MEMORANDUM OF UNDERSTANDING  
  
 This MEMORANDUM OF UNDERSTANDING is entered into as of April  
7, 1999 among the plaintiffs ("Plaintiffs") in the litigation identified below,  
TII Industries, Inc. ("TII"), a Delaware corporation, and the members of TII's  
Board of Directors (the "TII Board") by their undersigned attorneys;  
  
 WHEREAS, an action (the "Action") has been filed in the court  
of Chancery of the State of Delaware individually, derivatively and on behalf of  
a class of all holders of stock of TII on March 8, 1999 (other than the  
Defendants and their affiliates), styled Xxxxx X. Xxxxx and Xxxxx X.  
Xxxxx v. TII Industries, Inc. et al., C.A. No. 17032NC;  
  
 WHEREAS, the Action names as defendants TII and the members of  
the TII Board (collectively, "Defendants");  
  
 WHEREAS, the Complaint in the Action seeks declaratory,  
injunctive and other relief, with respect to:  
  
 (a) A December 31, 1998 Stock Purchase Agreement (the  
"Stock Purchase Agreement") and issuance of approximately 1,176,213 shares of  
TII Common Stock pursuant thereto (the "Stock Issuance");  
  
 (b) The approval by TII's stockholders of TII issuing  
more than 1,520,000 shares of TII common stock upon conversion of TII's Series C  
Convertible Redeemable Preferred Stock (the "Series C Stock"); and  
  
 (c) The repricing of certain options pursuant to TII's  
1995 Stock Option Plan (the "1995 Plan") and 1998 Stock Option Plan (the "1998  
Plan");  
  
  
  
  
  
 WHEREAS, plaintiffs have filed a motion for expedited  
proceedings and a motion for a preliminary injunction with respect to the claims  
relating to the Stock Purchase Agreement and Stock Issuance;  
  
 WHEREAS, plaintiffs' counsel had conducted an extensive  
factual and legal investigation before filing the detailed 31 page Complaint in  
the Action;  
  
 WHEREAS, TII and the TII Board deny any wrongdoing or any  
liability and deny that they have committed or have attempted to commit any  
violation of law or breach of duty, including breach of any duty to holders of  
TII common stock, or have otherwise acted in any improper manner;  
  
 WHEREAS, the parties concluded that prompt settlement  
discussions would be in the best interests of TII and its stockholders;  
  
 WHEREAS, following negotiations between the parties, counsel  
for the parties have reached an agreement in principle providing for the  
proposed settlement of the Action on the terms and conditions set forth below  
(the "Settlement"); and  
  
 WHEREAS, Plaintiffs' counsel believe that the Settlement is in  
the best interests of TII and the stockholders of TII;  
  
 NOW, THEREFORE, IT IS HEREBY AGREED IN PRINCIPLE AS FOLLOWS:  
  
 1. Principal terms of Settlement. Subject to the additional  
conditions, terms and limitations described herein, the parties agree in  
principle as follows:  
  
 (a) Withdrawal of Stock Purchase Agreement and Stock Issuance.  
   
  
 (i) TII and its chairman of the board Xxxxxx Xxxxx  
 ("Xxxxxx"), acting on behalf of himself and as sole stockholder and  
 director of PRC Leasing, Inc. ("PRC"), will rescind and withdraw the  
 Stock Purchase Agreement upon Final Court  
  
 -2-  
  
  
  
  
  
 Approval of the Settlement as defined in Section 3 of this Memorandum  
 of Understanding.  
  
 (ii) Subject to Final Court Approval of the  
 Settlement as defined in Section 3 of this Memorandum of Understanding,  
 the Stock Issuance will not occur.  
  
 (iii) TII will cancel the special meeting of TII  
 stockholders presently scheduled for April 20, 1999.  
  
 (iv) An officer of TII will provide an affidavit  
 verifying that the equipment which is the subject of the July 18, 1991  
 Equipment Lease between PRC and TII (the "Equipment Lease") is still in  
 existence (or has been replaced by other equipment provided by PRC), is  
 fully operational and is being used in TII's business.  
  
 (b) Exchange Cap  
  
 Plaintiffs acknowledge that (i) the Exchange Cap (as defined  
in Section 12 of the Certificate of Designations of the Series C Stock) only  
applies if the issuance of in excess of 1,520,000 shares of TII Common Stock  
upon conversion of the Series C Stock would constitute a breach of TII's  
obligations under the rules and regulations of The Nasdaq Stock Market and that  
(ii) because TII stockholders, at the December 8, 1998 TII annual meeting of  
stockholders, approved the issuance of shares of TII common stock upon  
conversion of the Series C Stock in excess of 1,520,000 shares, the issuance by  
TII of shares in excess of 1,520,000 will not breach TII's obligations under the  
Nasdaq Rules and therefore will not violate Section 12 of the Certificate of  
Designations of the Series C Stock.  
  
 (c) Options  
  
 -3-  
  
  
  
  
  
 (i)Defendants acknowledge that 50,000 options held  
 by Xxxxxxx Xxxxx, TII's president and chief executive officer  
 ("Xxxxxxx"), and 10,000 shares held by Xxxxxx pursuant to the 1995 Plan  
 (the "Additional 1995 Options") were not to be repriced by the TII  
 Board of Directors on October 8, 1998.  
  
 (ii) The Additional 1995 Options will be repriced  
 by the TII board based on the average of the high and low market price  
 for TII common stock on the date that counsel for the parties execute  
 this Memorandum of Understanding.  
  
 (iii) Xxxxxx and Xxxxxxx will file amendments to  
 their respective Schedule 13-Ds reflecting the correct repricing of the  
 Additional 1995 Options in compliance with the foregoing paragraph,  
 after the signing of this Memorandum of Understanding.  
  
 (iv) The Additional 1995 Options, the repriced  
 options granted to Xxxxxx and Xxxxxxx under the 1995 Plan on October 8,  
 1998 and the options granted to Xxxxxx and Xxxxxxx pursuant to the 1998  
 Plan on December 8, 1998 shall be non-qualified stock options and not  
 incentive stock options.  
  
 2. Stipulation of Settlement. The parties to the Action will  
in good faith agree upon and execute an appropriate Stipulation of Settlement  
(the "Stipulation") and such other documentation as may be required in order to  
obtain Final Court approval (as defined below) of the Settlement and the  
dismissal of the Action upon the terms set forth in this Memorandum of  
Understanding (collectively, the "Settlement Documents"). The Stipulation will  
expressly provide, inter alia, for certification, for settlement purposes only,  
of a non-opt out settlement class pursuant to Delaware Court of Chancery Rules  
23(b)(1) and (b)(2) of all holders of TII stock (other than the defendants and  
their affiliates), whether beneficial or of record, during the period from March  
8, 1999  
  
 -4-  
  
  
  
  
  
until a record date within 5 business days of the mailing of notice of the  
proposed Settlement to stockholders. including the legal representatives, heirs,  
successors in interest, transferees and assignees of all such foregoing holders  
and/or persons, immediate and remote (the "Class"); for entry of judgment  
dismissing the Actions with prejudice, on the merits, and, except as provided  
herein, without costs to either party; for a complete release and settlement of  
all claims, rights, causes of action, suits, demands, matters, and issues, known  
or unknown, arising under common law or statutory law, state or federal,  
including all securities laws (except claims arising from any breach of the  
terms of the Stipulation), that arise now or hereafter out of, or relate to,  
directly or indirectly, or that are, were, or could have been asserted by any  
plaintiff or any member of the Class in connection with the subject matter of  
the Action, whether asserted directly, indirectly, representatively,  
derivatively, or otherwise, against defendants or any of their affiliates,  
associates, successors, assigns, heirs, executors, personal representatives,  
estates or administrators, or attorneys and, as to TII, its officers, directors,  
stockholders, controlling persons, employees, or agents (including, without  
limitations, any investment bankers or attorneys); that Defendants have denied  
and continue to deny any wrongdoing, any liability or that they have committed  
or attempted to commit any violations of law or breaches of duty of any kind;  
and that Defendants are entering into the Stipulation solely because the  
proposed Settlement as described above would eliminate the burden, risk and  
expense of further litigation, and is in the best interests of TII and all the  
stockholders of TII.  
  
 3. Notice and Court Approval. The parties to the Action will  
present the Settlement Documents to the Court of Chancery of the State of  
Delaware for approval as soon as practicable. Subject to prior Court approval of  
the Stipulation and the form of the Settlement Documents, appropriate notice of  
the proposed Settlement pursuant to the Chancery Court Rules 23  
  
 -5-  
  
  
  
  
  
and 23.1 shall be provided as soon as practicable to the Class and all holders  
of TII stock as of a record date within 5 business days of the time notice is  
sent. TII shall pay the costs and expenses related to providing notice of the  
Settlement. As used in this Memorandum of Understanding, "Final Court Approval"  
of the Settlement means that the Court of Chancery of the State of Delaware has  
entered an order approving the Settlement and that such order is finally  
affirmed on appeal or is no longer subject to appeal and the time for any  
petition for reargument, appeal or review has expired. Plaintiffs' counsel  
intend to apply to the court for an award of attorneys' fees and reasonable  
out-of-pocket disbursements. Subject to the terms and conditions of this  
Memorandum of Understanding and the contemplated Stipulation of Settlement,  
Plaintiffs' counsel will apply for an award of fees and expenses in an amount  
not exceeding $300,000, to be paid within 5 business days of Final Court  
Approval of the Settlement and the entry of an order awarding fees and expenses  
by the Court. Defendants agree that they will pay any amount awarded by the  
Court for attorney's fees and expenses up to a maximum amount of $300,000 and  
that they will not oppose an application in compliance with the foregoing  
sentence.  
  
 4. California Civil Code  
  
 With respect to any and all claims being settled, it is the  
intention of the parties that, upon the Settlement becoming final, plaintiffs  
and each member of the Class shall expressly waive and relinquish, to the  
fullest extent permitted by law, the provisions, rights, and benefits of Section  
1542 of the California Civil Code, which statute provides that:  
  
 A general release does not extend to claims which the creditor does not  
 know or suspect to exist in his favor at the time of executing the  
 release, which if known by him must have materially affected his  
 settlement with the debtor.  
  
 -6-  
  
  
  
  
  
and any and all provisions, rights and benefits of any similar statute or law of  
California or any other jurisdiction.  
  
 5. Other Conditions. The consummation of the Settlement is  
subject to: (a) the drafting and execution of the Settlement Documents necessary  
to effectuate the terms of the proposed Settlement; and (b) Final Court Approval  
(as defined above) of the Settlement and dismissal of the Action with prejudice,  
on the merits, and, except as provided herein, without costs to either party.  
This Memorandum of Understanding shall be null and void and of no force and  
effect if either of these conditions is not met. In such event, this Memorandum  
of Understanding shall not be deemed to prejudice in any way the positions of  
the parties with respect to the Actions, shall be subject to Rule 408 of the  
Delaware Rules of Evidence and shall not entitle any party to recover any costs  
or expenses incurred in connection with the implementation of this Memorandum of  
Understanding.  
  
 6. Interim Stay of the Action. The parties to the Action agree  
that, except as expressly provided herein, the Action shall be stayed pending  
submission of the proposed Settlement to the Court for its consideration.  
Plaintiffs' counsel agree that Defendants' time to answer or otherwise respond  
to the Complaint in the Action is extended without date.  
  
 7. Miscellaneous. (a) This Memorandum of Understanding may be  
executed in counterparts by any of the signatories hereto and as so executed  
shall constitute one agreement; (b) this Memorandum of Understanding and the  
Settlement contemplated by it shall be governed by and construed in accordance  
with the laws of the State of Delaware without regard to that State's rules  
concerning conflict of laws; (c) except as provided herein, Defendants shall  
bear no expenses, costs, damages or fees incurred by the named Plaintiffs, any  
member of the Class, any TII stockholder or their respective attorneys, experts,  
advisors, agents or representatives; and (d) the provisions  
  
 -7-  
  
  
  
  
  
 contained in this Memorandum of Understanding shall not be deemed a  
presumption, concession or admission by any Defendant of any breach of duty,  
liability, default or wrongdoing as to any facts or claims alleged or asserted  
in the Action.  
  
 SKADDEN, ARPS, SLATE, XXXXXXX & XXXX  
  
 /s/ Xxxxxxx X. Xxxxxxx  
 -------------------------------------  
 Xxxxxx X. Xxxxx  
 Xxxxxxx X. Xxxxxxx  
 Xxx Xxxxxx Xxxxxx  
 Xxxxxxxxxx, XX 00000  
 (000) 000-0000  
 Attorneys for Defendants  
  
  
 PRICKETT, JONES, XXXXXXX & KRISTOL  
  
 /s/ Xxxxxxx Xxxxxxxx  
 -------------------------------------  
 Xxxxxxx Xxxxxxxx  
 Xxxxxx X. Xxxxx  
 0000 Xxxx Xxxxxx  
 Xxxxxxxxxx, XX 00000  
 (000) 000-0000  
 Attorneys for Plaintiffs  
  
  
 -8-