financial statements of the Company and its consolidated subsidiaries (if any) for the fiscal year ended December 31, 1998, certified by the Company's independent public accountants; provided that the representations and warranties shall survive such date to the extent written notice of any breach thereof is given on or prior to such date and representations and warranties relating to Taxes shall survive until a date which is six months after the expiration of the applicable statute of limitations. The covenants of the Company set forth herein shall endure for so long as the Purchaser shall continue as a stockholder of the Company or for such shorter period as may be specified herein.

(d) Assignment and Binding Effect. Neither the Company nor the Purchaser

shall assign all or any part of this Agreement without the prior written consent of the other; provided, however, that the Purchaser, without such prior written consent, may assign its rights hereunder to any entity or entities directly or indirectly controlled by, or under common control with, it; provided, further, that no such assignment shall relieve the Purchaser of its obligations under this Agreement. This Agreement shall be binding upon and inure to the benefit of the permitted successors and assigns of the parties pursuant to this paragraph.

(e) Headings. Subject headings are included for convenience only and shall not affect the interpretation of any provisions of this Agreement.

(f) Notices. Any notice, demand, request, waiver, or other communication under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if personally served or on the third day after mailing if mailed to the party to whom notice is to be given, by first class mail, registered, return receipt requested, postage prepaid and addressed as follows:

To the Company:	Nestor, Inc. One Richmond Square Providence, Rhode Island 02906 Attention: Chief Executive Officer
With copies to:	Baer Marks & Upham 805 Third Avenue New York, NY 10022-7513 Attention: Herbert S. Meeker, Esq.
To the Purchaser:	Transaction Systems Architects, Inc. 224 South 108 Avenue Omaha, Nebraska 68154 Attention: David P. Stokes

(g) Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF DELAWARE AS APPLIED TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF DELAWARE.

(h) Entire Agreement. This Agreement, including the Exhibits and Schedules hereto, sets forth the entire understanding and agreement of the parties hereto relating to the matters set forth herein and supersedes any and all other understandings, negotiations or agreements between the parties hereto relating to the matters set forth herein.

(i) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute a single agreement.

(j) Severability. In the event that any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable, the same shall not affect any other provision of this Agreement, but this Agreement shall be construed in a manner which, as nearly as possible, reflects the original intent of the parties.

(k) Words in Singular and Plural Form. Words used in the singular form in this Agreement shall be deemed to import the plural, and vice versa, as the sense may require.

(l) Amendment and Modification. This Agreement may be amended or modified only by written agreement executed by all parties hereto.

(m) Waiver. At any time prior to the Closing, any party hereto may (i) extend the time for the performance of any of the obligations or other acts of any other party hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party granting such waiver but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or future failure.

(n) Specific Enforcement. The Purchaser and the Company acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state thereof having jurisdiction, this being in addition to any other remedy to which they may be entitled at law or equity.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

NESTOR, INC.

By: /s/ Nigel Hebborn

Name: Nigel Hebborn

Title: Chief Financial Officer

TRANSACTIONS SYSTEMS ARCHITECTS, INC.

By: /s/ William E. Fisher

Name: William E. Fisher

Title: Chief Executive Officer

NESTOR, INC.

Common Stock Purchase Warrant

Dated as of April 28, 1998

This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933, as amended, and may not be transferred, sold or otherwise disposed of except while a registration under such Act is in effect or pursuant to an exemption therefrom under such Act. This Warrant and such shares may be transferred only in compliance with the conditions specified in this Warrant.

TABLE OF CONTENTS

1. Exercise of Warrant.. 1
  1.1 Manner of Exercise.. 1
  1.2 When Exercise Effective................................... 1
  1.3 Delivery of Stock Certificates, etc....................... 2
  1.4 Company to Reaffirm Obligations........................... 2
  1.5 Payment by Application of Shares Otherwise Issuable........ 2

2. Adjustment of Common Stock Issuable Upon Exercise.................. 3
  2.1 General; Warrant Price.................................... 3
  2.2 Adjustment of Warrant Price............................... 3
    2.2.1 Issuance of Additional Shares of Common Stock... 3
    2.2.2 Extraordinary Dividends and Distributions.................................... 3
  2.3 Treatment of Options and Convertible Securities............ 4
  2.4 Treatment of Stock Dividends, Stock Splits, etc............ 6

2.5 Computation of Consideration.............................. 6
2.6 Adjustments for Combinations, etc......................... 8
2.7 Dilution in Case of Other Securities...................... 8
2.8 Minimum Adjustment of Warrant Price....................... 8

3. Consolidation, Merger, etc.. 8
3.1 Adjustments for Consolidation, Merger, Sale of Assets, Reorganization, etc.. 8
3.2 Assumption of Obligations................................. 9

4. Other Dilutive Events... 10

5. No Dilution or Impairment... 10

6. Accountants' Report as to Adjustments............................... 10

7. Notices of Corporate Action... 11

8. Registration of Common Stock.. 12

9. Restrictions on Transfer.. 12
9.1 Restrictive Legends....................................... 12

10. Availability of Information.. 13

11. Reservation of Stock, etc.. 13

12. Registration and Transfer of Warrants, etc......................... 13
12.1 Warrant Register; Ownership of Warrants.................. 13
12.2 Transfer and Exchange of Warrants........................ 14
12.3 Replacement of Warrants.................................. 14

13. Registration Rights.. 14

14. Definitions.. 14

15. Remedies... 17

16. No Rights or Liabilities as Stockholder............................ 17

17. Notices.. 18

18. Amendments... 18

19. Expiration... 18

20. Descriptive Headings... 18

21. GOVERNING LAW.. 18

22. Judicial Proceedings; Waiver of Jury............................... 18

EXHIBIT A.. 20

FORM OF SUBSCRIPTION... 21

FORM OF ASSIGNMENT... 22

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NESTOR, INC.

Common Stock Purchase Warrant

No. April 28, 1998

Nestor, Inc. (the "Company"), a Delaware corporation, for value received, hereby certifies that Transactions Systems Architects, Inc. ("TSA"), or registered assigns, is entitled to purchase from the Company [2,500,000] duly authorized, validly issued, fully paid and nonassessable shares of Common Stock, par value $.01 per share (the "Common Stock"), of the Company at the purchase price per share of $3.00, at any time or from time to time prior to 5:00 P.M.,

New York City time, on March 1, 2002 (or such later date as may be determined pursuant to section 19), all subject to the terms, conditions and adjustments set forth below in this Warrant.

This Warrant is being issued by the Company in consideration of TSA's performance of its obligations pursuant to the Securities Purchase Agreement dated as of , 1998 by and between the Company and TSA (the "Securities Purchase Agreement"). Certain capitalized terms used in this Warrant are defined in section 14; references to an "Exhibit" are, unless otherwise specified, to one of the Exhibits attached to this Warrant and references to a "section" are, unless otherwise specified, to one of the sections of this Warrant.

1. Exercise of Warrant. Warrant.

1.1 Manner of Exercise. This Warrant may be exercised at any time by the holder hereof, in whole or in part, during normal business hours on any Business Day, by surrender of this Warrant to the Company at its principal office, accompanied by a subscription substantially in the form attached to this Warrant (or a reasonable facsimile thereof) duly executed by such holder and accompanied by payment, in cash, by certified or official bank check payable to the order of the Company, or in the manner provided in Section 1.5, in the amount obtained by multiplying (a) the number of shares of Common Stock (without giving effect to any adjustment thereof) designated in such subscription by (b) $3.00 and such holder shall thereupon be entitled to receive the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) determined as provided in sections 2 through 4.

1.2 When Exercise Effective. Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the Business Day on which this Warrant shall have been surrendered to the Company as provided in section 1.1, and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock (or Other Securities) shall be issuable upon such exercise as provided in section 1.3 shall be deemed to have become the holder or holders of record thereof.

1.3 Delivery of Stock Certificates, etc. As soon as practicable after each exercise of this Warrant, in whole or in part, and in any event within five Business Days thereafter, the Company at its expense (including the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the holder hereof or, subject to section 9, as such holder (upon payment by such holder of any applicable transfer taxes) may direct,

(a) a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) to which such holder shall be entitled upon such exercise plus, in lieu of any fractional share to which such holder would otherwise be entitled, cash in an amount equal to the same fraction of the Market Price per share on the Business Day next preceding the date of such exercise, and

(b) in case such exercise is in part only, a new Warrant or Warrants of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock equal (without giving effect to any adjustment thereof) to the number of such shares called for on the face of this Warrant minus the number of such shares designated by the holder upon such exercise as provided in section 1.1.

1.4 Company to Reaffirm Obligations. The Company will, at the time of each exercise of this Warrant, upon the request of the holder hereof, acknowledge in writing its continuing obligation to afford to such holder all rights (including, without limitation, any rights to registration, pursuant to the Registration Rights Agreement referred to in section 8, of the shares of Common Stock or Other Securities issued upon such exercise) to which such holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided that if the holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford such rights to such holder.

1.5 Payment by Application of Shares Otherwise Issuable. Upon any exercise of this Warrant, the holder hereof may, at its option, instruct the Company, by written notice accompanying the surrender of this Warrant at the time of such exercise, to apply to the payment required by section 1.1 such number of the shares of Common Stock otherwise issuable to such holder upon such exercise as shall be specified in such notice, in which case an amount equal to the excess of the aggregate Current Market Price of such specified number of shares on the date of exercise over the portion of the payment required by section 1.1 attributable to such shares shall be deemed to have been paid to the Company and the number of shares issuable upon such exercise shall be reduced by such specified number.

2. Adjustment of Common Stock Issuable Upon Exercise.Exercise.

2.1 General; Warrant Price. The number of shares of Common Stock which the holder of this Warrant shall be entitled to receive upon each exercise hereof shall be determined by multiplying the number of shares of Common Stock which would otherwise (but for the provisions of this section 2) be issuable upon such exercise, as designated by the holder hereof pursuant to section 1.1, by the fraction of which (a) the numerator is the price then applicable pursuant to section 1.1(b) of this Warrant and (b) the denominator is the Warrant Price in effect on the date of such exercise. The "Warrant Price" shall initially be $3.00 per share. The Warrant Price shall be adjusted and readjusted from time to time as further provided in this section 2 and, as so adjusted or readjusted, shall remain in effect until a further adjustment or readjustment thereof is required by this section 2.

2.2 Adjustment of Warrant Price. of Warrant Price.

2.2.1 Issuance of Additional Shares of Common Stock. In case the Company at any time or from time to time after the date hereof shall issue or sell Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to section 2.3 or 2.4) without consideration or for a consideration per share less than $2.00 (subject to adjustment for stock dividends, stock splits, or subdivisions or combinations by reclassifications or otherwise) per share, then, and in each such case, subject to section 2.8, the Warrant Price in effect immediately prior to such issue or sale, shall be reduced, concurrently with such issue or sale, to a price (calculated to the nearest .001 of a cent) equal to the consideration per share paid for such Additional Shares of Common Stock. The Warrant Price shall not be increased as a result of any such issue or sale.

2.2.2 Extraordinary Dividends and Distributions. In case the Company at any time or from time to time after the date hereof shall declare, order, pay or make a dividend or other distribution (including, without limitation, any distribution of other or additional stock or other securities or property or Options by way of dividend or spin-off, reclassification, recapitalization or similar corporate rearrangement) on the Common Stock, other than a dividend payable in (a) Additional Shares of Common Stock or (b) cash dividends during any fiscal year of the Company that do not exceed twenty percent (20%) of the after tax earnings per share of the Common Stock for the immediately preceding fiscal year of the Company, then, and in each such case, subject to section 2.8, the Warrant Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of any class of securities entitled to receive such dividend or distribution shall be reduced, effective as of the close of business on such record date, to a price (calculated to the nearest .001 of a cent) determined by multiplying such Warrant Price by a fraction

(x) the numerator of which shall be the Current Market Price in effect on such record date or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading, less the amount of such dividend or distribution (as determined in good faith by the Board of Directors of the Company, subject to confirmation by a firm of independent certified public accountants of recognized national standing approved by TSA applicable to one share of Common Stock, and

(y) the denominator of which shall be such Current Market Price.

2.3 Treatment of Options and Convertible Securities. In case the Company at any time or from time to time after the date hereof shall issue, sell, grant or assume, or shall fix a record date for the determination of holders of any class of securities entitled to receive, any Options or Convertible Securities, then, and in each such case, the maximum number of Additional Shares of Common Stock (as set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue, sale, grant or assumption or, in case such a record date shall have been fixed, as of the close of business on such record date (or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading), provided that such Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to section 2.5) of such shares would be less than $2.00 (subject to adjustment for stock dividends, stock splits, or subdivisions or combinations by reclassifications or otherwise) per share, and provided, further, that in any such case in which Additional Shares of Common Stock are deemed to be issued

(a) no further adjustment of the Warrant Price shall be made upon the subsequent issue or sale of Convertible Securities or shares of Common Stock upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

(b) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company, or decrease in the number of Additional Shares of Common Stock issuable, upon the exercise, conversion or exchange thereof (by change of rate or otherwise), the Warrant Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, which are outstanding at such time;

(c) upon the expiration (or purchase by the Company and cancellation or retirement) of any such Options which shall not have been exercised or the expiration of any rights of conversion or exchange under any such Convertible Securities which (or purchase by the Company and cancellation or retirement of any such Convertible Securities the rights of conversion or exchange under which) shall not have been exercised, the Warrant Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date, or date prior to the commencement of ex-dividend trading, as the case may be, with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(i) in the case of Options for Common Stock or Convertible Securities, the only Additional Shares of Common Stock issued or sold were the Additional Shares of Common Stock, if any, actually issued or sold upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration actually received by the Company upon such exercise, or for the issue or sale of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and

(ii) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue, sale, grant or assumption of such Options, and the consideration received by the Company for the Additional Shares of Common Stock deemed to have then been issued was the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Company (pursuant to section 2.5) upon the issue or sale of such Convertible Securities with respect to which such Options were actually exercised;

(d) no readjustment pursuant to subdivision (b) or (c) above shall have the effect of increasing the Warrant Price by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant or assumption of such Options or Convertible Securities; and

(e) in the case of any such Options which expire by their terms not more than 30 days after the date of issue, sale, grant or assumption thereof, no adjustment of the Warrant Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in subdivision (c) above.

2.4 Treatment of Stock Dividends, Stock Splits, etc. In case the Company at any time or from time to time after the date hereof shall declare or pay any dividend on the Common Stock payable in Common Stock, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by reclassification or otherwise than by payment of a dividend in Common Stock), then, and in each such case, Additional Shares of Common Stock shall be deemed to have been issued (a) in the case of any such dividend, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend, or (b) in the case of any such subdivision, at the close of business on the day immediately prior to the day upon which such corporate action becomes effective.

2.5 Computation of Consideration. For the purposes of this section 2,

(a) the consideration for the issue or sale of any Additional Shares of Common Stock shall, irrespective of the accounting treatment of such consideration,

(i) insofar as it consists of cash, be computed at the net amount of cash received by the Company, without deducting any expenses paid or incurred by the Company or any commissions or compensation paid or concessions or discounts allowed to underwriters, dealers or others performing similar services in connection with such issue or sale,

(ii) insofar as it consists of property (including securities) other than cash, be computed at the fair value thereof at the time of such issue or sale, as determined in good faith by the Board of Directors of the Company (subject to confirmation by a firm of independent certified public accountants of recognized standing approved by TSA), and

(iii) in case Additional Shares of Common Stock are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be the portion of such consideration so received, computed as provided in clauses (i) and (ii) above, allocable to such Additional Shares of Common Stock, all as determined in good faith by the Board of Directors of the Company (subject to confirmation by a firm of independent certified public accountants of recognized standing approved by TSA);

(b) Additional Shares of Common Stock deemed to have been issued pursuant to section 2.3, relating to Options and Convertible Securities, shall be deemed to have been issued for a consideration per share determined by dividing

(i) the total amount, if any, received and receivable by the Company as consideration for the issue, sale, grant or assumption of the Options or Convertible Securities in question, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration to protect against dilution) payable to the Company upon the exercise in full of such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, in each case computing such consideration as provided in the foregoing subdivision (a), by

(ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities; and

(c) Additional Shares of Common Stock deemed to have been issued pursuant to section 2.4, relating to stock dividends, stock splits, etc., shall be deemed to have been issued for no consideration.

2.6 Adjustments for Combinations, etc. In case the out-standing shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Warrant Price in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

2.7 Dilution in Case of Other Securities. In case any Other Securities shall be issued or sold or shall become subject to issue or sale upon the conversion or exchange of any stock (or Other Securities) of the Company (or any issuer of Other Securities or any other Person referred to in section 3) or to subscription, purchase or other acquisition pursuant to any Options issued or granted by the Company (or any such other issuer or Person) for a consideration such as to dilute, on a basis consistent with the standards established in the other provisions of this section 2, the purchase rights granted by this Warrant, then, and in each such case, the computations, adjustments and readjustments provided for in this section 2 with respect to the Warrant Price shall be made as nearly as possible in the manner so provided and applied to determine the amount of Other Securities from time to time receivable upon the exercise of the Warrants, so as to protect the holders of the Warrants against the effect of such dilution.

2.8 Minimum Adjustment of Warrant Price. If the amount of any adjustment of the Warrant Price required pursuant to this section 2 would be less than one percent (1%) of the Warrant Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent (1%) of such Warrant Price.

3. Consolidation, Merger, etc.ger, etc.

3.1 Adjustments for Consolidation, Merger, Sale of Assets, Reorganization, etc. In case the Company after the date hereof (a) shall consolidate with or merge into any other Person and shall not be the continuing or surviving corporation of such consolidation or merger, or (b) shall permit any other Person to consolidate with or merge into the Company and the Company shall be the continuing or surviving Person but, in connection with such consolidation or merger, the Common Stock or Other Securities shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (c) shall transfer all or substantially all of its properties or assets to any other Person, (d) shall effect a capital reorganization or reclassification of the Common Stock or Other Securities (other than a capital reorganization or reclassification resulting in the issue of Additional Shares of Common Stock for which adjustment in the Warrant Price is provided in section 2.2.1 or 2.2.2), or (e) shall engage in a statutory plan of exchange in which the Common Stock or Other Securities shall be exchanged for stock or other securities of any other Person then, and in the case of each such transaction, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Warrant, the holder of this Warrant, upon the exercise hereof at any time after the consummation of such transaction, shall be entitled to receive (at the aggregate Warrant Price in effect at the time of such consummation for all Common Stock or Other Securities issuable upon such exercise immediately prior to such consummation), in lieu of the Common Stock or Other Securities issuable upon such exercise prior to such consummation, the highest amount of securities, cash or other property to which such holder would actually have been entitled as a shareholder upon such consummation if such holder had exercised the rights represented by this Warrant immediately prior thereto, subject to adjustments (subsequent to such consummation) as nearly equivalent as possible to the adjustments provided for in sections 2 through 4.

3.2 Assumption of Obligations. Notwithstanding anything contained in the Warrants or in the Purchase Agreement to the contrary, the Company will not effect any of the transactions described in clauses (a) through (e) of section 3.1 unless, prior to the consummation thereof, each Person (other than the Company) which may be required to deliver any stock, securities, cash or property upon the exercise of this Warrant as provided herein shall assume, by written instrument delivered to, and reasonably satisfactory to, the holder of this Warrant, (a) the obligations of the Company under this Warrant (and if the Company shall survive the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under this Warrant), (b) the obligations of the Company under the Registration Rights Agreement and (c) the obligation to deliver to such holder such shares of stock, securities, cash or property as, in accordance with the foregoing provisions of this section 3, such holder may be entitled to receive, and such Person shall have similarly delivered to such holder an opinion of counsel for such Person, which counsel shall be reasonably satisfactory to such holder, stating that this Warrant shall thereafter continue in full force and effect and the terms hereof (including, without limitation, all of the provisions of this section 3) shall be applicable to the stock, securities, cash or property which such Person may be required to deliver upon any exercise of this Warrant or the exercise of any rights pursuant hereto.

4. Other Dilutive Events. In case any event shall occur as to which the provisions of section 2 or section 3 are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles of such sections, then, in each such case, the Company shall appoint a firm of independent certified public accountants of recognized national standing (such firm to be subject to the approval of TSA), which shall give their opinion regarding the adjustment, if any, on a basis consistent with the essential intent and principles established in sections 2 and 3, necessary to preserve, without dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the holder of this Warrant and shall make the adjustments described therein.

5. No Dilution or Impairment. The Company will not, by amendment of its certificate of incorporation or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against dilution or other impairment. Without limiting the generality of the foregoing, the Company (a) will not permit the par value of any shares of stock receivable upon the exercise of this Warrant to exceed the amount payable therefor upon such exercise, (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of stock on the exercise of the Warrants from time to time outstanding, and (c) will not take any action which results in any adjustment of the Warrant Price if the total number of shares of

Common Stock (or Other Securities) issuable after the action upon the exercise of all of the Warrants would exceed the total number of shares of Common Stock (or Other Securities) then authorized by the Company's certificate of incorporation and available for the purpose of issue upon such exercise.

6. Accountants' Report as to Adjustments. In each case of any adjustment or readjustment in the shares of Common Stock (or Other Securities) issuable upon the exercise of this Warrant, the Company at its expense will promptly compute such adjustment or readjustment in accordance with the terms of this Warrant and cause independent certified public accountants of recognized standing (such firm to be subject to the approval of TSA) selected by the Company to verify such computation and prepare a report setting forth such adjustment or readjustment and showing in reasonable detail the method of calculation thereof and the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or to be received by the Company for any Additional Shares of Common Stock issued or sold or deemed to have been issued, (b) the number of shares of Common Stock outstanding or deemed to be outstanding, and (c) the Warrant Price in effect immediately prior to such issue or sale and as adjusted and readjusted (if required by section 2) on account thereof. The Company will forthwith mail a copy of each such report to each holder of a Warrant and will, upon the written request at any time of any holder of a Warrant, furnish to such holder a like report setting forth the Warrant Price at the time in effect and showing in reasonable detail how it was calculated. The Company will also keep copies of all such reports at its principal office and will cause the same to be available for inspection at such office during normal business hours by any holder of a Warrant or any prospective purchaser of a Warrant designated by the holder thereof.

7. Notices of Corporate Action. In the event of

(a) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a regular periodic dividend payable in cash out of earned surplus in an amount not exceeding the amount of the immediately preceding cash dividend for such period) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any consolidation or merger involving the Company and any other Person or any transfer of all or substantially all the assets of the Company to any other Person, or

(c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company,

the Company will mail to each holder of a Warrant a notice specifying (i) the date or expected date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right, and (ii) the date or expected date on which any such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place and the time, if any such time is to be fixed, as of which the holders of record of Common Stock (or Other Securities) shall be entitled to exchange their shares of Common Stock (or Other Securities) for the securities or other property deliverable upon such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up. Such notice shall be mailed at least 45 days prior to the date therein specified.

8. Registration of Common Stock. If any shares of Common Stock required to be reserved for purposes of exercise of this Warrant require registration with or approval of any governmental authority under any federal or state law (other than the Securities Act) before such shares may be issued upon exercise, the Company will, at its expense and as expeditiously as possible, use its best efforts to cause such shares to be duly registered or approved, as the case may be. The shares of Common Stock (and Other Securities) issuable upon exercise of this Warrant (or upon conversion of any shares of Common Stock issued upon such exercise) shall constitute Registrable Securities (as such term is defined in the Registration Rights Agreement). Each holder of this Warrant shall be entitled to all of the benefits afforded to a holder of any such Registrable Securities under the Registration Rights Agreement and such holder, by its acceptance of this Warrant, agrees to be bound by and to comply with the terms and conditions of the Registration Rights Agreement applicable to such holder as a holder of such Registrable Securities. At any such time as Common Stock is listed on any national securities exchange or automated quotation system, the Company will, at its expense, obtain promptly and maintain the approval for listing on each such exchange or quotation system, upon official notice of issuance, the shares of Common Stock issuable upon exercise of the then outstanding Warrants and maintain the listing of such shares after their

issuance; and the Company will also list on such national securities exchange or quotation system, will register under the Exchange Act and will maintain such listing of, any Other Securities that at any time are issuable upon exercise of the Warrants, if and at the time that any securities of the same class shall be listed on such national securities exchange or quotation system by the Company.

9. Restrictions on Transfer.Transfer.

9.1 Restrictive Legends. Except as otherwise permitted by this section 9, each Warrant (including each Warrant issued upon the transfer of any Warrant) shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE WARRANT REPRESENTED BY THIS CERTIFICATE (AND THE SHARES OF COMMON STOCK OR OTHER SECURITIES ISSUABLE UPON EXERCISE OF SUCH WARRANT) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION THEREUNDER. THE SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER OF SUCH WARRANT (AND OF SUCH SHARES OF COMMON STOCK OR OTHER SECURITIES) IS SUBJECT TO COMPLIANCE WITH APPLICABLE SECURITIES LAWS AND REGULATIONS."

Except as otherwise permitted by this section 9, each certificate for Common Stock (or Other Securities) issued upon the exercise of any Warrant, and each certificate issued upon the transfer of any such Common Stock (or Other Securities), shall be stamped or otherwise imprinted with a legend in substantially the following form:

"THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE IN RELIANCE ON CERTAIN EXEMPTIONS FROM REGISTRATION THEREUNDER. THE SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER OF SUCH SHARES IS SUBJECT TO COMPLIANCE WITH APPLICABLE SECURITIES LAWS AND REGULATIONS."

10. Availability of Information. The Company shall timely file the reports required to be filed by it under the Securities Act and the Exchange Act (including but not limited to the reports under sections 13 and 15(d) of the Exchange Act referred to in subparagraph (c) of Rule 144 adopted by the Commission under the Securities Act) and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, will, upon the request of any holder of Registrable Securities, make publicly available other information) and will take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission. Upon the request of any holder of Registrable Securities, the Company will deliver to such holder a written statement as to whether it has complied with the requirements of this section 10.

11. Reservation of Stock, etc. The Company will at all times reserve and keep available, solely for issuance and delivery upon exercise of the Warrants, the number of shares of Common Stock (or Other Securities) from time to time issuable upon exercise of all Warrants at the time outstanding. All shares of Common Stock (or Other Securities) issuable upon exercise of any Warrants shall be duly authorized and, when issued upon such exercise, shall be validly issued and, in the case of shares, fully paid and nonassessable with no liability on the part of the holders thereof.

12. Registration and Transfer of Warrants, etc.nts, etc.

12.1 Warrant Register; Ownership of Warrants. The Company will keep at its principal office a register in which the Company will provide for the registration of Warrants and the registration of transfers of Warrants. The Company may treat the Person in whose name any Warrant is registered on such register as the owner thereof for all other purposes, and the Company shall not be affected by any notice to the contrary, except that, if and when any Warrant is properly assigned in blank, the Company may (but shall not be obligated to) treat the bearer thereof as the owner of such Warrant for all purposes. Subject to section 9, a Warrant, if properly assigned, may be exercised by a new holder without a new Warrant first having been issued.

12.2 Transfer and Exchange of Warrants. Upon surrender of any Warrant for registration of transfer or for exchange to the Company at its principal office, the Company at its expense will (subject to compliance with section 9, if applicable) execute and deliver in exchange therefor a new Warrant or Warrants of like tenor, in the name of such holder or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Common Stock called for on the face or faces of the Warrant or Warrants so surrendered.

12.3 Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction of any Warrant, upon delivery of an indemnity bond in such reasonable amount as the Company may determine or, in the case of any such mutilation, upon the surrender of such Warrant for cancellation to the Company at its principal office, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

13. Registration Rights. The Purchaser or any assignee of this Warrant shall be entitled to all rights and benefits regarding the registration of Common Stock and Registrable Securities set forth in the Registration Rights Agreement.

14. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

Additional Shares of Common Stock: All shares (including treasury shares) of Common Stock issued or sold (or, pursuant to section 2.3 or 2.4, deemed to be issued) by the Company after the date hereof, whether or not subsequently reacquired or retired by the Company, other than

(a) Series B and Series D Preferred Stock;

(b) shares issued upon the exercise of the common stock purchase warrants and non-qualified options listed in Exhibit 14(b) hereto, providing for the purchase of an aggregate of 2,604,114 shares of Common Stock (based on the current capitalization of the Company);

(c) shares issued upon the exercise of this Warrant,

(d) not to exceed 2,750,000 shares (subject to equitable adjustment in the event of any combination, reclassification, stock split, dividend or recapitalization of the Company) issued upon the exercise of options granted or to be granted under the Company's stock option plans as in effect on the date hereof or under any other employee stock option, compensation or purchase plan or plans adopted or assumed after such date,

(e) such additional number of shares as may become issuable upon the exercise of any of the securities referred to in the foregoing clauses (a) through (d) by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities as in effect on the date hereof, but only if and to the extent that such adjustments are required as the result of the original issuance of the Warrants, and

(f) such additional number of shares as may become issuable upon the exercise or conversion of any of the securities referred to in the foregoing clauses (a) through (e) by reason of adjustments required pursuant to anti-dilution provisions applicable to such securities as in effect on the date hereof, in order to reflect any subdivision or combination of Common Stock, by reclassification or otherwise, or any dividend on Common Stock payable in Common Stock.

Business Day: Any day other than a Saturday or a Sunday or a day on which commercial banking institutions in the City of New York are authorized by law to be closed. Any reference to "days" (unless Business Days are specified) shall mean calendar days.

Commission: The Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

Common Stock: As defined in the introduction to this Warrant, such term to include any stock into which such Common Stock shall have been changed or any stock resulting from any reclassification of such Common Stock, and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

Company: As defined in the introduction to this Warrant, such term to include any corporation which shall succeed to or assume the obligations of the Company hereunder in compliance with section 3.

Convertible Securities: Any evidences of indebtedness, shares of stock (other than Common Stock) or other securities directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

Current Market Price: On any date specified herein, the average daily Market Price during the period of the most recent 20 days, ending on such date, on which the national securities exchanges were open for trading, except that if no Common Stock is then listed or admitted to trading on any national securities exchange or quoted in the over-the-counter market, the Current Market Price shall be the Market Price on such date.

Exchange Act: The Securities Exchange Act of 1934, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

Market Price: On any date specified herein, the amount per share of the Common Stock, equal to (a) the last sale price of such Common Stock, regular way, on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which such Common Stock is then listed or admitted to trading, or (b) if such Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the NASD, the last trading price of the Common Stock on such date, or (c) if there shall have been no trading on such date or if the Common Stock is not so designated, the average of the closing bid and asked prices of the Common Stock on such date as shown by the NASD automated quotation system, or (d) if such Common Stock is not then listed or admitted to trading on any national exchange or quoted in the over-the-counter market, the value as determined by a firm of independent public accountants of recognized standing selected by the Board of Directors of the Company, and approved by TSA, as of the last day of any month ending within 30 days preceding the date as of which the determination is to be made.

NASD: The National Association of Securities Dealers, Inc.

Options: Rights, options or warrants to subscribe for, purchase or otherwise acquire either Additional Shares of Common Stock or Convertible Securities.

Other Securities: Any stock (other than Common Stock) and other securities of the Company or any other Person (corporate or otherwise) which the holders of the Warrants at any time shall be entitled to receive, or shall have received, upon the exercise of the Warrants, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to section 3 or otherwise.

Person: A corporation, an association, a partnership, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

Registrable Securities: As defined in Section 3 of the Registration Rights Agreement.

Registration Rights Agreement: The Registration Rights Agreement dated as of the date hereof, substantially in the form of Exhibit IV to the Securities Purchase Agreement.

Securities Act: The Securities Act of 1933, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

Securities Purchase Agreement: The Securities Purchase Agreement, dated as of the date hereof, by and between TSA and the Company.

Transfer: Any sale, assignment, pledge or other disposition of any security, or of any interest therein, which could constitute a "sale" as that term is defined in section 2(3) of the Securities Act.

TSA: As defined in section 1, and its successors and assigns.

Warrant Price: As defined in section 2.1.

15. Remedies. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that, to the fullest extent permitted by law, such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

16. No Rights or Liabilities as Stockholder. Nothing contained in this Warrant shall be construed as conferring upon the holder hereof any rights as a stockholder of the Company or as imposing any obligation on such holder to purchase any securities or as imposing any liabilities on such holder as a stockholder of the Company, whether such obligation or liabilities are asserted by the Company or by creditors of the Company.

17. Notices. All notices and other communications under this Warrant shall be in writing and shall be delivered, or mailed by registered or certified mail, return receipt requested, by a nationally recognized overnight courier, postage

prepaid,addressed (a) if to any holder of any Warrant, at the registered address of such holder as set forth in the register kept at the principal office of the Company, or (b) if to the Company, to the attention of its President at its principal office, provided that the exercise of any Warrant shall be effective in the manner provided in section 1.

18. Amendments. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

19. Expiration. The Company will give the holder of this Warrant not less than six weeks nor more than twelve weeks notice of the expiration of the right to exercise this Warrant. The right to exercise this Warrant shall expire at 5:00 p.m., New York City time, on March 1, 2002, unless the Company shall fail to give such notice as aforesaid, in which event the right to exercise this Warrant shall not expire until a date six weeks after the date on which the Company shall give the holder hereof notice of the expiration of the right to exercise this Warrant.

20. Descriptive Headings. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

21. GOVERNING LAW. THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

22. Judicial Proceedings; Waiver of Jury. Any judicial proceeding brought against the Company with respect to this Warrant may be brought in any court of competent jurisdiction in the State of New York or of the United States of America for the Southern District of New York and, by execution and delivery of this Agreement, the Company (a) accepts, generally and unconditionally, the nonexclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Warrant,subject to any rights of appeal, and (b) irrevocably waives any objection the Company may now or hereafter have as to the venue of any such suit, action or proceeding brought in such a court or that such court is an inconvenient forum. The Company hereby waives personal service of process and consents, that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified or determined in accordance with the provisions of section 17, and service so made shall be deemed completed on the third Business Day after such service is deposited in the mail or, if earlier, when delivered. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of any holder of any Warrant to bring proceedings against the Company in the courts of any other jurisdiction. THE COMPANY HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY, OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS WARRANT OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

NESTOR, INC.

By: Nigel Hebborn

Title: Chief Financial Officer

LOAN AGREEMENT

THIS LOAN AGREEMENT (the Agreement) is made and dated this 25th day of March, 1998, by and between Transaction Systems Architects, Inc. ("TSA") or (the "Lender"), a Delaware corporation, and Nestor, Inc. ("Nestor") or (the "Borrower"), a Delaware corporation.

RECITALS

A. Nestor has requested the Lender to extend credit to Nestor and the Lender has agreed to do so.

B. Nestor and the Lender desire to set forth herein the mutually agreed upon terms and conditions of such credit extension.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Term Loan

A. Term Loan. On the terms and subject to the conditions set forth herein, the Lender agrees that it shall, on and after March 25, 1998, make a loan (the "Term Loan") to Nestor in the amount up to One Million Five Hundred Thousand and 00/100 Dollars ($1,500,000) (the "Term Loan").

B. Advances. Advances in integrals of $100,000.00 will be made upon written request of Nestor. Such advances will be made one (1) Business Day following the date the request is received and shall be made by wire transfer .

C. Calculation of Interest. Nestor shall pay interest on the outstanding principal balance of the Term Loan from the date disbursed to but not including the date of payment at a rate per annum equal to the prime rate as published from time-to-time in the Wall Street Journal (the "Applicable Prime Rate").

D. Payment of Interest. Interest accruing on the Term Loan shall be payable quarterly, in arrears for each quarter on or before the tenth (10th) Business Day of the next succeeding calendar quarter in the amount set forth in an interest billing delivered by the Lender to Nestor on or before the fifth (5th) Business Day of such quarter.

E. Repayment of Principal. The Term Loan may be repaid, in the discretion of Nestor, from time to time, but in any event shall be repaid in full on March 31, 1999.

F. Collateralization. The Term Loan shall be collateralized by current and future royalties due Nestor from Lender or its subsidiaries under distributer agreement(s). The amount of royalties used to collateralize the Term Loan shall be equal to the total amount of the outstanding principal and interest.

2. Additional Provisions

A. Use of Proceeds. The proceeds of the Term Loan shall be utilized by Nestor for purchase of capital assets and to meet working capital requirements in the ordinary course of Nestor's business.

B. Note. The obligation of the Borrower to repay the Term Loan shall be evidenced by a Note payable to the order of the Lender in the form of that attached hereto as Exhibit 2B (the Note).

C. Nature and Place of Payments. All payments made on account shall be made by Nestor, without setoff or counterclaim, in lawful money of the United States in immediately available funds, free and clear of and without deduction for any taxes, fees, or other charges of any nature whatsoever imposed by any taxing authority and must be received by the Lender by 10:00 a.m. central time on the day of payment, it being expressly agreed and understood that if a payment is received after 10:00 a.m. central time by the Lender, such payment will be considered to have been made by Nestor on the next succeeding Business Day and interest thereon shall be payable by Nestor at the Applicable Prime Rate during such extension. All payments on account of the Obligations shall be made to the Lender through its office located at Transaction Systems Architects, Inc., 330 South 108th Avenue, Omaha, Nebraska 68154. If any payment required to be made by Nestor hereunder becomes due and payable on a day other than a Business Day , then interest thereon shall be payable at the then applicable rate during such extension.

D. Postmaturity Interest. Any Obligations not paid when due (whether at stated maturity, upon acceleration or otherwise) shall bear interest from the date due until paid in full at a per annum rate equal to two percent (2%) above the Applicable Prime Rate.

E. Computations. All computations of interest and fees payable hereunder shall be based upon a year deemed to consist of 360 days for the actual number of days elapsed.

F. Prepayments.

i. Nestor may prepay the Term Loan, in whole at any time or in part from time to time, upon not less than one Business Day's prior written notice to the Lender. Principal amounts prepaid shall be applied to installments on the Term Loan in the order of their maturity.

ii. Nestor shall pay in connection with any prepayment hereunder all interest accrued but unpaid on the Term Loan concurrently with payment to the Lender of any principal amounts.

3. Conditions to Making Term Loan

As conditions precedent to the obligation of the Lender to make the Term Loan, including each Advance:

A. Delivery of Documents. Nestor shall have delivered or shall have had delivered to the Lender, in form and substance satisfactory to the Lender and its counsel, each of the following:

i. A duly executed copy of this Agreement;

ii. A duly executed copy of the other Loan Documents;

iii. Such credit applications, financial statements, authorizations, and such information concerning Nestor and its business, operations and condition (financial and otherwise) as the Lender may reasonably request;

iv. Copies of resolutions of the Board of Directors of Nestor approving the execution and delivery of the Loan Documents certified by the Secretary of Nestor as of the date of this Agreement;

v. A certificate of the Secretary of Nestor certifying the names and true signatures of the officers of Nestor authorized to sign the Loan Documents;

vi. A copy of the Certificate of Incorporation of Nestor, certified by the Secretary of State of Delaware as of a recent date;

vii. A copy of each of the Certificate of Incorporation and Bylaws of Nestor, certified by the Secretary or an Assistant Secretary of Nestor as of the date of this Agreement as being accurate and complete;

viii. A certificate of good standing of Nestor from the Secretary of State of Delaware as of a recent date;

ix. Certificates of authority and good standing of Nestor for each state in which Nestor is qualified to do business; and

x. A certificate of the president and chief financial officer or treasurer of Nestor certifying that the Representations and Warranties of Nestor set forth in Section 7 are true and accurate in all material respects as of the date of this Agreement.

Provided, however, that any document not delivered at or before the initial Advance after execution of this Agreement with the consent of Lender shall be provided within thirty (30) days.

B. Approvals. All acts and conditions (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings, or registrations) required to be done and performed and to have happened precedent to the execution, delivery and performance of the Loan Documents and to constitute the same legal, valid, and binding obligations, enforceable in accordance with their respective terms, shall have been done and performed and shall have happened in due and strict compliance with all applicable laws.

C. Documentation Acceptable. All documentation, including, without limitation, documentation for corporate and legal proceedings in connection with the transactions contemplated by the Loan Documents shall be satisfactory in

form and substance to the Lender.

D. Representations and Warranties. The representations and warranties of Nestor contained in the Loan Documents shall be accurate and complete in all respects as if made on and as of each funding date for the Term Loan.

E. Existence of Defaults. There shall not have occurred an Event of Default or Potential Default that is continuing unwaived.

4. Representations and Warranties of Nestor

As an inducement to the Lender to enter into this Agreement and to make Loans as provided herein, Nestor represents and warrants to the Lender that:

A. No Change. There has been no material adverse change in the business, operations, assets, or financial or other condition of Nestor taken as a whole since the financial statements furnished to Lender by Nestor covering the period ended December 31, 1997, and, except as set forth in Exhibit 4A (Material Lease Schedule) Nestor has not entered into, incurred, or assumed any long-term debt, mortgages, material leases or oral or written commitments, nor commenced any significant project, nor made any purchase or acquisition of any significant property.

B. Corporate Existence; Compliance with Law. Nestor (i) is duly organized, validly existing, and in good standing as a corporation under the laws of the State of Delaware and is qualified to do business in each jurisdiction where its ownership of property or conduct of business requires such qualification and where failure to qualify would have a material adverse effect on Nestor or its property and/or business or on the ability of Nestor to pay or perform the Obligations; (ii) has the corporate power and authority and the legal right to own and operate its property and to conduct business in the manner in which it does and proposed so to do; and (iii) is in compliance with all Requirements of Law.

C. Corporate Power; Authorization; Enforceable Obligations. Nestor has the corporate power and authority and the legal right to execute, deliver, and perform the Loan Documents to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of the Loan Documents. The Loan Documents have been duly executed and delivered on behalf of Nestor and constitute legal, valid. and binding obligations of Nestor enforceable against Nestor in accordance with their respective terms, subject to the effect of applicable bankruptcy and other similar laws affecting the rights of creditors generally and the effect of equitable principles whether applied in an action at law or a suit in equity.

D. No Legal Bar. The execution, delivery and performance of the Loan Documents, the borrowing hereunder and the use of the proceeds thereof, will not violate any Requirement of Law or any Contractual Obligation of Nestor or create or result in the creation of any Lien on any assets of Nestor, except as pursuant to the Security Agreement.

E. No Material Litigation. Except as disclosed on Exhibit 4E hereto, no litigation, investigation, or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of Nestor, threatened by or against Nestor or against any of Nestor's properties or revenues which is likely to be adversely determined and which, if adversely determined, is likely to have a material adverse effect on the business, operations, property, or financial or other condition of Nestor.

F. Taxes. Nestor has filed or caused to be filed all tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property other than taxes that are being contested in good faith by appropriate proceedings and as to which Nestor has established adequate reserves in conformity with GAAP.

G. Investment Borrower Act. Nestor is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Borrower Act of 1940, as amended.

H. Federal Reserve Board Regulations. Nestor is not engaged or will not engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of such terms under Regulation U. No part of the proceeds of any Loan issued hereunder will be used for "purchasing" or "carrying" "margin stock" as so defined or for any purpose that violates, or that would be inconsistent with, the provisions of the Regulations of the Board of Governors of the Federal Reserve System.

I. ERISA. (i) No Prohibited Transactions, Accumulated Funding Deficiencies, withdrawals from Multiemployer Plans, or Reportable Events have occurred with

respect to any Plans or Multiemployer Plans that, in the aggregate, could subject Nestor to any tax, penalty, or other liability where such tax, penalty, or liability is not covered in full, for the benefit of Nestor, by insurance; (ii) no notice of intent to terminate a Plan has been filed, nor has any Plan been terminated under Section 4041 of ERISA, nor has the PBGC instituted proceedings to terminate, or appoint a trustee to administer a Plan, and no event has occurred or condition exists that might constitute grounds under Section 4042 of ERISA for the termination of or the appointment of a trustee to administer any Plan; (iii) the present value of all benefit liabilities (as defined in Section 4001(a)(16) of ERISA) under all Plans (based on the actuarial assumptions used to fund the Plans) does not exceed the assets of the Plans; and (iv) the execution, delivery, and performance by Nestor of this Agreement and the Loans hereunder and the use of the proceeds thereof will not involve any Prohibited Transactions.

J. Assets. Nestor has good and marketable title to all property and assets, except property and assets sold or otherwise disposed of in the ordinary course of business subsequent to the respective dates thereof. Except as set forth in Exhibit 4J (Lien Schedule) Nestor has no outstanding Liens on any of its properties or assets nor are there any security agreements to which Nestor is a party, or title retention agreements, whether in the form of leases or otherwise, of any personal property except as permitted under Paragraph 6(A) below.

K. Securities Acts. Nestor has not issued any unregistered securities in violation of the registration requirements of Section 5 of the Securities Act of 1933, as amended, or any other law, and is not violating any rule, regulation or requirement under the Securities Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended. Nestor is not required to qualify an indenture under the Trust Indenture Act of 1939, as amended, in connection with its execution and delivery of the Note.

L. Consents, etc. No consent, approval, authorization of, or registration, declaration or filing with any governmental authority is required on the part of Nestor in connection with the execution and delivery of the Loan Documents or the performance of or compliance with the terms, provisions, and conditions hereof or thereof.

5. Affirmative Covenants

Nestor hereby covenants and agrees with the Lender that, as long as any Obligations remain unpaid, Nestor shall:

A. Financial Statements. Furnish or cause to be furnished to the Lender:

i. Within ninety (90) days after the last day of the fiscal year of Nestor ending on December 31, 1998 and each fiscal year thereafter, consolidated and consolidating statements of income and statements of changes in financial position for such year and balance sheets as of the end of such)tar presented fairly in accordance with GAAP and, if requested by Lender, accompanied by an unqualified report of a firm of independent certified public accountants acceptable to the Lender and including therewith a copy of the management letter from such certified public accountants, except that a qualification as to the ability of Nestor to remain a going concern may be made;

ii. Within forty-five (45) days after the last day of each fiscal quarter, statements of income and changes in financial position for such fiscal quarter and balance sheets as of the end of such fiscal quarter of Nestor, accompanied in each case by a certificate of the chief financial officer of Nestor stating that such financial statements are presented fairly in accordance with GAAP.

B. Certificates; Reports; Other Information. Furnish or cause to be furnished to the Lender

i. Promptly after sending, filing, or publishing the same, copies of all proxy statements, financial statements, and reports that Nestor sends to its public stockholders, if any, and copies of all regular and periodic reports and all registration statements that Nestor files with the Securities and Exchange Commission and copies of all press releases issued by Nestor;

ii. Within thirty (30) days after the end of each of Nestor's fiscal years, a copy of Nestor's business plan with financial projections for operations for the next fiscal year, such projections to be in form and detail satisfactory to the Lender;

iii. Not later than forty-five (45) days after the end of each

quarter, a certificate of the chief financial officer or treasurer of Nestor stating he has no knowledge that an Event of Default or Potential Default has occurred and is continuing or, if an Event of Default or Potential Default has occurred and is continuing, a statement as to the nature thereof and the action that Nestor proposes to take with respect thereto.

C. Payment of Indebtedness. Pay, discharge, or otherwise satisfy at or before maturity or before it becomes delinquent, defaulted, or accelerated, as the case may be, all its Indebtedness (including taxes), except Indebtedness being contested in good faith and for which provision is made to the satisfaction of the Lender for the payment thereof in the event Nestor is found to be obligated to pay such Indebtedness and which Indebtedness is thereupon promptly paid by Nestor.

D. Maintenance of Existence and Properties; Compliance. Maintain its corporate existence and maintain all rights, privileges, licenses, approvals, franchises, properties, and assets necessary or desirable in the normal conduct of its business, and comply with all Requirements of Law.

E. Inspection of Property; Books and Records; Discussions. Keep proper books of record and account in which full, true, and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities, and permit representatives of the Lender (at no cost or expense to Nestor unless there shall have occurred and be continuing an Event of Default) to visit and inspect any of its properties and examine and , make abstracts from and copies of any of its books and records at any reasonable time and as often as may reasonably be desired by the Lender, and to discuss the business, operations, properties, and financial and other conditions of Nestor with officers and employees of Nestor, and with their independent certified public accountants.

F. Notices. Promptly give written notice to the Lender of.

i. The occurrence of any Potential Default or Event of Default;

ii. Any litigation or proceeding affecting Nestor that could have a material adverse effect on the business, operations, property, or financial or other condition of Nestor; and

iii. A material adverse change in the business, operations, property, or financial or other condition of Nestor.

G. Expenses. Pay all reasonable out-of-pocket expenses (including fees and disbursements of counsel) of the Lender incident to the enforcement of payment of the Obligations, whether by judicial proceedings or otherwise, and before as well as after judgment including, without limitation, in connection with bankruptcy, insolvency, liquidation, reorganization, moratorium, or other similar proceedings involving Nestor or a "workout" of the Obligations.

H. Loan Documents. Comply with and observe all terms and conditions of the Loan Documents.

I. Insurance. Obtain and maintain insurance with responsible companies in such amounts and against such risks as are usually carried by corporations engaged in similar businesses similarly situated, and furnish the Lender on request full information as to all such insurance.

J. ERISA. Furnish to the Lender:

i. Promptly and in any event within 10 days after Nestor knows or has reason to know of the occurrence of a Reportable Event with respect to a Plan with regard to which notice must be provided to the PBGC, a copy of such materials required to be filed with the PBGC with respect to such Reportable Event and in each such case a statement of the chief financial officer of Nestor setting forth details as to such Reportable Event and the action that Nestor proposes to take with respect thereto;

ii. Promptly and in any event within 10 days after Nestor knows or has reason to know of any condition existing with respect to a Plan that presents a material risk of termination of the Plan, imposition of an excise tax, requirement to provide security to the Plan or incurrence of other liability by Nestor or any ERISA Affiliate, a statement of the chief financial officer of Nestor describing such condition;

iii. At least ten (10) days prior to the filing by any plan administrator of a Plan of a notice of intent to terminate such Plan, a copy of such notice;

iv. Promptly and in no event more than ten (10) days after the filing thereof with the Secretary of the Treasury, a copy of any application by Nestor or an ERISA Affiliate for a waiver of the minimum funding standard under Section 412 of the Code;

v. Promptly and in no event more than ten (10) days after the filing thereof with the Internal Revenue Service, copies of each annual report that is filed on Form 5500, together with certified financial statements for the Plan (if any) as of the end of such year and actuarial statements on Schedule B to such Form 5500;

vi. Promptly and in any event with ten (10) days after it knows or has reason to know of any event or condition that might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, a statement of the chief financial officer of Nestor describing such event or condition;

vii. Promptly and in no event more than ten (10) days after receipt thereof by Nestor or any ERISA Affiliate, a copy of each notice received by Nestor or an ERISA Affiliate concerning the imposition of any withdrawal liability under Section 4202 of ERISA; and

viii. Promptly after receipt thereof a copy of any notice Nestor or any ERISA Affiliate may receive from the PBGC or the Internal Revenue Service with respect to any Plan or Multiemployer Plan; provided, however, that this subparagraph (viii) shall not apply to notices of general application promulgated by the PBGC or the Internal Revenue Service.

6. Negative Covenants

Nestor hereby agrees that, as long as any Obligations remain unpaid, Nestor shall not, without the written consent of Lender, directly or indirectly:

A. Liens. Create, incur, assume or suffer to exist, any Lien upon any of its property and assets except:

i. Liens or charges for current taxes, assessments, or other governmental charges that are not delinquent or that remain payable without penalty, or the validity of which are contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof, provided Nestor shall have set aside on its books and shall maintain adequate reserves for the payment of same in conformity with GAAP;

ii. Liens, deposits, or pledges made to secure statutory obligations, surety, or appeal bonds, or bonds for the release of attachments or for stay of execution, or to secure the performance of bids, tenders, contracts (other than for the payment of borrowed money), leases, or for purposes of like general nature in the ordinary course of Nestor's business;

iii. Purchase money security interests for property hereafter acquired, conditional sale agreements, or other title retention agreements, with respect to property hereafter acquired; provided, however, that no such security interest or agreement shall extend to any property other than the property acquired; and

iv. Liens securing Permitted Secured Debt as listed on Exhibit 6A(iv) (Permitted Liens).

B. Indebtedness. Create, incur, assume, or suffer to exist, or otherwise become or be liable, or cause any Subsidiary to create, incur, assume, or suffer to exist, or otherwise become or be liable, in respect of any indebtedness except:

i. The Obligations.

ii. Trade debt incurred in the ordinary course of business and outstanding less than thirty (30) days after the same has become due and payable or which is being contested in good faith, provided provision is made to the satisfaction of the Lender for the eventual payment thereof in the event it is found that such contested trade debt is payable by Nestor.

iii. Indebtedness secured by Liens permitted under previous paragraph 6(A) except that Nestor shall not draw additional advances under or from the Revolving Line of Credit with Citizens Bank dated January 5, 1997 as amended by the Loan Modification Agreement dated March 16, 1998 (the "Citizens LOC") or other cause or permit the principal balance due Citizens Bank pursuant to the Citizens LOC (excluding accruing interest charges) exceed $250,000; and

iv. Permitted Secured Debt which shall consist of Indebtedness secured by assets being acquired and/or capital lease obligations either of which shall be listed on Exhibit 6A(iv) or expressly approved in advance in writing by Lender.

v. Indebtedness on terms and conditions expressly approved in advance in writing by Lender.

C. Consolidation and Merger. Liquidate or dissolve or enter into any consolidation, merger, partnership, joint venture, syndicate, or other combination.

D. Acquisitions. Purchase or acquire or incur liability for the purchase or acquisition of any or all of the assets or business of any person, firm, or corporation, other than in the normal course of business as presently conducted.

E. Payment of Dividends. Except for dividends accruing after the applicable Restricted Period (as defined in each Preferred Dividend Agreement) on preferred stock on which Nestor is obligated to pay pursuant to the terms of the Preferred Dividend Agreements made by and among Nestor and certain preferred stockholders dated prior to December 31, 1997. Declare or pay any dividends upon its shares of stock now or hereafter outstanding or make any distribution of assets to its stockholders as such, whether in cash, property, or securities, except dividends payable in shares of capital stock and cash in lieu of fractional shares or in options, warrants, or other rights to purchase shares of capital stock.

F. Purchase or Retirement of Stock. Acquire, purchase, redeem, or retire any shares of its capital stock now or hereafter outstanding, except on terms and conditions approved by Lender.

G. Investments; Advances. Make or commit to make any advance, loan, or extension of credit or capital contribution to, or purchase any stock, bonds, notes, debentures, or other securities of, or make any other investment in, any Person, except short-term cash management programs.

H. Sale of Assets. Sell, lease, assign, transfer, or otherwise dispose of any of its assets (other than obsolete or worn-out property), whether now owned or hereafter acquired, other than in the ordinary course of business as presently conducted and at fair market value.

I. ERISA.

i. Terminate or withdraw from any Plan so as to result in any material liability to the PBGC;

ii. Engage in or permit any person to engage in any Prohibited Transaction involving any Plan that would subject Nestor to any material tax, penalty, or other liability;

iii. Incur or suffer to exist any material Accumulated Funding Deficiency, whether or not waived, involving any Plan;

iv. Allow or suffer to exist any event or condition that presents a risk of incurring a material liability to the PBGC;

v. Amend any Plan so as to require the posing of security under Section 401 (a)(29) of the Code; or

vi. Fail to make payments required under Section 412(m) of the Code and Section 302(e) of ERISA that would subject Nestor to any material tax, penalty, or other liability.

7. Events of Default

Upon the occurrence of any of the following events (an Event of Default):

A. Nestor shall fail to pay any principal on the Loans on the date when due or fail to pay within five days of the date when due any other Obligation under the Loan Documents; or

B. Any representation or warranty made by Nestor in any Loan Document or in connection with any Loan Document shall be inaccurate or incomplete in any respect on or as of the date made; or

C. Nestor shall fail to maintain its corporate existence or shall default in the observance or performance of any covenant or agreement contained in

previous paragraphs 5(J) or 6; or

D. Nestor shall fail to observe or perform any other term of provision contained in the Loan Documents and such failure shall continue for thirty (30) days; or

E. Nestor shall default in any payment of principal or interest on any Indebtedness (other than the Obligations) or any other event shall occur, the effect of which is to permit such Indebtedness to be declared or otherwise to become due prior to its stated maturity; or

F. (i) Nestor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, or other similar officials for it or for all or any substantial part of its assets, or shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against Nestor any case, proceeding or other action of a nature referred to previously in clause (i) that (A) results in the entry of an order for relief or any such adjudication or appointment; (B) remains undismissed, undischarged, or unbonded for a period of sixty (60) days; (iii) there shall be commenced against Nestor or any of its Subsidiaries, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint, or similar process against all or substantially all of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, stayed, satisfied, or bonded pending appeal within sixty (60) days from the entry thereof; (iv) shall take any action in furtherance of, or indicating its consent to, approval of, acquiescence in (other than in connection with a final settlement), any of the acts set forth in clause (i), (ii), or (iii) above; or (v) Nestor, shall generally not, or shall be unable to, or shall admit in writing its inability to pay its debts as they become due; or

G. (i) Any Reportable Event or a Prohibited Transaction shall occur with respect to any Plan; (ii) a notice of intent to terminate a Plan under Section 4041 of ERISA shall be filed; (iii) a notice shall be received by the plan administrator of a Plan that the PBGC has instituted proceedings to terminate a Plan or appoint a trustee to administer a Plan; (iv) any other event or condition shall exist that might, in the opinion of the Lender, constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan; or (v) Nestor or any ERISA Affiliate shall withdraw from a Multiemployer Plan under circumstances that the Lender determines could have a material adverse effect on the financial condition of Nestor; or

H. One or more judgments or decrees shall be entered against Nestor and all such judgments or decrees shall not have been vacated, discharged, stayed, satisfied, or bonded pending appeal within fifteen (15) days from the entry thereof or in any event later than five days prior to the date of any proposed sale thereunder; or

I. Nestor shall voluntarily suspend the transaction of business for more than five (5) days in any calendar year;

THEN, automatically upon the occurrence of an Event of Default under above, and at the option of the Lender upon the occurrence of any other Event of Default, the Lender's obligation to make Loans hereunder shall terminate and the Obligations shall become due and payable, without demand upon or presentment to Nestor, which are expressly waived by Nestor, and the Lender may immediately exercise all rights, powers, and remedies available to it at law, in equity or otherwise.

8. Miscellaneous Provisions

A. Confidentiality. The parties agree to keep confidential the information provided under the terms of this Agreement subject to such disclosures as shall be required by governmental authority or court order.

B. No Assignment. Nestor may not assign its rights or obligations under this Agreement without the prior written consent of the Lender. Subject to the foregoing, all provisions contained in this Agreement or any document or agreement referred to herein or relating hereto shall inure to the benefit of the Lender, its successors and assigns, and shall be binding upon Nestor, its successors and assigns.

C. Amendment,- No Waiver. This Agreement may not be amended or terms or provisions hereof waived unless such amendment or waiver is in writing and

signed by the Lender and Nestor. It is expressly agreed and understood that the failure by the Lender to elect to accelerate amounts outstanding hereunder and/or to terminate the obligation of the Lender to make Loans hereunder shall not constitute an amendment or waiver of any term or provision of this Agreement. No delay or failure by the Lender to exercise any right, power, or remedy shall constitute a waiver thereof by the Lender, and no single or partial exercise by the Lender of any right, power, or remedy shall preclude other or further exercise thereof or any exercise of any other rights, powers, or remedies.

D. Cumulative Rights. The rights, powers, and remedies of the Lender hereunder are cumulative and in addition to all rights, powers, and remedies provided under any and all agreements between Nestor and the Lender relating hereto, at law, in equity or otherwise.

E. Entire Agreement. This Agreement and the documents and agreements referred to herein embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

F. Survival. All representations, warranties, covenants, and agreements herein contained on the part of Nestor shall survive the termination of this Agreement and shall be effective until the Obligations are paid and performed in full or longer as expressly provided herein.

G. Notices. All notices, consents, requests, and demands to or upon the respective parties hereto shall be in writing, and shall be deemed to have been given or made when delivered in person to those Persons listed on the signature pages hereof or when deposited in the U.S. mail, postage prepaid, or, in the case of telegraphic notice or the overnight courier services when delivered to the telegraph company or overnight courier service, or in the case of telex or telecopy notice, when sent, verification received, in each case addressed as set forth on the signature pages hereof, or such other address as either party may designate by notice to the other in accordance with the terms of this paragraph 8(f).

H. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Nebraska, without giving effect to choice of law rules.

I. Counterparts. This Agreement and the other Loan Documents may be executed in any number of counterparts, all of which together shall constitute one agreement.

J. Accounting Terms. All accounting terms not otherwise defined herein are used with the meanings given such terms under GAAP.

9. Definitions

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

"Accumulated Funding Deficiency" shall mean a funding deficiency described in Section 302 of ERISA.

"Affiliate" shall mean, as to any corporation, any other corporation directly or indirectly controlling, controlled by or under direct or indirect common control with, such corporation. "Control" as used herein means the power to direct the management and policies of such corporation.

"Agreement" shall mean this Agreement, as the same may be amended, extended, or replaced from time to time.

"Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banks in Nebraska are authorized or obligated to close their regular banking business.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations issued thereunder as form time to time in effect.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations issued thereunder as from time to time in effect.

"ERISA Affiliate" shall mean each trade or business, including Nestor, whether or not incorporated, which together with Nestor would be treated as a single employer under Section 4001 of ERISA.

"Event of Default" shall have the meaning given such term in previous paragraph 7.

"Final Maturity Date" shall mean the earlier of (a) September 30, 1999; and (b) the date the Lender accelerates payment of the Term Loan pursuant to previous paragraph 7.

"GAAP" shall mean generally accepted accounting principles in the United States in effect from time to time.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof, or any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

"Indebtedness" of any Person shall mean all items of indebtedness which, in accordance with GAAP and practices, would be included in determining liabilities as shown on the liability side of a statement of condition of such Person as of the date as of which indebtedness is to be determined, including, without limitation, all obligations for money borrowed and capitalized lease obligations, and shall also include all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) whether by reason of any agreement to acquire such indebtedness or to supply or advance sums or otherwise.

"Lien" shall mean any security interest, mortgage, pledge, lien, claim on property, charge, or encumbrance (including any conditional sale or other title retention agreement), any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction.

"Loan Documents" shall mean this Agreement, the Note, the Security Agreement in the form of Exhibit 9 and the Options, and each other document, instrument, and agreement executed by Nestor in connection herewith or therewith, as any of the same may be amended, extended, or replaced from time to time.

"Multiemployer Plan" shall mean a Plan described in Section 4001(a)(3) of ERISA to which Nestor or any ERISA Affiliate is required to contribute on behalf of any of its employees.

"Note" shall have the meaning previously given such term in paragraph 2(b).

"Obligations" shall mean any and all debts, obligations, and liabilities of Nestor to the Lender (whether principal, interest, fees, or other-wise, whether now existing or hereafter arising, whether voluntary or involuntary, whether or not jointly owed with others, whether direct or indirect, absolute or contingent, contractual or tortious, liquidated or unliquidated, arising by operation or law or otherwise, whether or not from time to time decreased or extinguished and later increased, created, or incurred and whether or not extended, modified, rearranged, restructured, refinanced, or replaced, including without limitation, modifications to interest rates or other payment terms of such debts, obligations, or liabilities).

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA and any successor thereto.

"Permitted Secured Debt" shall mean that indebtedness described in paragraph 6(b)(iv) of this Agreement.

"Person" shall mean any corporation, natural person, firm, joint venture, partnership, trust, unincorporated organization, government, or any department or agency of any government.

"Plan" shall mean any plan (other than a Multiemployer Plan) subject to Title IV of ERISA maintained for employees of Nestor or any ERISA Affiliate (and any such plan no longer maintained for employees of Nestor or any of its ERISA Affiliates to which Nestor or any of its ERISA Affiliates has made or was required to make any contributions during the five years preceding the date on which such plan ceased to be maintained).

"Potential Default" shall mean an event that but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

"Prime Rate" shall mean the fluctuating per annum rate published from time to time in the Wall Street Journal as the "Prime Rate".

"Prohibited Transaction" shall mean any transaction described in Section 406 of ERISA that is not exempt by reason of Section 408 of ERISA or the transitional rules set forth in Section 414(c) of ERISA and any transaction described in Section 4975(c)(1) of the Code, which is not exempt by reason of Section 4975(c)(2) or Section 4975(d) of the Code, or the transitional rules of

Section 2003(c) of ERISA.

"Property" shall mean, collectively and severally, any and all real property, including all improvements and fixtures thereon, owned or occupied by Nestor.

"Reportable Event" shall mean any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, a cessation of operations described in Section 4068(f) of ERISA, an amendment to a Plan necessitating the posting of security under Section 401 (a)(29) of the Code, or a failure to make a payment required by Section 412(m) of the Code and Section 302(e) of ERISA when due.

"Requirements of Law" shall mean as to any Person the Certificate of Incorporation and Bylaws or other organizational or governing documents of such Person, and any law, treaty, rule, or regulation, or a final and binding determination of an arbitrator or a determination of a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

NESTOR, INC., a Delaware Corporation	TRANSACTION SYSTEMS ARCHITECTS, INC., a Delaware Corporation
By: /s/ Nigel Hebborn	By: /s/ Gregory Duman
Title: Chief Financial Officer	Title: Chief Financial Officer

PRISM NON-EXCLUSIVE LICENSE AGREEMENT

This agreement ("Agreement") is made this 28 day of April 1998, by Nestor, Inc., a Delaware corporation, having a place of business at One Richmond Square, Providence, RI 02906 ("Nestor"), and Transaction Systems Architects, Inc., a Nebraska corporation, having a place of business at 330 South 108 Avenue, Omaha, NE 68154, on behalf of itself and all of its current and future Subsidiaries (collectively "TSA" and together with Nestor, the "Parties" and each singularly a "Party"). A Wholly-owned Subsidiary shall be any entity that is owned 100% by TSA. A Non-wholly-owned Subsidiary shall be any entity that is at least 50% owned by TSA but is not a Wholly-owned Subsidiary. TSA and its Subsidiaries shall be jointly and severally liable hereunder. A current list of Subsidiaries is set forth on Schedule G. An updated Schedule G will be provided upon Nestor's request. If during the term of this Agreement a Wholly-owned Subsidiary becomes a Non-wholly-owned Subsidiary it have only the rights of a Non-wholly-owned Subsidiary; if during the term of this Agreement a Subsidiary becomes a Non-Subsidiary it have only the rights, if any, of a Non-Subsidiary. All Subsidiaries are either Wholly-owned Subsidiaries or Non-wholly-owned Subsidiaries.

Other capitalized terms not defined herein are defined in Schedule A.

WHEREAS TSA wishes to acquire a world-wide, non-exclusive, limited license to copy, use and sublicense a software product developed by Nestor called PRISM (the "Nestor Software"), which software is more fully described in Schedule A;

NOW THEREFORE, the Parties agree as follows:

I. Grant of License.

A. Subject to the provisions of this Agreement, Nestor hereby grants to TSA, and TSA accepts, a personal, nontransferable and non-exclusive, world-wide license (the "License"), but only:

1. to use, on the premises of TSA and by TSA employees only, those portions of the Nestor Software which are identified in the Schedule as source code for

(i) creating interfaces between the Nestor Software and TSA Products,

(ii) translating into foreign languages the English language expressions that form part of the graphical user interface of the Analysis/Review System (in the event Nestor desires to use such translation with its other licensees Nestor shall reimburse TSA the pro-rata reasonable costs of developing such translation) and

(iii) modifying the Analysis/Review System; provided that, in the case of this clause (iii), (a) TSA shall have first requested that Nestor make such modification and Nestor shall have declined to do so, and (b) such modification shall become a part of the Nestor Software and shall be owned by Nestor and licensed to TSA under this Agreement, except that Nestor's obligations pursuant to Sections IV A and V B shall not apply to any such modification made TSA; and further provided that unless Nestor has approved the modification if done by TSA, Nestor's obligations pursuant to Section VIIIA shall not apply to any such modification or any other portions of the Nestor Software effected by such modifications.

2. to sublicense and distribute, within the Field-of-Use, in object-code form only, copies of Nestor Software to customers ("Sublicensees") (provided that TSA reproduces on all such copies any copyright and other proprietary notices of Nestor); and

3. to reproduce, modify, and adapt the user documentation of the Nestor Software, provided any such modification that may affect Nestor's intellectual property rights shall be subject to Nestor's prior written approval; and

4. to use, on the premises of TSA and by TSA employees only, copies of the Nestor Software solely for testing, development (only as set forth in Section I.A.1), and maintenance purposes and object code only copies for demonstration purposes; and

5. to appoint TSA distributors ("Distributors") which may exercise some or all of the rights granted to TSA herein in the same manner as TSA can exercise such rights; provided

(i) TSA shall not deliver to any Distributor any part of the Nestor Software in source code, except TSA may disclose to any Distributor the source code described in Section I.A.1.(ii), but only for the purpose of translation into foreign languages as permitted by Section I.A.1.(ii);

(ii) To the maximum extent permitted by law, TSA shall prohibit each Distributor from disassembling, decompiling, or "reverse engineering" any part of the Nestor Software delivered in object code, and

(iii) TSA shall have entered into an agreement with each Distributor containing such terms and conditions as are necessary to effectuate the provisions and/or limitations on use of Sections I.B and V.C, D, E and F of this Agreement.

TSA will indemnify, defend and hold Nestor harmless from all expenses, damages and costs (including reasonable attorney's fees) or losses resulting from (i) any act or omission by any Distributor that would breach the provisions of this Section I.A.5 and (ii) any act or omission of a Distributor that, if committed by TSA, would constitute a breach of this Agreement;

B. Except as expressly permitted in Section I.A of this Agreement, and except as required to effectuate the intentions of the Parties as expressly set forth herein, TSA shall not have any right to use, sublicense, copy, modify, create derivative works from, rent, lease, assign or transfer any Nestor Software.

To the maximum extent permitted by law, TSA is prohibited from disassembling, decompiling, or "reverse engineering" in any way any part of the Nestor Software delivered to TSA in object-code form.

C. All rights not expressly granted to TSA are reserved by Nestor. All modifications made by TSA under Subsection I.A.1 shall become a part of the Nestor Software and shall be owned by Nestor and licensed to TSA under this Agreement, and TSA hereby grants to Nestor all right, title and interest, including but not limited to copyright rights in such modifications.

D. Nestor agrees, so long as this Agreement is in place, not to grant a similar re-seller license to any third party which would allow such third party to sublicense the Nestor Software on a Base24 software platform nor shall grant a similar re-seller license to the entities listed on Schedule D. TSA may, not more often than two years and on ninety days notice, change the identities (but not the total number) of the entities on such Schedule. This subsection D is not applicable to licenses which Nestor has in place with third parties as of the date of this Agreement or at the date of a change in the Schedule, nor shall it be applicable for licenses which Nestor is required to offer by statute or applicable precedent.

E. Notwithstanding anything set forth above, Distributors and Non-wholly-owned Subsidiaries may only use, under this Section, the Nestor Software for the purposes set forth in subsection I.A.1(ii) above. No source code other than as necessary to develop the modifications set forth in subsection I.A.1(ii) above shall be provided to Distributors or Non-wholly-owned Subsidiaries.

F. TSA shall take all lawful steps to fully and timely enforce all provisions of any agreement of any kind between it and any Distributor, Sublicensee, consultant or third party which agreement is authorized by this Agreement and relates in any way or is in connection with the Nestor Software or the Nestor Technology. TSA shall promptly notify Nestor of any such commencement of any such enforcement action and provide Nestor with such status reports therein as Nestor may reasonably require. TSA shall promptly notify Nestor if the validity of Nestor's patent, copyright, trade secret, trademark or other proprietary property rights have become at issue in any such action, in which case Nestor may at any time thereafter assume the responsibility for enforcement of such action. If Nestor assumes such responsibility, TSA shall have no further responsibility or liability therefor, Nestor shall have the right to make all decisions in the matter and any action Nestor may take therein shall be without any liability of Nestor to TSA.

II. Right to Sublicense.

A. A sublicense may not:

(1) transfer any right, title or interest in the Nestor Software (other than the right to use Nestor Software under the terms of the sublicense;

(2) allow any Sublicensee to re-sublicense, unless such Sublicensee was never intended to be an entity for which the Nestor Software was to be used on a productive basis; provided any North American Sublicensee will not be allowed to sublicense under any circumstances without Nestor's written consent.

B. Each sublicense shall also contain substantially those terms set forth in Sections 1.0, 8.0, 10.0 and 11.0 of the Base 24 Agreement and Sections 2.2, 2.6, 2.7, 2.8, 6.0, 7.0, 8.0, 9.0. 11.0, and 12.0 of the Attachment, as set forth on Schedule C.

C. Upon request, TSA shall deliver to Nestor one copy of (i) all documentation relating to each version of the Nestor Software, including but not limited to all packaging and related materials of any kind referring to Nestor, the Nestor Software or using any trademark of Nestor, and (ii) all TSA advertising or other marketing material of any kind referring to Nestor, the Nestor Software or using any trademark of Nestor.

III. Royalty Rate, Payment and Related Matters.

A. TSA shall pay to Nestor during the term of this Agreement royalties as set forth in Schedule A. Any amount due under this Agreement shall be paid when specified in this Agreement, or, if not so specified, within thirty (30) days after the date of any invoice therefor.

Except as provided in Section IV of this Agreement and except if a breach of VIII.A requires TSA to refund amounts received under a sublicense or distribution agreement, no payment shall be subject to a refund.

All payments due to Nestor from TSA shall be made in U.S. Dollars. If the Royalty Base underlying the calculation of any part of Earned Royalties shall he received by TSA in currency other than U.S. Dollars, such Royalty Base shall be converted to U.S. Dollars at the exchange rate published in the Wall Street Journal for the last day of the month immediately preceding the date of payment of such Earned Royalty.

Nestor may charge interest on any amount not paid when due at the lower of one (1 %) percent per month or the maximum rate allowed by law.

B. TSA shall be liable and responsible for payment of all taxes and duties (except income taxes accrued against Nestor) arising from this Agreement and shall indemnify and hold Nestor harmless from any failure of TSA to do so.

C. Within thirty (30) days after the end of each calendar quarter during the term of this Agreement, TSA shall deliver to Nestor a report setting forth the number of sublicenses of Nestor Software during such quarter, together with an accounting of all amounts constituting a part of the Royalty Base and a calculation of Earned Royalties. TSA will keep such records as will enable the royalties payable hereunder to be accurately determined by Nestor. Such records will be retained by TSA and made available, not more frequently than once during each calendar year of this Agreement, to an independent certified public accountant selected by Nestor for examination at the request and at the expense of Nestor during reasonable business hours at the offices of TSA for a period of at least five (5) years after the date of the transactions to which the records relate.

If any such audit determines that TSA has understated an amount owed to Nestor by TSA, TSA shall promptly pay to Nestor the amount of such understatement. If any audit determines that any such amount is understated by more than five percent (5%), TSA shall additionally reimburse Nestor for the costs of that audit. If any such audit determines that TSA has overpaid an amount owed to Nestor by TSA, TSA shall be entitled to a credit against future amounts owed to Nestor in the amount of such overpayment.

IV. Third-Party Claims and Actions; Infringement and Unauthorized Use

A. Provided TSA has promptly upon learning of a claim or action (but in any event with sufficient notice not to cause Nestor's loss of its right to defend) notified Nestor in writing of an claim or action in which it is alleged that the Nestor Software infringes (i) a United States issued patent, trade secret, or copyright or (ii) a foreign patent, trade secret or copyright, and TSA, at no cost to Nestor (except for reasonable out-of-pocket expenses), fully cooperates with Nestor in such settlement or defense, then Nestor at its sole expense shall take sole control of the settlement of such claim and the defense of any litigation resulting solely therefrom and shall be responsible for the costs of such defense and will indemnify and hold TSA harmless from the cost of any settlement or judgment resulting solely therefrom.

If, in connection with any such claim, Nestor deems it advisable to replace parts of the Nestor Software, TSA shall accept such replacement provided that it has substantially the same functions and features as the part replaced and is replaced at no cost to TSA or its Sublicensees. If, as a final result of a claim described in the first sentence of this Section, the use by TSA or its Sublicensees of the Nestor Software is enjoined, Nestor shall, at its sole option either (i) replace such parts of the Nestor Software as have been enjoined (provided that it has substantially the same functions and features as the part replaced and is replaced at no cost to TSA or is Sublicensees), or (ii) procure a license for TSA and its Sublicensees to use same at no additional cost to TSA or its Sublicensees, or (iii) reimburse to TSA 40% of the amounts which TSA would have to pay Sublicensees under Section 8.2 of Attachment A of Schedule

C.

Notwithstanding the foregoing and subject to Section V.E of this Agreement, Nestor assumes no obligation or liability for, and TSA will indemnify, defend and hold Nestor harmless from any and all expenses, damages, costs (including reasonable attorneys' fees) or losses resulting from any claim or action of patent infringement, copyright infringement, trade secret violation, trademark or trade-name infringement or infringement of any other proprietary right arising from or relating to

(i) the use of the Nestor Software in combination with any other product, if the use of the Nestor Software alone would not have given rise to such claim,

(ii) Nestor's compliance with TSA's design, specifications, or instructions,

(iii) any actions or claims of trademark infringement involving any marking or branding not applied or approved in advance by Nestor,

(iv) any modification of the Nestor Software not made by Nestor (whether or not approved by Nestor), or

(v) any claim of direct or contributory infringement of any process patent arising from the use of any Nestor Software if the use of the Nestor Software in accordance with its documentation would not have given rise to such claim.

This Section IV.A states the entire liability and obligation of Nestor and TSA and the exclusive remedy of TSA and its Sublicensees with respect to any actions or claims of alleged infringement relating to or arising out of the subject matter of this Agreement.

B. TSA shall promptly notify Nestor (with full particulars) of any possible infringers or unauthorized users of the Nestor Software of which TSA obtains knowledge. Nestor, in its sole discretion, shall determine what steps, if any, are to be taken with respect to any infringement or unauthorized use of the Nestor Software and any damages recovered shall he payable solely to Nestor. TSA agrees to fully cooperate with Nestor, at no cost to Nestor (except for reasonable out-of-pocket expenses), in all stages of any such action. In no event shall Nestor be obligated hereunder to commence legal proceedings.

V. Warranties and Covenants.

A. Each Party does hereby warrant that this Agreement has been duly and validly authorized and executed by it and is its valid and binding obligation and that it has the legal right and authority to execute this Agreement and to conduct its activities as contemplated by this Agreement.

B. Nestor warrants that no claim has been made by any third party that the Nestor Software infringes any United States issued patent, trade secret or copyright of any such third party. Nestor warrants that it knows of no claim by any third party that the Nestor Software infringes any foreign patent, copyright or trade secret of such third party.

C. Nestor warrants that, for a period of ninety (90) days after each installation, the Nestor Software shall substantially conform to the document titled, Prism Functional Description, which is annexed hereto as Schedule C solely for the purpose of listing such functions; provided, however, that such warranty shall be voided in its entirety with respect to any Nestor Software to which TSA shall have made any functional modification without Nestor's approval or to any Nestor Software which shall have been installed in a manner not in accordance with a mutually agreeable installation guide.

D. EXCEPT AS PROVIDED IN B, C AND F OF THIS SECTION V, THE NESTOR SOFTWARE IS LICENSED AS-IS. NESTOR DOES NOT WARRANT THAT THE NESTOR SOFTWARE AND THE TECHNOLOGY EMBODIED THEREIN ARE CAPABLE OF INDUSTRIAL REALIZATION OR COMMERCIAL EXPLOITATION, THE RISKS OF WHICH ARE BEING ASSUMED SOLELY BY TSA, AND NESTOR SHALL HAVE NO RESPONSIBILITY FOR THE CONSEQUENCES OF ANY SUCH FAILURE OF INDUSTRIAL REALIZATION OR COMMERCIAL EXPLOITATION. IT IS UNDERSTOOD THAT NESTOR IS NOT MAKING AND EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES THAT THE MANUFACTURE, USE, SUBLICENSING OR SALE OF THE NESTOR SOFTWARE WILL NOT INFRINGE THE PATENTS, COPYRIGHTS, TRADEMARKS OR OTHER PROPRIETRAY RIGHTS OF ANY THIRD PARTY.

E. EXCEPT AS PROVIDED IN B, C AND F OF THIS SECTION V, NESTOR EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES OR GUARANTEES OF ANY KIND WHATSOEVER, EITHER EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

F. REGARDLESS OF WHETHER ANY REMEDY HEREIN FAILS OF ITS ESSENTIAL PURPOSE, IN NO EVENT WILL NESTOR BE LIABLE FOR ANY INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE,

INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF OR RELATING IN ANY WAY TO THIS AGREEMENT, THE NESTOR SOFTWARE OR THE USE OF THE SAME (INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOST INFORMATION, LOST SAVINGS, LOST PROFITS OR BUSINESS INTERRUPTION), EVEN IF NESTOR HAS BEEN INFORMED, IS AWARE, OR SHOULD BE OR SHOULD HAVE BEEN AWARE, OF THE POSSIBILITY OF SUCH DAMAGES. NOTHING CONTAINED IN THIS SUBSECTION F IS INTENDED TO LIMIT NESTOR'S OBLIGATIONS UNDER SECTIONS IV.A.

THE SOLE REMEDY FOR ANY DISK OR OTHER, MACHINE READABLE MATERIAL SUPPLIED BY NESTOR WHICH IS PHYSICALLY DEFECTIVE SHALL BE, AT NESTOR'S OPTION, REPLACEMENT OF SUCH DISK OR MATERIAL OR REFUND OF THE ROYALTY PAID TO NESTOR RELATING TO SUCH DISK OR MATERIAL.

EXCEPT FOR INDEMNIFICATION OF TSA BY NESTOR PURSUANT TO SECTION IV A, IN NO EVENT WILL NESTOR BE LIABLE IN DAMAGES OR OTHERWISE IN EXCESS OF THE ROYALTIES RECEIVED BY NESTOR FROM TSA HEREUNDER.

EXCEPT FOR BREACHES OF THIS AGREEMENT AFFECTING NESTOR'S INTELLECTUAL PROPERTY RIGHTS (INCLUDING BUT NOT LIMITED TO BREACHES OF SECTIONS I, II, V. F. (1) AND (2) AND (4), AND VII OF THIS AGREEMENT) AND REGARDLESS OF WHETHER ANY REMEDY HEREIN FAILS OF ITS ESSENTIAL PURPOSE, IN NO EVENT WILL TSA BE LIABLE FOR ANY INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE, INDIRECT OR CONSEQUENTIAL DAMAGES ARISING OUT OF OR RELATING IN ANY WAY TO THIS AGREEMENT, THE NESTOR SOFTWARE OR THE USE OF THE SAME (INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOST INFORMATION, LOST SAVINGS, LOST PROFITS OR BUSINESS INTERRUPTION), EVEN IF TSA HAS BEEN INFORMED, IS AWARE, OR SHOULD BE OR SHOULD HAVE BEEN AWARE, OF THE POSSIBILITY OF SUCH DAMAGES.

G. TSA further agrees that:

(1) it will not use, market, sublicense, deliver or transfer in any way the Nestor Software in violation of any applicable law, rule or regulation of the United States, or any State of the United States or any foreign country of applicable jurisdiction (including without limitation any United States law, rule or regulation relating to technology export or transfer) and it will obtain at its own cost any required export licenses; provided Nestor will provide all reasonable cooperation in TSA's efforts to obtain such export license and if such license is used by Nestor with other licensees Nestor will reimburse TSA a pro-rata amount of TSA's costs for such license.

(2) it will not accept any purchase order or contract (including without limitation any United States or foreign government contract) that by its terms or by the operation of law will abridge or otherwise diminish Nestor's intellectual-property rights in and/or to the Nestor Software (and all such orders or contracts with-any government agency will include "restricted" or "limited" rights provisions, or their equivalents, or be on no less favorable terms to Nestor);

(3) this Agreement is a license agreement only, not an agreement for the sale of the Nestor Software, and neither TSA nor any Sublicensee obtains any right in or to the Nestor Software other than as provided in this Agreement or the sublicenses.

(4) TSA shall not infringe the copyright or other propriety rights in the Nestor Software nor permit others within TSA's control (including Distributors) to do so.

(5) it will be solely responsible and liable for all necessary or desirable steps to market and (subject to Nestor's providing the engineering and consulting support set forth in Section VIII.A), to adequately support and maintain, the Nestor Software.

(6) As between TSA and its Sublicensees TSA is solely responsible for warranting the Nestor Software and liable for any warranty claims therefor (either express, implied or otherwise);and

(7) it is solely responsible for all expenses incurred by it in its performance of this Agreement.

(8) As between TSA and Nestor, TSA assumes all responsibility and liability of the selection of the Nestor Software to achieve the results intended and for the use of and results obtained from the Nestor Software.

VI. Term, Extension, Expiration or Termination.

A. This Agreement shall be effective as of the date set forth on page 1 and shall continue thereafter for a term of ten (10) years.

B. TSA may at its option, extend the term of this Agreement for successive one-year terms up to a maximum of twenty one-year terms if either

(i) TSA shall have paid to Nestor during the calendar year immediately preceding such extension Earned Royalties of not less than two million dollars ($2,000,000) or

(ii) TSA owns, at the end of such calendar year, not less than ten per cent of the then issued and outstanding shares of Nestor or

(iii) TSA chooses to and does pay the difference between the Earned Royalties paid during such calendar year of this Agreement and $2,000,000.

C. Either Party may terminate this Agreement and the License by written notice to the other Party, if such other Party shall breach any of the provisions of this Agreement and such breach continues for at least thirty (30) days after notice thereof. TSA may terminate this Agreement and the License by delivering to Nestor one hundred eighty (180) days advance written notice thereof.

D. Notwithstanding the foregoing, this Agreement shall immediately terminate if TSA liquidates, dissolves, shall be adjudicated insolvent, files or has filed against it a petition in bankruptcy or for reorganization which, if filed against TSA, has not been discharged within one hundred and eighty (180) days of filing, takes advantage of any insolvency act or proceeding, including an assignment for the benefit of creditors, or commits any other act of bankruptcy; provided, however, that Nestor shall only have the right to suspend the License and Nestor's performance of its obligations under this Agreement during the pendency of any undischarged involuntary bankruptcy or reorganization.

E. Notwithstanding any termination or expiration of this Agreement, the License and any Sublicenses shall continue in effect with respect to any Nestor Software sublicensed by TSA prior to termination or expiration. In addition, TSA shall remain liable for all amounts which have accrued but not been paid as of the date of termination.

In the event of termination of this Agreement for breach, all future payments by Sublicensees that constitute part of the Earned Royalty Base shall inure to the benefit, and be payable to the account of, the non-breaching Party.

In the event of termination of this Agreement by TSA for breach, TSA shall pay to Nestor during the remaining term of the respective Sublicensees, for each Sublicense then in effect, the greater of (i) the maintenance fee provided for in the Sublicense or (ii) an annual amount equal to fifteen percent (15%) of the Initial License Fees set forth in such Sublicense.

In addition thereto, TSA shall pay to Nestor any out-of-pocket costs of Nestor in connection with maintenance-related travel to Sublicensee sites.

In consideration of such fees and reimbursed costs, Nestor will provide to Sublicensees during the lesser of (i)the remaining term of the Sublicense in question, or (ii) five (5) years from the date of termination or expiration of this Agreement, the maintenance support set forth in Section VIII A of this Agreement.

Termination or expiration of this Agreement and the License will not release TSA from any of its obligations or liabilities accrued or incurred under this Agreement, or rescind or give rise to any right to rescind any payment made or other consideration given hereunder.

Upon termination or expiration of this Agreement and the License, TSA shall cease all marketing and other activities under the License and shall (i) at Nestor's election, immediately deliver to Nestor or irretrievably destroy, or cause to be delivered or destroyed, any and all Copies of the Nestor Software in whatever form and any written or other materials relating to the Nestor Software in TSA's possession, custody or control, and (ii) within thirty (30) days, deliver to Nestor a certification thereof; provided if Nestor decides not to assume an assignment of all sublicenses TSA may retain a copy of the Nestor Software solely for the purposes of maintenance and support.

VII. Confidentiality.

TSA acknowledges that (i) the data and information relating to the functioning of the Nestor Software, and (ii) any other information that is marked "Confidential" (in either case, whether oral, written or in machine-readable form) disclosed to TSA by Nestor pursuant to the provisions of this Agreement (collectively, the "Nestor Technology") contain valuable trade secrets and other proprietary information of Nestor, that unauthorized use or disclosure of such Nestor Technology would irreparably injure Nestor, which injury cannot be remedied solely by the payment of money damages. TSA shall hold in strict confidence and not disclose, reproduce or use the Nestor Technology with the exception of information which:

(i) is already in the public domain at the time of disclosure; or (ii) after disclosure becomes a part of the public domain by publication other than

by TSA in violation of this Agreement; or (iii) is received by TSA from a third party who did not require such information to be held in confidence and who did not acquire, directly or indirectly through one or more intermediaries, such information from Nestor under any obligation of confidence; or (iv) is agreed to by Nestor in this Agreement or otherwise in writing in advance of such use, publication or reproduction or (v) if required by law pursuant to a governmental or judicial mandate, provided TSA shall have given Nestor prompt notice of such mandate and provided further that TSA shall have taken no action to prevent or interfere with efforts Nestor may take to intervene in any such proceeding or otherwise to prevent such disclosure; or (vi) as necessary to enforce TSA's rights and Nestor's obligations under this Agreement; provided TSA shall have given Nestor prompt notice of such planned disclosure and have given Nestor an opportunity to seek in any such proceeding or otherwise a protective order with respect to such disclosure.

Unless prohibited by another provision of this Agreement, TSA may disclose the Nestor Technology only to its employees, consultants and to Distributors and their respective employees, provided the entity to whom a disclosure is made (i) needs to know same in order to effectuate the purposes of this Agreement, and (ii) has entered into a confidentiality agreement substantially equivalent to the foregoing provisions of this Section VII A.

TSA agrees to cooperate fully with Nestor, at no cost to Nestor (except for reasonable out-of-pocket expenses), in any action or proceeding whereby Nestor seeks to prevent or restrain any unauthorized use of the Nestor Technology or to seek damages therefor.

B. TSA shall not disclose to Nestor any information that TSA considers to be confidential without first have received Nestor's consent to receive such disclosure. Any confidential information accepted by Nestor pursuant to such consent shall be held in confidence under the same terms and conditions as those applicable to TSA as set forth in subsection A of this Section VII. Nestor shall promptly return, and not retain any copies of, any TSA information marked "confidential" which it does not agree to hold in such confidence.

Nestor acknowledges that the information to be delivered to it pursuant to Section III D of this Agreement shall be deemed to be confidential.

C. All of the provisions of this Section VII shall survive any termination or expiration of this Agreement or License.

VIII. Consulting, Training And Other Services; Enhancements and Upgrades.

A. During the term of this Agreement, and provided that TSA is then in full compliance with all of the terms and conditions of this Agreement (except for breaches which have been fully and timely cured), Nestor shall provide to TSA such commercially reasonable maintenance support services related to the use of the Nestor Software as are described in pages 3 and 4 of the Nestor document titled PRISM Software and Client Support (excluding the Installation Program described therein), a specimen of which is attached to this Agreement as Schedule E.

In addition, provided (i) all error fixes and upgrades then previously provided by Nestor have been installed; (ii) the Nestor Software is operated properly in accordance with any applicable manuals and other instructions and (iii) the hardware and software which is directly or indirectly connected or interconnected with the Nestor Software complies at all times with a support obligation no less favorable to the user than the provisions of this paragraph, then support services will include modifications as necessary to ensure that all Nestor Software licensed by TSA and delivered to Sublicensees is Year 2000 Compliant. "Year 2000 Compliant" shall mean the ability of the software to process calendar days falling on or after January 1, 2000 in the same manner as it does for calendar dates before such date.

B. Such other services shall be done by Nestor only upon Nestor's acceptance, in its sole discretion, of a written request from TSA, which request shall be in the form of a work order setting forth the work being requested, the identity and location of the relevant Sublicensee, and the requested installation or delivery date. Upon acceptance of any such work order, Nestor shall furnish a quotation, and such quotation shall remain in effect for ninety (90) days from its date. The Parties expressly acknowledge and agree that TSA shall be permitted to discount Nestor's quotation up to a maximum discount of ten per cent (10%) without the prior written consent of Nestor.

Except as provided in the Schedule, fees attributable to installation, consulting, and/or customization services shall be retained by the Party performing such services and shall not be subject to any Earned Royalty.

C. In consideration of such services, TSA shall pay to Nestor for all services rendered pursuant to this Section VIII.B engineering fees at the rates set forth

in the Schedule. The rates shall remain in effect for one year following the date of execution of this Agreement and thereafter shall be adjusted as set forth in the Schedule.

TSA shall also reimburse to Nestor Nestor's reasonable travel expenses incurred in providing any services under this Section VIII. All services provided by Nestor pursuant to Section VIII shall be provided to TSA, not to TSA's customers.

D. Nestor shall deliver to TSA all enhancements and upgrades to the Nestor Software that it makes generally available at no charge to other licensees of PRISM, other than enhancements or upgrades which Nestor is prohibited to offer by statute or applicable precedent. Nestor shall give TSA notice of the scheduling releases no later than such notice is given generally to other licensees of PRISM. Such enhancements and upgrades shall be subject to all of the terms and conditions of this Agreement.

E. All payments due under this Section VIII shall be due thirty (30) days after the end of the month in which the services or expenses to which they relate were rendered or incurred. Payments for partial staff weeks or staff months shall be prorated. If and to the extent Nestor delivers to TSA any software as part of such activities, such software shall be subject to all of the terms and conditions of the License and this Agreement.

IX. Source-Code Escrow

Within 30 days after execution of this Agreement Nestor shall deliver to the escrow agent a copy of the source code of the Nestor Software, per the terms of the escrow agreement attached hereto as Exhibit A. Such escrow agreement provides that the source code shall be delivered out of escrow to TSA only if Nestor

(i) files for a liquidating bankruptcy or

(ii) is otherwise liquidated and is, or its successor in interest is, and will continue to be, unable to furnish to TSA the technical support contemplated by this Agreement or

(iii) Nestor does not materially provide the technical support contemplated by this Agreement and continues not to supply such technical support for twenty days after notice by TSA of its failure to supply such technical support.

Any source code delivered out of escrow to TSA shall be used by TSA solely to maintain and enhance the Nestor Software delivered to Sublicensees, and shall be subject to the provisions of Section VII of this Agreement. Notwithstanding the foregoing, TSA shall be permitted to deliver to any Sublicensee such source code delivered out of escrow as shall be necessary to permit such Sublicensee to maintain the Nestor Software or to update or to modify existing scoring models or to create new scoring models, in the event the source code is released to sublicensees under 2.7 of the Attachment set forth in Schedule C.

Other than TSA's right to terminate this Agreement per Section VI.B for breach, and a potential refund under III.A, TSA's right to obtain source code shall constitute TSA's exclusive remedy and Nestor's exclusive liability for the failure of Nestor or any successor to Nestor to provide the technical support contemplated by this Agreement. All expenses relating to such escrow arrangement shall be borne by Nestor.

X. Miscellaneous

A. TSA will cause any and all of the Nestor Software and all advertising or other marketing material of any kind, documentation and packaging therefor to be marked and labeled with and/or reference Nestor's patent rights, copyrights, and/or trade names in the form and style furnished by Nestor to TSA. TSA shall not otherwise use or make reference to such rights, marks or names of Nestor without the advance written permission of Nestor. Nestor may, at any time and from time to time, in its sole discretion, alter or revoke its instructions pursuant hereto; provided, however, that TSA shall be permitted to use then existing stocks of documentation and advertising materials unless, in the opinion of counsel to Nestor, such use would be legally inadvisable, in which case Nestor shall reimburse TSA for the cost of the existing materials.

B. Neither this Agreement, the License or other interest hereunder shall be assignable by either party.

C. The headings and captions used in this Agreement are for convenience only and are not to be used in the interpretation of this Agreement.

D. The failure of either Party to require performance of any provision of this Agreement shall not affect the right to subsequently require the performance of such or any other provision of this Agreement. The waiver of either Party of a breach of any provision shall not be taken or held to be a waiver of any

subsequent breach of that provision or any subsequent breach of any other provision of this Agreement.

E. The Parties are independent contractors and engage in the operation of their own respective businesses. Neither Party is the agent or employee of the other Party for any purpose whatsoever. Nothing in this Agreement shall be construed to establish a relationship of co-partners or joint venturers between the two Parties. Neither Party has the authority to enter into any contract or assume any obligation for the other Party or to make any warranty or representation on behalf of the other Party.

F. If any provision of this Agreement is, or is determined to be, invalid, illegal or unenforceable, all remaining provisions of this Agreement shall nevertheless remain in full force and effect. Should any provision of this Agreement be found or held to be invalid, illegal or unenforceable, in whole or in part, such provision shall be deemed amended to render it enforceable in accordance with the spirit and intent of this Agreement.

G. This Agreement has been entered into, delivered, and is to be governed by, construed, interpreted and enforced in accordance with the laws of the State of New York (without giving reference to choice of law provisions) from time to time in effect. The Parties agree that the United Nations Convention on Contracts for the International Sale of Goods shall not apply to any of the transactions which are contemplated by this Agreement.

H. If a dispute arises out of or relates to this Agreement, the License, a breach thereof or TSA's use of the Nestor Software, and if said dispute cannot be settled through direct discussions, the Parties agree to first endeavor to settle the dispute in an amicable manner by mediation in New York, New York administered by the American Arbitration Association under its' Commercial Mediation Rules. Thereafter, any unresolved controversy or claim arising out of or relating to this Agreement, the License, a breach thereof or TSA's use of the Nestor Software, shall be settled by arbitration before three neutral arbitrators (selected from a panel of persons having experience with and knowledge of computers and the computer business, at least one of whom shall be an attorney) in administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules. Such arbitration shall be located in New York, New York if commenced by TSA, and in Chicago, Illinois if commenced by Nestor. Any provisional or equitable remedy which would be available from a court of law shall be available from the arbitrators to the Parties. In any such proceeding limited civil discovery shall be permitted for the production of documents, which shall be governed by the Federal Rules of Civil Procedure --(without reference to any local rules of a particular court). All issues regarding discovery requests shall be decided by the arbitrators. Judgment upon the award of the arbitrators may be enforced in any court having jurisdiction thereof. The prevailing party shall be entitled to reasonable attorney's fees. The Parties hereby consent to the non-exclusive jurisdiction of the courts of the State of New York or to any Federal Court located within the State of New York for any action (i) to compel arbitration, (ii) to enforce the award of the arbitrators or (iii) at any time prior to the qualification and appointment of the arbitrators, for temporary, interim or provisional equitable remedies and to service of process in any such action by registered mail, return receipt requested, or by any other means provided by law.

I. This Agreement contains the entire and exclusive agreement of the Parties with respect to its subject matter. This Agreement replaces an agreement between the Parties dated September 19, 1996 and amended April 18, 1997 and January 14, 1998 (the "Original Agreement"). The Parties rights and obligations under the Original Agreement continue through the date of this Agreement; thereafter the Parties rights and obligations are governed by this Agreement.

Except as otherwise provided in the previous sentence, this Agreement supersedes any agreements and understandings, whether written or oral, entered into by the Parties prior to its effective date and relating to its subject matter. No modification or amendment of this Agreement shall be effective unless it is stated in writing, specifically refers hereto and is executed on behalf of each Party.

J. Except as otherwise specified, all notices, payments, certificates and reports hereunder shall be deemed given and in effect as of the date of mailing, when sent by express mail (or other overnight delivery service), postage prepaid, addressed to the Parties as set forth in the preamble to this Agreement directed in each case to the President of the Party receiving the notice (and if to TSA, with copy to General Counsel of TSA) or to such other addresses as the Parties may from time to time give written notice. Each Party shall use its best efforts to respond expeditiously to requests of the other Party made pursuant to this Agreement.

K. Except for failure to make any payment when due, neither Party hereto shall be liable to the other for failure or delay in meeting any obligations hereunder as the result of strikes, lockouts, war, Acts of God, fire, flood or acts of

government, if beyond the reasonable control of such Party.

L. For a period of one year following the date of this Agreement Nestor shall provide office space, at no charge, at Nestor's facility for one TSA senior project management person to assist Nestor with TSA related projects. In addition, Nestor shall supply customary equipment and support, other than computer equipment. TSA shall remain responsible for all of the salary and benefits and other employment obligations of such person.

M. So long as TSA owns not less than ten per cent of the then issued and outstanding shares of Nestor, Nestor agrees on a "best efforts basis" to devote a minimum of five full time incremental qualified personnel toward the Nestor Software specifically related to TSA's needs. Such needs include, but are not limited to, modeling and engineering (these personnel do not need to be new hires).

IN WITNESS WHEREOF, the Parties hereto have set their hands by their duly authorized representatives as of the day and year first above written.

TRANSACTION SYSTEMS ARCHITECTS, INC.	NESTOR, INC.
By: /s/ William E. Fisher	By: /s/ Nigel Hebborn
Name: William E. Fisher	Name: Nigel Hebborn
Title: Chief Executive Officer	Title: Chief Financial Officer

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of April 28, 1998, between Nestor, Inc., a Delaware corporation (the "Company"), and Transactions Systems Architects, Inc., a Delaware corporation (the "Purchaser").

This Agreement is made pursuant to the Securities Purchase Agreement, dated as of the date hereof by and among the Company and the Purchaser (the "Purchase Agreement"). The execution of this Agreement is a condition to the closing of the transactions contemplated by the Purchase Agreement.

The Company and the Purchaser hereby agree as follows:

1. Definitions

Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" means any day except Saturday, Sunday and any day on which banking institutions in the City of New York generally are authorized or required by law or other government actions to close.

"Closing Date" shall mean the date of the Closing as set forth in the Purchase Agreement.

"Closing Shares" means the shares of Common Stock issued to the Purchaser at the Closing of the Purchase Agreement and other Registrable Securities issuable in respect thereof.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's Common Stock, par value $.01 per share.

"Effectiveness Period" means with respect to a Registration Statement filed under Section 2(a) or Section 2(b) the period commencing on the date such Registration Statement is declared effective and ending on the date when all Registrable Securities covered by the Registration Statement have been sold or may be sold pursuant to Rule 144(k) as determined by the counsel to the Company pursuant to a written opinion letter, addressed to the Holders, to such effect.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Holder" or "Holders" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in any Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated

by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means the shares of Common Stock issued pursuant to the Purchase Agreement and the shares of Common Stock issuable upon exercise in full of the Warrant, and any shares of Common Stock or other securities issued in respect of or in lieu of such shares until such shares or other securities are sold pursuant to a Registration Statement or Rule 144;

"Registration Statement" means any registration statement, contemplated by Section 2(a) or 2(b), including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement or any other Registration Statement filed by the Company which includes Registrable Securities.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 158" means Rule 158 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended.

"Underwritten Registration or Underwritten Offering" means a registration in connection with which securities of the Company are sold to an underwriter for reoffering to the public pursuant to an effective registration statement.

"Warrant" means the Common Stock purchase warrant issued to the Purchaser, entitling the Purchaser to purchase up to 2,500,000 shares of Common Stock on the terms and subject to the conditions set forth therein.

"Warrant Shares" shall mean all of the Registrable Securities issuable pursuant to the Warrant.

2. Demand Registrations

(a) Within ten (10) Business Days after the written request of the Purchaser which may be made at any time after March 31, 1999, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering all of the Closing Shares and/or any other Registrable Securities issued in respect thereof for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (or if not available, Form S-1, or another appropriate form approved by the Holders of a majority of such Registrable Securities that permit registration of Registrable Securities for resale by the Holders in the manner or manners designated by them (including, without limitation, public or private sales and one or more Underwritten Offerings)). The Company shall (i) not permit any securities other than the Registrable Securities to be included in the Registration Statement except as required by registration rights existing on the date hereof and (ii) use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after the filing thereof, and to keep such Registration Statement continuously effective under the Securities Act during the Effectiveness Period; provided, however, that the Company shall not be deemed to have used its best efforts to keep the Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would legally impair the ability of the Holders to sell or legally prohibit the sale of the Registrable Securities covered by such Registration Statement during the Effectiveness Period, unless such action is required under applicable law or the Company has filed a post-effective amendment to the Registration Statement and the Commission has not declared it effective.

(b) Within ten (10) Business Days after the written request of the Purchaser which may be made at any time after the later of March 31, 1999 and the first date that the Warrant has been exercised in full, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering all of the Warrant Shares and/or any other Registrable Securities issued in respect thereof for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (or if not available, Form S-1, or another appropriate form approved by the Holders of a majority of

such Registrable Securities that permit registration of Registrable Securities for resale by the Holders in the manner or manners designated by them (including, without limitation, public or private sales and one or more Underwritten Offerings)). The Company shall (i) not permit any securities other than the Registrable Securities to be included in the Registration Statement except as required by registration rights existing on the date hereof and (ii) use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after the filing thereof, and to keep such Registration Statement continuously effective under the Securities Act during the Effectiveness Period; provided, however, that the Company shall not be deemed to have used its best efforts to keep the Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would result in the Holders not being able to sell the Registrable Securities covered by such Registration Statement during the Effectiveness Period, unless such action is required under applicable law or the Company has filed a post-effective amendment to the Registration Statement and the Commission has not declared it effective. The rights of the Purchaser under this Section 2(b) are in addition to its rights under Section 2(a).

(c) If the Holders of a majority of the Registrable Securities so elect, an offering of Registrable Securities pursuant to a Registration Statement may be effected in the form of an Underwritten Offering. In such event, and if the managing underwriters advise the Company and such Holders in writing that in their opinion the amount of Registrable Securities and any other securities proposed to be sold in such Underwritten Offering exceeds the amount of securities which can be sold in such Underwritten Offering, there shall be included in such Underwritten Offering first, the amount of such Registrable Securities which in the opinion of such managing underwriters can be sold, and such amount shall be allocated pro rata among the Holders proposing to sell Registrable Securities in such Underwritten Offering and second, any other securities proposed to be included in such Underwritten Offering.

(c) If any of the Registrable Securities are to be sold in an Underwritten Offering, the investment banker or investment bankers and manager or managers that will administer the offering will be selected by the Holders of a majority of the Registrable Securities included in such offering. No Holder may participate in any Underwritten Offering hereunder unless such Person (i) agrees to sell its Registrable Securities on the basis provided in any underwriting agreements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such arrangements.

3. Registration Procedures

In connection with the Company's registration obligations under any provision of this Agreement,the Company shall:

(a) Prepare and file with the Commission on or prior to the date required under Section 2(a) or 2(b), as applicable, a Registration Statement on Form S-3 (or such other form as provided herein) in accordance with the method or methods of distribution thereof as specified by the Holders, and cause the Registration Statement to become effective and remain effective as provided herein; provided, however, that not less than five (5) Business Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference), the Company shall (i) furnish to the Holders, their counsel and any managing underwriters, copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders, their counsel and such managing underwriters, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the opinion of respective counsel to such Holders and such underwriters, to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities, their counsel, or any managing underwriters, shall reasonably object within five (5) Business Days of receipt thereof by the Holders, their counsel and any managing underwriters, except as required by applicable law.

(b) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement as may be necessary to keep the Registration Statement continuously effective as to all Registrable Securities for the applicable time period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; (iii) respond as promptly as practicable to any comments received from the Commission with respect to the Registration Statement or any amendment thereto;

and (iv) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) Notify the Holders of Registrable Securities to be sold, their counsel and any managing underwriters immediately (and, in the case of (i)(A) below, not less than five (5) days prior to such filing) and (if requested by any such Person) confirm such notice in writing no later than one (1) Business Day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; and (B) with respect to the Registration Statement or any post-effective amendment, when the same has become effective; (i) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iii) if at any time any of the representations and warranties of the Company contained in any agreement (including any underwriting agreement) contemplated hereby ceases to be true and correct in all material respects; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (v) of the occurrence of any event that makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company will provide to the Purchaser (a) notice of all oral or written comments received by or on behalf of the Company from the Commission in connection with any Registration Statement hereunder (and, if such comments are in writing, will provide copies thereof to the Purchaser), and (b) copies of any response letters submitted by or on its behalf in respect of such comments.

(d) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order or other action terminating or suspending the effectiveness of the Registration Statement (ii) any termination or suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest possible moment, and to use its best efforts to avoid any other cessation of effectiveness or qualification and if such cessation occurs to cause the effectiveness or qualification to resume at the earliest practicable moment, and without limiting the foregoing shall within fifteen (15) days of any such cessation of effectiveness amend the Registration Statement in a manner reasonably expected to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional Registration Statement covering all of the securities that as of the date of such filing are Registrable Securities and the Company shall use reasonable efforts to cause such Registration Statement to become effective as promptly as is practicable after such filing and to keep such Registration Statement continuously effective until the end of the Effectiveness Period.

(e) If requested by any managing underwriter or the Holders of a majority of the Registrable Securities to be sold in connection with an Underwritten Offering, (i) promptly incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as such managing underwriters and such Holders reasonably agree, and which is reasonably acceptable to the Company, should be included therein and (ii) make all required filings of such Prospectus supplement or such post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such Prospectus supplement or post-effective amendment; provided, however, that the Company shall not be required to take any action pursuant to this Section 3(e) that would, in the opinion of counsel for the Company, violate applicable law.

(f) Furnish to each Holder, their counsel and any managing underwriters, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

(g) Promptly deliver to each Holder, their Special Counsel, and any underwriters, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as

such Persons may reasonably request; and the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders and any underwriters in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(h) Prior to any public offering of Registrable Securities, use its best efforts to register or qualify or cooperate with the selling Holders, any underwriters and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder or underwriter reasonably requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(i) Cooperate with the Holders and any managing underwriters to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold, which certificates shall be free of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such managing underwriters or Holders may request at least two Business Days prior to any sale of Registrable Securities.

(j) Upon the occurrence of any event contemplated by Section 3(c)(vi), as promptly as practicable, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) Use its best efforts to cause all Registrable Securities relating to such Registration Statement to be listed on the quotation system or securities exchange, market or over-the-counter bulletin board, if any, on which similar securities issued by the Company are then listed.

(l) Enter into such agreements (including, in the case of an Underwritten Offering, an underwriting agreement in form, scope and substance as is customary in Underwritten Offerings) and take all such other actions in connection therewith (including those reasonably requested by any managing underwriters and the Holders of a majority of the Registrable Securities being sold) in order to expedite or facilitate the disposition of such Registrable Securities, and if an underwriting agreement is entered into, (i) make such representations and warranties to such Holders and such underwriters as are customarily made by issuers to underwriters in underwritten public offerings, and confirm the same if and when requested; (ii) obtain and deliver copies thereof to each Holder and the managing underwriters, if any, of opinions of counsel to the Company and updates thereof addressed to each selling Holder and each such underwriter, in form, scope and substance reasonably satisfactory to any such managing underwriters and Special Counsel to the selling Holders covering the matters customarily covered in opinions requested in Underwritten Offerings and such other matters as may be reasonably requested by such Special Counsel and underwriters; (iii) immediately prior to the effectiveness of the Registration Statement at the time of delivery of any Registrable Securities sold pursuant thereto, obtain and deliver copies to the Holders and the managing underwriters, if any, of "cold comfort" letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data is, or is required to be, included in the Registration Statement), addressed to each selling Holder and each of the underwriters, if any, in form and substance as are customary in connection with Underwritten Offerings; (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the selling Holders and the underwriters, if any, than those set forth in Section 7 (or such other provisions and procedures acceptable to the managing underwriters, if any, and Holders of a majority of Registrable Securities participating in such Underwritten Offering; and (v) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold, their Special Counsel and any managing underwriters to evidence the continued validity of the representations and warranties made pursuant to clause 3(l)(i) above and to evidence compliance with

any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(m) Make available for inspection by the selling Holders, any representative of such Holders, any underwriter participating in any disposition of Registrable Securities, and any attorney or accountant retained by such selling Holders or underwriters, at the offices where normally kept, during reasonable business hours, all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and cause the officers, directors, agents and employees of the Company and its subsidiaries to supply all information in each case requested by any such Holder, representative, underwriter, attorney or accountant in connection with the Registration Statement; provided, however, that any information that is determined in good faith by the Company in writing to be of a confidential nature at the time of delivery of such information shall be kept confidential by such Persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities; (ii) disclosure of such information, in the opinion of counsel to such Person, is required by law; (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard by such Person; or (iv) such information becomes available to such Person from a source other than the Company and such source is not known by such Person to be bound by a confidentiality agreement with the Company.

(n) Comply with all applicable rules and regulations of the Commission and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 not later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to underwriters in a firm commitment or best efforts Underwritten Offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of the Registration Statement, which statement shall cover said 12-month period, or end shorter periods as is consistent with the requirements of Rule 158.

(o) Provide a CUSIP number for all Registrable Securities, not later than the effective date of the Registration Statement.

The Company may require each selling Holder to furnish to the Company such information regarding the distribution of such Registrable Securities as is required by law to be disclosed in the Registration Statement and the Company may exclude from such registration the Registrable Securities of any such Holder who unreasonably fails to furnish such information within a reasonable time after receiving such request.

If the Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (i) the inclusion therein of language, in form and substance reasonably satisfactory to such Holder, to the effect that the ownership by such Holder of such securities is not to be construed as a recommendation by such Holder of the investment quality of the Company's securities covered thereby and that such ownership does not imply that such Holder will assist in meeting any future financial requirements of the Company, or (ii) if such reference to such Holder by name or otherwise is not required by the Securities Act or any similar Federal statute then in force, the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder covenants and agrees that (i) it will not offer or sell any Registrable Securities under the Registration Statement until it has received copies of the Prospectus as then amended or supplemented as contemplated in Section 3(g) and notice from the Company that such Registration Statement and any post-effective amendments thereto have become effective as contemplated by Section 3(c) and (ii) the Purchaser and its officers, directors or Affiliates, if any, will comply with the prospectus delivery requirements of the Securities Act as applicable to them in connection with sales of Registrable Securities pursuant to the Registration Statement.

4. Registration Expenses.

(a) All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not the Registration Statement is filed or becomes effective and whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall not include any underwriting discounts and commissions but shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the National Association of Securities Dealers, Inc. and (B) in compliance with state securities or Blue Sky laws (including, without limitation, fees and

disbursements of counsel for the underwriters or Holders in connection with Blue Sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as the managing underwriters, if any, or Holders of a majority of Registrable Securities may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the managing underwriters, if any, or by the Holders of a majority of the Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company as provided in Section 5(b) below, (v) fees and disbursements of all independent certified public accountants referred to in Section 3(l)(iii) (including, without limitation, the expenses of any special audit and "cold comfort" letters required by or incident to such performance), (vi) Securities Act liability insurance, if the Company so desires such insurance, and (vii) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of the Registrable Securities on any quotation system or securities exchange on which similar securities issued by the Company are then listed.

(b) In connection with the Registration Statement, the Company shall reimburse the Holders for the reasonable fees and disbursements of one firm of attorneys chosen by the Holders of a majority of the Registrable Securities.

5. Indemnification

(a) Indemnification by the Company. The Company shall, notwithstanding termination of this Agreement and without limitation as to time, indemnify and hold harmless each Holder, the officers, directors, agents (including any underwriters retained by such Holder in connection with the offer and sale of Registrable Securities), brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by or on behalf of such Holder expressly for use therein, which information was reasonably relied on by the Company for use therein or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) Indemnification by Holders. In connection with the Registration Statement, each Holder shall furnish to the Company in writing such information as the Company reasonably requests for use in connection with the Registration Statement or any Prospectus and agrees, severally and not jointly, to indemnify and hold harmless the Company, their directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising solely out of or based solely upon any untrue statement of a material fact contained in the Registration Statement, any Prospectus, or any form of prospectus, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in the Registration

Statement or such Prospectus and that such information was reasonably relied upon by the Company for use in the Registration Statement, such Prospectus or such form of prospectus or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within 10 Business Days of written notice thereof to the Indemnifying Party.

(d) Contribution. If a claim for indemnification under Section 6(a) or 6(b) is unavailable to an Indemnified Party or is insufficient to hold such Indemnified Party harmless for any Losses in respect of which this Section would apply by its terms (other than by reason of exceptions provided in this Section), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 6(c), any attorneys' or other fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph.

Notwithstanding the provisions of this Section 6(d), the Purchaser shall not be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by the Purchaser from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that the Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. Rule 144

The Company shall file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, they will, upon the request of any Holder, make publicly available other information so long as necessary to permit sales of its securities pursuant to Rule 144. The Company further covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144. Upon the request of any Holder, the Company shall deliver to such Holder a written certification of a duly authorized officer as to whether it has complied with such requirements.

7. Miscellaneous

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company shall not enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as set forth in the Disclosure Schedule to the Purchase Agreement the Company has not previously entered into any agreement granting any registration rights with respect to any of its securities to any Person. Without limiting the generality of the foregoing, without the written consent of the Holders of a majority of the then outstanding Registrable Securities, the Company shall not grant to any Person the right to request the Company to register any securities of the Company under the Securities Act unless the rights so granted are subject in all respects to the prior rights in full of the Holders set forth herein, and are not otherwise in conflict or inconsistent with the provisions of this Agreement.

(c) Piggy-Back Registrations. If at any time the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, the Company shall send to each Holder of Registrable Securities written notice of such determination and, if within twenty (20) days after receipt of such notice, any such Holder shall so request in writing, the Company shall include in such registration statement all or any part of the Registrable Securities such holder requests to be registered, except that if, in connection with any Underwritten Offering for the account of the Company the managing underwriter(s) thereof shall impose a limitation on the number of shares of Common Stock which may be included in the registration statement because, in such underwriter(s)' judgment, such limitation is necessary to effect an orderly public distribution of securities covered thereby, then the Company shall be obligated to include in such registration statement only such limited portion of the Registrable Securities for to which such Holder has requested inclusion hereunder. Any exclusion of Registrable Securities shall be made pro rata among the Holders seeking to include Registrable Securities, in proportion to the number of Registrable Securities sought to be included by such Holders; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities the Holders of which are not entitled by right to inclusion of securities in such Registration Statement; and provided, further,

however, that, after giving effect to the immediately preceding proviso, any exclusion of Registrable Securities shall be made pro rata with Holders of other securities having the right to include such securities in such registration statement. No right to registration of Registrable Securities under this Section shall be construed to limit any registration otherwise required hereunder.

(d) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holders of at least a majority of the then outstanding Registrable Securities; provided, however, that, for the purposes of this sentence, Registrable Securities that are owned, directly or indirectly, by the Company, or an Affiliate of the Company are not deemed outstanding. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(e) Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been received (a) upon hand delivery (receipt acknowledged) or delivery by telex (with correct answer back received), telecopy or facsimile (with transmission confirmation report) at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company:
Nestor, Inc.
One Richmond Square
Providence, Rhode Island 02906
Attention: Chief Executive Officer

With copies to:
Baer Marks & Upham
805 Third Avenue
New York, NY 10022-7513
Attention: Herbert S. Meeker, Esq.

If to the Purchaser:
Transaction Systems Architects, Inc.
224 South 108 Avenue
Omaha, Nebraska 68154
Attention: David P. Stokes

If to any other Person who is then
the registered Holder:
To the address of such Holder
as it appears in the stock transfer
books of the Company

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

(f) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of and be binding upon each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder; provided, however, that the Company may assign its rights or obligations hereunder without such consent in connection with a transaction described in Section 3.1 of the Warrant if the terms and conditions of Section 3.2 of the Warrant are satisfied. The rights of the Purchaser hereunder, including the right to have the Company register for resale Registrable Securities in accordance with the terms of this Agreement, shall be automatically assignable by the Purchaser to any assignee or transferee of all or a portion of the Registrable Securities.

(g) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect

as if such facsimile signature were the original thereof.

(h) Governing Law; Submission to Jurisdiction;. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to principles of conflicts of law.

(i) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(j) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(k) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(l) Shares Held by The Company and its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its Affiliates (other than the Purchaser or transferees or successors or assigns thereof if such Persons are deemed to be Affiliates solely by reason of their holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

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

NESTOR, INC.

By: /s/ Nigel Hebborn

Name: Nigel Hebborn

Title: Chief Financial Officer

TRANSACTION SYSTEMS ARCHITECTS,INC.

By: /s/ William E. Fisher

Name: William E. Fisher

Title: Chief Executive Officer