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 UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
 THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
 THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-5725

QUANEX CORPORATION  
 (Exact name of registrant as specified in its charter)

DELAWARE  
 (State or other jurisdiction of  
 incorporation or organization)  
 1900 WEST LOOP SOUTH, SUITE 1500  
 HOUSTON, TEXAS  
 (Address of principal executive offices)

38-1872178  
 (I.R.S. Employer  
 Identification No.)  
 77027  
 (Zip Code)

Registrant's telephone number, including area code (713) 961-4600

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

| TITLE OF EACH CLASS<br>-----  | NAME OF EACH EXCHANGE ON WHICH REGISTERED<br>----- |
|---|--|
| Common Stock, \$.50 par value                                       | New York Stock Exchange, Inc.                      |
| Rights to Purchase Series A Junior<br>Participating Preferred Stock | New York Stock Exchange, Inc.                      |
| 6.88% Convertible Subordinated Debentures                           | New York Stock Exchange, Inc.                      |

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

NONE

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates as of December 31, 1998, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$315,706,390. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At December 31, 1998, there were outstanding 14,248,847 shares of the registrant's Common Stock, \$.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement, to be filed with the Commission within 120 days of October 31, 1998, for its Annual Meeting of Stockholders to be held on February 24, 1999, are incorporated herein by reference in Items 10, 11, 12, and 13 of Part III of this Annual Report.  
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## PART I

## ITEM 1. BUSINESS

## GENERAL

The Company was organized in 1927 as a Michigan corporation under the name of Michigan Seamless Tube Company. The Company reincorporated in Delaware in 1968 under the same name and then changed its name to Quanex Corporation in 1977. The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. References made to the "Company" or "Quanex" include Quanex Corporation and its subsidiaries unless the context otherwise requires.

Quanex Corporation is a technological leader in the production of value-added engineered steel bars, aluminum flat-rolled products, engineered and formed metal products. The Company believes that its use of state-of-the-art manufacturing technology, low cost production and engineering processes to meet specific customer applications provides the Company with competitive advantages over many of its competitors. The Company has also sought to reduce the impact of cyclical economic downturns on its operations through diversification of the markets served. The markets served by the Company include the transportation industry, the industrial machinery and capital equipment industries, the home building and remodeling industries and the defense and other commercial industries.

Since the mid-1980s Quanex has refocused its strategy from being a manufacturer principally of steel products with a heavy dependence on energy markets to a diversified, value-added specialized metals products company serving a broader range of markets. The Company's future growth strategy is focused on the continued penetration of higher margin markets, continued expansion of its aluminum and steel manufacturing operations, rapid expansion of formed value-added products, and niche acquisitions.

In December 1997, the Company completed the sale of its tubing operations ("Tubing Operations"), comprised of Michigan Seamless Tube Company, Gulf States Tube Division, and the Tube Group Administrative Office. For business segment purposes, the Tubing Operations were previously classified as "Steel Tubes". Two small divisions, Heat Treat Division and NitroSteel Division, which were previously included with the Steel Tubes segment, were retained by the Company and are now included in the "Engineered Steel Bar" segment.

In October 1998, the Company completed the purchase of Decatur Aluminum Corp., an aluminum sheet manufacturer in Decatur, Alabama, for approximately \$19 million. The facility, renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama"), includes cold rolling and finishing operations and a wide-width paint line which allows the facility to produce painted sheet, its highest value-added product. The acquisition significantly expands the aluminum mill sheet products segment's overall cold rolling capacity so as to effectively utilize most of the 400 million pounds of current casting capacity.

The Company has also invested significantly in technologically advanced continuous manufacturing processes to meet demanding quality specifications and to achieve cost efficiencies. In its MACSTEEL operations, rotary centrifugal continuous casters are used with an in-line manufacturing process to produce bearing grade and aircraft quality, seam-free, specialized engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets. Since 1992, the Company has invested over \$150 million to enhance the steel refining processes, to improve rolling and finishing capacity and to expand manufacturing capacity at its MACSTEEL operations to 620,000 tons per year. Phases I through III have already been completed. In Phase IV of these expansions, the Company is investing an additional \$16 million at the MACSTEEL plants in Jackson, Michigan and Ft. Smith, Arkansas, to install two additional cold finishing lines. This project is expected to double the capacity of MACPLUS cold finished bars, MACSTEEL's premium value-added product, to 180,000 tons annually when completed in 1999. In October 1998, the Company announced its Phase V program, which will increase engineered steel bar capacity by approximately 13% to 700,000 tons annually. The estimated completion date is year-end 2000.

In December 1998 the Aluminum Mill Sheet Products segment completed construction of two rotary furnaces and upgraded its dross recovery equipment at its casting plant. The \$12 million expansion now allows the Company's Nichols Aluminum Division to use lower cost scrap resulting in a reduction of raw material costs as well as improving the molten metal yield from scrap and increasing efficiency.

In September 1998, the Company reorganized and consolidated its Piper Impact facilities. The Company recorded a pretax restructuring charge of \$58.5 million in the fourth quarter. This amount included \$53 million for the write down of goodwill and long lived assets associated with Piper Impact's business and \$5.5 million for expenses and assets related to the closing of its Park City, Utah plant.

The Company's businesses are managed on a decentralized basis. Each operating group has administrative, operating and marketing functions. Financial reporting systems measure each business unit's return on investment, and the Company seeks to reward superior performance with incentive compensation, which is a significant portion of total employee compensation. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by both corporate officers and key division executives. Also, a

small corporate staff provides corporate accounting, financial and treasury management, tax, and human resource services to the operating divisions.

#### MANUFACTURING PROCESSES, MARKETS AND PRODUCT SALES BY BUSINESS SEGMENT

The Company's operations are now grouped into three business segments, consisting of (i) engineered steel bars, (ii) aluminum mill sheet products, and (iii) engineered products. General corporate expenses are classified as other operations.

Information with respect to major markets for the Company's products, expressed as a percentage of consolidated net sales, is shown under the heading "Sales by Major Markets" as set forth below. For financial information regarding each of Quanex's business segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and Note 13 to the Consolidated Financial Statements. Although Quanex has attempted to estimate its sales by product and market categories, many products have multiple end uses for several industries and sales are not recorded on the basis of product or market categories. A portion of sales is made to distributors who sell to different industries. Net sales by principal market are based upon the total dollar volume of customer invoices. For the year ended October 31, 1998, one customer, Autoliv Inc., accounted for more than 10% of company sales.

Quanex operates 14 manufacturing facilities in nine states in the United States and one plant in Zwolle, The Netherlands. These facilities feature efficient plant design and flexibility in manufacturing processes, enabling the Company to produce a wide variety of products for various industries and applications. The Company is generally able to maintain minimal levels of finished goods inventories at most locations because it typically manufactures products to customer specifications upon order.

#### SALES BY MAJOR MARKET

| Markets                    | Market Description   | QUANEX PRODUCTS   | Sales (\$ Millions)   |                   |                   |                   |                   |
|----------------------------|--|---|---|-------------------|-------------------|-------------------|-------------------|
|                            |  |   | Fiscal Year Ended October 31,   |                   |                   |                   |                   |
|                            |  |   | 1998  | 1997              | 1996              | 1995              | 1994              |
| Transportation             | Auto/Truck   | Steel bars, impact-extruded components  | \$352.9<br>44.2%  | \$322.3<br>43.2%  | \$207.2<br>33.4%  | \$170.9<br>28.3%  | \$131.4<br>30.2%  |
|                            | Other Transportation<br>(including ship/railroad, recreational vehicles and military transportation) | Steel bars, treated tubes and bars  | \$ 31.8<br>4.0%   | \$ 32.8<br>4.4%   | \$ 22.0<br>3.6%   | \$ 23.1<br>3.8%   | \$ 16.6<br>3.8%   |
|                            | Total Transportation   |   | \$384.7<br>48.2%  | \$355.1<br>47.6%  | \$229.2<br>37.0%  | \$194.0<br>32.1%  | \$148.0<br>34.0%  |
| Aluminum Building Products | Residential and Commercial Building Materials, Other   | Aluminum sheet, fabricated aluminum products, aluminum coil, coated aluminum coil | \$334.8<br>42.0%  | \$327.5<br>43.9%  | \$313.1<br>50.5%  | \$331.6<br>54.9%  | \$200.9<br>46.1%  |
|                            |  | Industrial Machinery and Capital Equipment  | General Industrial Machinery (including mining, agriculture and construction) | \$ 29.9<br>3.8%   | \$ 24.9<br>3.3%   | \$ 47.4<br>7.6%   | \$ 59.9<br>9.9%   |
| Other                      | Capital Equipment (including material handling, machine tools, and office/household)                 | Steel bars, treated bars and tubes, partition products, impact-extruded products  | \$ 10.4<br>1.3%   | \$ 17.5<br>2.4%   | \$ 22.0<br>3.6%   | \$ 13.1<br>2.2%   | \$ 10.5<br>2.4%   |
|                            |  | Total Industrial Machinery and Capital Equipment                                  | \$ 40.3<br>5.1%   | \$ 42.4<br>5.7%   | \$ 69.4<br>11.2%  | \$ 73.0<br>12.1%  | \$ 82.5<br>18.9%  |
|                            |  | Total Sales   |   | \$ 37.7<br>4.7%   | \$ 21.1<br>2.8%   | \$ 8.4<br>1.3%    | \$ 5.4<br>.9%     |
| Total Sales                |  |   | \$797.5<br>100.0%   | \$746.1<br>100.0% | \$620.1<br>100.0% | \$604.0<br>100.0% | \$435.9<br>100.0% |

#### Engineered Steel Bars

The Company's Engineered Steel Bars segment consists of engineered steel bar operations, steel bar and tube heat treating services, and steel bar and tube corrosion and wear resistant finishing services.

The Company's engineered steel bar operations are conducted through its MACSTEEL division, consisting of two plants located in Ft. Smith, Arkansas and Jackson, Michigan. These plants manufacture hot finished, precision engineered, carbon and alloy steel bars. The Company believes that MACSTEEL has the only two

plants in North America using continuous rotary centrifugal casting technology. This casting process produces seam-free bars, without surface defects and inclusions, thereby reducing the need for subsequent surface conditioning. The continuous casting and automated in-line manufacturing operations at the MACSTEEL plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most larger integrated steel mills. The Company typically sells only complete heat lots or batches, which are made to specific customer requirements. Heat lots average 45 tons at Jackson and 50 tons at Ft. Smith.

MACSTEEL produces various grades of specialized engineered steel bars by melting steel scrap and casting it in a rotary centrifugal continuous caster. MACSTEEL's molten steel is secondarily refined by argon stirring, ladle injection and vacuum arc degassing prior to casting. This enables MACSTEEL to produce higher quality, "cleaner" steels. Precision engineered products are produced through a continuous in-line process by which scrap steel is converted into hot rolled steel bars without interruption.

As a result of its state-of-the-art continuous manufacturing technology, which reduces labor, energy and process yield loss, the Company believes that MACSTEEL is one of the lowest cost producers of precision engineered carbon and alloy steel bars. The Company believes that energy costs at MACSTEEL are significantly lower than those of its competitors because its bars are moved directly from the caster to the rolling mill before cooling, eliminating the need for costly reheating. MACSTEEL's low unit labor costs are achieved with its highly automated manufacturing process enabling it to produce finished steel bars using under two man-hours of labor per ton compared to an estimated average of four to five man-hours per ton for U.S. integrated steel producers.

MACSTEEL products are custom manufactured for customers in the passenger car, light truck, heavy truck, anti-friction bearing, off-road and farm equipment, defense, capital equipment and seamless tubular industries. These industries use engineered steel bars in critical applications such as camshafts, crankshafts, transmission gears, wheel spindles and hubs, bearing cages and rollers, steering components, hydraulic mechanisms and seamless tube production. Piper Impact uses MACSTEEL engineered steel bars for the manufacture of components for safety critical steel air bag inflators at its plant in New Albany, Mississippi.

Also included in the Engineered Steel Bars segment is a heat treating plant in Huntington, Indiana ("Heat Treat"), and a plant in Kenosha, Wisconsin which improves the wear and corrosion resistance properties of steel bars and tubes ("NitroSteel").

The Heat Treat facility uses custom designed, in-line, equipment to provide tube and bar heat treating and related services, such as quench and temper, stress relieving, normalizing and "cut-to-length". Metallurgical testing services are also provided. This plant serves customers in the energy, automotive, ordnance, mining and fluid power markets.

The NitroSteel plant processes steel bars and tubes using the patented Nitrotec treatment to improve corrosion and wear resistance while providing an environmentally friendly, non-toxic alternative to chrome plating. NitroSteel's products are produced to specific customer applications and sold into fluid power markets.

#### Aluminum Mill Sheet Products

The Company's Aluminum Mill Sheet Products segment consists of continuous casting, cold rolling, finishing and painting operations conducted through its Nichols Aluminum Division ("Nichols").

Nichols Aluminum manufactures mill finished and coated aluminum sheet for the home improvement, residential and light commercial construction, transportation, appliances, and service center markets and is comprised of four plants: a thin-slab casting and hot rolling mill ("NAC") located in Davenport, Iowa, and three cold rolling and finishing plants located in Davenport, Iowa ("NAD"), Lincolnshire, Illinois ("NAL") and Decatur, Alabama ("NAA").

NAC's mini-mill in Davenport, Iowa uses the single in-line casting process to produce up to 400 million pounds of reroll aluminum sheet annually. The mini-mill converts scrap to aluminum sheet through melting, continuous casting and in-line hot rolling. NAC also has a dross recovery system, the ability to convert lower grades of scrap, and shredding capabilities to broaden the diversity and sources of its scrap raw material. Delacquering equipment improves the quality of the raw material before it reaches the melting furnaces by burning off impurities within the scrap. The scrap is blended using computer programs to achieve the desired alloy composition and the best economics. After melting, the molten metal flows into a Hazelett thin-slab caster, which casts up to a 52-inch wide aluminum slab. The slab then is fed directly to a hot mill with three, in-line, rolling stands to reduce the slab from a thickness of approximately .75 inches to coiled aluminum reroll sheet with a target thickness of .045 inches. This hot rolling mill process substantially reduces subsequent cold rolling requirements.

The Company believes the combination of capacity increases and technological enhancements directed at producing quality hot rolled aluminum sheet with cost savings derived from reduced raw material costs, optimized scrap utilization, reduced unit energy cost, reduced cold rolling requirements and decreased labor costs results in a significant manufacturing advantage.

Further processing of the reroll aluminum sheet occurs at the NAD, NAL and NAA plants, where the specific product requirements of customers can be met through cold rolling to various gauges, annealing for additional mechanical properties and formability, tension leveling and slitting to specific widths. Products at the NAD and NAA plants can also be custom coated, an important feature for the building products applications of certain customers.

#### Engineered Products

The Company's Engineered Products segment consists of impact extrusion operations for both steel and aluminum conducted through the Piper Impact facilities and metal fabrication operations at the Fabricated Products Division.

The impact extrusion operations consist of Piper Impact with both steel and aluminum impact extrusion facilities in New Albany, Mississippi and an aluminum impact extrusion facility in Zwolle, The Netherlands, acquired in October 1997 ("Piper Impact Europe"). The Fabricated Products Division consists of the AMSCO plant in Rice Lake, Wisconsin and two Homeshield Fabricated Products ("HFP") plants in Chatsworth, Illinois.

Piper Impact and Piper Impact Europe are technological leaders in the manufacture of custom designed, impact extruded aluminum and steel parts for the transportation, electronics, defense, and other commercial markets. These operations make use of the impact extrusion technology to produce highly engineered near net shaped components from aluminum and steel bar slugs involving complex design and machining requirements. The pressure resulting from the impact of the extrusion presses causes metal to flow into the desired shape. This cost efficient, cold-forming of the metal results in a high quality, work hardened product with a superior finish. Heat treated and precision machined parts are then delivered to customers' assembly lines, requiring little or no additional processing. The majority of Piper Impact's sales are to one customer, Autoliv Inc., in the form of air bag components for the automotive industry.

During 1997 the Company completed the construction and installation of equipment at its second manufacturing facility in New Albany, Mississippi for the production of highly engineered impact extruded steel air bag products. Piper Impact's steel products plant was part of a two-year \$42 million capital project to provide capacity for new customer programs primarily for the automotive air bag systems market. This includes passenger and side-impact air bags, "smart" bags with adjustable inflation speed and those with alternative inflation technologies. The Company believes that these projects will provide Piper Impact with the technology and additional capacity for advanced applications, improved customer service, and cost effective manufacturing processes thereby improving competitiveness and long term growth opportunities in other markets.

The Fabricated Products Division manufactures aluminum window and patio door screens, window frames, and a broad line of custom designed, roll formed products and stamped shapes for manufacturers of insulated glass, premium wood windows and vinyl windows for the home improvement, residential and commercial construction markets. AMSCO combines strong product design and development with reliable, just-in-time delivery. HFP coats and fabricates aluminum coil in many colors, sizes and finishes into rain carrying systems, soffit, exterior housing trim and painted coil sheet and roofing products. Additionally, HFP manufactures custom roll-formed products for industries such as the agricultural equipment and industrial hand tools.

#### RAW MATERIALS AND SUPPLIES

MACSTEEL plants purchase steel scrap, pig iron, beach iron and hot briquetted iron, their principal raw materials, on the open market. Transportation of these raw materials to its plants can be adversely affected by extreme weather conditions. Prices for scrap also vary in relation to the general business cycle, typically declining in periods of slow economic growth.

Nichols Aluminum's principal raw material is aluminum scrap, which it purchases on the open market. However, it also purchases and sells in limited quantities aluminum ingot futures contracts on the London Metal Exchange ("LME") to hedge against fluctuations in the price of aluminum scrap required to manufacture products for fixed price sales contracts.

Piper Impact's raw material consists of aluminum bars and slugs which it purchases on the open market and steel bars which it purchases from MACSTEEL. Piper Impact Europe purchases its raw material consisting of aluminum slugs and steel sheet on the open market in Europe and North America. Fabricated Products Division purchases the majority of its raw material requirements consisting of aluminum sheet from Nichols Aluminum.

#### BACKLOG

At October 31, 1998, Quanex's backlog of orders to be shipped in the next twelve months was \$183.8 million. This compares to \$225.5 million at October 31, 1997. Because many of the markets in which Quanex operates have short lead times, backlog figures are not reliable indicators of annual sales volume or operating results.

## COMPETITION

All of the Company's products are sold under highly competitive conditions. The Company competes with a number of companies, some of which have financial and other resources greater than those of the Company. Competitive factors include product quality, price, delivery and ability to manufacture products to customer specifications. The amounts of engineered steel bars, aluminum mill sheet products and engineered products produced by the Company represent a small percentage of annual domestic production.

The Company's engineered steel bar plants compete with two large integrated steel producers, two large non-integrated steel producers and two smaller steel companies. Although many of these producers are larger and have greater resources than the Company, the Company believes that the technology used at the MACSTEEL facilities permits it to compete effectively in the markets it serves.

The Company's aluminum mill sheet businesses compete with many small and large aluminum sheet manufacturers. Some of these competitors are divisions or subsidiaries of major corporations with substantially greater resources than the Company. The Company also competes with major aluminum producers in coil-coated and mill products, primarily on the basis of the breadth of product lines, the quality and responsiveness of its services and its prices.

The Company's engineered products businesses compete with many small metal fabricators and impact extruders primarily on the basis of the custom engineering, the quality and the responsiveness of its services and its prices.

## SALES AND DISTRIBUTION

The Company has a nationwide system of sales offices. MACSTEEL sells hot rolled engineered steel bars primarily to original equipment manufacturers ("OEMs") through its sales organization and manufacturers' representatives.

The Company's aluminum mill sheet products are sold directly to OEMs and through metal service centers. The Company's engineered products are sold primarily to OEMs, except for the residential building products which are sold through distributors.

## SEASONAL NATURE OF BUSINESS

With the exception of impact extrusions, the business of which is not seasonal, the Company's aluminum mill sheet and engineered products businesses are seasonal because its primary markets are in the Northeast and Midwest regions of the United States where winter weather reduces home building and home improvement activity. Historically, in these businesses, lowest sales have occurred during the Company's first fiscal quarter. Because a high percentage of their manufacturing overhead and operating expenses is due to labor and costs that are generally fixed throughout the year, profits for the operations in these businesses tend to be lower in quarters with lower sales.

The other businesses in which the Company competes are not seasonal. However, due to the holidays in the Company's first fiscal quarter and steel plant shutdowns for vacations and maintenance in the Company's third fiscal quarter, sales have historically been lower in those quarters. Due to the combined effects of seasonality, the Company generally expects that, absent unusual activity or changes in economic conditions, its lowest sales will occur in the first fiscal quarter.

## SERVICE MARKS, TRADEMARKS, TRADE NAMES AND PATENTS

The Company's Quanax, Quanax design, Seam-Free design, NitroSteel, MACGOLD, MACSTEEL, MACSTEEL design, MAC+, Ultra-Bar, Homeshield, Homeshield design and "The Best Alloy & Specialty Bars" marks are registered trademarks or service marks. The Company's Piper Impact name is used as a service mark, but is not registered in the United States. The trade name Nichols-Homeshield and the Homeshield and the Homeshield design trademarks are used in connection with the sale of the Company's aluminum mill sheet products and residential building products. The Homeshield, Piper Impact, MACSTEEL and Quanax word and design marks and associated trade names are considered valuable in the conduct of the Company's business.

The businesses conducted by the Company generally do not depend upon patent protection. Although the Company holds numerous patents, in many cases the proprietary technology that the Company has developed for using the patents is more important than the patents themselves.

## RESEARCH AND DEVELOPMENT

Expenditures for research and development of new products or services during the last three years were not significant. Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to custom engineering and qualifying the Company's products for specific customer applications.

## ENVIRONMENTAL MATTERS

As a manufacturer of specialized metal products, Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. Quanex is required to make capital and other expenditures on an ongoing basis in order to satisfy such requirements. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not now aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations or financial condition.

Under applicable state and federal laws, the Company may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at the locations Quanex has owned or operated at any time. The Company is currently participating in environmental assessments and remediation of a number of those locations.

From time to time, Quanex also has been alleged to be liable for all or part of the costs incurred to clean up third-party sites where it supposedly arranged for disposal of hazardous substances. The Company's allocable share of liability at those sites, taking into account the likelihood that other parties will pay their shares, has not been material to its operations or financial condition.

Total remediation reserves, at October 31, 1998, for Quanex's current plants, former operating locations, and disposal facilities were approximately \$23 million. Of that, approximately 80% relates to cleanup of historical soil and groundwater contamination and other corrective measures at a plant operated by the Company's Piper Impact subsidiary in New Albany, Mississippi. Depending upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences, final remediation costs may be more or less than amounts accrued; however, management believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities.

Amendments to the Federal Clean Air Act were adopted in 1990, and environmental agencies continue to develop implementing regulations. Depending on the nature of the regulations adopted, Quanex may be required to incur additional capital and other expenditures sometime in the next several years for air pollution control equipment, to maintain or obtain operating permits and approvals, and to address other air emission-related issues. The Company's Board of Directors approved capital expenditures totaling approximately \$20 million to be spent between 1996 and 1998 to meet those requirements. That amount included spending toward a significant upgrade to pollution control systems at MACSTEEL to ensure compliance with the air standards. These upgrades were substantially complete as of October 31, 1998. Based upon its analysis and experience to date, Quanex does not believe that its compliance with Clean Air Act requirements will have a material effect on its operations or financial condition.

Quanex incurred approximately \$23 million and \$14 million during fiscal 1998 and 1997, respectively, in expenses and capital expenditures in order to comply with existing or proposed environmental regulations. The 1998 and 1997 amounts include spending toward a significant upgrade to pollution control systems at MACSTEEL. The Company estimates spending of approximately \$8 million at various of its facilities during fiscal 1999. Quanex will continue to have expenditures in connection with environmental matters beyond 1999, but it is not possible at this time to reasonably estimate the amount of these expenditures. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and its facilities of future regulations and government decisions.

## EMPLOYEES

At October 31, 1998, the Company employed 3,405 persons. Of the total employed, 27% were covered by collective bargaining agreements. On November 22, 1997, the International Brotherhood of Teamsters ratified a five-year agreement covering 250 employees at two Davenport, Iowa, plants of Nichols Aluminum. The United Steel Workers ratified a four-year agreement, expiring in January 2002, covering 90 employees at the Nichols Aluminum Alabama plant. During 1999 two labor contracts will expire affecting two Quanex facilities. The International Association of Machinists' contract, covering 100 employees at the Nichols Aluminum, Lincolnshire plant will expire on January 12, 1999. A new five-year agreement has been negotiated and approved by a two to one vote of the membership on December 20, 1998. The United Steel Workers' contract at the MacSteel Michigan plant covering 190 employees will expire on February 28, 1999.

## FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

For financial information on the Company's foreign and domestic operations, see Note 13 of the Financial Statements contained in this Annual Report on Form 10-K.

## ITEM 2. PROPERTIES

The following table lists Quanex's principal plants together with their locations, general character and the industry segment which uses the facility. Each of the facilities identified as being owned by the Company is free of any material encumbrance.

| Location  | Plant  | Square Footage |
|---|--|----------------|
| Owned:  |  |                |
| Fort Smith, Arkansas                                  | ENGINEERED STEEL BARS<br>MACSTEEL                | 415,723        |
| Jackson, Michigan                                     | MACSTEEL   | 245,150        |
| Huntington, Indiana                                   | Heat Treating                                    | 82,000         |
| Leased (expires 2009):                                |  |                |
| Kenosha, Wisconsin                                    | NitroSteel                                       | 35,000         |
| Owned:  |  |                |
| Lincolnshire, Illinois                                | ALUMINUM MILL SHEET PRODUCTS<br>Nichols Aluminum | 142,000        |
| Davenport, Iowa                                       | Nichols Aluminum                                 | 236,000        |
| Davenport, Iowa                                       | Nichols Aluminum Casting                         | 245,000        |
| Leased (4 leases expiring 2003, 2004, 2005 and 2018): |  |                |
| Decatur, Alabama                                      | Nichols Aluminum Alabama                         | 410,000        |
| Owned:  |  |                |
| Rice Lake, Wisconsin                                  | ENGINEERED PRODUCTS<br>AMSCO                     | 290,800        |
| Chatsworth, Illinois                                  | Homeshield Fabricated Products (two plants)      | 212,000        |
| New Albany, Mississippi                               | Piper Impact (two plants)                        | 683,000        |
| Park City, Utah(1)                                    | Piper Impact                                     | 130,000        |
| Zwolle, The Netherlands                               | Piper Impact Europe                              | 110,000        |
| Leased (expires 1999):                                |  |                |
| Houston, Texas  | EXECUTIVE OFFICES<br>Quanex Corporation          | 21,000         |

(1)As previously announced, a plan has been approved to close this facility and move its production to the New Albany, Mississippi facility in early 1999.

## ITEM 3. LEGAL PROCEEDINGS

On or about July 13, 1998, the United States Department of Justice ("DOJ") notified the Company that the federal government was prepared to bring against the Company a court action alleging violations of the Clean Water Act at the Company's former facility in Rosenberg, Texas. Among other things, the government contended that the plant had discharged water, which contained pollutants at levels greater than applicable effluent limits, had not appropriately monitored its discharges, and had not adequately notified the federal Environmental Protection Agency of exceedances. DOJ's demand letter extended to the Company and to Vision Metals, the current owner and operator of the Rosenberg plant, the opportunity to resolve this matter short of litigation and offered to settle the Company's alleged violations for a civil penalty of \$1.1 million. The Company tendered this matter to Vision Metals for defense and indemnification pursuant to the Purchase Agreement by which Vision Metals acquired the Rosenberg facility and assumed certain environmental liabilities. Having accepted the Company's tender without reservation, Vision Metals at its expense is contesting certain of the government's allegations and attempting to negotiate resolution of the government's Clean Water Act claims against the Company.

Other than the above matter and proceedings described under Item 1, "Environmental Matters", there are no material legal proceedings to which Quanax, its subsidiaries, or their property is subject.

## ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Quanex's common stock, \$.50 par value, is traded on the New York Stock Exchange, under the ticker symbol: NX. Quarterly stock price information and annual dividend information for the common stock is as follows:

| Quarterly Common Stock Dividends<br>QUARTER ENDED: | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|------|------|------|------|------|
| January.....                                       | .16  | .15  | .15  | .14  | .14  |
| April.....   | .16  | .15  | .15  | .15  | .14  |
| July.....  | .16  | .15  | .15  | .15  | .14  |
| October.....                                       | .16  | .16  | .15  | .15  | .14  |
|  | ---  | ---  | ---  | ---  | ---  |
| Total.....   | .64  | .61  | .60  | .59  | .56  |

| Quarterly Common Stock Sales Price<br>(HIGH & LOW) QUARTER ENDED: | 1998     | 1997   | 1996   | 1995   | 1994   |
|---|----------|--------|--------|--------|--------|
| January.....  | 30 7/16  | 29 1/8 | 21 1/8 | 24 5/8 | 21 1/4 |
|   | 27 1/16  | 24 1/4 | 18     | 20     | 16 1/8 |
| April.....  | 33 13/16 | 27 7/8 | 22 3/8 | 23 7/8 | 22 3/8 |
|   | 28 1/2   | 23 3/8 | 19 5/8 | 21     | 19 1/8 |
| July.....   | 32 3/16  | 34 1/8 | 23 7/8 | 26 5/8 | 23     |
|   | 27 1/4   | 25 1/8 | 19 3/8 | 22 1/8 | 18 1/8 |
| October.....  | 27 7/8   | 36 1/2 | 28 3/4 | 26     | 27 1/4 |
|   | 15 5/8   | 26 1/4 | 19 5/8 | 18 5/8 | 20 3/4 |

The terms of Quanex's revolving credit arrangements with certain banks limit the total amount of common and preferred stock dividends and other distributions on such stock. Under the most restrictive test under such credit facilities, the total common stock dividends the Company may declare and pay is limited to \$21 million, plus 50% of consolidated net earnings after October 31, 1989, adjusted for other factors as set forth in the credit agreement. As of October 31, 1998, the amount of dividends and other distributions the Company was permitted to declare and pay under its credit facilities was approximately \$40 million.

There were 5,632 holders of Quanex common stock on record as of December 31, 1998.

## ITEM 6. SELECTED FINANCIAL DATA

## GLOSSARY OF TERMS

The exact definitions of commonly used financial terms and ratios vary somewhat among different companies and investment analysts. The following list gives the definition of certain financial terms that are used in this report:

Capital expenditures: Additions to property, plant and equipment.

Book value per common share: Stockholders' equity less the stated value of preferred stock divided by the number of common shares outstanding.

Asset turnover: Net sales divided by average total assets.

Current ratio: Current assets divided by current liabilities.

Return on investment: The sum of net income and the after-tax effect of interest expense less capitalized interest divided by the sum of the averages for long-term debt and stockholders' equity.

Return on common stockholders' equity: Net income attributable to common stockholders divided by average common stockholders' equity.

## FINANCIAL SUMMARY 1993-1998

(\$ thousands, except per share data)

| (FOR DEFINITION OF ITEMS, SEE PAGE 9) FISCAL YEARS ENDED OCTOBER 31,   | 1998       | 1997     | 1996        | 1995        | 1994     |
|--|------------|----------|-------------|-------------|----------|
| <b>REVENUES AND EARNINGS</b>   |            |          |             |             |          |
| Net sales(1).....  | 797,490    | 746,093  | 620,069     | 603,985     | 435,983  |
| Cost of sales including depreciation.....  | 683,954    | 644,041  | 526,886     | 521,521     | 376,077  |
| Gross profit.....  | 113,536    | 102,052  | 93,183      | 82,464      | 59,906   |
| Piper Impact Restructuring Charge.....   | 58,500 (2) |          |             |             |          |
| Other depreciation and amortization.....   | 5,059      | 3,669    | 1,791       | 1,258       | 1,266    |
| Selling, general and administrative expenses.....  | 47,713     | 43,375   | 44,959      | 33,746      | 31,893   |
| Operating income.....  | 2,264      | 55,008   | 46,433      | 47,460      | 26,747   |
| Percent of net sales.....  | 0.3        | 7.4      | 7.5         | 7.9         | 6.1      |
| Other income (expense)-net.....  | 2,278      | 1,637    | 4,544       | 1,721       | 2,765    |
| Interest expense-net.....  | 10,506     | 14,002   | 11,360      | 8,870       | 10,178   |
| Income (loss) before income taxes, extraordinary items, cumulative effect of accounting change, and income from discontinued operations..... | (5,964)    | 42,643   | 39,617      | 40,311      | 19,334   |
| Income taxes (credit).....   | (2,087)    | 14,925   | 16,639      | 16,931      | 8,120    |
| Income (loss) from continuing operations.....  | (3,877)    | 27,718   | 22,978      | 23,380      | 11,214   |
| Income from discontinued operations.....   | 0          | 5,176    | 9,912       | 10,480      | 7,638    |
| Gain on sale of discontinued operations.....   | 13,046     | 36,290   |             |             |          |
| Extraordinary items and cumulative effect of accounting changes, net of taxes(3).....  | --         | --       | (2,522) (3) | (2,021) (3) | --       |
| Net income.....  | 9,169      | 69,184   | 30,368      | 31,839      | 18,852   |
| Percent of net sales.....  | 1.1 (6)    | 9.3 (5)  | 4.9         | 5.3         | 4.3      |
| <b>PER SHARE DATA</b>  |            |          |             |             |          |
| Basic Earnings per share:  |            |          |             |             |          |
| Income (loss) from continuing operations.....  | (0.27)     | 2.01     | 1.70        | 1.44        | 0.40     |
| Income from discontinued operations.....   | --         | 0.37     | 0.73        | 0.78        | 0.57     |
| Gain on sale of discontinued operations.....   | 0.92       | 2.63     | --          | --          | --       |
| Extraordinary items and cumulative effect of accounting change...  | --         | --       | (0.19)      | (0.15)      | --       |
| Net earnings (loss).....   | 0.65       | 5.01     | 2.24        | 2.07        | 0.97     |
| Cash dividends declared.....   | 0.64       | 0.61     | 0.60        | 0.59        | 0.56     |
| Book value.....  | 19.19      | 19.13    | 14.50       | 12.81       | 11.04    |
| Average shares outstanding (000).....  | 14,149     | 13,807   | 13,524      | 13,443      | 13,342   |
| Market closing price range   |            |          |             |             |          |
| High.....  | 33 1/2     | 36 1/2   | 28 5/8      | 26          | 27       |
| Low.....   | 16         | 23 3/8   | 18 3/8      | 18 3/8      | 16 1/4   |
| <b>FINANCIAL POSITION -- YEAR END</b>  |            |          |             |             |          |
| Working capital.....   | 62,979     | 52,818   | 88,238      | 53,629      | 100,007  |
| Property, plant and equipment -- net.....  | 395,054    | 379,071  | 319,165     | 233,982     | 239,642  |
| Other assets.....  | 69,422     | 119,738  | 117,142     | 55,989      | 54,736   |
| Total assets.....  | 674,288    | 685,705  | 638,948     | 466,458     | 491,329  |
| Noncurrent deferred income taxes.....  | 33,412     | 48,111   | 40,454      | 45,740      | 39,298   |
| Long-term debt.....  | 188,302    | 201,858  | 253,513     | 111,894     | 107,442  |
| Stockholders' equity.....  | 272,044    | 268,823  | 197,009     | 172,814     | 233,883  |
| Total capitalization.....  | 460,346    | 470,681  | 450,522     | 284,708     | 341,325  |
| Long-term debt percent of capitalization.....  | 40.9       | 42.9     | 56.3        | 39.3        | 31.5     |
| <b>OTHER DATA</b>  |            |          |             |             |          |
| Asset turnover.....  | 1.2        | 1.1      | 1.0         | 1.3         | 0.9      |
| Current ratio.....   | 1.4 TO 1   | 1.4 to 1 | 1.8 to 1    | 1.4 to 1    | 2.0 to 1 |
| Return on average investment -- percent.....   | 3.4 (6)    | 16.7 (5) | 9.8         | 11.1        | 6.9      |
| Return on average common equity -- percent.....  | 3.4 (6)    | 29.7 (5) | 16.4        | 17.4        | 9.0      |
| Working capital provided by operations(4).....   | 82,830     | 73,321   | 60,378      | 57,767      | 39,326   |
| Depreciation and amortization.....   | 42,400     | 37,865   | 36,499      | 29,062      | 25,520   |
| Capital expenditures.....  | 60,936     | 69,146   | 34,737      | 21,629      | 42,297   |
| Backlog for shipment in next 12 months.....  | 183,847    | 225,498  | 123,382     | 94,464      | 109,626  |
| Number of stockholders.....  | 5,720      | 5,488    | 3,425       | 3,659       | 3,454    |
| Average number of employees.....   | 3,261      | 2,994    | 1,950       | 1,653       | 1,530    |
| Sales per employee.....  | 245        | 249      | 318         | 365         | 285      |

(FOR DEFINITION OF ITEMS, SEE PAGE 9) FISCAL YEARS ENDED OCTOBER 31, 1993

|   |         |
|---|---------|
| <b>REVENUES AND EARNINGS</b>                      |         |
| Net sales(1).....                                 | 371,266 |
| Cost of sales including depreciation.....         | 329,220 |
| Gross profit.....                                 | 42,046  |
| Piper Impact Restructuring Charge.....            |         |
| Other depreciation and amortization.....          | 1,596   |
| Selling, general and administrative expenses..... | 30,605  |
| Operating income.....                             | 9,845   |
| Percent of net sales.....                         | 2.7     |
| Other income (expense)-net.....                   | 4,508   |
| Interest expense-net.....                         | 11,962  |

|  |          |
|--|----------|
| Income (loss) before income taxes, extraordinary items, cumulative effect of accounting change, and income from discontinued operations..... | 2,391    |
| Income taxes (credit).....   | 1,004    |
| -----  |          |
| Income (loss) from continuing operations.....  | 1,387    |
| Income from discontinued operations.....   | 7,041    |
| Gain on sale of discontinued operations.....   |          |
| Extraordinary items and cumulative effect of accounting changes, net of taxes(3).....  | --       |
| -----  |          |
| Net income.....  | 8,428    |
| Percent of net sales.....  | 2.3      |
| -----  |          |
| PER SHARE DATA   |          |
| Basic Earnings per share:  |          |
| Income (loss) from continuing operations.....  | (0.33)   |
| Income from discontinued operations.....   | 0.52     |
| Gain on sale of discontinued operations.....   | --       |
| Extraordinary items and cumulative effect of accounting change...  | --       |
| Net earnings (loss).....   | 0.19     |
| Cash dividends declared.....   | 0.56     |
| Book value.....  | 10.48    |
| Average shares outstanding (000).....  | 13,477   |
| Market closing price range   |          |
| High.....  | 20 3/4   |
| Low.....   | 14 1/4   |
| -----  |          |
| FINANCIAL POSITION -- YEAR END   |          |
| Working capital.....   | 121,959  |
| Property, plant and equipment -- net.....  | 218,851  |
| Other assets.....  | 61,313   |
| Total assets.....  | 463,362  |
| Noncurrent deferred income taxes.....  | 32,535   |
| -----  |          |
| Long-term debt.....  | 128,476  |
| Stockholders' equity.....  | 225,776  |
| Total capitalization.....  | 354,252  |
| Long-term debt percent of capitalization.....  | 36.3     |
| -----  |          |
| OTHER DATA   |          |
| Asset turnover.....  | 0.8      |
| Current ratio.....   | 3.0 to 1 |
| Return on average investment -- percent.....   | 4.3      |
| Return on average common equity -- percent.....  | 1.7      |
| -----  |          |
| Working capital provided by operations(4).....   | 30,482   |
| Depreciation and amortization.....   | 26,184   |
| Capital expenditures.....  | 34,281   |
| Backlog for shipment in next 12 months.....  | 73,207   |
| -----  |          |
| Number of stockholders.....  | 3,540    |
| Average number of employees.....   | 1,549    |
| Sales per employee.....  | 240      |
| -----  |          |

Note: Several acquisitions and divestitures have been made in the past three years. See Notes 2 and 3 to the financial statements for a description of these transactions.

- (1) Excludes sales from discontinued operations for the years 1997-1993, respectively of \$187,123, \$275,641, \$287,210, \$263,331 and \$244,879.
- (2) During the fourth quarter of 1998, Piper Impact recorded a \$58.5 million non-recurring restructuring charge as the result of impairment as described by Statement of Financial Accounting Standards No. 121. See Footnote 4 to the financial statements for further information.
- (3) 1996 and 1995-early extinguishment of debt.
- (4) Working capital provided by operations is a supplemental financial measurement used in the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital. Working capital from operations is calculated as income from continuing operations, net of taxes, adjusted for non-cash and nonrecurring items.
- (5) Includes gain on sale of discontinued operations.
- (6) Includes effect of Piper Impact's restructuring charge (\$58.5 million) and gain on sale of discontinued operations (\$13 million).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements of the Company and the accompanying notes.

PRIVATE SECURITIES LITIGATION REFORM ACT

Certain forward-looking information contained herein is being provided in accordance with the provisions of the Private Securities Litigation Reform Act. Such information is subject to certain assumptions and beliefs based on current information known to the Company and is subject to factors that could result in actual results differing materially from those anticipated in the forward-looking statements contained in this report. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, interest rates, the continuation of countervailing import duties on certain of the Company's competitors, construction delays, market conditions for the Company's customers, any material changes in purchases by the Company's principal customers, environmental regulations and changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company's successful implementation of its internal operating plans and the Year 2000 readiness efforts, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved.

RESULTS OF OPERATIONS

Overview

Summary Information as % of Sales: (Dollars in millions)

|   | Fiscal Year Ended October 31, |       |                |       |                |       |
|---|-------------------------------|-------|----------------|-------|----------------|-------|
|   | -----1998-----                |       | -----1997----- |       | -----1996----- |       |
|   | DOLLAR                        | % of  | Dollar         | % of  | Dollar         | % of  |
|   | AMOUNT                        | Sales | Amount         | Sales | Amount         | Sales |
|   | -----                         | ----- | -----          | ----- | -----          | ----- |
| Net Sales.....                                | \$797.5                       | 100%  | \$746.1        | 100%  | \$620.1        | 100%  |
| Cost of Sales.....                            | 647.2                         | 81    | 610.4          | 82    | 492.6          | 79    |
| Selling, general and admin.....               | 47.7                          | 6     | 43.4           | 6     | 45.0           | 7     |
| Depreciation and amortization.....            | 41.8                          | 5     | 37.3           | 5     | 36.1           | 7     |
| Restructuring Charge.....                     | 58.5                          | 7     | --             | --    | --             | --    |
|   | -----                         | ---   | -----          | ---   | -----          | ---   |
| Operating Income.....                         | 2.3                           | 1%    | 55.0           | 7%    | 46.4           | 7%    |
| Interest Expense.....                         | (14.9)                        | (2)   | (17.5)         | (2)   | (11.9)         | (2)   |
| Capitalized Interest.....                     | 4.4                           | 1     | 3.5            | 0     | .6             | 0     |
| Other, net.....                               | 2.2                           | 0     | 1.6            | 0     | 4.5            | 1     |
| Income tax benefit (expense).....             | 2.1                           | 0     | (14.9)         | (1)   | (16.6)         | (2)   |
|   | -----                         | ---   | -----          | ---   | -----          | ---   |
| Income (loss) from continuing operations..... | \$ (3.9)                      | 0%    | \$ 27.7        | 4%    | \$ 23.0        | 4%    |
|   | =====                         |       | =====          |       | =====          |       |

For the sixth consecutive year, the Company's continuing operations achieved higher sales from the previous fiscal year. These continued increases are a result of the Company's growth strategies through internal investments as well as acquisitions. The Company's internal growth investments, principally at the MACSTEEL Division and at Piper Impact, Inc. ("Piper Impact") were focused toward capacity expansions, new product offerings, quality improvements, and enhanced customer service capabilities. The Company also completed a number of strategic acquisitions and divestitures to improve operations and align its businesses for growth.

Acquisitions / Divestitures Since October 31, 1996

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously classified as "Cold Finished Steel Bars".

In October 1997, the Company, through its Dutch subsidiary, Piper Impact Europe B.V. ("Piper Impact Europe"), purchased the net assets of Advanced Metal Forming C.V., a Dutch limited partnership, for approximately \$30 million. The Company's balance sheet as of October 31, 1997 includes Piper Impact Europe. The Company's income statement for the twelve months ended October 31, 1997 does not include results for Piper Impact Europe.

In December 1997, the Company completed the sale of its tubing operations ("Tubing Operations"), comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office. The Tubing Operations' results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, these businesses were previously classified as "Steel Tubes". Two small divisions, Heat Treat Division and NitroSteel Division, which were previously included with this segment, were retained by the Company and are now included in the Engineered Steel Bars segment.

In October 1998, the Company acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based aluminum sheet manufacturer for approximately \$19 million. The newly acquired company has been renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama") in alignment with Quanex's other aluminum mill sheet businesses in its Nichols Aluminum division. Nichols Aluminum Alabama's operations include cold rolling aluminum sheet to specific gauge, annealing, leveling, custom painting and slitting to width. Nichols Aluminum Alabama employs approximately 110 people.

#### Business Segments

The Company adopted Statement of Financial Accounting Standards No. 131, "SFAS 131" for the fiscal year ended 1998. SFAS 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Pursuant to SFAS 131, the Company has three reportable segments: engineered steel bars, aluminum mill sheet products, and engineered products. The Company's previously reported "Aluminum Products Group" has been split into two segments: "Aluminum Mill Sheet Products" and "Engineered Products". The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services and steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures impact-extruded aluminum and steel parts, aluminum window and patio door screens, window frames and other roll formed products and stamped shapes.

The following table sets forth selected operating data for the Company's three business segments:

|                                    | Years Ended October 31, |           |           |
|------------------------------------|-------------------------|-----------|-----------|
|                                    | 1998                    | 1997      | 1996      |
|                                    | (In thousands)          |           |           |
| Engineered Steel Bars: (1)         |                         |           |           |
| Net sales.....                     | \$327,296               | \$319,468 | \$292,167 |
| Operating income.....              | 58,908                  | 50,762    | 39,090    |
| Depreciation and amortization..... | 13,097                  | 13,940    | 18,263    |
| Identifiable assets.....           | \$219,727               | \$192,937 | \$171,351 |
| Aluminum Mill Sheet Products: (2)  |                         |           |           |
| Net sales.....                     | \$266,355               | \$261,041 | \$248,517 |
| Operating income.....              | 7,788                   | 1,753     | 7,721     |
| Depreciation and amortization..... | 10,670                  | 10,154    | 10,077    |
| Identifiable assets.....           | \$198,596               | \$163,637 | \$182,743 |
| Engineered Products: (3, 4)        |                         |           |           |
| Net sales.....                     | \$230,012               | \$206,831 | \$125,096 |
| Operating income (loss).....       | (52,606)                | 15,444    | 14,506    |
| Depreciation and amortization..... | 17,928                  | 13,055    | 7,606     |
| Identifiable assets.....           | \$220,161               | \$281,943 | \$231,861 |

- (1) Includes NitroSteel and Heat Treat divisions previously reported under the Steel Tubes segment. (See Note 3 to financial statements)
- (2) 1998 results include three weeks of Nichols Aluminum Alabama's operations acquired October 9, 1998. (See Note 2 to financial statements)
- (3) 1996 results include three months of Piper Impact's operations. Also, 1998 data includes the results of Piper Impact Europe. Identifiable assets as of October 31, 1998 and 1997 include assets of Piper Impact Europe, acquired October 29, 1997. (See Note 2 to financial statements)
- (4) During 1998, Piper Impact recorded a \$58.5 million non-recurring restructuring charge as the result of impairment as described by Statement of Financial Accounting No. 121. This restructuring charge is included in operating income. (See Note 4 to financial statements)

The engineered steel bar business posted another record year, driven by strong demand in the transportation markets. The business achieved best-ever levels in sales and operating income. In December 1998, steel scrap prices reached their lowest levels in years, but this has been offset by some softening in the marketplace for steel bar products as customers work to manage their inventories. In fiscal 1999, MACSTEEL plans to finish its Phase IV expansion project which will double its production capacity for MACPLUS, its most premium product. Work

has begun on Phase V, which will increase capacity at MACSTEEL's engineered bar mills and the MACSTEEL Heat Treating Division and will improve operational efficiency at MACSTEEL NitroSteel.

The aluminum mill sheet business ended the year on a high note. Spreads have increased from their depressed levels in the first half of the year and aluminum scrap prices are relatively stable. The backlog for the first quarter is stronger than normal, helped in part by the acquisition of Nichols Aluminum Alabama. The business also has finished construction of its rotary furnace project at its mini-mill in Davenport, Iowa, which will allow the casting plant to use less costly, lower grade scrap in its production process. The furnaces are expected to become fully operational in early fiscal 1999.

The engineered products business had a tough year. The automotive air bag market underwent major and rapid changes during fiscal 1998. While Piper Impact Europe made a solid contribution in its first full year with the Company, slack demand in Asia and the General Motors strike adversely affected sales for Piper Impact's products in North American markets. To improve its competitiveness and its cost structure, Piper Impact is consolidating its operations in New Albany, Mississippi by closing down a finishing plant in Park City, Utah. Marketing efforts remain focused on building sales in diversified applications using Piper Impact's unique product design capabilities and impact-extrusion manufacturing process. The fabricated products businesses, AMSCO and Homeshield Fabricated Products had slightly better results for fiscal 1998 as these businesses further improved their operations. Efforts remain focused on using existing capacity for new products and for developing end-markets using the Company's unique value-added roll forming and poly laminate technology.

#### Outlook

The Company currently expects that overall business levels for fiscal 1999 should be similar to those experienced during 1998. However, domestic and global market factors will impact the Company and any slowdown in the U.S. economy could affect demand and pricing for many of the Company's products. Since the non-recurring restructuring charge at Piper Impact included the write-off of goodwill and some long lived assets, it will result in lower depreciation and amortization for fiscal 1999. The acquisition of Nichols Aluminum Alabama is expected to impact earnings in fiscal 1999. Improved financial results will be dependent upon, among other things, whether the continued strength of the economy can be sustained, improvements in the markets which the Company serves, and whether the improvements in the price spreads of aluminum mill sheet products can be sustained.

#### 1998 COMPARED TO 1997

Net Sales -- Net sales for fiscal 1998 were \$797.5 million, representing an increase of \$51.4 million when compared to fiscal 1997. This increase reflects higher net sales in all three business segments as well as an increase of \$14.4 million resulting from sales to discontinued operations which were previously reflected as intersegment sales and eliminated in 1997. These sales are now third-party sales and are not eliminated in 1998. Piper Impact Europe, which was acquired in October 1997, contributed a full year of sales in fiscal 1998.

Net sales for fiscal 1998 from the Company's engineered steel bar business were \$327.3 million, representing an increase of \$7.8 million, or 2%, when compared to fiscal 1997. This increase was primarily attributable to a better mix of product sales with a higher percentage of MACPLUS and bearing steels.

Net sales from the Company's aluminum mill sheets products business for fiscal 1998 were \$266.4 million, representing an increase of \$5.3 million, or 2%, when compared to fiscal 1997. This increase was primarily attributable to strong demand, which yielded a 5% increase in volume.

Net sales from the engineered products group increased \$23.2 million to \$230.0 million. The majority of the increase resulted from the addition of Piper Impact Europe offset by a decrease in net sales at Piper Impact.

Restructuring Charge -- During the year ended October 31, 1998, the Company recorded a restructuring charge of \$58.5 million related to its subsidiary, Piper Impact.

Components of this special charge include \$51.2 million for goodwill impairment; \$6.7 million for impairment of property, plant and equipment; and \$600 thousand for severance benefits to be paid to employees of the Park City, Utah plant. Piper Impact experienced significant changes in market conditions and the relationship with its major customer in fiscal 1998, which led to substantial declines in sales and operating cash flow. Management began an evaluation of the operations of Piper Impact in August 1998. As a result of this evaluation, in September 1998, management approved a plan to close the Park City, Utah facility and move its production to the New Albany, Mississippi facility.

Due to the significance of the changes discussed above and the decision to close one of the acquired production facilities, management performed an evaluation of the recoverability of all of the assets of Piper Impact, excluding the new steel plant, as described in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Management concluded from the results of this evaluation that a significant impairment of intangible as well as long-lived assets had occurred. An impairment charge was required because estimated fair value was less than the carrying value of the assets.

Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could vary significantly from management's estimates.

The one-time restructuring charge resulted in an after-tax impact on net income of \$38 million or \$2.68 per share.

Operating Income -- Consolidated operating income for fiscal 1998 was \$2.3 million. Included in operating income was the one-time \$58.5 million restructuring charge discussed above. Operating income excluding this restructuring charge was \$60.8 million, representing an increase of \$5.8 million, or 10%, when compared to fiscal 1997. Primary contributing factors to this increase were: 1) Increased sales and operating income from the engineered steel bar and aluminum mill sheet business and 2) the inclusion of a full year of Piper Impact Europe in the engineered products business. These improvements were partly offset by lower operating income from Piper Impact of the engineered products business.

Operating income from the Company's engineered steel bar business for fiscal 1998 was \$58.9 million, representing an increase of \$8.1 million, or 16%, when compared to fiscal 1997. This increase was principally due to increased sales from strong demand in the transportation markets as well as lower material prices. These results represented a record year for this business.

Operating income from the Company's aluminum mill sheet products business for fiscal 1998 was \$7.8 million, representing an increase of \$6.0 million, or 344%, when compared to fiscal 1997. This increase was principally due to increased volume and net sales accompanied by lower scrap prices. During the fourth quarter of 1998, this business experienced a turnaround with strong demand and favorable material costs.

The Company's engineered products business experienced an operating loss of \$52.6 million for fiscal 1998. Included in this loss was the non-recurring restructuring charge of \$58.5 million described above. Operating income for 1998 excluding this restructuring charge was \$5.9 million, a decrease of \$9.6 million or 62% from 1997. This decline is largely a result of operating losses experienced at Piper Impact. While Piper Impact Europe made a solid contribution in its first full year with the Company, slack demand in Asia and the General Motors strike adversely affected sales for Piper Impact products in North American markets. The fabricated products lines within this business showed modest improvement over fiscal 1997.

Selling, General and Administrative Expenses -- Selling, general and administrative expenses increased in fiscal 1998 by \$4.3 million, or 10%, compared to fiscal 1997. This increase is largely a result of the inclusion of a full year of Piper Impact Europe, which was not included in 1997.

Depreciation and Amortization -- Depreciation and amortization increased by \$4.5 million in fiscal 1998 compared to fiscal 1997. This increased depreciation resulted from the inclusion of Piper Impact Europe in 1998 and the increased depreciation at Piper Impact for the steel products plant partially offset by lower depreciation at the engineered steel bar business.

Interest Expense and Capitalized Interest -- Interest expense decreased by \$2.6 million compared to fiscal 1997 as a result of reducing bank borrowings with proceeds received from the sale of LaSalle and the Tubing operations. Capitalized interest increased by \$859 thousand in 1998 compared to 1997 primarily due to Phase III and IV of the MACSTEEL expansion projects.

Other -- "Other, net" consists largely of investment income and remained relatively constant.

Income From Continuing Operations -- The Company had a loss from continuing operations of \$3.9 million in 1998. Included in this loss was the after-tax non-recurring restructuring charge of \$38.0 million. Income from continuing operations excluding the restructuring charge was \$34.1 million, an improvement of \$6.4 million, or 23%, compared to fiscal 1997. The improvement was attributable to improved results in the Company's engineered steel bars and aluminum mill sheet businesses, and the inclusion of a full year of Piper Impact Europe and lower interest expense. These improvements were partially offset by lower operating results at Piper Impact. The Company's effective income tax rate was 35% for fiscal 1998 and 1997.

Income from Discontinued Operations -- Income from discontinued operations, net of income taxes, for fiscal 1997, was \$5.2 million which consisted of the Tubing Operations and LaSalle Steel. There was no income from discontinued operations in fiscal 1998. (See Note 3 to the financial statements)

Net Income -- Fiscal 1998 net income was \$9.2 million, compared to \$69.2 million for fiscal 1997. Included in net income for fiscal 1998 is an after-tax non-recurring restructuring charge of \$38.0 million and an after-tax gain of \$13.0 million on the sale of discontinued operations. Included in net income for 1997 was an after-tax gain of \$36.3 million on the sale of discontinued operations.

#### 1997 COMPARED TO 1996

Net Sales -- Net sales for fiscal 1997 were \$746.1 million, representing an increase of \$126.0 million when compared to fiscal 1996. This increase resulted principally from a full year of Piper Impact sales in 1997 compared to three months in 1996 and higher volumes in the engineered steel bar business.

Net sales for fiscal 1997 from the Company's engineered steel bar business were \$319.5 million, representing an increase of \$27.3 million, or 9%, when compared to fiscal 1996. This increase was attributable to record volume.

An 11% increase in volume resulted from improved market share following the Company's capacity expansion program.

Net sales from the Company's aluminum mill sheet products business for fiscal 1997 were \$261.0 million, representing an increase of \$12.5 million, or 5%, when compared to fiscal 1996. This increase was mostly attributable to increased volume.

Net sales from the Company's engineered products business for fiscal 1997 was \$206.8 million, representing an increase of \$81.7 million or 65%. This increase was mostly attributable to a full year of Piper Impact in 1997 compared to three months in 1996.

Operating Income -- Consolidated operating income for fiscal 1997 was \$55.0 million, representing an increase of \$8.6 million, or 18%, when compared to fiscal 1996. This increase resulted from improved sales and operating income from the engineered steel bar business, partly offset by lower operating income from the aluminum mill sheet products business.

Operating income from the Company's engineered steel bar business for fiscal 1997 was \$50.8 million, representing an increase of \$11.7 million, or 30%, when compared to fiscal 1996. This increase was principally due to increased sales following the Company's capacity expansion program but 1996 operating income was also affected by higher accruals to the allowance for doubtful accounts. These higher accruals were necessary as the engineered steel bar business increased sales during the past several years.

Operating income from the Company's aluminum mill sheet products business for fiscal 1997 was \$1.8 million, representing a decrease of \$6.0 million, or 77%, when compared to fiscal 1996. This decrease was principally due to volatility in the aluminum scrap markets, resulting in higher average raw material costs and lower price spreads.

Operating income from the Company's engineered products business for fiscal 1997 was \$15.4 million, representing an increase of \$938 thousand, or 6%, when compared to fiscal 1996. The results for 1997 included a full year of Piper Impact in 1997 compared to three months in 1996. Fourth quarter results of 1997 were affected by start-up costs, including higher labor and training expenses and the temporary use of less efficient production processes at Piper Impact's new plant in New Albany, Mississippi.

Selling, General and Administrative Expenses -- Selling, general and administrative expenses decreased in fiscal 1997 by \$1.6 million, or 4%, compared to fiscal 1996. This decrease was principally due to higher accruals to the allowance for doubtful accounts in the prior year affecting the engineered steel bar and the aluminum mill sheet products businesses. These higher accruals were needed because the Company experienced \$5.7 million in bad debts during the year ended October 31, 1996, and to recognize risks associated with higher sales volume achieved during the past several years. Fiscal 1997 selling, general and administrative expenses were also affected by a full year of Piper Impact compared to three months in fiscal 1996.

Depreciation and Amortization -- Depreciation and amortization increased by \$1.2 million in fiscal 1997 compared to fiscal 1996. Increased depreciation resulting from a full year of Piper Impact was partly offset by lower depreciation at MACSTEEL.

Interest Expense and Capitalized Interest -- Interest expense increased by \$5.6 million compared to fiscal 1996 primarily due to increased long-term debt related to the Piper Impact acquisition in the fourth quarter of fiscal 1996. Capitalized interest increased by \$3.0 million in 1997 compared to 1996 primarily due to Phase III of the MACSTEEL expansion project and the construction of the new Piper Impact plant in New Albany, Mississippi.

Other -- Included in "Other, net" for fiscal 1996, was a \$2.3 million pretax gain which represents the final recovery of a business interruption claim related to a fire at the Company's Lincolnshire, Illinois facility that occurred in 1993. In addition, "Other, net" included investment income of \$2.0 million for fiscal 1997 compared to \$1.6 million for fiscal 1996.

Income From Continuing Operations -- Income from continuing operations improved by \$4.7 million, or 21%, compared to fiscal 1996. The improvements were principally attributable to improved results at the Company's MACSTEEL division. The Company's effective income tax rate was 35% for fiscal 1997 compared to 42% in 1996.

Income From Discontinued Operations -- Income from discontinued operations, net of income taxes, for fiscal 1997, was \$5.2 million, compared to \$9.9 million for 1996. Fiscal 1996 included a full year of LaSalle which was sold during the second quarter of fiscal 1997.

Net Income -- Fiscal 1997 net income was \$69.2 million, compared to \$30.4 million for fiscal 1996. Included in net income for fiscal 1997 is an after-tax gain of \$36.3 million on the sale of LaSalle Steel Company.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement currently consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003 and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the

Revolver bear interest, at the option of the Company, at either (i) the prime rate or the federal funds rate plus one percent, whichever is higher, or (ii) a Eurodollar based rate. In the fourth quarter of fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted \$100 million of its variable rate debt under the Bank Agreement to fixed rate debt. Under these agreements, payments are made based on a fixed rate (\$50 million at 7.025%, and \$50 million at 6.755%) and payments are received on a LIBOR based variable rate (5.22203% at October 31, 1998). Differentials to be paid or received under the agreements are recognized as interest expense. Payments under the swap agreements are tied to the interest periods for the borrowings under the Bank Agreement. The swap agreements mature July 29, 2003. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. At October 31, 1998, retained earnings of approximately \$40 million were available for dividends. Under the Bank Agreement, at October 31, 1998, there was \$80 million outstanding under the Revolver.

In December 1995, the Company acquired all of its outstanding 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses resulted in an after-tax extraordinary charge of approximately \$2.5 million in the first quarter of 1996. The acquisition was funded with cash and additional borrowings.

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). During September 1998, the Company accepted an unsolicited block offer to buy back \$1.5 million principal amount of its Convertible Subordinated Debentures; therefore, the outstanding balance as of October 1998 is \$83,420,000. Interest is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

On August 9, 1996, the Company completed the acquisition of substantially all of the assets of Piper Impact. Piper Impact's assets, net of various liabilities, were acquired for approximately \$130 million in cash, cash equivalents, and notes. This acquisition was financed with existing cash and bank borrowings. Subsequent to the acquisition, the Company's Board of Directors approved additional capital expenditures at Piper Impact totaling approximately \$42 million. These projects were completed in fiscal year 1998.

On April 18, 1997, the Company completed the sale of LaSalle for approximately \$65 million in cash. The proceeds were used to pay down the Company's Revolver.

On October 29, 1997, the Company acquired, through its Dutch subsidiary, Piper Impact Europe B.V. ("Piper Impact Europe"), substantially all of the assets of Advance Metal Forming C.V., a Dutch limited partnership, for approximately \$30 million. The acquisition was financed with existing cash and bank borrowings of 35 million Dutch Guilders. Piper Impact Europe's primary source of funds is a stand-alone secured credit facility ("Credit Facility") providing up to 50 million Dutch Guilders ("NLG"). At October 31, 1998 and 1997, 1 NLG was equal to .535 and .514 dollars. The Credit Facility consists of a Roll-Over Term Loan, a Medium Term Loan and an Overdraft Facility. The Roll-Over Term Loan provides NLG 15 million for loan periods of 1, 2, 3, 6, or 12 months with repayment of outstanding borrowings on October 27, 2002. Interest is payable on the repayment date at the Amsterdam Interbank Offering Rate (AIBOR) plus 90 basis points. In the case of a loan period of twelve months, interest is payable six months after the beginning of the loan period and on the repayment date. The Medium Term Loan provides NLG 15 million at 6.375% payable quarterly in arrears from March 1, 1998, with quarterly repayments of principal in equal amounts of NLG 500 thousand commencing January 1, 1999 through April 1, 2006. The Overdraft Facility provides an aggregate amount of NLG 20 million to cover overdrafts or up to NLG 15 million of loans for a period of one year, subject to annual renewal. Overdrafts bear interest at the Bank's published rate for overdraft facilities plus 1% per annum. Loans under the Overdraft Facility bear interest at AIBOR plus 45 to 55 basis points. The terms of Overdraft Facility loans are selected by Piper Impact Europe to be a period of 1, 2, 3, 6, or 12 months. Interest on overdrafts are paid quarterly in arrears. The borrowings outstanding under this Credit Facility as of October 31, 1998 totaled approximately \$22 million.

On December 3, 1997, the Company completed the sale of its Tubing Operations for approximately \$30 million in cash. The proceeds were used to improve the Company's debt structure and for investment in the Company's value-added businesses.

On October 9, 1998, the Company acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based aluminum sheet manufacturer for approximately \$19 million. The newly acquired company has been named Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama"). The acquisition was financed using existing cash available under the Revolver. Certain Industrial Development bonds were assumed as part of the Nichols Aluminum Alabama acquisition. These bonds mature August 1, 2004 with interest payable monthly. The bonds bear interest at a weekly interest rate, which is the rate determined by the remarketing agent under then prevailing

market conditions to be the minimum interest rate, which, if borne by the Bonds on the effective date of such rate, would enable the remarketing agent to sell the Bonds on such business day at a price (without regard to accrued interest) equal to the principal amount of the bonds. The interest rate, however, may not exceed 13% per annum. The weekly interest rate during October 1998 (the only month the Company owned these bonds) ranged from 3.35% to 3.55%. The outstanding principal amount of the bonds on October 31, 1998 was \$4,755,000.

At October 31, 1998, the Company had commitments of \$23 million for the purchase or construction of capital assets, primarily relating to the Company's continued expansions at MACSTEEL and Piper Impact. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

The Company believes that it has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. The Company also believes that cash flow from operations, cash balances and available borrowings will be sufficient for the foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements, environmental expenditures and dividends.

#### Operating Activities

Cash provided by operating activities during fiscal 1998 was \$64.1 million. This represents a decrease of \$15.4 million, or 19%, compared to fiscal 1997. This decrease primarily resulted from increased inventory levels.

#### Investment Activities

Net cash used by investment activities in fiscal 1998 was \$39.8 million compared to \$49.6 million in fiscal 1997. Fiscal 1998 cash from investing activities included the acquisition of Decatur Aluminum Corp. and proceeds from the sale of the Tubing Operations. Fiscal 1997 cash from investing activities included the acquisition of Advanced Metal Forming, C.V. and proceeds from the sale of LaSalle Steel Company. Capital expenditures decreased from \$68.9 million in 1997 to \$58.5 million in 1998. The Company estimates that fiscal 1999 capital expenditures will approximate \$60 to \$70 million.

#### Financing Activities

Net cash used by financing activities for fiscal 1998 was \$24.9 million, principally consisting of net reductions in long-term debt of \$18.6 million and \$9.1 million in common dividends, partly offset by proceeds from exercise of stock options.

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Firm price commitments associated with these futures and options contracts do not extend beyond December 1999. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the consolidated statements of income.

#### EFFECTS OF INFLATION

Inflation has not had a significant effect on earnings and other financial statement items.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which is effective for the Company's year ending October 31, 1999. SFAS No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. The Company continues to analyze SFAS No. 130 to determine what additional disclosures will be required.

In February 1998, the FASB issued SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits", which is effective for the Company's year ending October 31, 1999. This statement defines new disclosure requirements for pension and other postretirement benefits in an effort to facilitate financial analysis by adding useful information and deleting disclosures that the FASB considers no longer useful. The Company continues to analyze SFAS No. 132 to determine what additional disclosures will be required.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective for the Company's year ending October 31, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company will be analyzing SFAS No. 133 to determine what, if any, impact or additional disclosure requirements this pronouncement will have.

## YEAR 2000

The Company, like other businesses, is facing the Year 2000 issue. Many computer systems and equipment with embedded chips or processors use only two digits to represent the calendar year. This could result in computational or operational errors as dates are compared across the century boundary causing possible disruptions in business operations. The Year 2000 issue can arise at any point in the Company's supply, manufacturing, processing, distribution, and financial chains.

## State of Readiness

The Company began addressing the Year 2000 issue in 1997, with an initial assessment of Year 2000 readiness efforts at each of its operating units. Based on the responses from the operating units, a standardized Year 2000 Plan format was developed. By July 1998, each operating unit had completed a Year 2000 Plan that included the following components:

- 1) Inventory of all systems (including hardware, software, and equipment with embedded chips or processors),
- 2) Assessment of all systems for Year 2000 compliance,
- 3) Development of a project schedule for replacement or remediation of non-compliant systems,
- 4) Development of a project schedule for testing compliant systems, and
- 5) Development of a list of significant vendors/suppliers for surveying their Year 2000 readiness efforts.

The Year 2000 issue is being addressed within the Company by its individual business units, and progress is reported periodically to management. The Company has committed resources to conduct risk assessment and to take corrective action, where required, with a target date of becoming Year 2000 ready for the most critical systems by July 1999.

MACSTEEL, the most profitable and significant business segment of the Company, has already replaced and/or remediated its most critical business systems to become Year 2000 ready with testing scheduled for March 1999. The operating units of the other two business segments are in the process of upgrading or replacing their Enterprise Resource Planning ("ERP") systems with versions that are certified to be Year 2000 ready by the manufacturers of such products. The implementation of these ERP systems is anticipated to be complete by July 1999.

With respect to the plant systems, including automation and embedded chips used in manufacturing operations, all business units are in the process of completing their inventory and assessment audits. The Company is relying on vendor certification and testing. Assessment and testing, with corrective action as required, is expected to be completed by the third quarter of 1999.

With respect to the external parties, including suppliers and customers, the Company's business units are in the process of surveying the Year 2000 readiness efforts of critical external parties. Risk assessment is expected to be completed by March 1999 and monitoring risk in this area will continue into the third quarter of 1999, as many external parties will not have completed their Year 2000 readiness efforts.

In addition, the Company is developing contingency plans intended to mitigate possible disruption in business operations that may result from the Year 2000 issue. Contingency plans may include stockpiling necessary materials and inventories, securing alternate sources of supply, adjusting facility shutdown and start-up schedules, development of manual procedures to execute transactions and complete processes and other appropriate measures. Once developed, contingency plans will be continually refined as additional information becomes available.

## Cost

The Year 2000 activities and associated costs are being managed within each business unit. The Company's total cost relating to the Year 2000 activities is not expected to exceed \$1 million.

## Risks

Quanex is a diversified and decentralized company comprised of three business segments. Each of these segments has multiple operating units, resulting in thirteen separate Year 2000 Plans. Quanex has not required standardized systems throughout the Company. This diversification has allowed the Company to spread the risk of the Year 2000 issue, since no one system is responsible for the entire financial and operational needs of the Company. While the diversification reduces the risk of a material Year 2000 issue affecting the entire Company, this same diversification increases the possibility that the Year 2000 issue will occur at one or more units since many more

systems exist than in a centralized environment. Management is addressing this issue by requiring regular periodic reporting from each business unit and monitoring the progress with follow-up review by independent consultants. However, if implementation of the ERP systems at two major business units and replacement/remediation of other critical non-compliant systems is not completed in a timely manner, the affected units will implement contingency plans to minimize disruptions in business operations that may result from the Year 2000 issue.

The Company relies on third party suppliers for raw materials, water, utilities, transportation and other key services. Interruption of supplier operations due to Year 2000 issues could affect the Company's operations. While each business unit will evaluate the status of its major suppliers' Year 2000 readiness efforts and develop contingency plans to manage the risk, it can not eliminate the potential for disruption due to third party failures.

The Company is also dependent upon its customers for sales and cash flow. Year 2000 interruptions in the operations of its major customers could result in reduced sales, increased inventory or receivable levels and cash flow reductions. The Company is in the process of surveying its major customers' Year 2000 readiness efforts to assess risk and develop plans with an intent to minimize the impact on its operations.

The Company believes that it is taking all reasonable steps to ensure Year 2000 readiness. Its ability to meet the projected goals, including the costs of addressing the Year 2000 issue and the dates upon which compliance will be attained, depends on the Year 2000 readiness of its key suppliers and customers, the completion of its final remediation and testing efforts and the successful development and implementation of contingency plans. Although these and other unanticipated Year 2000 issues could have an adverse effect on the results of operations or financial condition of the Company, it is not possible to estimate the extent of impact at this time, since the contingency plans are still under development.

ALL STATEMENTS REGARDING YEAR 2000 MATTERS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K ARE "YEAR 2000 READINESS DISCLOSURES" WITHIN THE MEANING OF THE YEAR 2000 INFORMATION AND READINESS DISCLOSURE ACT.

#### EUROPEAN MONETARY UNION

Within Europe, the European Economic and Monetary Union (the "EMU") introduced a new currency, the Euro, on January 1, 1999. The new currency is in response to the EMU's policy of economic convergence to harmonize trade policy, eliminate business costs associated with currency exchange and to promote the free flow of capital, goods and services among the participating countries.

On January 1, 1999, the participating countries adopted the Euro as their local currency, initially available for currency trading on currency exchanges and non-cash (banking) transactions. The existing local currencies, or legacy currencies, will remain legal tender through January 1, 2002. Beginning on January 1, 2002, Euro-denominated bills and coins will be issued for cash transactions. For a period of six months from this date, both legacy currencies and the Euro will be legal tender. On or before July 1, 2002, the participating countries will withdraw all legacy currency and use exclusively the Euro.

At the current time, the Company does not believe that the conversion to the Euro will have a material impact on its business or its financial statements.

#### ITEM 7A. QUANTITATIVE/QUALITATIVE DISCLOSURE

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, foreign currency rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information. For a description of the Company's significant accounting policies associated with these activities, see Notes 1 and 16 to the Consolidated Financial Statements.

##### Interest Rate Risk

The Company and its subsidiaries have a Revolving Credit Facility, Convertible Subordinated Debentures, interest rate swap agreements and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates.

At October 31, 1998, the Company had fixed-rate debt totaling \$101 million. This debt is fixed-rate and, therefore, does not expose the Company to the risk of earnings loss due to changes in market interest rates (see Notes 10 and 16 to the Company's Consolidated Financial Statements). The conversion feature of the Company's Subordinated Debentures makes it impractical to estimate the effect of a hypothetical 10% change in interest rates. This is due to the high correlation between the market value of these instruments and the market value of the Company's common stock. In general, any changes in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations total \$99 million at October 31, 1998 (see Note 10 to the Company's Consolidated Financial Statements). The exposure of these obligations to increases in short-term interest rates is limited by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate on all of the Company's variable rate debt, thus limiting the potential impact that increasing interest rates would have on earnings. Under these swap agreements, payments are made based on a fixed rate (\$50 million at 7.025%, and \$50 million at 6.755%) and received on a LIBOR based variable rate (5.22203% at October 31, 1998). At October 31, 1998, the unrealized losses related to the interest rate swap agreements are \$8.5 million. If the floating rates were to change by 10% from October 31, 1998 levels, the fair market value of these swaps would change by approximately \$1.7 million. However, it should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item.

#### Foreign Currency Exchange Rate Risk

The Company is subject to significant exposure from fluctuations in US Dollar/Dutch Guilder exchange rates. As further described in Note 16 of the Consolidated Financial Statements, the Company utilizes foreign currency forward contracts to limit transactional exposure to changes in currency exchange rates. At October 31, 1998, the Company had 11 separate contracts maturing in monthly increments to purchase an aggregate notional amount of \$4.675 million in foreign currency. These forward contracts do not extend beyond September 30, 1999. Unrealized pretax gains on these forward contracts totaled approximately \$137 thousand at October 31, 1998. A hypothetical 10% change in applicable October 31, 1998 forward rates would increase or decrease the pretax gain by approximately \$463 thousand related to these positions. However, it should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item.

In addition, the Company utilizes a range forward zero-cost agreement to protect its initial equity investment in its Netherlands subsidiary, Piper Impact Europe. This agreement, which was entered into with a major financial institution, has a notional value of 30 million guilders. By establishing minimum and maximum exchange rates, this agreement limits the potential devaluation of the Company's initial investment in its subsidiary while also limiting any potential appreciation. If, at the expiration date of the agreement, the Dutch guilder/US dollar exchange rate is within the range of 1.80 to 2.05, this agreement will expire at no cost to either party. At October 31, 1998, there was no financial statement impact as the exchange rate fell within the range. A hypothetical 10% increase in the October 31, 1998 exchange rate would result in a positive adjustment to stockholders' equity of approximately \$10 thousand. In contrast, a hypothetical 10% decrease would result in a negative adjustment to stockholder's equity of approximately \$1.2 million. However, it should be noted that any change in the value of this agreement, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged position.

#### Commodity Price Risk

In the normal course of business, the Company enters into long-term firm price sales contracts with one of its customers. In order to hedge the risk of higher prices for the anticipated aluminum purchases required to fulfill these long-term contracts, the Company enters into long futures positions. At October 31, 1998, the Company had open futures contracts at fair values of \$3.3 million and unrealized losses of \$369,000 on such contracts. These contracts covered a notional volume of 5,511,557 pounds of aluminum. A hypothetical 10% change from the October 31, 1998 average LME ingot price of \$.60 per pound would increase or decrease the unrealized pretax losses related to these contracts by approximately \$330,000. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the cost of purchased aluminum scrap.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
 Quanex Corporation  
 Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1998. Our audits also included the financial statement schedule listed in the index on page 48. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP  
 Deloitte & Touche LLP  
 Houston, Texas  
 Date: November 23, 1998

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quanex Corporation and subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates.

Quanex's system of internal controls is designed to provide reasonable assurance, at justifiable cost, as to the reliability of financial records and reporting and the protection of assets. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. Internal controls are monitored through recurring internal audit programs and are updated as our businesses and business conditions change.

The Audit Committee, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with management, Deloitte & Touche LLP, and Quanex's internal auditors, to review internal accounting control and financial reporting matters. The internal and independent auditors have free and complete access to the Audit Committee.

We believe that Quanex's system of internal controls, combined with the activities of the internal and independent auditors and the Audit Committee, provides reasonable assurance of the integrity of our financial reporting.

/s/ VERNON E. OECHSLE  
 Vernon E. Oechsle  
 President and  
 Chief Executive Officer

/s/ WAYNE M. ROSE  
 Wayne M. Rose  
 Vice President and  
 Chief Financial Officer

Quanex Corporation  
CONSOLIDATED BALANCE SHEETS

| OCTOBER 31,  | 1998      | 1997      |
|--|-----------|-----------|
| -----  |           |           |
| (In thousands)   |           |           |
| <b>ASSETS</b>  |           |           |
| Current assets:  |           |           |
| Cash and equivalents.....  | \$ 26,279 | \$ 26,851 |
| Accounts and notes receivable, less allowance for doubtful<br>accounts of \$11,752,000 in 1998 and \$10,338,000 in<br>1997.....                        | 85,166    | 80,089    |
| Inventories.....   | 85,397    | 73,035    |
| Deferred income taxes.....   | 11,560    | 5,601     |
| Prepaid expenses.....  | 1,410     | 1,320     |
|  | -----     | -----     |
| Total current assets.....  | 209,812   | 186,896   |
| Property, plant and equipment, net.....  | 395,054   | 379,071   |
| Net assets of discontinued operations.....   | --        | 13,554    |
| Goodwill, net.....   | 52,281    | 91,496    |
| Other assets.....  | 17,141    | 14,688    |
|  | -----     | -----     |
|  | \$674,288 | \$685,705 |
|  | =====     | =====     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |           |           |
| Current liabilities:   |           |           |
| Accounts payable.....  | \$ 75,160 | \$ 71,317 |
| Accrued expense.....   | 56,125    | 43,208    |
| Current maturities of long-term debt.....  | 12,248    | 11,050    |
| Income taxes payable.....  | 3,300     | 8,503     |
|  | -----     | -----     |
| Total current liabilities.....   | 146,833   | 134,078   |
| Long-term debt.....  | 188,302   | 201,858   |
| Deferred pension credits.....  | 7,832     | 6,627     |
| Deferred postretirement welfare benefits.....  | 7,092     | 6,835     |
| Deferred income taxes.....   | 33,412    | 48,111    |
| Other liabilities.....   | 18,773    | 19,373    |
|  | -----     | -----     |
| Total liabilities.....   | 402,244   | 416,882   |
| Stockholders' equity:  |           |           |
| Preferred stock, no par value, 1,000,000 shares<br>authorized; issued & outstanding -- none in 1998 and<br>1997.....                                   | --        | --        |
| Common stock, \$.50 par value, 50,000,000 shares<br>authorized; 14,179,834 shares in 1998 and 14,050,411<br>shares in 1997 issued and outstanding..... | 7,090     | 7,025     |
| Additional paid-in capital.....  | 108,624   | 105,146   |
| Retained earnings.....   | 156,278   | 156,528   |
| Cumulative foreign currency translation adjustment.....  | 1,132     | 422       |
| Adjustment for minimum pension liability.....  | (1,080)   | (298)     |
|  | -----     | -----     |
| Total stockholders' equity.....  | 272,044   | 268,823   |
|  | -----     | -----     |
|  | \$674,288 | \$685,705 |
|  | =====     | =====     |

See notes to consolidated financial statements.

Quanex Corporation  
CONSOLIDATED STATEMENTS OF INCOME

| YEARS ENDED OCTOBER 31,  | 1998      | 1997      | 1996      |
|--|-----------|-----------|-----------|
| (In thousands, except per share amounts)   |           |           |           |
| Net sales.....   | \$797,490 | \$746,093 | \$620,069 |
| Costs and expenses:  |           |           |           |
| Cost of sales.....   | 647,179   | 610,412   | 492,594   |
| Selling, general and administrative.....   | 47,713    | 43,375    | 44,959    |
| Depreciation and amortization.....   | 41,834    | 37,298    | 36,083    |
| Restructuring charge.....  | 58,500    | --        | --        |
| Operating income.....  | 2,264     | 55,008    | 46,433    |
| Other income (expense):  |           |           |           |
| Interest expense.....  | (14,904)  | (17,541)  | (11,929)  |
| Capitalized interest.....  | 4,398     | 3,539     | 569       |
| Other, net.....  | 2,278     | 1,637     | 4,544     |
| Income (loss) from continuing operations before income taxes and extraordinary charge..... | (5,964)   | 42,643    | 39,617    |
| Income tax benefit (expense).....  | 2,087     | (14,925)  | (16,639)  |
| Income (loss) from continuing operations and before extraordinary charge.....              | (3,877)   | 27,718    | 22,978    |
| Income from discontinued operations, net of income taxes....                               | --        | 5,176     | 9,912     |
| Gain on sale of discontinued operations, net of income taxes.....                          | 13,046    | 36,290    | --        |
| Income before extraordinary charge.....  | 9,169     | 69,184    | 32,890    |
| Extraordinary charge -- early extinguishment of debt, net of income taxes.....             | --        | --        | (2,522)   |
| Net income attributable to common stockholders.....  | \$ 9,169  | \$ 69,184 | \$ 30,368 |
| Earnings per common share:   |           |           |           |
| Basic:   |           |           |           |
| Continuing operations.....   | \$ (0.27) | \$ 2.01   | \$ 1.70   |
| Discontinued operations.....   | --        | 0.37      | 0.73      |
| Gain on sale of discontinued operations.....   | .92       | 2.63      | --        |
| Extraordinary charge.....  | --        | --        | (0.19)    |
| Total basic net earnings.....  | \$ 0.65   | \$ 5.01   | \$ 2.24   |
| Diluted:   |           |           |           |
| Continuing operations.....   | \$ (0.27) | \$ 1.90   | \$ 1.62   |
| Discontinued operations.....   | --        | 0.31      | 0.61      |
| Gain on sale of discontinued operations.....   | .92       | 2.17      | --        |
| Extraordinary charge.....  | --        | --        | (0.15)    |
| Total diluted net earnings.....  | \$ 0.65   | \$ 4.38   | \$ 2.08   |
| Weighted average number of shares outstanding  |           |           |           |
| Basic.....   | 14,149    | 13,807    | 13,524    |
| Diluted.....   | 14,149    | 16,725    | 16,354    |

See notes to consolidated financial statements.

Quanex Corporation  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Dollar amounts in thousands)

| Years Ended October 31, 1998,<br>1997, and 1996 | Common Stock |         | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Other   | Total<br>Stock-<br>holders'<br>Equity |
|---|--------------|---------|----------------------------------|----------------------|---------|---------------------------------------|
|   | Shares       | Amount  |                                  |                      |         |                                       |
| Balance at October 31, 1995.....                | 13,485,312   | \$6,743 | \$ 92,406                        | \$ 74,426            | \$(761) | \$172,814                             |
| Net income.....                                 | --           | --      | --                               | 30,368               | --      | 30,368                                |
| Common dividends (\$.60 per share).....         | --           | --      | --                               | (8,115)              | --      | (8,115)                               |
| Adjustment for minimum pension liability.....   | --           | --      | --                               | --                   | (31)    | (31)                                  |
| Unearned compensation.....                      | --           | --      | --                               | --                   | 132     | 132                                   |
| Other.....                                      | 105,088      | 52      | 1,845                            | (56)                 | --      | 1,841                                 |
| Balance at October 31, 1996.....                | 13,590,400   | 6,795   | 94,251                           | 96,623               | (660)   | 197,009                               |
| Net income.....                                 | --           | --      | --                               | 69,184               | --      | 69,184                                |
| Common dividends (\$.61 per share).....         | --           | --      | --                               | (8,422)              | --      | (8,422)                               |
| Adjustment for minimum pension liability.....   | --           | --      | --                               | --                   | 177     | 177                                   |
| Unearned compensation.....                      | --           | --      | --                               | --                   | 185     | 185                                   |
| Foreign currency translation adjustment.....    | --           | --      | --                               | --                   | 422     | 422                                   |
| Other.....                                      | 460,011      | 230     | 10,895                           | (857)                | --      | 10,268                                |
| Balance at October 31, 1997.....                | 14,050,411   | \$7,025 | \$105,146                        | \$156,528            | \$ 124  | \$268,823                             |
| Net income.....                                 | --           | --      | --                               | 9,169                | --      | 9,169                                 |
| Common dividends (\$.64 per share).....         | --           | --      | --                               | (9,059)              | --      | (9,059)                               |
| Adjustment for minimum pension liability.....   | --           | --      | --                               | --                   | (782)   | (782)                                 |
| Foreign currency translation adjustment.....    | --           | --      | --                               | --                   | 710     | 710                                   |
| Other.....                                      | 129,423      | 65      | 3,478                            | (360)                | --      | 3,183                                 |
| Balance at October 31, 1998.....                | 14,179,834   | \$7,090 | \$108,624                        | \$156,278            | \$ 52   | \$272,044                             |

See notes to consolidated financial statements.

Quanex Corporation  
CONSOLIDATED STATEMENTS OF CASH FLOW

YEARS ENDED OCTOBER 31, 1998 1997 1996

(In thousands)

OPERATING ACTIVITIES:

|  |          |           |           |
|--|----------|-----------|-----------|
| Net Income.....  | \$ 9,169 | \$ 69,184 | \$ 30,368 |
| Adjustments to reconcile net income to cash provided by operating activities:        |          |           |           |
| Income from discontinued operations (net of taxes)...                                | --       | (5,176)   | (9,912)   |
| Gain on sale of discontinued operations (net of taxes).....                          | (13,046) | (36,290)  | --        |
| Restructuring charge (net of deferred taxes of \$20,475).....                        | 38,025   | --        | --        |
| Depreciation and amortization.....   | 42,400   | 37,865    | 36,654    |
| Deferred income taxes.....   | 6,059    | 7,545     | 2,533     |
| Deferred pension costs.....  | (34)     | (183)     | 318       |
| Deferred postretirement welfare benefits.....  | 257      | 376       | 417       |
|  | -----    | -----     | -----     |
|  | 82,830   | 73,321    | 60,378    |
| Changes in assets and liabilities net of effects from acquisitions and dispositions: |          |           |           |
| Decrease in accounts and notes receivable.....                                       | 3,664    | 2,957     | 7,798     |
| Decrease (increase) in inventory.....  | (10,994) | 8,898     | (17,568)  |
| Increase (decrease) in accounts payable.....   | (2,262)  | 112       | (4,848)   |
| Increase (decrease) in accrued expenses.....   | (346)    | 2,919     | 2,907     |
| Other, net.....  | (8,822)  | (8,868)   | 1,011     |
|  | -----    | -----     | -----     |
| Cash provided by continuing operations.....  | 64,070   | 79,339    | 49,678    |
| Cash provided by discontinued operations.....  | --       | 89        | 16,073    |
|  | -----    | -----     | -----     |
| Cash provided by operating activities.....   | 64,070   | 79,428    | 65,751    |

INVESTMENT ACTIVITIES:

|  |          |          |           |
|--|----------|----------|-----------|
| Acquisition of Decatur Aluminum Corp., net of cash and equivalents acquired.....       | (9,573)  | --       | --        |
| Acquisition of Advanced Metal Forming, C.V., net of cash and equivalents acquired..... | --       | (33,584) | --        |
| Acquisition of Piper Impact, Inc., net of cash and equivalents acquired.....           | --       | (5,575)  | (123,264) |
| Net proceeds from sale of LaSalle Steel Company.....                                   | 1,366    | 63,900   | --        |
| Net proceeds from sale of the Tubing Operations.....                                   | 30,068   | --       | --        |
| Capital expenditures, net of retirements.....  | (58,513) | (68,916) | (34,699)  |
| Capital expenditures of discontinued operations.....                                   | --       | (3,868)  | (11,089)  |
| Other, net.....  | (3,168)  | (1,550)  | (5,120)   |
|  | -----    | -----    | -----     |
| Cash (used) by investment activities.....  | (39,820) | (49,593) | (174,172) |
|  | -----    | -----    | -----     |
| Cash provided (used) by operating and investment activities.....                       | 24,250   | 29,835   | (108,421) |

FINANCING ACTIVITIES:

|  |           |           |           |
|--|-----------|-----------|-----------|
| Bank borrowings (repayments), net.....                       | (17,124)  | (41,828)  | 160,000   |
| Purchase of subordinated debentures.....                     | (1,500)   | --        | --        |
| Notes payable borrowings (repayments).....                   | --        | --        | (10,000)  |
| Purchase of Senior Notes.....                                | --        | --        | (44,667)  |
| Common dividends paid.....                                   | (9,059)   | (8,422)   | (8,115)   |
| Issuance of common stock, net.....                           | 3,183     | 10,453    | 1,973     |
| Other, net.....  | (429)     | 429       | 0         |
|  | -----     | -----     | -----     |
| Cash provided (used) by financing activities.....            | (24,929)  | (39,368)  | 99,191    |
|  | -----     | -----     | -----     |
| Effect of exchange rate changes on cash and equivalents..... | 107       | 422       | --        |
|  | -----     | -----     | -----     |
| Decrease in cash and equivalents.....                        | (572)     | (9,111)   | (9,230)   |
| Cash and equivalents at beginning of period.....             | 26,851    | 35,962    | 45,192    |
|  | -----     | -----     | -----     |
| Cash and equivalents at end of period.....                   | \$ 26,279 | \$ 26,851 | \$ 35,962 |
|  | =====     | =====     | =====     |

See notes to consolidated financial statements.

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 1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Quanex Corporation and its subsidiaries (the "Company"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

SCOPE OF OPERATIONS

The Company operates primarily in three industry segments: manufacturing of engineered steel bars, aluminum mill sheet products and engineered products. The Company's products include engineered steel bars, coiled aluminum sheet (mill finish and coated), aluminum and steel fabricated products and impact extrusions. The Company's manufacturing operations are conducted primarily in the United States.

REVENUES

The Company recognizes revenues when products are shipped and the title and risk of ownership pass to the customer.

STATEMENTS OF CASH FLOWS

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 1998, 1997 and 1996 cash paid for income taxes was \$20,860,000, \$13,906,000, and \$19,551,000, respectively. These amounts are before refunds of \$172,000, \$471,000, and \$204,000, respectively. Cash paid for interest for fiscal 1998, 1997 and 1996 was \$14,404,000, \$17,964,000, and \$12,084,000, respectively.

INVENTORIES

Inventories are valued at the lower of cost or market. The accounting methods used in valuing the Company's inventories are described in Note 7.

LONG-LIVED ASSETS

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

|                              | Years<br>----- |
|------------------------------|----------------|
| Land improvements.....       | 10 to 25       |
| Buildings.....               | 10 to 40       |
| Machinery and equipment..... | 3 to 20        |

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years for the goodwill resulting from the acquisition of Nichols Homeshield in 1989, and over twenty-five years for the goodwill resulting from the acquisitions of Piper Impact, Inc. in 1996, Piper Impact Europe B.V. in 1997 and Nichols Aluminum-Alabama, Inc. in 1998 (See Note 2). At October 31, 1998 and 1997, accumulated amortization was \$9,255,000, and \$10,398,000, respectively. During the fourth quarter of 1998, the balance of goodwill associated with Piper Impact was written off in accordance with Statement of Financial Accounting Standard No. 121. (See Note 4)

During 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of". The statement established accounting standards related to the impairment of long-lived assets, such as property, plant, equipment and intangibles. The Company adopted SFAS No. 121 in fiscal 1997. The

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 Company evaluates any possible impairment of long-lived assets using estimates of undiscounted future cash flows. (See Note 4 -- regarding the impact of this statement.)

#### HEDGING

The Company enters into various derivative instruments to protect itself from fluctuating prices and rates. The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with related sales transactions. The Company enters into interest rate swap agreements which effectively exchange variable interest rate debt for fixed interest rate debt. The agreements are used to reduce the exposure to possible increases in interest rates. The Company enters into these swap agreements with major financial institutions. The Company uses foreign currency swap agreements to protect the value of its investment in Piper Impact Europe as well as to protect itself from currency fluctuations on certain sales and purchases. The impact of the foreign currency instruments which protect the investment in Piper Impact Europe are recorded as a foreign currency translation adjustment in the equity section of the financial statements when exchange rates go outside of the limits. The gains and losses on the forward contracts related to the sales and purchases are deferred off-balance sheet and included as a component of the related transaction when recorded. (See Note 16)

#### EARNINGS PER SHARE DATA

In February 1997, the Financial Accounting Standards Board issued statement of Financial Accounting Standards No. 128 -- "Earnings per Share" ("SFAS 128") which specifies the computation, presentation and disclosure requirements for Earnings Per Share ("EPS"). SFAS 128 replaces the presentation of primary and fully diluted EPS pursuant to Accounting Principles Board Opinion No. 15 -- "Earnings per Share" ("APB 15") with the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company adopted SFAS 128 in fiscal 1998 and restated all prior-period EPS disclosure.

#### FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates, and income and expense items are translated at the average exchange rates for the year. Resulting translation adjustments are reported as a separate component of stockholders' equity.

#### USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1998 presentations.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which is effective for the Company's year ending October 31, 1999. SFAS No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. The Company continues to analyze SFAS No. 130 to determine the additional disclosures required.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which is effective for the Company's year ending October 31, 1999. This statement establishes standards for the reporting of information about operating segments. The Company has adopted this pronouncement as of October 31, 1998 and restated prior periods' segment information.

In February 1998, the FASB issued SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits", which is effective for the Company's year ending October 31, 1999. This statement

defines new disclosure requirements for pension and other postretirement benefits in an effort to facilitate financial analysis by adding useful information and deleting disclosures that the FASB considers no longer useful. The Company continues to analyze SFAS No. 132 to determine what additional disclosures will be required.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective for the Company's year ending October 31, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company will be analyzing SFAS No. 133 to determine what, if any, impact or additional disclosure requirements this pronouncement will have.

## 2. ACQUISITIONS

On August 9, 1996, the Company acquired the assets, net of various liabilities, of Piper Impact, Inc. ("Piper Impact"). Piper Impact is a manufacturer of custom-designed, impact-extruded aluminum and steel parts for the transportation, defense and other commercial markets, with production facilities in New Albany, Mississippi and Park City, Utah.

Piper Impact's net assets were acquired for approximately \$130 million in cash, cash equivalents, and notes. To finance the acquisition, the Company entered into an unsecured revolving credit/term loan facility which provides for the borrowing of up to \$250 million. (See Note 10) The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the assets and liabilities of Piper Impact based on estimated fair values. Goodwill associated with the Piper Impact acquisition approximated \$56 million, which was being amortized on a straight-line basis over twenty-five years. During 1998, in accordance with SFAS No. 121, the Company determined that the goodwill of Piper Impact was impaired and recorded a restructuring charge. (See Note 4).

Liabilities assumed included an estimated \$20 million related to costs for further investigation and specified environmental remediation. These cost estimates include charges for additional studies, remediation, renovations to affected facilities and equipment, and other compliance expenditures. The estimated range of costs is \$15 million to \$25 million of which the accrual represents management's best estimate of total costs expected to be incurred. Actual expenditures could differ from current estimates as additional studies are completed, requiring revisions to the remediation and restoration plan.

The unaudited pro-forma consolidated results of operations of the Company are shown below as if the acquisition had occurred at the beginning of the fiscal period indicated. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of the period, nor are they necessarily indicative of future results.

|   | Pro Forma<br>-----<br>October 31, 1996<br>-----<br>(In thousands,<br>except per share<br>amounts)<br>(Unaudited) |
|---|--|
| Net sales.....                                  | \$708,492  |
| Income before extraordinary charge.....         | 27,751   |
| Net income attributable to common shareholders  |  |
| Before extraordinary charge.....                | 27,751   |
| Earnings per share before extraordinary charge: |  |
| Basic.....                                      | \$ 2.05  |
| Diluted.....                                    | \$ 1.92  |

On October 29, 1997, the Company, through its Dutch subsidiary, Piper Impact Europe B.V. ("Piper Impact Europe"), acquired the net assets of Advanced Metal Forming C.V., a Dutch limited partnership, for approximately \$30 million. The Company's balance sheet as of October 31, 1997 includes Piper Impact Europe. Goodwill associated with Piper Impact Europe is approximately NLG 26 million or \$14 million as of October 31, 1998. The income statement for the twelve months ended October 31, 1997 does not include Piper Impact Europe.

Piper Impact Europe produces aluminum impact extrusions and precision steel stampings for the automotive and electronics industries in Europe and North America. Piper Impact Europe employs approximately 300 people, and its manufacturing facilities are located near Zwolle in The Netherlands.

On October 9, 1998, the Company, acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based coiled aluminum sheet manufacturer for approximately \$19 million. Included in the purchase price was debt totaling \$5 million and other specified liabilities for \$5 million assumed by the Company. The newly acquired company has been renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama"), in alignment

with Quanex's other aluminum mill sheet businesses in its Nichols Aluminum division. Based on preliminary purchase accounting, goodwill associated with Nichols Aluminum Alabama is approximately \$10 million as of October 31, 1998. Nichols Aluminum Alabama's operations include cold rolling aluminum sheet to specific gauge, annealing, leveling, custom painting and slitting to width. Nichols Aluminum Alabama employs approximately 110 people.

### 3. DISCONTINUED OPERATIONS

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. The Company recorded an after tax gain on the sale of \$36,290,000 in the second quarter of fiscal 1997. During 1998, an additional after tax gain of \$668,000 was recorded as a result of post-closing adjustments. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously reported as the segment "Cold Finished Steel Bars".

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"). The sale was effective November 1, 1997. The Company recorded an after tax gain on the sale of \$12,378,000 during fiscal 1998. Included in the gain is an accrual for the Company's best estimate of potential environmental clean-up costs at one of the discontinued operating facilities. Results of these operations have been classified as discontinued and prior periods have been restated. For business segment reporting purposes, Tubing Operations were previously classified as "Steel Tubes".

Net sales and income from discontinued operations are as follows:

|  | Years Ended October 31, |           |
|--|-------------------------|-----------|
|  | 1997                    | 1996      |
|  | (In thousands)          |           |
| Net sales.....                           | \$187,123               | \$275,641 |
| Operating income.....                    | 7,962                   | 17,090    |
| Income tax expense.....                  | (2,786)                 | (7,178)   |
| Income from discontinued operations..... | \$ 5,176                | \$ 9,912  |

|   | October 31, 1997 |  |
|---|------------------|--|
|   | (In thousands)   |  |
| Net Assets of Discontinued Operations Current assets..... | \$ 24,388        |  |
| Property, plant and equipment, net.....                   | 17,357           |  |
| Other assets.....   | 2,784            |  |
| Current liabilities.....                                  | (11,241)         |  |
| Deferred pension credits.....                             | (4,373)          |  |
| Deferred postretirement welfare benefits.....             | (22,406)         |  |
| Deferred income taxes.....                                | 6,718            |  |
| Adjustment for minimum pension liability.....             | 327              |  |
| Net assets of discontinued operations.....                | \$ 13,554        |  |

### 4. PIPER IMPACT IMPAIRMENT DISCLOSURE

During the year ended October 31, 1998, the Company recorded a restructuring charge of \$58.5 million related to its subsidiary, Piper Impact.

Components of this special charge include \$51.2 million for goodwill impairment; \$6.7 million for impairment of property, plant and equipment; and \$600 thousand for severance benefits to be paid to employees of the Park City, Utah plant. Piper Impact experienced significant changes in market conditions and the relationship with its major customer in fiscal 1998, which led to substantial declines in sales and operating cash flow. Management began an evaluation of the operations of Piper Impact in August 1998. As a result of this evaluation, in September 1998, management approved a plan to close the Park City, Utah facility and move its production to the New Albany, Mississippi facility.

Due to the significance of the changes discussed above and the decision to close one of the acquired production facilities, management performed an evaluation of the recoverability of all of the assets of Piper Impact, excluding the new steel plant, as described in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Management concluded from the results of this evaluation that a significant impairment of intangible as well as long-lived assets had occurred. An impairment charge was required because estimated fair value was less than the carrying value of the assets.

Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could vary significantly from management's estimates.

The one-time restructuring charge resulted in an after-tax impact on net income of \$38 million or \$2.68 per share.

#### 5. EARNINGS PER SHARE

The computational components of basic and diluted earnings per share are as follows (Shares and dollars in thousands except per share amounts):

|  | For the Year Ended October 31, 1998 |                         |                     |
|--|-------------------------------------|-------------------------|---------------------|
|  | Numerator<br>(Income)               | Denominator<br>(Shares) | Per Share<br>Amount |
| <b>BASIC EPS</b>   |                                     |                         |                     |
| Income from continuing operations.....                                   | \$ (3,877)                          | 14,149                  | \$ (0.27)           |
| Income from discontinued operations.....                                 | --                                  |                         | --                  |
| Gain on sale of discontinued operations.....                             | 13,046                              |                         | \$ .92              |
|  |                                     |                         | -----               |
| Total basic net income.....  | \$ 9,169                            |                         | \$ 0.65             |
|  | =====                               |                         | =====               |
| <b>EFFECT OF DILUTIVE SECURITIES</b>                                     |                                     |                         |                     |
| Effect of common stock equivalents arising from stock<br>options(1)..... | --                                  | --                      |                     |
| Effect of conversion of subordinated debentures(1).....                  | --                                  | --                      |                     |
|  | -----                               | -----                   | -----               |
| <b>DILUTED EPS</b>   |                                     |                         |                     |
| Income from continuing operations.....                                   | \$ (3,877)                          | 14,149                  | \$ (0.27)           |
|  |                                     | =====                   |                     |
| Income from discontinued operations.....                                 | --                                  |                         | --                  |
| Gain on sale of discontinued operations.....                             | 13,046                              |                         | \$ .92              |
|  |                                     |                         | -----               |
| Total diluted net income.....  | \$ 9,169                            |                         | \$ 0.65             |
|  | =====                               |                         | =====               |

|   | For the Year Ended October 31, 1997 |                         |                     |
|---|-------------------------------------|-------------------------|---------------------|
|   | Numerator<br>(Income)               | Denominator<br>(Shares) | Per Share<br>Amount |
| <b>BASIC EPS</b>  |                                     |                         |                     |
| Income from continuing operations.....                                | \$27,718                            | 13,807                  | \$2.01              |
| Income from discontinued operations.....                              | 5,176                               |                         | .37                 |
| Gain on sale of discontinued operations.....                          | 36,290                              |                         | 2.63                |
|   |                                     |                         | -----               |
| Total basic net income.....   | \$69,184                            |                         | \$5.01              |
|   | =====                               |                         | =====               |
| <b>EFFECT OF DILUTIVE SECURITIES</b>                                  |                                     |                         |                     |
| Effect of common stock equivalents arising from stock<br>options..... |                                     | 222                     |                     |
| Effect of conversion of subordinated debentures.....                  | \$ 3,997                            | 2,696                   |                     |
|   | -----                               | -----                   | -----               |
| <b>DILUTED EPS</b>  |                                     |                         |                     |
| Income from continuing operations.....                                | \$31,715                            | 16,725                  | \$1.90              |
|   |                                     | =====                   |                     |
| Income from discontinued operations.....                              | 5,176                               |                         | .31                 |
| Gain on sale of discontinued operations.....                          | 36,290                              |                         | 2.17                |
|   |                                     |                         | -----               |
| Total diluted net income.....   | \$73,181                            |                         | \$4.38              |
|   | =====                               |                         | =====               |

(1) The effect of both common stock equivalents arising from stock options and the conversion of subordinated debentures was anti-dilutive.

|   | For the Year Ended October 31, 1996 |                         |                     |
|---|-------------------------------------|-------------------------|---------------------|
|   | Numerator<br>(Income)               | Denominator<br>(Shares) | Per Share<br>Amount |
| <b>BASIC EPS</b>  |                                     |                         |                     |
| Income from continuing operations.....                                | \$22,978                            | 13,524                  | \$1.70              |
| Income from discontinued operations.....                              | 9,912                               |                         | .73                 |
| Extraordinary item (Net).....   | (2,522)                             |                         | (.19)               |
| Total basic net income.....   | \$30,368                            |                         | \$2.24              |
| <b>EFFECT OF DILUTIVE SECURITIES</b>                                  |                                     |                         |                     |
| Effect of common stock equivalents arising from stock<br>options..... |                                     | 134                     |                     |
| Effect of conversion of subordinated debentures.....                  | \$ 3,567                            | 2,696                   |                     |
| <b>DILUTED EPS</b>  |                                     |                         |                     |
| Income from continuing operations.....                                | \$26,545                            | 16,354                  | \$1.62              |
| Income from discontinued operations.....                              | 9,912                               |                         | .61                 |
| Gain on sale of discontinued operations.....                          | (2,522)                             |                         | (.15)               |
| Total diluted net income.....   | \$33,935                            |                         | \$2.08              |

#### 6. INCOME TAXES

Income taxes are provided on taxable income at the statutory rates applicable to such income. Deferred taxes have not been provided on the Company's foreign subsidiary's cumulative undistributed earnings of \$931,000, since such amounts are expected to be reinvested indefinitely. If these earnings were remitted to the Company, there would be little or no additional federal income tax because of the availability of foreign tax credits.

Income tax expense (benefit) consists of the following:

|  | Years Ended October 31, |          |          |
|--|-------------------------|----------|----------|
|  | 1998                    | 1997     | 1996     |
|  | (In thousands)          |          |          |
| <b>Current:</b>  |                         |          |          |
| Federal.....   | \$ 9,312                | \$ 846   | \$12,914 |
| State.....   | 4,190                   | 2,829    | 2,865    |
| Foreign.....   | 507                     | --       | --       |
|  | 14,009                  | 3,675    | 15,779   |
| <b>Deferred:</b> .....                                 | (16,096)                | 11,250   | 860      |
| Income taxes from continuing operations.....           | (2,087)                 | 14,925   | 16,639   |
| Income taxes from discontinued operations.....         | --                      | 2,786    | 7,178    |
| Income taxes from sale of discontinued operations..... | 3,441                   | 13,178   | --       |
| Reduction of taxes from extinguishment of debt.....    | --                      | --       | (1,826)  |
| Totals.....  | \$ 1,354                | \$30,889 | \$21,991 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's net deferred tax liability are as follows:

|  | October 31,    |          |
|--|----------------|----------|
|  | 1998           | 1997     |
|  | (In thousands) |          |
| Deferred tax liability:                          |                |          |
| Property, plant and equipment.....               | \$ 44,723      | \$43,092 |
| Inventory.....                                   | (1,161)        | 412      |
| Other.....                                       | 16,926         | 12,735   |
|  | 60,488         | 56,239   |
| Deferred tax assets:                             |                |          |
| Intangibles.....                                 | 19,678         | --       |
| Postretirement benefit obligation.....           | 3,149          | 2,969    |
| Other employee benefit obligations.....          | 9,314          | 8,143    |
| Other accrued liabilities.....                   | 6,495          | 2,617    |
|  | 38,636         | 13,729   |
| Net deferred tax liability.....                  | \$ 21,852      | \$42,510 |
| Deferred income tax liability - non-current..... | \$ 33,412      | \$48,111 |
| Deferred tax assets - current.....               | (11,560)       | (5,601)  |
| Net deferred tax liability.....                  | \$ 21,852      | \$42,510 |

Income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for the following reasons:

|   | Years Ended October 31, |          |          |
|---|-------------------------|----------|----------|
|   | 1998                    | 1997     | 1996     |
|   | (In thousands)          |          |          |
| Income tax expense (benefit) at statutory tax rate..... | \$ (2,087)              | \$14,925 | \$13,866 |
| Increase (decrease) in taxes resulting from:            |                         |          |          |
| State income taxes, net of federal effect.....          | (250)                   | 1,655    | 2,148    |
| Goodwill.....   | 345                     | 334      | 334      |
| Other items, net.....                                   | (95)                    | (1,989)  | 291      |
|   | \$ (2,087)              | \$14,925 | \$16,639 |

The Company reached a settlement with the Internal Revenue Service with respect to its tax audit of fiscal years 1992 through 1994. During 1997, the Company made a payment of \$2,016,000 of tax and related interest. Adequate provisions had been made in prior years and the settlement did not have a material effect on earnings for fiscal 1997.

#### 7. INVENTORIES

Inventories consist of the following:

|   | October 31,    |          |
|---|----------------|----------|
|   | 1998           | 1997     |
|   | (In thousands) |          |
| Raw materials.....                      | \$25,167       | \$19,432 |
| Finished goods and work in process..... | 52,485         | 47,739   |
|   | 77,652         | 67,171   |
| Other.....                              | 7,745          | 5,864    |
| Total.....                              | \$85,397       | \$73,035 |

The values of inventories in the consolidated balance sheets are based on the following accounting methods:

|            |          |          |
|------------|----------|----------|
| LIFO.....  | \$57,594 | \$51,517 |
| FIFO.....  | 27,803   | 21,518   |
|            | -----    | -----    |
| Total..... | \$85,397 | \$73,035 |
|            | =====    | =====    |

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$12,300,000 and \$16,000,000 at October 31, 1998 and 1997, respectively.

#### 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

|   | October 31,    |            |
|---|----------------|------------|
|   | 1998           | 1997       |
|   | -----          |            |
|   | (In thousands) |            |
|   | -----          | -----      |
| Land and land improvements.....                     | \$ 18,376      | \$ 18,901  |
| Buildings.....                                      | 100,009        | 80,981     |
| Machinery and equipment.....                        | 545,677        | 461,817    |
| Construction in progress.....                       | 38,893         | 81,155     |
|   | -----          | -----      |
|   | 702,955        | 642,854    |
| Less accumulated depreciation and amortization..... | (307,901)      | (263,783)  |
|   | -----          | -----      |
|   | \$ 395,054     | \$ 379,071 |
|   | =====          | =====      |

The Company had commitments for the purchase or construction of capital assets amounting to approximately \$23 million at October 31, 1998.

#### 9. ACCRUED EXPENSES

Accrued expenses consist of the following:

|   | October 31,    |          |
|---|----------------|----------|
|   | 1998           | 1997     |
|   | -----          | -----    |
|   | (In thousands) |          |
|   | -----          | -----    |
| Accrued contribution to pension funds.....        | \$ 1,196       | \$ 1,033 |
| Interest.....                                     | 2,544          | 2,516    |
| Payroll, payroll taxes and employee benefits..... | 24,497         | 21,995   |
| State and local taxes.....                        | 1,942          | 1,985    |
| Other.....  | 25,946         | 15,679   |
|   | -----          | -----    |
|   | \$56,125       | \$43,208 |
|   | =====          | =====    |

#### 10. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

|  | October 31,    |           |
|--|----------------|-----------|
|  | 1998           | 1997      |
|  | -----          | -----     |
|  | (In thousands) |           |
|  | -----          | -----     |
| Revolving credit agreements.....   | \$ 83,212      | \$100,185 |
| Convertible subordinated debentures.....   | 83,420         | 84,920    |
| Term loan.....   | 8,031          | 7,709     |
| Bank borrowings due within one year.....   | 11,120         | 10,278    |
| Industrial Revenue and Economic Development Bonds,<br>unsecured, payable in annual installments through the year<br>2005, bearing interest ranging from 6.50% to 8.375%..... | 3,275          | 3,275     |
| State of Alabama Industrial Development Bonds.....   | 4,755          | 0         |
| Other.....   | 6,737          | 6,541     |
|  | -----          | -----     |
|  | \$200,550      | \$212,908 |
| Less maturities due within one year included in current<br>liabilities.....  | 12,248         | 11,050    |
|  | -----          | -----     |
|  | \$188,302      | \$201,858 |
|  | =====          | =====     |



On July 23, 1996, the Company replaced its \$75 million Revolving Credit and Letter of Credit Agreement with an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003, and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either (a) the prime rate or the federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. At October 31, 1998 and 1997, the Company had \$80 and \$100 million, respectively, outstanding under the Revolver. The weighted average interest rates on borrowings under the Revolver were 6.2%, 6.6% and 6.3% in 1998, 1997 and 1996, respectively. As of October 31, 1998, the Company was in compliance with all Bank Agreement covenants. Under the Company's most restrictive loan covenants, retained earnings of approximately \$40 million at October 31, 1998 were available for dividends.

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). Interest is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

During September, 1998, the Company accepted an unsolicited block offer to buy back \$1.5 million principal amount of its Convertible Subordinated Debentures; therefore, the outstanding balance as of October 31, 1998 is \$83,420,000.

At October 31, 1994, the Company had \$125 million outstanding in Senior Notes. The Senior Notes paid interest at 10.77% per annum. In December 1994, the Company acquired \$59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The Company recorded an extraordinary charge of \$2.0 million (\$3.5 million before tax) in the first quarter of 1995 related to the call premium and write-off of deferred debt issuance costs for the Senior Notes that were repurchased. In August 1995, the Company made a required annual repayment of \$20.8 million principal amount. In December 1995, the Company acquired the remaining \$44.7 million principal amount of the Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The second acquisition and related expenses resulted in an after-tax extraordinary charge of approximately \$2.5 million (\$4.3 million before tax) in the first quarter of 1996.

On October 28, 1997, Piper Impact Europe B.V. ("Piper Impact Europe") executed a stand-alone secured credit facility ("Credit Facility") providing up to 50 million Dutch Guilders ("NLG"). At October 31, 1998, and 1997, 1 NLG was equal to .535 and .514 U.S. dollars, respectively. The Credit Facility consists of a Roll-Over Term Loan, a Medium Term Loan and an Overdraft Facility. The Roll-Over Term Loan provides NLG 15 million for loan periods of 1, 2, 3, 6, or 12 months with repayment of outstanding borrowings on October 27, 2002. Interest is payable on the repayment date at the Amsterdam Interbank Offering Rate (AIBOR) plus 90 basis points. In the case of a loan period of twelve months, interest is payable six months after the beginning of the loan period and on the repayment date. The Medium Term Loan provides NLG 15 million at 6.375% payable quarterly in arrears from March 1, 1998, with quarterly repayments of principal in equal amounts of NLG 500 thousand commencing January 1, 1999 through April 1, 2006. The Overdraft Facility provides an aggregate amount of NLG 20 million to cover overdrafts or up to NLG 15 million of loans for a period of one year, subject to annual renewal. Overdrafts bear interest at the Bank's published rate for overdraft facilities plus 1% per annum. Loans under the Overdraft Facility bear interest at AIBOR plus 45 to 55 basis points. The terms of Overdraft Facility loans are selected by Piper Impact Europe to be a period of 1, 2, 3, 6, or 12 months. Interest on overdrafts is paid quarterly in arrears.

Interest on loans under the Overdraft Facility is payable on the repayment date, however, in the case of a loan period of twelve months, interest is payable six months after the beginning of the loan period and on the repayment date. At October 31, 1998, and 1997, Piper Impact Europe had NLG 41.8 and 35.3 million, respectively outstanding under the Credit Facility. As of October 31, 1998, Piper Impact Europe was in compliance with all Credit Facility covenants.

The State of Alabama Industrial Development bonds were assumed as part of the Nichols Aluminum Alabama acquisition. (See Note 2). These bonds mature August 1, 2004 with interest payable monthly. The bonds bear interest at the weekly interest rate as determined by the remarketing agent under then prevailing market conditions to be the minimum interest rate, which, if borne by the Bonds on the effective date of such rate, would enable the remarketing agent to sell the Bonds on such business day at a price (without regard to accrued interest) equal to the principal amount of the bonds. The interest rate, however, may not exceed 13% per annum. The weekly interest rate during October 1998 (the only month the Company owned these bonds) ranged from 3.35% to 3.55%. These bonds are secured by a Letter of Credit.

Aggregate maturities of long-term debt at October 31, 1998, are as follows (in thousands):

|                 |           |
|-----------------|-----------|
| 1999.....       | \$ 12,248 |
| 2000.....       | 52        |
| 2001.....       | 48        |
| 2002.....       | 3,257     |
| 2003.....       | 80,049    |
| Thereafter..... | 104,896   |
|                 | -----     |
|                 | \$200,550 |
|                 | =====     |

#### 11. PENSION PLANS AND RETIREMENT BENEFITS

The Company has a number of retirement plans covering substantially all employees. The company provides both defined benefit and defined contribution plans. In general, an employee's coverage for retirement benefit is determined by the plant or location of his/her employment.

The single employer defined benefit plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations.

The single employer defined benefit plans' funded status was as follows:

|   | Assets exceed<br>accumulated<br>benefit obligation |            | Accumulated benefit<br>obligation<br>exceeds assets |            |
|---|--|------------|---|------------|
|   | 1998   | 1997       | 1998  | 1997       |
|   | -----  |            |   |            |
|   | October 31,  |            |   |            |
|   | -----  |            |   |            |
|   | (In thousands)                                     |            |   |            |
| Assets available for benefits.....                            | \$--   | \$ 12,807  | \$ 17,692   | \$ 3,606   |
|   | ---  | -----      | -----   | -----      |
| Projected benefit obligation                                  |  |            |   |            |
| Vested.....   | --   | (10,602)   | (20,637)  | (4,446)    |
| Nonvested.....  | --   | (170)      | (768)   | (752)      |
|   | ---  | -----      | -----   | -----      |
| Accumulated benefit obligation.....                           | --   | (10,772)   | (21,405)  | (5,198)    |
| Effect of future salary increases.....                        | --   | (5,990)    | (6,260)   | --         |
|   | ---  | -----      | -----   | -----      |
| Total projected benefit obligation.....                       | --   | (16,762)   | (27,665)  | (5,198)    |
|   | ---  | -----      | -----   | -----      |
| Assets less than projected benefit obligation.....            | \$--   | \$ (3,955) | \$ (9,973)  | \$ (1,592) |
|   | ===  | =====      | =====   | =====      |
| Consisting of:  |  |            |   |            |
| Amounts to be offset against future pension costs:            |  |            |   |            |
| Assets in excess of obligation at adoption.....               | \$--   | \$ 772     | \$ 713  | \$ 52      |
| Obligation (increase) decrease due to plan<br>amendments..... | --   | 238        | (591)   | (816)      |
| Actuarial gains (losses).....                                 | --   | 1,103      | (3,683)   | (541)      |
| Minimum liability adjustment.....                             | --   | --         | 2,545   | 1,305      |
| Amounts recognized in consolidated balance sheets:            |  |            |   |            |
| Deferred pension credit.....                                  | --   | (5,371)    | (7,832)   | (1,256)    |
| Accrued contribution to pension funds.....                    | --   | (697)      | (1,125)   | (336)      |
|   | ---  | -----      | -----   | -----      |
|   | \$--   | \$ (3,955) | \$ (9,973)  | \$ (1,592) |
|   | ===  | =====      | =====   | =====      |

In accordance with the provisions of Statement of Financial Accounting Standards No. 87, the Company recorded additional minimum pension liabilities as of October 31, 1998 and 1997, representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The Company recorded additional pension liabilities of \$2,545,000, and \$1,305,000; intangible assets of \$774,000, and \$816,000; and stockholders' equity reductions, net of income taxes, of \$1,080,000, and \$298,000, as of October 31, 1998 and 1997, respectively.

The projected unit credit method was used to determine the actuarial present value of the accumulated benefit obligation and the projected benefit obligation. For 1998, the discount rate was 6.75%. For 1997 and 1996 the discount rate was 7.5%. The expected long term rate of return on assets was 10% for the three year period ending October 31, 1998. The assumed rate of increase in future compensation levels was 4.0% in 1998 and 4.5% in 1997 and 1996. The plans invest primarily in marketable equity and debt securities.

Net pension costs for the single employer defined benefit plans were as follows:

|  | Years Ended October 31, |          |          |
|--|-------------------------|----------|----------|
|  | 1998                    | 1997     | 1996     |
|  | (In thousands)          |          |          |
| Benefits earned during the year.....               | \$ 1,832                | \$ 1,371 | \$ 1,270 |
| Interest cost on projected benefit obligation..... | 1,685                   | 1,511    | 1,293    |
| Actual return on plan assets.....                  | (433)                   | (2,561)  | (1,400)  |
| Net amortization and deferral.....                 | (1,316)                 | 1,250    | 335      |
|  | \$ 1,768                | \$ 1,571 | \$ 1,498 |
|  | =====                   | =====    | =====    |

One of the Company's subsidiaries, Piper Impact Europe, participates in two multi-employer plans. The plans provide defined benefits to substantially all of Piper Impact Europe's employees. Amounts charged to pension cost and contributed to the plans in 1998 totaled NLG 1,551,000 or approximately \$800,000. There were no pension costs in 1997 or 1996 for these plans as Piper Impact Europe was acquired on October 29, 1997. (See Note 2)

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately \$2,978,000, \$2,919,000, and \$2,476,000 during fiscal 1998, 1997, and 1996, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately \$4,147,000, \$3,724,000, and \$2,959,000 at October 31, 1998, 1997 and 1996, respectively. These benefits are funded with life insurance policies purchased by the Company.

## 12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides certain healthcare and life insurance benefits for certain eligible retired employees employed prior to January 1, 1993. Certain employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis; and, for fiscal year 1998, the Company made benefit payments totaling \$410,000, compared to \$247,000 and \$171,000 in fiscal 1997 and 1996, respectively.

The following table sets forth the funded status of the Company's projected postretirement benefits other than pensions, reconciled with amounts recognized in the Company's consolidated balance sheets at:

|   | October 31,    |            |
|---|----------------|------------|
|   | 1998           | 1997       |
|   | (In thousands) |            |
| Accumulated postretirement benefit obligation:  |                |            |
| Retirees.....   | \$ (4,696)     | \$ (4,233) |
| Fully eligible active plan participants.....  | (357)          | (161)      |
| Other active plan participants.....   | (2,931)        | (2,217)    |
|   | (7,984)        | (6,611)    |
| Plan assets at fair value.....  | --             | --         |
| Accumulated postretirement benefit obligation in excess of plan assets.....                                       | (7,984)        | (6,611)    |
| Unrecognized prior service cost.....  | --             | --         |
| Unrecognized net loss (gain) from past experience different from that assumed and from changes in assumption..... | 892            | (224)      |
|   | \$ (7,092)     | \$ (6,835) |
|   | =====          | =====      |

|   | October 31,    |       |       |
|---|----------------|-------|-------|
|   | 1998           | 1997  | 1996  |
|   | (In thousands) |       |       |
| Net periodic postretirement benefit cost:                             |                |       |       |
| Service cost -- benefits attributed to service during the period..... | \$163          | \$148 | \$145 |
| Interest cost on accumulated postretirement benefit obligation.....   | 523            | 472   | 438   |
| Net amortization and deferral.....                                    | (10)           | 3     | 5     |
|   | \$676          | \$623 | \$588 |
|   | ====           | ====  | ====  |



The assumed healthcare cost trend rate was 8% in 1998, decreasing uniformly to 4.75% in the year 2003 and remaining level thereafter. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.75% and 7.5% at October 31, 1998 and 1997, respectively.

If the healthcare cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 1998 would be increased by 2.08%. The effect of this change on the sum of the service cost and interest cost would be an increase of 1.61%.

### 13. INDUSTRY SEGMENT INFORMATION

The Company adopted Statement of Financial Accounting Standards No. 131, "SFAS 131" for fiscal year ended 1998. SFAS 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Pursuant to SFAS 131, the Company has three reportable segments: engineered steel bars, aluminum mill sheet products, and engineered products. The Company's previously reported "Aluminum Products Group" has been split into two segments: "Aluminum Mill Sheet Products" and "Engineered Products". Prior years' presentation has been restated to conform to the new segment reporting. The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services and steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures impact-extruded aluminum and steel parts, aluminum window and patio door screens, window frames and other roll formed products and stamped shapes.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Quanax Corporation evaluates performance based on operating income.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The Company's reportable segments are strategic business divisions that offer different products and services. These groups are managed separately because each business requires different expertise and marketing strategies.

For the year-ended October 31, 1998, 13% of the Company's consolidated net sales were made to one customer. These sales are included in the engineered products segment.

| Year ended<br>October 31, 1998 | Engineered<br>Steel Bars (4) | Aluminum Mill<br>Sheet Products (1) | Engineered<br>Products (5) | Corporate<br>& Other (2) | Consolidated (5) |
|--------------------------------|------------------------------|-------------------------------------|----------------------------|--------------------------|------------------|
| -----                          |                              |                                     |                            |                          |                  |
| (In thousands)                 |                              |                                     |                            |                          |                  |
| Net Sales:                     |                              |                                     |                            |                          |                  |
| To unaffiliated companies..... | \$324,312                    | \$243,168                           | \$230,010                  | --                       | \$797,490        |
| Intersegment (3).....          | 2,984                        | 23,187                              | \$ 2                       | \$(26,173)               | --               |
|                                | -----                        | -----                               | -----                      | -----                    | -----            |
| Total.....                     | \$327,296                    | \$266,355                           | \$230,012                  | (26,173)                 | \$797,490        |
| Operating Income (loss).....   | \$ 58,908                    | \$ 7,788                            | \$(52,606)                 | \$(11,826)               | \$ 2,264         |
| Depreciation and amortization: |                              |                                     |                            |                          |                  |
| Operating.....                 | \$ 13,097                    | \$ 10,670                           | \$ 17,928                  | \$ 139                   | \$ 41,834        |
| Other.....                     | --                           | --                                  | --                         | 566                      | 566              |
|                                | -----                        | -----                               | -----                      | -----                    | -----            |
| Total.....                     | \$ 13,097                    | \$ 10,670                           | \$ 17,928                  | \$ 705                   | \$ 42,400        |
|                                | =====                        | =====                               | =====                      | =====                    | =====            |
| Capital expenditures (6).....  | \$ 31,116                    | \$ 13,109                           | \$ 16,442                  | \$ 269                   | \$ 60,936        |
| Identifiable assets.....       | \$219,727                    | \$198,596                           | \$220,161                  | \$ 35,804                | \$674,288        |

(1) Identifiable assets include Nichols Aluminum Alabama, acquired on October 9, 1998.

(2) Included in "Corporate and Other" are intersegment eliminations, and corporate expenses.

(3) Intersegment sales are conducted on an arm's-length basis.

(4) Includes NitroSteel and Heat Treating divisions previously reported under the Steel Tubes segment. See Note 3.

(5) Operating income includes mostly non-cash non-recurring restructuring charge of \$58,500. See Note 4.

(6) Includes capitalized interest.

For the year ended October 31, 1997, 13% of the Company's consolidated net sales were made to one customer. These sales are included in the engineered products segment.

| Year ended<br>October 31, 1997 | Engineered<br>Steel Bars(4) | Aluminum Mill<br>Sheet Products | Engineered<br>Products(1) | Corporate<br>& Other(2) | Consolidated |
|--------------------------------|-----------------------------|---------------------------------|---------------------------|-------------------------|--------------|
| (In thousands)                 |                             |                                 |                           |                         |              |
| Net Sales:                     |                             |                                 |                           |                         |              |
| To unaffiliated companies..... | \$301,436                   | \$237,836                       | \$206,821                 | --                      | \$746,093    |
| Intersegment(3).....           | 18,032                      | 23,205                          | 10                        | \$(41,247)              | --           |
| Total.....                     | \$319,468                   | \$261,041                       | \$206,831                 | \$(41,247)              | \$746,093    |
| Operating Income (loss).....   |                             |                                 |                           |                         |              |
|                                | \$ 50,762                   | \$ 1,753                        | \$ 15,444                 | \$(12,951)              | \$ 55,008    |
| Depreciation and amortization: |                             |                                 |                           |                         |              |
| Operating.....                 | \$ 13,940                   | \$ 10,154                       | \$ 13,055                 | \$ 149                  | \$ 37,298    |
| Other.....                     | --                          | --                              | --                        | 567                     | 567          |
| Total.....                     | \$ 13,940                   | \$ 10,154                       | \$ 13,055                 | \$ 716                  | \$ 37,865    |
| Capital expenditures(5).....   |                             |                                 |                           |                         |              |
|                                | \$ 35,220                   | \$ 5,751                        | \$ 27,830                 | \$ 345                  | \$ 69,146    |
| Identifiable assets.....       |                             |                                 |                           |                         |              |
|                                | \$192,937                   | \$163,637                       | \$281,943                 | \$ 47,188               | \$685,705    |

(1) Identifiable assets include Advanced Metal Forming C.V., acquired on October 29, 1997.

(2) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and net assets of discontinued operations.

(3) Intersegment sales are conducted on an arm's-length basis.

(4) Includes NitroSteel and Heat Treating divisions previously reported under the Steel Tubes segment. See Note 3.

(5) Includes capitalized interest.

| Year ended<br>October 31, 1996 | Engineered<br>Steel Bars(4) | Aluminum Mill<br>Sheet Products | Engineered<br>Products(1) | Corporate<br>& Other(2) | Consolidated |
|--------------------------------|-----------------------------|---------------------------------|---------------------------|-------------------------|--------------|
| (In thousands)                 |                             |                                 |                           |                         |              |
| Net Sales:                     |                             |                                 |                           |                         |              |
| To unaffiliated companies..... | \$275,202                   | \$219,781                       | \$125,086                 | --                      | \$620,069    |
| Intersegment(3).....           | 16,965                      | 28,736                          | 10                        | \$(45,711)              | --           |
| Total.....                     | \$292,167                   | \$248,517                       | \$125,096                 | \$(45,711)              | \$620,069    |
| Operating Income (loss).....   |                             |                                 |                           |                         |              |
|                                | \$ 39,090                   | \$ 7,721                        | \$ 14,506                 | \$(14,884)              | \$ 46,433    |
| Depreciation and amortization: |                             |                                 |                           |                         |              |
| Operating.....                 | \$ 18,263                   | \$ 10,077                       | \$ 7,606                  | \$ 137                  | \$ 36,083    |
| Other.....                     | --                          | --                              | --                        | 571                     | 571          |
| Total.....                     | \$ 18,263                   | \$ 10,077                       | \$ 7,606                  | \$ 708                  | \$ 36,654    |
| Capital expenditures(5).....   |                             |                                 |                           |                         |              |
|                                | \$ 19,573                   | \$ 5,317                        | \$ 9,714                  | \$ 133                  | \$ 34,737    |
| Identifiable assets.....       |                             |                                 |                           |                         |              |
|                                | \$171,351                   | \$182,743                       | \$231,861                 | \$ 52,993               | \$638,948    |

(1) Includes three months of operations and identifiable assets of Piper Impact.

(2) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and net assets of discontinued operations.

(3) Intersegment sales are conducted on an arm's-length basis.

(4) Includes NitroSteel and Heat Treating divisions previously reported under the Steel Tubes segment. See Note 3.

(5) Includes capitalized interest.

## GEOGRAPHIC INFORMATION

|                              | Year Ended October 31, |           |           |
|------------------------------|------------------------|-----------|-----------|
|                              | 1998                   | 1997      | 1996      |
| NET SALES (1)                |                        |           |           |
| United States.....           | \$752,589              | \$727,246 | \$603,179 |
| Mexico.....                  | 15,121                 | 16,028    | 13,035    |
| European countries.....      | 28,501                 | 2,625     | 3,271     |
| Other foreign countries..... | 1,279                  | 194       | 584       |
| Total.....                   | \$797,490              | \$746,093 | \$620,069 |

(1) Net Sales are attributed to countries based on location of customer.

|                      | Year Ended October 31, |           |           |
|----------------------|------------------------|-----------|-----------|
|                      | 1998                   | 1997      | 1996      |
| NET SALES (2)        |                        |           |           |
| United States.....   | \$763,775              | \$746,093 | \$620,069 |
| The Netherlands..... | 33,715                 | --        | --        |
| Total.....           | \$797,490              | \$746,093 | \$620,069 |

(2) Net Sales are attributed to countries based on location of operations.

|                             | Year Ended October 31, |          |           |
|-----------------------------|------------------------|----------|-----------|
|                             | 1998                   | 1997     | 1996      |
| OPERATING INCOME (LOSS) (4) |                        |          |           |
| United States.....          | \$ (144) (3)           | \$55,008 | \$ 46,433 |
| The Netherlands.....        | 2,408                  | --       | --        |
| Total.....                  | \$ 2,264               | \$55,008 | \$ 46,433 |

(3) Including the restructuring charge of \$58.5 million. (See Note 4).

(4) Operating income (loss) is attributed to countries based on location of operations.

|                         | Year Ended October 31, |           |
|-------------------------|------------------------|-----------|
|                         | 1998                   | 1997      |
| IDENTIFIABLE ASSETS (5) |                        |           |
| United States.....      | \$627,969              | \$645,300 |
| The Netherlands.....    | 46,319                 | 40,405    |
| Total.....              | \$674,288              | \$685,705 |

(5) Identifiable assets are attributed to countries based on location of operations.

## 14. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of \$60. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of \$.01 or the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will

entitle the holder to purchase \$120 worth of the surviving company's common stock for \$60. Additionally, if someone acquires 20% or more of the Company's common stock, each Right not owned by the 20% or greater shareholder would permit the holder to purchase \$120 worth of the

Company's common stock for \$60. The Rights are redeemable, at the option of the Company, at \$.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire in 1999.

As a result of the Rights distribution, 150,000 of the 1,000,000 shares of authorized Preferred Stock were reserved for issuance as Series A Junior Participating Preferred Stock.

#### 15. RESTRICTED STOCK AND STOCK OPTION PLANS

##### KEY EMPLOYEE PLANS:

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The award vests during an eight year period based on the price of the Company's stock. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. There were no restricted shares granted in 1996, 1997 or 1998. No compensation expense was charged in 1998 related to the restricted stock. The amount charged to compensation expense in 1997 and 1996 was \$185,000 and \$132,000, respectively relating to restricted stocks granted in 1994.

Under the Company's option plans, options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. There were 493,176, 722,322, and 624,035, shares available for granting of options at October 31, 1998, 1997, and 1996, respectively. Stock option transactions for the three years ended October 31, 1998, were as follows:

|                                  | Shares<br>Exercisable | Shares<br>Under<br>Option | Average<br>Price<br>Per Share |
|----------------------------------|-----------------------|---------------------------|-------------------------------|
| Balance at October 31, 1995..... | 567,243<br>=====      | 1,061,033                 | \$20                          |
| Granted.....                     |                       | 269,650                   | 28                            |
| Exercised.....                   |                       | (69,503)                  | 12                            |
| Cancelled.....                   |                       | (3,534)                   | 22                            |
| Balance at October 31, 1996..... | 726,609<br>=====      | 1,257,646                 | 22                            |
| Granted.....                     |                       | 165,700                   | 29                            |
| Exercised.....                   |                       | (323,218)                 | 18                            |
| Cancelled.....                   |                       | (13,987)                  | 25                            |
| Balance at October 31, 1997..... | 650,053<br>=====      | 1,086,141                 | 24                            |
| Granted.....                     |                       | 264,550                   | 21                            |
| Exercised.....                   |                       | (95,416)                  | 21                            |
| Cancelled.....                   |                       | (35,404)                  | 26                            |
| Balance at October 31, 1998..... | 770,075<br>=====      | 1,219,871<br>=====        | \$23                          |

On October 1, 1992, Carl E. Pfeiffer retired as the Chief Executive Officer of the Company. In connection with such retirement, the Company replaced options to purchase 60,000 shares of Common Stock at a weighted average exercise price of \$15.85 held by Mr. Pfeiffer, under the Company's employee stock option plans with new options having the same exercise prices and expiration dates. Such options are substantially similar to the options previously held by him with the exception that vesting is not contingent upon his continued employment with the Company and the options expire on various dates between October 25, 1999, and October 13, 2001, instead of one year after retirement. During the year ended October 31, 1997, options for the entire 60,000 shares were exercised at an average price of \$15.85 per share.

## NON-EMPLOYEE DIRECTOR PLANS:

The Company has various non-employee Director plans, which are described below:

## 1987 Non-Employee Directors Plan:

The Company's 1987 Non-employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director, as of the first anniversary of the date of his/her election as a Director of the Company, will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant. During 1998, the Board of Directors passed a resolution which reduced the number of options to be granted from 10,000 to 6,000.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were no shares available for granting of options at October 31, 1998 or 1997. There were 20,000 shares available for granting of options at October 31, 1996. Stock option transactions for the three years ended October 31, 1998, were as follows:

|                                  | Shares<br>Exercisable | Shares<br>Under<br>Option | Average<br>Price<br>Per Share |
|----------------------------------|-----------------------|---------------------------|-------------------------------|
| Balance at October 31, 1995..... | 16,666<br>=====       | 20,000                    | \$17                          |
| Granted.....                     |                       | 20,000                    | 20                            |
| Exercised.....                   |                       | --                        | --                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1996..... | 20,000<br>=====       | 40,000                    | 18                            |
| Granted.....                     |                       | --                        | --                            |
| Exercised.....                   |                       | (15,000)                  | 18                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1997..... | 11,666<br>=====       | 25,000                    | 18                            |
| Granted.....                     |                       | --                        | --                            |
| Exercised.....                   |                       | (5,000)                   | 14                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1998..... | 13,332<br>=====       | 20,000<br>=====           | \$20                          |

## 1989 Non-Employee Directors Plan:

The Company's 1989 Non-employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 210,000 shares of common stock. Each non-employee Director as of December 6, 1989, was granted an option to purchase 3,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of grant. Also, each non-employee Director who is a director of the Company on any subsequent October 31, while the plan is in effect and shares are available for the granting of options hereunder, shall be granted on such October 31, an option to purchase 3,000 shares of common stock at a price equal to the fair market value of the common stock as of such October 31. During 1998, the Board of Directors passed a resolution which decreased the number of options to be granted annually as prescribed above from 3,000 to 2,000. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were 12,000, 30,000, and 51,000 shares

available for granting of options at October 31, 1998, 1997 and 1996, respectively. Stock option transactions for the three years ended October 31, 1998, were as follows:

|                                  | Shares<br>Exercisable | Shares<br>Under<br>Option | Average<br>Price<br>Per Share |
|----------------------------------|-----------------------|---------------------------|-------------------------------|
| Balance at October 31, 1995..... | 87,000<br>=====       | 108,000                   | \$20                          |
| Granted.....                     |                       | 21,000                    | 29                            |
| Exercised.....                   |                       | (6,000)                   | 19                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1996..... | 102,000<br>=====      | 123,000                   | 22                            |
| Granted.....                     |                       | 21,000                    | 28                            |
| Exercised.....                   |                       | (30,000)                  | 18                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1997..... | 93,000<br>=====       | 114,000                   | 24                            |
| Granted.....                     |                       | 18,000                    | 17                            |
| Exercised.....                   |                       | (3,000)                   | 19                            |
| Cancelled.....                   |                       | --                        | --                            |
| Balance at October 31, 1998..... | 111,000<br>=====      | 129,000<br>=====          | \$23                          |

#### 1997 Non-Employee Directors plan:

The Company's 1997 Non-Employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 400,000 shares of common stock. While this plan is in effect and shares are available for the granting of options hereunder, each non-employee Director who is a director of the Company on October 31 and who has not received options under the 1989 Non-Employee Director plan shall be granted on such October 31, an option to purchase such number of shares of common stock as is determined by the Board of Directors at a price equal to the fair market value of the common stock as of such October 31. Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. There were 400,000 shares available for granting of options at October 31, 1998. There were no transactions under this plan as of October 31, 1998.

#### STOCK BASED COMPENSATION

Effective November 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with SFAS No. 123, the Company will continue to apply the existing rules contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and disclose the required pro forma effect on net income and earnings per share of the fair value based method of accounting for stock based compensation as required by SFAS No. 123.

The following pro forma summary of the Company's consolidated results of operations have been prepared as if the fair value based method of accounting for stock based compensation as required by SFAS No. 123 had been applied:

|  | Years Ended October 31, |          |          |
|--|-------------------------|----------|----------|
|  | 1998                    | 1997     | 1996     |
|  | -----                   |          |          |
|  | (In thousands)          |          |          |
| Net income attributable to common stockholders.....    | \$ 9,169                | \$69,184 | \$30,368 |
| SFAS No. 123 adjustment.....                           | (1,495)                 | (995)    | (1,431)  |
|  | -----                   |          |          |
| Pro forma net attributable to common stockholders..... | \$ 7,674                | \$68,189 | \$28,937 |
|  | =====                   |          |          |
| Earnings per Common share:                             |                         |          |          |
| Basic as reported.....                                 | \$ 0.65                 | \$ 5.01  | \$ 2.24  |
| Basic pro forma.....                                   | \$ 0.54                 | \$ 4.94  | \$ 2.14  |
| Diluted as reported.....                               | \$ 0.65                 | \$ 4.38  | \$ 2.08  |
| Diluted pro forma.....                                 | \$ 0.54                 | \$ 4.32  | \$ 1.99  |

Fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1998 and 1997.

|                                     | 1998    | 1997    | 1996    |
|-------------------------------------|---------|---------|---------|
| Risk-free interest rate.....        | 4.49%   | 5.39%   | 5.44%   |
| Dividend yield.....                 | 3.00%   | 2.23%   | 2.23%   |
| Volatility factor.....              | 31.57%  | 29.83%  | 29.83%  |
| Weighted average expected life..... | 5 YEARS | 5 years | 5 years |

#### 16. FINANCIAL INSTRUMENTS

The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Firm price commitments associated with these futures contracts do not extend beyond December, 1999. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the consolidated statements of income. At October 31, 1998, the Company had open futures contracts at fair values of \$3.3 million and unrealized losses of \$369 thousand on such contracts. At October 31, 1998, these contracts covered a notional volume of 5,511,557 pounds of aluminum.

In the fourth quarter of fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted \$100 million of its variable rate debt under the Bank Agreement, to fixed rate. Under these agreements, payments are made based on a fixed rate (\$50 million at 7.025%, and \$50 million at 6.755%) and received on a LIBOR based variable rate (5.22203% at October 31, 1998). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The unrealized losses related to the interest rate swaps are \$8.5 million on October 31, 1998 and \$4.1 million on October 31, 1997 on the total notional amount of \$100 million for fiscal 1998 and fiscal 1997.

The Company utilizes foreign currency forward contracts to hedge identifiable foreign currency commitments associated with transactions in the regular course of the Company's foreign operations. These forward contracts establish the exchange rates at which the Company will purchase a contracted amount of foreign currency for a specified amount of US dollars. At October 31, 1998, the Company had 11 separate contracts maturing in monthly increments to purchase an aggregate notional amount of \$4.675 million in foreign currency. These forward contracts do not extend beyond September 30, 1999. Unrealized pretax gains on these forward contracts totaled approximately \$137 thousand at October 31, 1998.

In December 1997, the Company entered into a zero-cost range forward (foreign currency swap) agreement on a notional value of 30 million Guilders with a major financial institution to hedge its initial equity investment in its Netherlands subsidiary, Piper Impact Europe. This agreement limits the Company's exposure to large fluctuations in the US Dollar/Dutch Guilder exchange rate. Under the terms of the agreement, Quanex has the option to let the agreement expire at no cost if the exchange rate remains within an established range on the expiration date of October 25, 2000. At October 31, 1998, there was no effect on the financial statements from this agreement as the exchange rate remained within this range.

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value of long-term debt was \$190.6 million and \$215.6 million, as of October 31, 1998 and 1997, respectively, as compared to carrying values at October 31, 1998 and 1997 of \$200.6 million and \$212.9 million, respectively.

The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities. The fair value of interest rate swaps was estimated by discounting expected cash flows using quoted market interest rates. The fair value of the aluminum and foreign currency instruments was determined by obtaining the LME price per pound and the foreign currency translation rates as of October 31, 1998 and valuing the outstanding notional volumes under the agreements.

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17. CONTINGENCIES

Quanex is subject to loss contingencies arising from federal, state, and local environmental laws. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation are not discounted to their present value. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of companies participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. It is management's opinion that the Company has established appropriate reserves for environmental remediation obligations at various of its plant sites and disposal facilities. Those amounts are not expected to have a material adverse effect on the Company's financial condition. Total remediation reserves, at October 31, 1998, were approximately \$23 million. These reserves include, without limitation, the Company's best estimate of liabilities related to costs for further investigations, environmental remediation, and corrective actions related to the acquisition of Piper Impact, the acquisition of Nichols Aluminum Alabama and a facility previously part of the former Tubing Operations. Actual cleanup costs at the Company's current plant sites, former plants, and disposal facilities could be more or less than the amounts accrued for remediation obligations. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals that would be material to Quanex's financial statements because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities.

Quanex Corporation  
SUPPLEMENTARY FINANCIAL DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth the selected quarterly information for the years ended October 31, 1998 and 1997. The information presented has been restated to reflect LaSalle and the Tubing Operations as discontinued operations. (See Note 3 to the Consolidated Financial Statements)

|  | First<br>Quarter                        | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|---|-------------------|------------------|-------------------|
|  | -----                                   | -----             | -----            | -----             |
|  | (In thousands except per share amounts) |                   |                  |                   |
| 1998:  |   |                   |                  |                   |
| Net sales.....                               | \$180,982                               | \$203,428         | \$204,854        | \$208,226         |
| Gross profit.....                            | 17,219                                  | 27,395            | 30,876           | 38,046            |
| Income from continuing operations.....       | 2,293                                   | 7,756             | 10,285           | (24,211)          |
| Income from discontinued operations.....     | --                                      | --                | --               | --                |
| Gain on sale of discontinued operations..... | 13,606                                  | --                | --               | (560)             |
| Net income.....                              | 15,899                                  | 7,756             | 10,285           | (24,771)          |
| Earnings per share:                          |   |                   |                  |                   |
| Basic:                                       |   |                   |                  |                   |
| Income from continuing operations.....       | 0.16                                    | 0.55              | 0.73             | (1.71)            |
| Income from discontinued operations.....     | --                                      | --                | --               | --                |
| Gain on sale of discontinued operations..... | 0.97                                    | --                | --               | (0.04)            |
| Net earnings (loss).....                     | 1.13                                    | 0.55              | 0.73             | (1.75)            |
| Diluted.....                                 | \$ 1.11                                 | \$ 0.51           | \$ 0.66          | \$ (1.75)         |
| 1997:  |   |                   |                  |                   |
| Net sales.....                               | \$167,955                               | \$185,999         | \$196,589        | \$195,550         |
| Gross profit.....                            | 20,611                                  | 26,136            | 28,678           | 26,627            |
| Income from continuing operations.....       | 3,372                                   | 7,339             | 8,607            | 8,400             |
| Income from discontinued operations.....     | 954                                     | 1,751             | 813              | 1,658             |
| Gain on sale of discontinued operations..... | --                                      | 36,290            | --               | --                |
| Net income.....                              | 4,326                                   | 45,380            | 9,420            | 10,058            |
| Earnings per share:                          |   |                   |                  |                   |
| Basic:                                       |   |                   |                  |                   |
| Income from continuing operations.....       | 0.25                                    | 0.53              | 0.62             | 0.60              |
| Income from discontinued operations.....     | 0.07                                    | 0.13              | 0.06             | 0.12              |
| Gain on sale of discontinued operations..... | --                                      | 2.65              | --               | --                |
| Net earnings (loss).....                     | 0.32                                    | 3.31              | 0.68             | 0.72              |
| Diluted.....                                 | \$ 0.31                                 | \$ 2.78           | \$ 0.62          | \$ 0.65           |

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

| Description                      | Balance at<br>Beginning<br>of Year | Charged to<br>Costs &<br>Expenses | Write-offs | Other | Balance at<br>End<br>of Year |
|----------------------------------|------------------------------------|-----------------------------------|------------|-------|------------------------------|
| (In thousands)                   |                                    |                                   |            |       |                              |
| Allowance for doubtful accounts: |                                    |                                   |            |       |                              |
| Year ended October 31, 1998..... | \$10,338                           | \$ 1,088                          | \$ (202)   | \$528 | \$11,752                     |
| Year ended October 31, 1997..... | \$ 7,703                           | \$ 2,674                          | \$ (39)    | \$ -- | \$10,338                     |
| Year ended October 31, 1996..... | \$ 2,933                           | \$10,449                          | \$ (5,679) | \$ -- | \$ 7,703                     |

QUARTERLY FINANCIAL RESULTS  
(from continuing operations)

|  | 1998     | 1997   | 1996   |
|--|----------|--------|--------|
| <hr/>  |          |        |        |
| NET SALES (millions)                                     |          |        |        |
| January.....   | 180.98   | 167.96 | 121.85 |
| April.....   | 203.43   | 186.00 | 143.50 |
| July.....  | 204.85   | 196.58 | 160.29 |
| October.....   | 208.23   | 195.55 | 194.43 |
| <hr/>  |          |        |        |
| Total.....   | 797.49   | 746.09 | 620.07 |
| <hr/>  |          |        |        |
| GROSS PROFIT (millions)                                  |          |        |        |
| January.....   | 17.22    | 20.61  | 14.73  |
| April.....   | 27.39    | 26.14  | 17.95  |
| July.....  | 30.88    | 28.68  | 26.41  |
| October.....   | 38.05    | 26.62  | 34.09  |
| <hr/>  |          |        |        |
| Total.....   | 113.54   | 102.05 | 93.18  |
| <hr/>  |          |        |        |
| INCOME FROM CONTINUING OPERATIONS (millions)             |          |        |        |
| January.....   | 2.29     | 3.37   | 1.52   |
| April.....   | 7.76     | 7.34   | 5.26   |
| July.....  | 10.28    | 8.61   | 7.48   |
| October.....   | (24.21)  | 8.40   | 8.72   |
| <hr/>  |          |        |        |
| Total.....   | (3.88)   | 27.72  | 22.98  |
| <hr/>  |          |        |        |
| INCOME FROM CONTINUING OPERATIONS PER BASIC COMMON SHARE |          |        |        |
| January.....   | .16      | .25    | .11    |
| April.....   | .55      | .53    | .39    |
| July.....  | .73      | .62    | .55    |
| October.....   | (1.71)   | .60    | .64    |
| <hr/>  |          |        |        |
| Year.....  | (.27)    | 2.01   | 1.70   |
| <hr/>  |          |        |        |
| QUARTERLY COMMON STOCK DIVIDENDS                         |          |        |        |
| January.....   | .16      | .15    | .15    |
| April.....   | .16      | .15    | .15    |
| July.....  | .16      | .15    | .15    |
| October.....   | .16      | .16    | .15    |
| <hr/>  |          |        |        |
| Total.....   | .64      | .61    | .60    |
| <hr/>  |          |        |        |
| COMMON STOCK SALES PRICE (High & Low)                    |          |        |        |
| January.....   | 30 7/16  | 29 1/8 | 21 1/8 |
|  | 27 1/16  | 24 1/4 | 18     |
| April.....   | 33 13/16 | 27 7/8 | 22 3/8 |
|  | 28 1/2   | 23 3/8 | 19 5/8 |
| July.....  | 32 3/16  | 34 1/8 | 23 7/8 |
|  | 27 1/4   | 25 1/8 | 19 3/8 |
| October.....   | 27 7/8   | 36 1/2 | 28 3/4 |
|  | 15 5/8   | 26 1/4 | 19 5/8 |

## ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, information on directors and executive officers of the Registrant is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 1998.

## ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) to Form 10-K, information on executive compensation is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 1998.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to General Instruction G(3) to Form 10-K, information on security ownership of certain beneficial owners and management is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 1998.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to General Instruction G(3) to Form 10-K, information on certain relationships and related transactions is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 1998.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

PAGE  
----

## (a) 1. Financial Statements

|  |    |
|--|----|
| Independent Auditors' Report.....                    | 21 |
| Consolidated Balance Sheet.....                      | 22 |
| Consolidated Statements of Income.....               | 23 |
| Consolidated Statements of Stockholders' Equity..... | 24 |
| Consolidated Statements of Cash Flow.....            | 25 |
| Notes to Consolidated Financial Statements.....      | 26 |

## 2. Financial Statement Schedule

|  |    |
|--|----|
| Schedule II - Valuation and qualifying accounts..... | 45 |
|--|----|

Schedules not listed or discussed above have been omitted as they are either inapplicable or the required information has been given in the consolidated financial statements or the notes thereto.

|                  |    |
|------------------|----|
| 3. Exhibits..... | 48 |
|------------------|----|

EXHIBIT  
NUMBER  
-----DESCRIPTION OF EXHIBITS  
-----

|      |  |
|------|--|
| 3.1  | -- Restated Certificate of Incorporation of the Registrant, as on February 27, 1997, filed as Exhibit 4.1 of the Registrant's Registration Statement on Form S-8, Registration No. 333-22977, and incorporated herein by reference.  |
| 3.2  | -- Amended and Restated Bylaws of the Registrant, as amended through December 12, 1996, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996, and incorporated herein by reference.  |
| 4.1  | -- Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1987, and incorporated herein by reference.   |
| 4.2  | -- Amended and Restated Rights agreement between the Registrant and Manufacturers Hanover Trust Company, as Rights Agent, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.   |
| 4.3  | -- Amended and Restated Certificate of Designation, Preferences and Rights of the Registrant's Series A Junior Participating Preferred Stock, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.   |
| 4.4  | -- Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.   |
| 4.5  | -- \$250,000,000 Revolving Credit and Term Loan Agreement dated as of July 23, 1996, among the Company, Comerica Bank, as Agent, and Harris Trust and Savings Bank and Wells Fargo Bank (Texas), NA as Co-Agents, filed as Exhibit 4.1 of the Company's Report on Form 8-K, dated August 9, 1996, and incorporated herein by reference.  |
| 10.1 | -- Agreement of Lease between the Registrant and 3D Tower Limited, dated March 5, 1985, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference, as amended by the First Amendment to Lease Agreement between the Registrant and VPM 1989-1, Ltd. effective December 8, 1989 and the amendment filed as Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995. |

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION OF EXHIBITS<br>-----   |
|----------------------------|--|
| +10.2                      | -- Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.  |
| +10.3                      | -- Quanex Corporation Deferred Compensation Plan, as amended and restated filed as Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1995, and incorporated herein by reference.  |
| +10.4                      | -- Quanex Corporation 1978 Stock Option Plan, as amended, filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.   |
| +10.5                      | -- Quanex Corporation Executive Incentive Compensation Plan, as amended, filed as Exhibit 10.8 to the Registrant's Form 10-K for the year ended October 31, 1993, and incorporated herein by reference.  |
| +10.6                      | -- Quanex Corporation Supplemental Benefit Plan, effective February 28, 1980 as restated November 1, 1988 and amended on June 28, 1991, filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.  |
| +10.7                      | -- Form of Severance Compensation Agreement and Escrow Agreement, adopted on February 28, 1985, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1985, and incorporated herein by reference.  |
| +10.8                      | -- Quanex Corporation Stock Option Loan Plan for Key Officers, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, and incorporated herein by reference.  |
| +10.9                      | -- Quanex Corporation 1987 Non-Employee Director Stock Option Plan, as amended, and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference. |
| +10.10                     | -- Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.   |
| +10.11                     | -- Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1994, and incorporated herein by reference.  |
| +10.12                     | -- Retirement Agreement dated as of September 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1992, and incorporated herein by reference.   |
| +10.13                     | -- Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1992, and incorporated herein by reference.   |
| +10.14                     | -- Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1992, and incorporated herein by reference.  |
| +10.15                     | -- Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1994, and incorporated herein by reference.  |

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION OF EXHIBITS<br>-----  |
|----------------------------|---|
| +10.16                     | -- Quanex Corporation 1996 Employee Stock Option Plan and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1996, and incorporated herein by reference.   |
| +10.17                     | -- Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated herein by reference.  |
| +10.18                     | -- Quanex Corporation 1997 Non-Employee Director Stock Option Plan, and incorporated herein by reference.   |
| 10.19                      | -- Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., A Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K, dated August 9, 1996, and incorporated herein by reference. |
| 10.20                      | -- Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated May 5, 1997, and incorporated herein by reference.   |
| 10.21                      | -- Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated December 3, 1997, and incorporated herein by reference.  |
| *10.22                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963.  |
| *10.23                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964.  |
| *10.24                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965.  |
| *10.25                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978.   |
| *10.26                     | -- Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998.   |
| *10.27                     | -- Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998.   |
| *21                        | -- Subsidiaries of the Registrant.  |
| *23                        | -- Consent of Deloitte & Touche LLP.  |
| *27                        | -- Financial Data Schedule  |

- - - - -

+ Management Compensation or Incentive Plan

\* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed by the Company during the quarter ended October 31, 1998.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## QUANEX CORPORATION

By: /s/ VERNON E. OECHSLE

-----  
 Vernon E. Oechsle  
 Director, President and  
 Chief Executive Officer  
 (Principal Executive Officer)

January 12, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| SIGNATURE<br>-----  | TITLE<br>-----  | DATE<br>----     |
|---|---|------------------|
| By: /s/ ROBERT C. SNYDER<br>-----<br>Robert C. Snyder           | Director and Chairman   | January 12, 1999 |
| By: /s/ VERNON E. OECHSLE<br>-----<br>Vernon E. Oechsle         | Director, President and Chief<br>Executive Officer  | January 12, 1999 |
| By: /s/ CARL E. PFEIFFER<br>-----<br>Carl E. Pfeiffer           | Director  | January 12, 1999 |
| By: /s/ GERALD B. HAECKEL<br>-----<br>Gerald B. Haeckel         | Director  | January 12, 1999 |
| By: /s/ SUSAN F. DAVIS<br>-----<br>Susan F. Davis               | Director  | January 12, 1999 |
| By: /s/ JOHN D. O'CONNELL<br>-----<br>John D. O'Connell         | Director  | January 12, 1999 |
| By: /s/ DONALD G. BARGER, JR.<br>-----<br>Donald G. Barger, Jr. | Director  | January 12, 1999 |
| By: /s/ VINCENT R. SCORSONE<br>-----<br>Vincent R. Scorsone     | Director  | January 12, 1999 |
| By: /s/ MICHAEL J. SEBASTIAN<br>-----<br>Michael J. Sebastian   | Director  | January 12, 1999 |
| By: /s/ RUSSELL M. FLAUM<br>-----<br>Russell M. Flaum           | Director  | January 12, 1999 |
| By: /s/ JAMES H. DAVIS<br>-----<br>James H. Davis               | Executive Vice President and Chief<br>Operating Officer (Principal<br>Operating Officer)                        | January 12, 1999 |
| By: /s/ WAYNE M. ROSE<br>-----<br>Wayne M. Rose                 | Vice President-Finance and<br>Corporate Development Chief<br>Financial Officer (Principal<br>Financial Officer) | January 12, 1999 |
| By: /s/ VIREN M. PARIKH<br>-----<br>Viren M. Parikh             | Controller (Principal Accounting<br>Officer)  | January 12, 1999 |

## INDEX TO EXHIBITS

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION OF EXHIBITS<br>-----   |
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EXHIBIT  
NUMBER  
-----DESCRIPTION OF EXHIBITS  
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- +10.7 -- Form of Severance Compensation Agreement and Escrow Agreement, adopted on February 28, 1985, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1985, and incorporated herein by reference.
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- +10.10 -- Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.11 -- Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1994, and incorporated herein by reference.
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- +10.15 -- Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1994, and incorporated herein by reference.
- +10.16 -- Quanex Corporation 1996 Employee Stock Option Plan and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K for the year ended October 31, 1996, and incorporated herein by reference.
- +10.17 -- Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated herein by reference.
- +10.18 -- Quanex Corporation 1997 Non-Employee Director Stock Option Plan, and incorporated herein by reference.
- 10.19 -- Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., A Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K, dated August 9, 1996, and incorporated herein by reference.
- 10.20 -- Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated May 5, 1997, and incorporated herein by reference.

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION OF EXHIBITS<br>-----   |
|----------------------------|--|
| 10.21                      | -- Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated December 3, 1997, and incorporated herein by reference. |
| *10.22                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963.   |
| *10.23                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964.   |
| *10.24                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965.   |
| *10.25                     | -- Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978.  |
| *10.26                     | -- Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998.  |
| *10.27                     | -- Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998.  |
| *21                        | -- Subsidiaries of the Registrant.   |
| *23                        | -- Consent of Deloitte & Touche LLP.   |
| *27                        | -- Financial Data Schedule   |

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+ Management Compensation or Incentive Plan

\* Filed herewith

[STAMP]

STATE OF ALABAMA )

COUNTY OF MORGAN )

LEASE AGREEMENT

Lease Agreement between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, A public corporation and instrumentality under the laws of the State of Alabama (herein called "The Board"), and FRUEHAUF TRAILER COMPANY, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama (herein called "the Company"),

R E C I T A L S:

The Board proposes to acquire the real property hereinafter described, and to construct thereon and to equip and furnish an aluminum rolling mill and fabricating plant with appurtenant facilities and machinery and equipment for use in the operation thereof and proposes to lease said real property, plant, facilities, machinery and equipment to the Company. To finance the acquisition of said real property, the construction of said plant and facilities and the purchase and installation therein of said machinery and equipment, all for the promotion of local manufacturing and industrial development, the Board proposes to authorize the issuance of \$5,700,000 principal amount of its First Mortgage Industrial Revenue Bonds, to be dated May 1, 1963 (herein called "the Bonds"), which are more particularly described in the Mortgage hereinafter referred to. The Bonds are to be secured by a pledge and assignment of the Board's interest in this Lease Agreement and by a pledge and assignment of the revenues and receipts derived by the Board from the leasing or sale of the Project hereinafter referred to and will be issued under and additionally secured by a Mortgage and Indenture of Trust dated as of May 1, 1963 (herein called "the Mortgage"), from the Board to the State National Bank of Decatur, Decatur, Alabama (herein called "the Trustee"), under which the revenues and receipts derived by the Board from the leasing or sale of the said Project will be pledged for the payment of the principal of and

the interest on the Bonds and under which the said Project will be mortgaged and conveyed to the Trustee as additional security for payment of said principal and interest. The Mortgage is to be in substantially the form attached hereto as Exhibit A.

The acquisition of said real property, the construction thereon of said plant and facilities, the purchase and installation of said machinery and equipment therein, the issuance and sale of the Bonds and the lease of said real property, plant, facilities, machinery and equipment to the Company will promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate in the State of Alabama and further the use of its agricultural products and natural resources. Under the provisions of Act No. 648 enacted at the 1949 Regular Session of the Legislature of Alabama, as amended, the Board has the power to acquire said real property, to construct said plant and facilities thereon, to purchase and install said machinery and equipment therein, to issue and sell the Bonds and to lease said property, plant, facilities, machinery and equipment to the Company. To achieve the objectives mentioned above, the Board and the Company have entered into this Lease Agreement.

Now, Therefore, this Agreement

W I T N E S S E T H:

That in consideration of the respective agreements on the part of the Board and the Company hereinafter contained, the Board does hereby lease to the Company, and the Company does hereby rent from the Board, for and during the Primary Term hereinafter referred to and upon and subject to the terms and conditions hereinafter specified, the following described real property situated in Morgan County, Alabama (the said real property being herein called "the Leased Realty"):

A part of the Lot or Tract No. 13 being in Sections 13 and 14 in Township 5 South, Range 5 West, said tract being according to the subdivision of the L. W. Norton Farm, as surveyed and platted by J. M. Holt, Surveyor, as shown by map or plat of said Subdivision filed in the Probate Office of Morgan County, Alabama, March 3, 1928,

in Plat Book at page 62 and being more particularly described as follows:

Beginning at a point on the Southerly right of way line of Alabama Highway No. 20, which is 41.5 feet East of a point 30 feet South of the Northeast corner of Section 14, Township 5 South, Range 5 West, and running thence South 0 degrees 54 minutes West 230 feet; thence North 89 degrees 06 minutes West 68 feet; thence South 0 degrees 54 minutes West 70 feet; thence South 89 degrees 06 minutes East 68 feet; thence South 0 degrees 54 minutes West 122 feet; thence North 89 degrees 06 minutes West 60 feet; thence South 0 degrees 54 minutes West 60 feet; thence South 0 degrees 54 minutes West 1122.04 feet; thence South 76 degrees 49 minutes West 341.76 feet; thence North 0 degrees 57 minutes East 1139.77 feet; thence South 89 degrees 03 minutes East 69 feet; thence North 0 degrees 57 minutes East 125 feet; thence South 89 degrees 03 minutes East 151 feet; thence North 0 degrees 57 minutes east 422.70 feet to a point on the South margin of Alabama Highway No. 20; thence South 89 degrees 03 minutes East along the South margin of Alabama Highway No. 20, 110 feet to the point of beginning, containing 9.967 acres, more or less, subject, however, to the right of way over the South 30 feet thereof as provided in the deed from L. W. Norton to W. H. Anderson dated March 1, 1928, and recorded in Deed Book 256, page 328, in the Probate Office of Morgan County, Alabama

together with the Plant and the Leased Equipment, both hereinafter referred to, and all other improvements thereto now or hereafter made (the said real property, plant, machinery equipment and improvements, as they may at any time exist, being herein together called the "Project"). This Lease Agreement is made, however, upon and subject to the following terms and conditions, to each of which the Board and the Company hereby agree:

## ARTICLE I

Constructing and Financing the Plant  
and the Leased Equipment

Section 1.1 Agreement to Construct Plant and to Purchase and Install Leased Equipment. Promptly following the issuance and sale of \$5,200,000 principal amount of the Bonds (referred to in the mortgage as the Initial Bonds) and out of the principal proceeds derived therefrom, the Board (a) will acquire the Leased Realty and construct an aluminum rolling mill and fabricating plant, described in "The Industrial Development Board of the City of Decatur, Alabama Aluminum Sheet Rolling Mill Project," dated April 9, 1963, heretofore approved by the parties hereto and a copy thereof filed with the Trustee (said plant to consist of a main building, together with appurtenant buildings, facilities and other improvements, all of which are herein together called "the Plant"), substantially in accordance with plans and specifications therefor to be prepared by the Company for the account of the Board and to be furnished to the Board by the Company, and (b) will purchase and install in the Plant such items of machinery and equipment described generally in the aforesaid Aluminum Sheet Rolling Mill Project dated April 9, 1963, as shall from time to time be specified in written orders from the Company to the Board (said machinery and equipment being herein together called "the Leased Equipment"), such purchases and installations to be made substantially in accordance with orders and directions from the Company prepared for the account of the Board. All contracts and orders for such construction, purchase and installation, which contracts and orders may provide for progress payments, and all request for payments out of the Construction Fund (to be created in the Mortgage and herein called "the Construction Fund") shall be signed on behalf of the Board, subject to written approval by the Company in all respects. If after the exercise of due diligence by the Board, it is impossible for the Board to construct any part of the Plant which the Company duly orders and directs the Board so to construct or to purchase and install in the Plan any item of the Leased Equipment which the Company duly orders and directs the Board so to purchase and install, the Company (a) will withdraw the

order and direction in question, or (b) will itself effect the construction or purchase and installation ordered thereby, for and in the name and behalf of the Board, in which case the Company shall be entitled to reimbursement from the Construction Fund for the costs incurred by it in effecting such construction or purchase and installation, as the case may be.

The Board and the Company shall from time to time each appoint by written instrument an agent or agents authorized to act for each respectively in any or all matters relating to the construction of the Plant, the purchase and installation of the Leased Equipment and payments out of the Construction Fund. One of the agents appointed by the Company shall be designated its "Project Manager". Either the Board or the Company may from time to time revoke, amend or otherwise limit the authorization of any agent appointed by it to act on its behalf and designate another agent or agents to act on its behalf, provided that there shall be at all times at least one agent authorized to act on behalf of the Board, and at least one agent (who shall be the Project Manager) authorized to act on behalf of the Company, with reference to all the foregoing matters. In the event that after reasonable request made to the Board by the Company, the Board fails or refuses to enter into or execute any contract or order for such construction, purchase or installation and fails or refuses to issue or execute a payment requisition from the Construction Fund for payment of any item that may under the terms of the Mortgage be paid from the Construction Fund, the Project Manager then designated by the Company, who is hereby irrevocably appointed as agent for the Board for such purposes, (a) may enter into, execute and deliver any such contract or order, for and in the name and on behalf of the Board, or (b) may issue and execute, also for and in the name and behalf of the Board and without any approval of any officer, employee or other agent thereof, payment requisition on the Construction Fund, as the case may be.

Section 1.2 Development and Design Expenses Insured by Company. In order to expedite the construction of the Plant, the Board has heretofore authorized the Company to go forward with the planning, development and design thereof and with the planning, development and design of the items of Leased

Equipment to be installed in the Plant. The Board acknowledges that all reasonable costs, expenses and fees (including, without limitation, engineering, legal, procurement, accounting and auditing fees and expenses) incurred by the Company in connection with such planning, development and design (whether before or after the execution and delivery of this Lease Agreement or before or after the issuance and sale of the Bonds) constitute a part of the project costs, for which the Company shall be entitled to reimbursement from the Construction Fund.

Section 1.3 No Warranty of Suitability by Board. The Company recognizes that since the plans and specifications for the Plant are to be prepared by it and that since the items of Leased Equipment are to be selected by it, the Board can make no warranty, either express or implied, or offer any assurances that the Plant or the Leased Equipment will be suitable for the Company's purposes or needs or that the proceeds derived from the sale of the Bonds will be sufficient to pay in full all the project costs.

Section 1.4 Completion of the Project. Bonds in the principal amount of \$500,000, referred to in the mortgage as the "Additional Bonds" will not be sold and delivered except as required by, and subject to, the provisions of this section. In the event that for any reason the amount on deposit in the Construction Fund is insufficient to pay all costs of completing the Project, the Company shall nevertheless complete the Project without delay and pay all costs thereof in excess of the amount available therefor in the Construction Fund; and the Company may in such event, at its option, elect to have all or any part of the Additional Bonds (but not exceeding an amount sufficient to produce monies required to pay the cost of completing the Project) offered for sale and the net sale proceeds (less interest to May 1, 1965) deposited in the Construction Fund. Such option may be exercised by the Company by notifying the Board and the Trustee in writing, on or before May 1, 1965, that it desires to have a specified amount of the Additional Bonds offered for sale. The Board and the Trustee will promptly take all action required to have the amount of Additional Bonds so designated offered for sale. In the event that any such Additional Bonds are issued and sold, the proceeds of the sale of such Additional Bonds (less the expenses of

issuance and sale, which shall be paid therefrom, and an amount equal to the interest to become due on such Additional Bonds to and including May 1, 1965, which shall be deposited in the Bond and Interest Fund provided in the Mortgage) shall be deposited in the Construction Fund. The Company may be reimbursed from the Construction Fund for all monies necessarily expended by the Company in the acquisition of the Project after the monies in the Construction Fund were exhausted and before the proceeds of the sale of the Additional Bonds were deposited in the Construction Fund. Any Bonds not sold and delivered on or before November 1, 1965, will be cancelled and will not thereafter be issued or reissued. The obligation of the Company to complete the Project without delay shall not be contingent upon the sale or delivery of any of the Additional Bonds; and the Company shall be obligated to continue the construction and acquisition of the Project without interruption, at its own expense, regardless of its notice to the Board and the Trustee, or any delay in the sale or delivery of the Bonds or the inability of the Board to sell the same. The Company shall not by reason of the payment of such excess costs from its own funds be entitled to any diminution in the payment of the rents hereunder.

Should the Company fail to comply with the foregoing provisions of this section, the Board shall have any one or more of the following remedies:

(a) The Trustee shall be entitled to retain all payments made as rent under this Lease Agreement by the Company, and the Company shall be obligated to pay to the Trustee the rental payments as they become due as liquidated damages, subject, however, to a credit for the net proceeds which the Trustee may receive from the sale of the Project or any part thereof, or from the lease or sublease of the Project or any part thereof to others than the Company herein, during and for the unexpired term of this Lease Agreement; or

(b) The Board may take possession of the, Lease Realty and complete the Project at the expense of the Company, which expense with six per cent interest and a reasonable attorney's fee, if the services of an attorney are required for the collection thereof, the Company hereby agrees to pay; or

(c) The Board may terminate this Lease Agreement and sue for damages for breach thereof.

Section 1.5 Supplemental Agreement on Completion. Upon completion of construction of the Plant and the purchase and installation of the Leased Equipment therein, the Board will, on written request of the Company or the Trustee, enter into a supplemental agreement with the Company identifying the items of Leased Equipment installed in the Plant and confirming the lease thereof to the Company hereunder.

## ARTICLE II

### Duration of Lease Term and Rental Provision

Section 2.1 Duration of Term. The primary term of this Lease Agreement and of the lease herein made (herein called "the Primary Term") shall begin on the date the construction of the Plant and the installation of the Leased Equipment are completed or on May 1, 1965, whichever date is earlier, and, subject to the provisions of this Lease Agreement, shall continue until midnight of April 30, 1983, but the Company will be permitted to have such possession of the Project prior to the beginning of the Primary Term as shall not interfere with the construction of the Plant and the installation of the Leased Equipment therein. The Board will deliver to the Company sole and exclusive possession of the Project on the commencement date of the Primary Term, subject to the inspection and other rights reserved in Section 6.2 hereof, and the Company will accept possession thereof at such time; provided, however, that in the event the Primary Term begins prior to the date the construction of the Plant and the installation of the Leased Equipment therein are completed, the Board will be permitted such possession of the Project as shall be necessary and convenient for it to complete the construction of the Plant and the installation of the Leased Equipment therein, and provided further, that the Board will be permitted such possession of the Project as shall be necessary and convenient for it to construct or install any additions or improvements and to make any repairs or restorations required or permitted to be constructed, installed or made by the Board pursuant to the

provisions hereof or pursuant to the provisions of any agreement between the Company and the Board supplemental hereto.

Section 2.2 Rental Provisions. For and during the Primary Term, the Company will pay to the Board not less than the following basic rental (herein called "Basic Rent") for use and occupancy of the Project:

(a) On or before the 20th day of each month beginning May 20, 1965, an amount equal to one sixth (1/6) of the interest becoming due on all outstanding Bonds on the next succeeding interest payment date, and;

(b) On October 20, 1965 and on each April 20 and October 20, thereafter, an amount equal to the principal of the outstanding Bonds due and payable on the then next succeeding semiannual principal payment date.

All Basic Rent payments shall be made directly to the Trustee, or to its successor as Trustee under the Mortgage, for the account of the Board and shall be deposited in the Bond and Interest Fund established under the Mortgage. The monthly and semiannual installment of Basic Rent shall continue until the amount in the Bond and Interest Fund shall have become sufficient to pay in full the principal of (including redemption premium), and interest on all outstanding Bonds either at maturity or on earlier redemption. Any payment of Basic Rent due hereunder that is not made within ten (10) days of the due date thereof shall bear interest from that date until paid at the rate of 6% per annum.

The Company will also pay, as additional rental, the reasonable fees, charges and expenses of the Trustee under the Mortgage (other than the initial fee or charge of the Trustee) and of the paying agents for the Bonds, such fees, charges and reimbursement for expenses to be paid directly to the Trustee and such paying agents for their own account as and when such fees, charges and expenses become due and payable.

Section 2.3 Obligations of Company Unconditional. The obligation of the Company to pay the Basic Rent, to make all other payments provided for herein and to perform and observe the other agreements and covenants on its part herein contained shall be absolute and unconditional, irrespective of any rights of set-off, recoupment or counterclaim it might otherwise have against

the Board. The Company will not suspend or discontinue any such payment or fail to perform and observe any of its other agreements and covenants contained herein or terminate this Lease Agreement for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute an eviction or constructive eviction, failure of consideration or commercial frustration of purpose, or any damage to or destruction of the Project, or the taking by eminent domain of title to or the right to temporary use of all or any of the Project, or any change in the tax or other laws of the United States of America, the State of Alabama or any political subdivision of either thereof, or any failure of the Board to perform and observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease Agreement. Notwithstanding the foregoing, the Company may, at its own cost and expense and in its own name or in the name of the Board, prosecute or defend any action or proceeding or take any other action involving third persons which the Company deems reasonably necessary in order to secure or protect its rights of use and occupancy and other rights hereunder. The provisions of the first and second sentences of this section shall apply only so long as any part of the principal of and the interest on the Bonds remains outstanding and unpaid, and nothing contained therein shall be construed to affect adversely or to impair the option to terminate this Lease Agreement granted in Section 8.2 hereof. Furthermore, except as provided in the first and second sentences of this section, nothing contained herein shall be construed to be a waiver of any rights which the Company may have against the Board under this Lease Agreement or under any provision of law.

Section 2.4 Investment of Funds. The Board shall cause the Trustee to invest and reinvest the monies from time to time in the Construction Fund and the monies from time to time in the Bond and Interest Fund in the manner and to the extent and with such application of the income therefrom as is provided in the Mortgage.

## ARTICLE III

## Maintenance, Taxes and Insurance

Section 3.1 Maintenance, Alterations and Improvements. (a) The Company will, at its own expense, (i) keep the Project in as reasonably safe condition as its operations permit, and (ii) keep the Plant, the Leased Equipment and the other improvements located on the Leased Realty in good order and repair, and from time to time make all needful and proper repairs, renewals and replacements thereto. The Company agrees to pay all gas, electric light and power, water, sewer and all other charges for the operation, maintenance, use and upkeep of the Plant, Leased Equipment and Project.

(b) The Company may, also at its own expense, make any additions, improvements or alterations to the Project that it may deem desirable for its business purposes, provided that such additions, improvements or alterations do not adversely affect the value or utility of the Project or its character as a "project" under said Act No. 648. In lieu of making such additions, improvements or alterations itself, the Company may, if it so desires, furnish to the Board the funds necessary therefor, in which case the Board will proceed to make such additions, improvements or alterations.

(c) All such additions, improvements and alterations whether made by the Company or the Board shall become a part of the Project and shall be covered by the Mortgage; provided however, that any machinery, equipment, furniture or fixtures installed by the Company (not the Board) on the Project without expense to the Board and not constituting a part of the Leased Equipment or repairs, renewals or replacements of the Leased Equipment or the Plant may be removed by the Company at any time and from time to time while it is not in default under the terms of this Lease Agreement; and provided further that any damage to the Project occasioned by such removal shall be repaired by the Company at its own expense. The Company will not permit any mechanics or other liens to stand against the Project for labor or material furnished it in connection with any additions, improvements, alterations or repairs so made by it. The Company may, however, in good faith contest any such mechanics' or other liens and in

such event may permit any such liens to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom unless by such action the lien of the Mortgage on the Project or any part thereof, or the Project or any part thereof shall be subject to lose or forfeiture, in either of which events such mechanics' or other liens shall be promptly satisfied.

(d) The Company may, also at its own expense, connect or "tie-in" walls and utility and other facilities located on the Leased Realty to other facilities owned or leased by it on real property adjacent to the Leased Realty or partly on such adjacent real property and partly on the Leased Realty but only if the Company furnishes the Board and the Trustee a certificate of a nationally recognized independent consulting engineering firm that such connection and "tie-in" of walls and facilities will not impair the operating unity of the Plant (that is, the operating unity of that portion of said Plant, as extended, that is located wholly within the boundary lines of the Leased Realty).

Section 3.2 Taxes. Other Governmental Charges and Utility Charges. The Board and the Company acknowledge (a) that under present law no part of the Project owned by the Board will be subject to ad valorem taxation by the State of Alabama or by any political or taxing subdivision thereof and that under present law the income and profits (if any) of the Board from the Project are, not subject to either Federal or Alabama taxation, and (b) that these factors, among others, induce the Company to enter into this Lease Agreement. However, the Company will pay, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project or any machinery, equipment or other property installed or brought by the Company therein or thereon (including, without limiting the generality of the foregoing, any taxes levied upon or with respect to the income or profits of the Board from the Project which, if not paid, will become a lien on the Project prior to the lien of the Mortgage or a charge on the revenues and receipts therefrom prior to the charge thereon and pledge or assignment thereof to be created and made in the Mortgage), all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of

the Project, and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by lien on the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as are required to be paid during the term hereof. The foregoing provisions of this section shall be effective only so long as any part of the principal of or the interest on the Bonds remains outstanding and unpaid.

The Company may, at its own expense and in its own name and behalf or in the name and behalf of the Board, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless by such action the title of the Board to any part of the Project shall be materially endangered or the Project or any part thereof shall become subject to loss or forfeiture, in which event such taxes, assessments or charges shall be paid prior to becoming delinquent. The Board will cooperate fully with the Company in any such contest.

Section 3.3 Insurance. (a) The Company will cause the Project to be insured and at all times keep the Project insured, even during the construction thereof, against loss and/or damage to the Project, under a policy or policies in form and amount covering such risks as are ordinarily insured against by similar manufacturing plants, including, without limiting the generality of the foregoing, fire and other perils customarily covered by the extended coverage clause of fire insurance policies, windstorm, explosion, tornado, lightning, riots, strikes, civil commotion and malicious damage. The Company will pay all premiums on such insurance. All such policies shall be for the benefit of the Board, the Company and the Trustee as their interests shall appear, shall be made payable to the Trustee and shall be deposited with the Trustee, and the Trustee shall have the sole right to receive the proceeds from such policies and to collect and receipt for claims thereunder. All such insurance policies shall be taken out and maintained in generally recognized responsible insurance

companies, each of which is qualified and authorized to assume the respective risks undertaken, and shall be in the amount of (a) the full insurable value of the Project, or (b) the amount required to pay the principal of and interest on the Bonds as they mature and come due, or (c) the redemption price thereof, whichever is less. No policy of insurance shall be so written that the proceeds thereof will produce less than the minimum coverage required by the preceding sentence, by reason of co-insurance provisions or otherwise, without the prior consent thereto in writing by the Trustee. In lieu of depositing the policy or policies of insurance with the Trustee, the Company may deposit with the Trustee a certificate or certificates of the respective insurers attesting the fact that such insurance is in force and effect. Prior to the expiration or cancellation of any such policy, the Company will furnish the Trustee satisfactory evidence that such policy has been renewed or replaced by another policy. The Company may insure under a blanket insurance policy or policies, and in the event the insurance coverage is by such blanket insurance coverage, it shall be sufficient to furnish to the Trustee a certificate or duplicate copy of each such blanket policy of insurance.

(b) The Company shall also take out and at all times maintain and pay the premium on policies of insurance in generally recognized responsible insurance companies, each of which is qualified to assume the risks, for the benefit of the Trustee, the Board and the Company as their interest may appear, against liability for injuries to persons and property or death or accidental injuries occurring on or about the Project, or in or about adjoining streets and passageways, in the minimum amount of \$100,000 liability to any one person for personal injury or death, \$25,000 liability to any one person for property damage, and \$500,000 liability for any one accident. Such insurance shall be provided from the date any of the Bonds are sold and delivered by the Board and shall be effective while the Project is being constructed as well as thereafter during the entire term of the lease. The insurance policies or certificates evidencing the same shall be filed with the Trustee so long as any of the Bonds shall be outstanding and thereafter with the Board. Such policies or certificates shall be

filed with the Trustee on or before the delivery and sale of any of the Bonds. Such insurance may also be provided under a blanket insurance policy or policies as hereinabove provided.

Section 3.4 Advances by Board or Trustee. In the event the Company fails to take out or maintain the full insurance coverage required by this Lease Agreement, fails to pay the taxes and other charges referred to in Section 3.2 hereof at or prior to the time they are there required to be paid, or fails to keep the Project in as reasonably safe condition as its operating conditions permit and the Plant, the Leased Equipment and the other improvements located on the Leased Realty in good order and repair, the Board or the Trustee, after first notifying the Company of any such failure on its part, may (but shall not be obligated to) take out the required policies of insurance and pay the premiums on the same, pay such taxes or other charges or make such repairs, renewals and replacements as may be necessary to maintain the Project in as reasonably safe condition as the Company's operations permit and the Plant, the Leased Equipment and the other improvements located on the Leased Realty in good order and repair, respectively; and all amounts so advanced therefor by the Board or the Trustee shall become an additional obligation of the Company to the Board or to the Trustee, as the case may be, which amounts, together with interest thereon at the rate of 6% per annum from the date thereof, the Company will pay. Any remedy herein vested in the Board or the Trustee for the collection of the rental payments shall also be available to the Board and the Trustee for the collection of all such amounts so advanced.

Section 3.5 Indemnity of Board. The Board shall not be liable for any damage or personal injury to the Company, its officers, employees or the public, caused by or growing out of any breakage, leakage, getting out of order, or defective condition of any water or sewer pipe, fixtures, toilets, plumbing, electric wires, gas pipes, apparatus, or connections, or machinery or equipment or any of them, on the Leased Realty, or caused by or growing out of any defects in the Project or any part thereof, even if such defect occurred or existed prior to the delivery of possession of the Leased Realty and the Project to the Company. The

Company shall save the Board harmless from any action, suit, judgment, or liability against the Board on account of any defects in the condition of the premises for any personal injury or property damage occasioned or claimed to have been occasioned thereon or thereby and shall defend the Board against all such claims at Company's expense. The Board shall promptly notify Company of any and all such claims and shall cooperate with the Company in the defense thereof. Failure of the Board to notify the Company of such claim within time to permit the Company to defend against such claim will release the Company of the liability to defend against such claim.

#### ARTICLE IV

##### Provisions Respecting Damage, Destruction and Condemnation

Section 4.1. Damage and Destruction Provisions. In the event that the Project is destroyed or damaged, by whatever cause, the Company shall have the option (a) to continue to pay the rent and to cause the Project to be repaired or rebuilt in the same condition and value as immediately preceding the event causing such loss, or (b) to pay to the Trustee for the account of the Bond and Interest Fund, held by the Trustee under the Mortgage, a sum which, when added to all insurance proceeds which the Trustee has collected on account of such destruction or damage, shall be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same. In the event that the Company shall elect to cause the Project to be repaired or rebuilt, the Company shall continue to make the rental payments provided for in this Lease Agreement shall cause an estimate to be made of the expense of repairing and rebuilding the Project in the same condition and value as immediately preceding the event causing such loss, by a capable and reputable architect or engineer, or both, acceptable to the Board and the Trustee, and the Company shall forthwith pay to the Trustee for the account of the Construction Fund the amount by which such estimate exceeds the insurance proceeds collected by the Trustee on account of such damage or destruction; and the Company

shall forthwith proceed with all practicable dispatch to cause the Project to be repaired and rebuilt in the same condition and value as immediately preceding the event causing such loss, and the Board shall cause the expenses thereof to be paid by the Trustee out of the Construction Fund, as in the Mortgage provided. If the actual cost of repairing and rebuilding the Project shall exceed the amount available therefor in the Construction Fund, the Company shall pay any deficiency from its own funds. In the event that the Company shall elect not to cause the Project to be repaired or rebuilt, the Company shall forthwith pay to the Trustee a sum of money which, when added to the insurance proceeds, will be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same; and upon the payment or retirement of all Bonds and interest thereon and all other obligations under the Mortgage, the Basic Rent for the Primary Term of the lease shall abate. Payment to the Trustee of insurance proceeds in excess of the amounts used to repair or rebuild the Project in the same condition and value as immediately preceding the event causing the loss or destruction, or if insurance proceeds are paid to the Trustee to pay or redeem the Bonds, shall be credited as follows:

(1) To the abatement of Basic Rents which will thereafter be due and payable as herein provided and the latest installment thereof shall be first abated; and when all Bonds and interest thereon shall have been paid in full, whether at maturity or by call for prior redemption, and all other obligations under the Mortgage, including the payment of the Trustee's fees, charging and expenses, shall have been paid and discharged,

(2) The Company shall be entitled to the excess, if any, then remaining uncredited.

Section 4.2 Condemnation Provisions. In the event the Project and the Leased Realty or any part of either shall be taken under the exercise of the power of eminent domain, the award of compensation, except such portion as is allocable to the Company for damages, shall be paid to the Trustee to be applied to the payment of principal of and interest on all Bonds then outstanding or to redeem the same, with any excess to be paid to the Board, unless the Company

shall have notified the Board of its desire to utilize the award for the purpose of adapting the Project to Company's continued use. In the event Company elects to cause the Project to be repaired or rebuilt for its continued use, the Company shall continue to make the rental payments provided for in this Lease Agreement and shall cause an estimate to be made of the expenses of such work by a capable and reputable architect or engineer, or both, acceptable to the Board and the Trustee, and the Company shall, prior to the commencement of construction, pay to the Trustee for the account of the Construction Fund the amount, if any, by which such estimate exceeds the condemnation award; and Company shall forthwith proceed with all practicable dispatch to cause the Project to be repaired or rebuilt as aforesaid, and the Board shall cause the expenses thereof to be paid by the Trustee out of the Construction Fund. If the cost of repairing or rebuilding the Project exceeds the amount available therefor in the Construction Fund, the Company shall pay any deficiency from its own funds. In the event Company elects to redeem the outstanding Bonds and the award (or portion thereof after use by the Company as above provided) is insufficient to pay or redeem all outstanding Bonds, the Company shall either (a) pay to the Trustee, for the account of the Bond and Interest Fund held by the Trustee under the Mortgage, a sum which, when added to the proceeds of the condemnation award which shall be paid to the Trustee, shall be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same, or (b) continue to occupy the Leased Realty or any part thereof then remaining and cause the Board to apply the proceeds of the award of condemnation paid to the Trustee to the redemption of Bonds, whereupon the basic rental payments will be reduced to the amount required to pay the principal of and interest on the remaining outstanding Bonds as such principal and interest become due and payable.

#### ARTICLE V

##### Certain Provisions Relating to Assignment, Subleasing and Mortgaging and to the Bonds

Section 5.1 Provisions Relating to Assignment and Subleasing. The Company may assign this Lease Agreement, and may sublet the Project or any

part thereof, without the necessity of obtaining the consent of either the Board or the Trustee. No such assignment or subleasing shall, however, in any way relieve the Company from primary liability for any of its obligations hereunder, and in the event of any such assignment or subleasing the Company shall continue to remain primarily liable for payment of all rentals herein provided to be paid by it and for performance and observance of the other agreements and covenants on its part herein provided to be performed and observed by it.

Section 5.2 Mortgaging of Project by Board. The Board may mortgage the Project to the Trustee as security for the payment of the Bonds, subject to this Lease Agreement (which shall be superior to the Mortgage), all as provided in the Mortgage, and may assign its interest in and pledge any monies receivable under this Lease Agreement to the Trustee as security for payment of the principal of and the interest on the Bonds. The Board may in the Mortgage obligate itself to follow the instructions of the Trustee or the holders of the Bonds or a certain percentage thereof in the election or pursuit of any remedies herein vested in it. In the event the Board's interest in this Lease Agreement is so assigned and pledged to the Trustee, the Trustee shall have all rights and remedies herein accorded the Board and any reference herein to the Board shall be deemed, with the necessary changes in detail, to include the Trustee, and the Trustee and the holders of the Bonds shall be deemed to be third party beneficiaries of the covenants and agreements of the Company herein contained. Subsequent to the issuance of the Bonds and prior to their payment in full, the Board and the Company shall have no power to modify, alter, amend or terminate this Lease Agreement without the prior written consent of the Trustee and then only as provided in the Mortgage, provided that the Board and the Company may, without any such consent, make such modifications, alterations and amendments of this Lease Agreement as are specifically authorized in or contemplated by this Lease Agreement or the Mortgage. The Board will not amend the Mortgage or any mortgage supplemental thereto without the prior written consent of the Company. Neither, the Board nor the Company will unreasonably withhold any consent herein or in the Mortgage required of either of them. The Company shall

not be deemed to be a party to the Mortgage or the Bonds issued thereunder and reference in this Lease Agreement to said Mortgage and Bonds shall not impose any liability or obligation upon the Company other than its specific obligations and liabilities undertaken in this Lease Agreement.

Section 5.3 Redemption of Bonds. It is understood and agreed by the parties hereto that the amount necessary to redeem Bonds shall include, in addition to the redemption price, all expenses necessary to effect the redemption and interest on the Bonds to be redeemed to the next ensuing date on which they can be redeemed, and, if all Bonds are redeemed, all other obligations under the Mortgage, including the Trustee's fees, charges and expenses. Any payment made by the Company to be applied to the redemption of Bonds shall be made at least 45 days prior to the proposed redemption date and at the time of such payment the Company shall notify the Board, the Trustee and the original purchasers of the Bonds, in writing, as to the purpose of such payment, and the Board, upon receiving such notice, shall be obligated and hereby agrees to take all necessary action to have the payment made by Company for the purpose of redeeming Bonds applied to the redemption of as many Bonds as such payment will permit under the Bond redemption provisions of the Bonds and the Mortgage.

Section 5.4 References to Bonds Ineffective after Bonds Paid. Upon full payment of the Bonds, all references in this Lease Agreement to the Bonds and the Trustee shall be ineffective and neither the Trustee nor the holders of any of the Bonds shall thereafter have any rights hereunder, saving and excepting those that shall have theretofore vested. For purposes of this Lease Agreement, the Bonds shall be deemed fully paid:

(a) If there is on deposit in the Bond and Interest Fund a total amount sufficient to pay the principal of all the then outstanding Bonds plus the interest due thereon until and at their respective maturities and provision for payment of all Trustee's and paying agents' fees, accrued and to accrue, has been made in a manner satisfactory to the Trustee and such paying agents, or

(b) if there have been irrevocable deposited with the Trustee (i) monies sufficient to pay, redeem and retire all the then outstanding Bonds (including,

without limitation, principal, premium, interest to maturity or earliest practicable redemption date, as the case may be, expenses of redemption and Trustee's and paying agents' fees), and (ii) evidence satisfactory to the Trustee that all redemption notices required by the Mortgage have been duly given by the Board or irrevocable powers authorizing the Trustee to give such redemption notices.

In the event the Bonds are fully paid prior to the last maturity thereof, or an amount sufficient to pay, redeem and retire all the then outstanding Bonds including principal, premium, interest to maturity or earliest practicable redemption date (as the case may be), expenses of redemption and Trustee's and paying agents' fees have been irrevocably deposited with the Trustee in the Bond and Interest Fund for such purpose, the Company shall be entitled to use and occupancy of the Project from the date of such payment until the expiration of the Primary Term without the payment of any further Basic Rent but otherwise on all the same terms and conditions hereof. If, after full payment of the Bonds, there is any surplus remaining in the Bond and Interest Fund, the Board will promptly pay such surplus to the Company.

#### ARTICLE VI

##### Particular Covenants of The Company

Section 6.1 General Covenants. The Company will not do or permit anything to be done on or about the Project that will affect, impair or contravene any policies of insurance that may be carried on the Project or any part thereof against loss or damage by fire, casualty or otherwise. The Company will, in the use of the Leased Realty and the Plant, the public ways abutting the same and the Leased Equipment, comply with all lawful requirements of all governmental bodies.

Section 6.2 Inspection of Project. The Company will permit the Board, the Trustee, any holder of not less than \$50,000 principal amount of Bonds and their duly authorized agents, (subject to the restrictions and requirements imposed by contracts with the United States Government or agencies thereof, or by subcontracts governed by such contracts, being performed by the Company, or its subtenant or subtenants, in any part of the Leased Realty

or the Project, at all reasonable times to enter upon, examine, inspect and photograph the Leased Realty, the Leased Equipment, the Plant and the Project; and in the event of default as hereinafter provided, the Company will permit any nationally recognized firm of certified public accountants designated by the Trustee, to have access to, inspect, examine and make copies of the books and records, accounts and data of the Company.

Section 6.3 Special Covenants. In order that the Board may be reasonably assured of the full payment of rent over the full primary term of the Lease,

(a) The Company shall install and maintain proper books of record and account, in which full and correct entries shall be made in accordance with standard accounting practice, of all business and affairs of the Company, and shall furnish to the Board, to the Trustee and to the original purchasers of the Bonds quarterly and annual balance sheets and income and expense statements showing, respectively, in reasonable detail, the financial condition of the Company at the close of each such period and its financial operations during each such period. The annual balance sheet and income and expense statement shall be certified in accordance with the standard form of opinion adopted by the American Institute of Accountants, by a certified public accountant who is a member of the said American Institute of Accountants and against whom the Trustee makes no reasonable objection. The profit and loss statements shall accurately reflect gross income and the net earnings of the Company.

(b) The Company will at all times keep an office or agency in the City of Decatur, State of Alabama, where notices, requests and demands in respect of this Lease Agreement may be served, and it will in writing notify the Board and the Trustee of the location of each such office or agency. In default of any such office or agency or such notification thereof, such notices, requests and demands may be served at the principal office of the Trustee.

(c) The Company will duly pay and discharge all taxes, assessments and other governmental charges and liens lawfully imposed upon the Leased Realty and the Project and upon the properties of the Company, provided, how-

ever, the Company shall not be required to pay any taxes, assessments or other governmental charges so long as in good faith it shall contest the validity thereof by appropriate legal proceedings.

(d) the Company will maintain and preserve its Certificate of Incorporation or Charter and its corporate existence and organization, and its authority to do business in the State of Alabama, and will not voluntarily dissolve without first discharging its obligations under this Lease Agreement, and will comply with all valid laws, ordinances, regulations and requirements applicable to it or to its property and the Project.

(e) The Company will not merge or consolidate with any other corporation and will not transfer or convey all of its property, assets and licenses, or any substantial portion thereof, except (i) upon terms and conditions that will fully protect the interest of the Board and the holders of the Bonds, and (ii) upon the execution and delivery to the Board and to the Trustee of an agreement supplemental hereto which will obligate the successor corporation or transferee to assume and perform and abide by all the terms and conditions of this Lease Agreement. In case the Company or any successor corporation or transferee shall be consolidated or merged with or into any other corporation or shall make a conveyance, as permitted under the provisions of this subsection, the corporation formed by or resulting from such consolidation or merger, or the transferee to which such conveyance shall have been made as aforesaid, upon complying with the provisions of this subsection, shall succeed to and be substituted for the Company with the same force and effect as if it had been named in and had executed this Lease Agreement as a party thereto, and shall have and possess and may exercise, subject to the terms and conditions of this Lease Agreement and of the Mortgage, each and every power, authority and right herein reserved to and conferred upon the Company. The term "Company" includes and means, unless the context otherwise requires, not only the Fruehauf Trailer Company but also any such successor corporation or transferee. The supplemental Lease Agreement provided for in this subsection shall never be construed as a novation, alteration or amendment of or to this Lease Agreement, but as part of this Lease Agreement

and pursuant to its terms, and nothing herein contained shall be construed as authorizing or permitting the execution of any agreement which shall impair, or have the effect of impairing, the obligations intended to be imposed upon the Company by this Lease Agreement, and no such consolidation, merger or conveyance, and no such Lease Agreement or assumption of obligations, shall release the Company from its liability under this Lease Agreement or from the covenants in this Lease Agreement.

#### ARTICLE VII

##### Events of Default and Remedies

Section 7.1 Events of Default Defined. The following shall be "events of default" under this Lease Agreement, and the terms "events of default" or "default" shall mean, whenever they are used in this Lease Agreement, any one or more of the following events:

(a) Failure to pay any installment of Basic Rent that has become due and payable by the terms of this Lease Agreement;

(b) Failure of the Company to perform any of its obligations under this Lease Agreement or to duly observe any covenant, condition or agreement on its part required to be performed, provided such failure shall have continued for a period of thirty days after written notice by the Board of the Trustee specifying such non-performance or breach and requiring the same to be remedied, unless the Trustee shall have agreed in writing to an extension of such time prior to its expiration;

(c) The filing of a voluntary petition in bankruptcy or the commission of any act of bankruptcy by the Company, or the adjudication of the Company as a bankrupt, or the making by the Company of an assignment for the benefit of creditors, or the appointment by final order, judgment or decree of a court of competent jurisdiction of a receiver for the whole or any substantial part of the properties of the Company, provided such receiver shall not have been removed or discharged within sixty days of the date of his qualification, unless the Trustee shall have agreed in writing to an extension of the time within which to remove or discharge said receiver.

Section 7.2 Remedies on Default. Whenever any such event or default shall have happened and be continuing, the Board of the Trustee may take any of the following remedial steps:

(a) The Board or the Trustee may, at their option, declare all installments of Basic Rent payable under this Lease Agreement for the remainder of the Primary Term immediately due and payable;

(b) The Board or the Trustee may reenter and take possession of the Leased Realty, exclude the Company from possession thereof and rent the same for the account of the Company;

(c) The Board or the Trustee may, at their option, terminate the Lease Agreement, exclude the Company from possession of the Leased Realty and, if the Board or Trustee elect so to do, lease the same for the account of the Board, holding the Company liable for all rent due up to the date such lease is made for the account of the Board;

(d) The Board or the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the rent then due, whether by declaration or otherwise, or to enforce any obligation or covenant or agreement of the Company under this Lease Agreement or by law.

Section 7.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Board or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Board or the Trustee to exercise any remedy reserved to it in this Article VII, it shall not be necessary to give any notice, other than such notice as is herein expressly required.

Section 7.4 Agreement to Pay Attorneys' Fees. In the event the Trustee (in its own name or in the name and behalf of the Board) files

court proceedings to collect Basic Rent due hereunder or to enforce any other obligation, covenant, agreement, term or condition of this Lease Agreement, the Company will pay to the Trustee reasonable attorneys' fees and other expenses so incurred by the Trustee in connection with such court proceedings.

#### ARTICLE VIII

##### Options

Section 8.1 Option to Renew. If the Company pays the rental herein reserved to the Board and is not otherwise in default hereunder, it shall have the right and option, herein granted by the Board, to renew the Primary Term for a period of twenty (20) additional years from midnight of April 30, 1983 (that is, for an additional term expiring on midnight of April 30, 2003) by giving written notice of such renewal to the Board at least sixty (60) days prior to the expiration of the Primary Term. The cash rental payable by the Company during any such renewal term shall be the sum of \$20,000.00 per year, payable annually in advance, but otherwise all the terms and conditions herein contained shall apply during such renewal term.

Section 8.2 Options to Terminate. The Company shall have, if it is not in default hereunder, the following options to cancel or terminate the term of this Lease Agreement:

(a) At any time prior to full payment of the Bonds, the Company may terminate this Lease Agreement by paying to the Board and the Trustee, as additional or prepaid rental, in bankable funds an amount which, when added to the amount on deposit in the Bond and Interest Fund, will be sufficient to pay, retire and redeem all the outstanding Bonds in accordance with the provisions of the Mortgage (including, without limiting the generality of the foregoing, principal, interest to maturity or earliest practicable redemption date, as the case may be, premium, expenses of redemption and Trustee's and paying agents' fees);

(b) After full payment of the Bonds, the Company may terminate this Lease Agreement as of any then succeeding anniversary date by giving the Board

notice in writing not less than one hundred eighty (180) days prior to the anniversary date on which such termination is to become effective.

#### ARTICLE IX

##### Release of Unimproved Leased Realty

Section 9.1 Any part of the Leased Realty may be released from the provisions of this Lease Agreement and the lien of the Mortgage subject to compliance with the terms, provisions and conditions of this section. Such release shall be effected in the following manner:

(a) The Company shall deliver to the Board and to the Trustee its certificate (i) describing the Leased Realty to be released, which property to be released shall not include any existing building or structure except rights granted in party walls, the right to "tie into" existing utilities, the right to connect and join any building, structure or improvement with existing structures, facilities and improvements on the Leased Realty, and the right of ingress or egress to and from the public highway which shall not interfere with the use and occupancy of existing structures, improvements and buildings, (ii) describing the buildings, structures, or improvements to be erected on the property to be released and (iii) stating that such buildings, structures or improvements are necessary to the productivity of the Company's business and (iv) requesting that the property be so released.

(b) The Company shall also deliver to the Board and to the Trustee a certificate by an architect registered in the State of Alabama with experience in the design and construction of industrial buildings and structures reasonably satisfactory to the Trustee certifying that the buildings, structures or improvements described in the above certificate by the Company can be constructed on the real property to be released and will not unreasonably interfere with the use and occupancy of the existing buildings, structures and improvements on the Leased Realty, and

(c) The Company shall pay to the Board, or if any Bonds are outstanding, to the Trustee, an amount equal to the original cost of the Leased Realty to be released (calculated on the basis of the average per acre cost thereof to the

Board) plus an additional sum equal to One Hundred Dollars (\$100.00) for each twelve months period between May 1, 1963, and the date of the release multiplied by the number of acres to be released.

(d) The written consent of the Board to the release of such Realty shall be delivered to the Company and to the Trustee which consent shall not be unreasonably withheld if the two certificates hereinabove referred to have been furnished and the Board does not have reasonable cause to believe any statement set forth in any of said certificates are incorrect. Any realty so released from this Lease Agreement and the lien of the Mortgage shall be the unencumbered realty of the Board and may be leased by it under separate lease, may be mortgaged by it under separate mortgage which may be a first lien thereon and may be held, conveyed and otherwise used for any of the purpose or purposes for which the Board is incorporated subject to such terms and provisions as may be agreed upon between the Company and the Board. No release or releases effected under the provisions of this section of any realty shall affect the liability or the obligation of the Company for the payment of Basic Rent in the amounts and at the times provided in this Lease Agreement and there shall be no abatement or adjustment in the Basic Rent by reason of the release of any such realty and the obligation and the liability of the Company shall continue in all respects as provided in this Lease Agreement, excluding, however, any realty so released.

#### ARTICLE X

##### Miscellaneous

Section 10.1 Covenant of Quiet Enjoyment, Surrender of Project. So long as the Company performs and observes all the covenants and agreements on its part herein contained, it shall peaceably and quietly have, hold and enjoy the Project during the Primary Term, subject to all the terms and provisions hereof. At the end of the term hereof, or upon any prior termination of this Lease Agreement, the Company will surrender possession of the Project peaceably and promptly to the Board in good order and repair, loss by fire or other casualty and ordinary wear and tear only excepted.

Section 10.2 Representations. The Company represents that it has corporate power to enter into this Lease Agreement and to perform all acts herein required to be performed by it and that its execution and delivery hereof have been duly authorized by all necessary corporate action. The Board represents that it has corporate power to enter into this Lease Agreement and that its execution and delivery hereof have been duly authorized by all necessary corporate action.

Section 10.3 Retention of Title to Project by Board, Grant of Utility Easements and "Tie-In" of Utility Facilities. The Board will not itself sell, convey or otherwise dispose of all or any part of the Project during the term of this Lease Agreement without the prior written consent of the Company. Neither will the Board dissolve or do anything that will result in the termination of its corporate existence. The Board will, however, grant such utility and other similar easements over, across or under the Leased Realty as shall be requested by the Company and as are necessary or convenient for the efficient operation of the Project. The Board will also, upon request of the Company, (a) grant such utility and other similar easements over, across or under the Leased Realty as shall be necessary or convenient for the furnishing of utility and other similar services to real property adjacent to or near the Leased Realty and owned or leased by the Company, provided that such easements shall not adversely affect the operations of the facilities forming a part of the Project, and (b) in addition to the rights granted the Company in subsection (d) of Section 3.1 hereof, permit any utility and other similar facilities serving the Project to be "tied-into" utility and other similar facilities serving real property adjacent to or near the Leased Realty and owned or leased by the Company, provided that such "tie-in" shall not adversely affect the operation of the facilities forming a part of the Project and shall be so effected as to be subject to prompt disconnection at minimum expense.

Section 10.4 This Lease a Net Lease. The Company recognizes, understands and acknowledges that it is the intention hereof that this Lease be a net lease and that all the Basic Rent be available for payment of debt service

on the Bonds. This Lease Agreement shall be construed to effectuate such intent.

Section 10.5 Installation of New Equipment By Board In the event that at any time the Company desires to install in the Project additional machinery and equipment the Board will, on request of the Company and upon being furnished by the Company with the necessary funds, purchase and install in the Project such additional machinery and equipment, which shall then become and constitute a part of the Project, subject to the lease hereof.

Section 10.6 Notices. All notices hereunder shall be sufficient if sent by United States registered or certified mail, postage prepaid, addressed, if to the Board, at Decatur, Alabama; if to the Company, Detroit 32, Michigan (Attention, President), with a duplicate copy to the address of the Project; and if to the Trustee, Decatur, Alabama (Attention, Trust Officer). The Board, the Company and the Trustee may, by like notice, designate any further or different addresses to which subsequent notices shall be sent.

Section 10.7 Prior Agreements Cancelled. This Lease Agreement shall completely and fully supersede all other prior agreements, both written and oral, between the Board and the Company relating to the construction of the Plant, the purchase and installation therein of the Leased Equipment. the leasing of the Project and any options to renew. No party to any such prior agreement shall hereafter have any rights thereunder but shall look solely to this Lease Agreement for definition and determination of all of its rights, liabilities and responsibilities relating to the construction of the Plant, the purchase and installation therein of the Leased Equipment, the leasing of the Project and any options to renew.

Section 10.8 Board's Liabilities Limited. It is understood and agreed by and between the parties hereto that this Lease Agreement is entered into under and pursuant to the provisions of the aforesaid Act No. 648, adopted at the 1949 regular session of the Legislature of the State of Alabama and that no provision of this Lease Agreement shall be construed so as to give rise to a pecuniary liability of the Board or a charge against its

general credit. All obligations of the Board arising in connection with this Lease Agreement are limited to the proper application of the proceeds of the sale of the Bonds and revenues and receipts of the Project.

Section 10.9 Binding Effect. This Lease Agreement shall inure to the benefit of, and shall be binding upon, the Board, the Company and their respective successors and assigns.

Section 10.10 Severability. In the event any provision of this Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 10.11 Article and Section Captions. The article and section headings and captions contained herein are included for convenience only and shall not be considered a part hereof or affect in any manner the construction or interpretation hereof.

IN WITNESS WHEREOF, the Board and the Company have caused this Lease Agreement to be executed in their respective corporate names, have caused their respective corporate seals to be hereunto affixed, and have caused this Lease Agreement to be attested, all by their duly authorized officers, and have caused this lease agreement to be dated as of May 1, 1963.

THE INDUSTRIAL DEVELOPMENT  
BOARD OF THE CITY OF DECATUR

By /s/ F.W. TROUP  
-----  
Chairman of its Board of Directors

[SEAL]

Attest::

/s/ [ILLEGIBLE]  
-----  
Its Secretary

FRUEHAUF TRAILER COMPANY

By /s/ W.E. GRACE  
-----  
Its President

[Seal]

Attest:

/s/ [ILLEGIBLE]  
-----  
SECRETARY

STATE OF ALABAMA )  
 ) ss.  
COUNTY OF JEFFERSON )

I, the undersigned Notary Public in and for said County in said State, hereby certify that F. W. Troup whose name as Chairman of/the Board of Directors of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal of office this 13 day of May, 1963.

/s/ [ILLEGIBLE]  
-----  
Notary Public  
(My Commission Expires 2-8-64)

[NOTARIAL SEAL]

STATE OF MICHIGAN )  
 ) ss.  
COUNTY OF WAYNE )

I, the undersigned Notary Public in and for said County in said State, hereby certify that W. E. Grace, whose name as President of FRUEHAUF TRAILER COMPANY, organized under the laws of the State of Michigan, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said company.

Given under my hand and official seal of office this 10th day of May, 1963.

/s/ D.L. ACREE  
-----  
Notary Public  
(My Commission Expires Oct. 15, 1963)

NOTARIAL SEAL

[SEAL] D.L. ACREE  
Notary Public, Wayne County, Michigan  
My Commission Expires Oct. 15, 1963

## EXHIBIT A

to this Lease Agreement is the Mortgage and Indenture of Trust by and between The Industrial Development Board of the City of Decatur and State National Bank of Decatur, dated as of May 1, 1963, which is recorded in Volume 709, pages 568 et seq., in the office of the Judge of Probate of Morgan County, Alabama.

[STAMP]

[STAMP]

STATE OF ALABAMA )

COUNTY OF MORGAN )

## SUPPLEMENTAL LEASE AGREEMENT

SUPPLEMENTAL LEASE AGREEMENT between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of the State of Alabama (herein called the "Board") and FRUEHAUF CORPORATION, whose name was changed from Fruehauf Trailer Company, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama (herein called the "Company").

## R E C I T A L S

WHEREAS, the Board and the Company have heretofore entered into a Lease Agreement dated May 1, 1963 (the "Lease Agreement") recorded in the office of the Judge of Probate of Morgan County in Deed Book Volume 709, pages 630 et seq., with respect to certain real property (the "Leased Realty"), an aluminum rolling mill and fabricating plant (the "Plant") and machinery and equipment (the "Leased Equipment"), which realty, plant, machinery and equipment and improvements are together therein called the Project; and

WHEREAS, the Project was acquired by the Board from the proceeds of the sale of \$5,700,000 principal amount of its First Mortgage Industrial Revenue Bonds dated May 1, 1963, issued under and secured by a Mortgage and Indenture of Trust dated May 1, 1963, between the Board and the State National Bank of Decatur, as trustee, whose name has been changed to State National Bank of Alabama, recorded in the office of the Judge of Probate

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of Morgan County in Mortgage Book Volume 709a pages 568 et seq.( the "Mortgage"); and

WHEREAS, Section 1.5 of the Lease Agreement provides that, upon completion of the construction of the Plant and the purchase and installation of the Leased Equipment therein, the Board will, on written request of the Company or the Trustee Under the Mortgage, enter into a supplemental agreement with the Company identifying the items of Leased Equipment installed in the Plant and confirming the lease thereof to the Company thereunder; and

WHEREAS, the construction of the Plant and the purchase and installation of the Leased Equipment therein has been completed and the Company and the Trustee has each requested the Board in writing to enter into a supplemental agreement with the Company identifying the items of Leased Equipment installed in the Plant and confirming the lease thereof to the Company under the Lease Agreement.

NOW, THEREFORE, THIS SUPPLEMENTAL AGREEMENT:

1. The Leased Equipment consists of the following items which may be further identified by the following Serial Numbers physically attached thereto by the Company in the manner hereinafter referred to:

| Serial<br>Number<br>- - - - - | Item<br>-----  |
|-------------------------------|--|
| 1-63A                         | Continuous casting line for casting sheets 58 inches wide, and including a 50,000 pound capacity melting furnace                       |
| 2-63A                         | Continuous casting line for casting sheets 58 inches wide, and including a 50,000 pound capacity melting furnace                       |
| 3-63A                         | Marinite tip milling machine and drying oven   |
| 4-63A                         | Rolling mill for processing sheets 60 inches wide, together with electric motor for power drive  |
| 5-63A                         | Cut-to-length line   |
| 6-63A                         | Cleaning and leveling line   |
| 7-63A                         | Double paint coat line for continuous painting of 56 inch aluminum coil, including cleaning tanks, baking oven and paint storage tanks |
| 8-63A                         | Slitting line for slitting materials up to 56 inches wide  |
| 9-63A                         | Squaring shears for cutting sheets 144 inches wide   |
| 10-63A                        | Roll Grinder   |
| 11-63A                        | Annealing furnace with 80,000 pound capacity   |
| 12-63A                        | Annealing furnace with 80,000 pound capacity   |
| 13-63A                        | C02 gas generator  |
| 14-63A                        | Cooling towers   |
| 15-63A                        | Propane standby equipment  |
| 16-63A                        | Air compressor   |
| 17-63A                        | Truck scales   |

2. The Company warrants and represents that it has plainly, distinctly, permanently and conspicuously placed and fastened on each of the aforesaid items of Leased Equipment a metal plate, readily visible, bearing the following words: "This equipment is the property of The Industrial Development Board of the City of Decatur, subject to the Mortgage and Indenture of Trust dated May 1, 1963, Serial No.\_\_\_\_", and that the respective serial numbers set forth in paragraph 1 of this Supplemental Lease Agreement appear on each such metal plate. In case any such plate shall at any time be removed, defaced or destroyed, the Company covenants and agrees that it will immediately cause the same to be restored and replaced.

3. The Leased Equipment has been installed in the Plant as shown on the following plat or drawing of the Plant and the location of each item on said plat or drawing is identified by the respective serial number of such item:

[MAP]

4. The Board does hereby confirm the lease of the above-described Leased Equipment to the Company under the Lease Agreement.

IN WITNESS WHEREOF, the Board has caused this Supplemental Lease Agreement to be executed in its name and on its behalf by the Chairman of its Board of Directors and its corporate seal to be hereunto affixed and attested by its Secretary, and the Company has caused this Supplemental Lease Agreement to be executed in its name and on its behalf by one of its officers and its corporate seal to be hereunto affixed and attested by one of its officers, all as of the 12 day of June, 1964.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
THE CITY OF DECATUR

By /s/ F.W. TROUP  
-----  
Chairman of its Board of Directors  
F.W. Troup

[Seal]

Attest: /s/ [ILLEGIBLE]  
-----  
Secretary

FRUEHAUF CORPORATION  
By /s/ W. E. GRACE  
-----  
Its President  
-----

[Seal]

Attest: /s/ [ILLEGIBLE]  
-----  
Its Secretary  
-----

STATE OF ALABAMA        )  
                           ) ss.  
 COUNTY OF MORGAN        )

I, the undersigned Notary Public in and for said County in said State, hereby certify that F. W. Troup whose name as Chairman of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal of office this 11th day of June, 1964.

[SEAL]

/s/ [ILLEGIBLE]  
 -----  
 Notary Public

NOTARIAL SEAL

My commission expires: July 6th, 1966

STATE OF MICHIGAN     )  
                           ) ss.  
 COUNTY OF WAYNE        )

I, the undersigned Notary Public in and for Macomb County in said State, hereby certify that W.E. GRACE, whose name as President of FRUEHAUF CORPORATION, organized under the laws of the State of Michigan, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal of office this 8th day of June, 1964.

/s/ ALICE L. SWIDERSKI  
 -----  
 Notary Public

NOTARIAL SEAL

ALICE L. SWIDERSKI

[STAMP]

My commission expires: Jan. 28, 1968

STATE OF ALABAMA )  
 )  
 COUNTY OF MORGAN )

THIS AGREEMENT entered into by and between The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of the State of Alabama (the "Board") and Fruehauf Corporation, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama, formerly Fruehauf Trailer Company, the name of which corporation has been changed to Fruehauf Corporation (the "Company"), on and as of April 30, 1983, WITNESSETH THAT:

R E C I T A L S

As of May 1, 1963, the Board and the Company entered into a lease agreement which is recorded in the Office of the Judge of Probate of Morgan County, Alabama, in Book 709, at Pages 630, et seq., to which reference is here made for the description of the property leased thereby. On May 21, 1963, the Board sold and conveyed to the Company an option to purchase the premises described and referred to in said lease of May 1, 1963, at and for the sum of Thirty Thousand and no/100 Dollars (\$30,000.00), at such time as no further rent was payable for the original term of said lease. Said lease contained an option to renew the primary term thereof for a period of twenty additional years from midnight of April 30, 1983, at a cash rental payable by the Company during such renewal term in the sum of Twenty Thousand and no/100 Dollars (\$20,000.00) per year, payable annually in advance, but otherwise under all of the terms and conditions therein contained. As of May 1, 1964, a part of the land described in said lease of May 1, 1963, was released from that lease and was released from said option of May 21, 1963, to the Company and a lease agreement of such part of said property so released was entered into between the Board and the Company, dated as of May 1, 1964, and which is recorded in the Probate Office of Morgan County, Alabama, in Book 727, at Pages 797, et seq., to which reference is here made for the description of the property so released from the May 1, 1963 lease and the May 21, 1963 option. The Company has notified the Board that it desires to renew the lease of May 1, 1963, as to the property described therein less and except the

property described in the lease of May 1, 1964, for an additional period of twenty years from May 1, 1983, to April 30, 2003, at and for a cash rental during said renewal term of Twenty Thousand and no/100 Dollars (\$20,000.00) per year, payable annually in advance, but otherwise upon all the terms and conditions contained in said May 1, 1963, lease, which terms and conditions shall apply during such renewal term. Also, the Company has notified the Board that it desires to purchase an option from the Board to purchase said premises upon which said renewal lease is to be made at any time during said renewal period at and for the sum of Thirty Thousand and no/100 Dollars (\$30,000.00) payable in cash, with the provision that upon exercise of such option to purchase that no further or additional rents shall be payable for any unexpired portion of such renewal term of said lease.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements and undertakings of the parties hereinafter contained and of the sum of One and no/100 Dollars (\$1.00) cash to each of the parties in hand paid by the other, the receipt of which is hereby acknowledged, it is agreed, by and between the parties as follows:

1. The primary term of the above identified lease of May 1, 1963, as to the property described therein, less and except the property described in the above identified lease of May 1, 1964, is hereby renewed and extended for a period of twenty additional years from midnight of April 30, 1983 to midnight of April 30, 2003, at and for cash rental payable by the Company during such renewal term in the amount of Twenty Thousand and no/100 Dollars (\$20,000.00) per year, payable annually in advance, but otherwise under all of the terms and conditions contained in said lease of May 1, 1963, which shall apply during such renewal term. The rental in the amount of Twenty Thousand and no/100 Dollars (\$20,000.00) for the lease year beginning May 1, 1983, and ending April 30, 1984, in the sum of Twenty Thousand and no/100 Dollars (\$20,000.00) is paid in cash by the Company to the Board upon the execution and delivery of this agreement, the receipt is hereby acknowledged by the Board.

2. In consideration of the sum of One Hundred and no/100 Dollars (\$100.00) cash to the Board in hand paid by the Company, the receipt of which is hereby acknowledged, the Board hereby agrees that the Company, not being in default under the aforementioned lease, shall have the option at any time, on written notice to the Board of its election to exercise such option, to purchase the premises described and referred to in said lease of May 1, 1963, except that part thereof described in said lease of May 1, 1964, together with all improvements thereon, including the buildings, machinery and equipment and all other items of real or personal property referred to collectively in said lease as "the project" for the sum of Thirty Thousand and no/100 Dollars (\$30,000.00) in cash and provided that such option shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board in person or by registered or certified mail on or before 12:00 noon on April 30, 2003. In the event of the exercise of such option, the property shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of said lease, no further rental shall be payable for the unexpired portion of the said additional or renewal term.

IN WITNESS WHEREOF, the Board and the Company have caused this agreement to be executed in their respective corporate names and have caused their respective corporate seals to be hereunto affixed and have caused this agreement to be attested by their duly authorized officers and have caused this agreement to be dated as of April 30, 1983.

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE CITY OF DECATUR

[SEAL]

By: /s/ [ILLEGIBLE]  
-----  
Chairman of Its Board of Directors

By: /s/ ILLEGIBLE  
-----  
Secretary

FRUEHAUF CORPORATION

BY: /s/ RICHARD P. HELWIG

-----  
Its Vice President

[SEAL]

ATTEST:

[ILLEGIBLE]

[STAMP]

-----  
Its Assistant Secretary

STATE OF ALABAMA    )  
                          )  
COUNTY OF MORGAN    )

I, the undersigned authority, in and for said county in said state, hereby certify that D. C. Shelton, Jr., whose name as Chairman of the Board of Directors of The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal this 27th day of May, 1983.

[SEAL]

/s/ ILLEGIBLE

-----  
Notary Public

NOTARIAL SEAL

STATE OF MICHIGAN    )  
                          )  
COUNTY OF WAYNE     )

I, the undersigned authority, in and for said county in said state, hereby certify that Richard P. Helwig, whose name as Vice President of Fruehauf Corporation, a corporation organized under the laws of the State of Michigan, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

GIVEN under my hand and official seal this 24th day of June, 1983.

/s/ JEAN WESTRICK

-----  
Notary Public

[SEAL]

[STAMP]

[STAMP]

[STAMP]

STATE OF ALABAMA )

May 1, 1964

COUNTY OF MORGAN )

## LEASE AGREEMENT

Lease Agreement between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of the State of Alabama (herein called the "Board"), and FRUEHAUF CORPORATION, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama (herein called the "Company").

## R E C I T A L S :

The Board proposes to construct on the real property hereinafter described an aluminum rolling mill and fabricating plant, to purchase the machinery and equipment hereinafter described and to lease said real property, plant, machinery and equipment to the Company. To finance the construction of said plant and the purchase of said machinery and equipment, all for the promotion of local manufacturing and industrial development, the Board proposes to authorize the issuance of \$2,000,000 principal amount of its First Mortgage Industrial Revenue Bonds, to be dated May 1, 1964 (herein called the "Bonds"), which are more particularly described in the Mortgage hereinafter referred to. The Bonds are to be secured by a pledge and assignment of the Board's interest in this Lease Agreement and by a pledge and assignment of the revenues and receipts derived by the Board from the leasing or sale of the Project hereinafter referred to and will be issued under and additionally secured by a Mortgage and Indenture of Trust dated as of May 1, 1964, (herein called the "Mortgage"), from the Board to the State National Bank of Alabama, Decatur, Alabama (herein called the "Trustee"), under which the revenues and receipts derived by the Board from the leasing or sale of the said Project will be pledged for the payment of the principal of and the interest on the Bonds and under which the said Project will be mortgaged and

conveyed to the Trustee as additional security for payment of said principal and interest. The Mortgage is to be in substantially the form attached hereto as Exhibit A.

The construction of said plant, the purchase of said machinery and equipment, the issuance and sale of the Bonds and the lease of said real property, plant, machinery and equipment to the Company will promote industry and develop trade by inducing manufacturing industrial and commercial enterprises to locate in the State of Alabama, or to enlarge and expand existing enterprises, or both, and further the use of its agricultural products and natural resources. Under the provisions of Act No. 648 enacted at the 1949 Regular Session of the Legislature of Alabama, as amended, the Board has the power to own said real property, to construct said plant thereon, to purchase said machinery and equipment, to issue and sell the Bonds and to lease said real property, plant, machinery and equipment to the Company. To achieve the objectives mentioned above, the Board and the Company have entered into this Lease Agreement.

Now, therefore, this Agreement

W I T N E S S E T H:

That in consideration of the respective agreements on the part of the Board and the Company hereinafter contained, the Board does hereby lease to the Company, and the Company does hereby rent from the Board, for and during the Primary Term hereinafter referred to and upon and subject to the terms and conditions hereinafter specified, the following described real property situated in Morgan County, Alabama (the said real property being herein called the "Leased Realty"):

Beginning at the Northwest corner of Section 13, Township 5 South, Range 5 West, Morgan County, Alabama, and run thence S 0 degrees 54' W along the west boundary line of said Section 13 a distance of 30 feet to a point on the south right of way line of Alabama Highway No. 20; thence S 89 degrees 03' E along the south right of way line of said Alabama Highway No. 20 a distance of 41.5 feet to an iron pin; thence S 0 degrees 54' W a distance of 423.38 feet to a point; thence N 89 degrees 06' W a distance of 75.25 feet to the true point of beginning; thence from the true point of beginning S 1 degree 05' W a distance of 38 feet to a point; thence S 88 degrees 55' E a distance of 14.9 feet to a point; thence S 1 degree 05' W a distance of 20.43 feet to a point; thence S 88 degrees 55' E a distance of 1.10 feet to a point; thence S 1 degree 05' W a distance of 165.57 feet to a point; thence N 88 degrees 55' W a distance of 16 feet to a point; thence S 1 degree 05' W a distance of 249.05 feet to a point; thence S 88 degrees 55' E a distance of 16 feet to a point; thence S 1 degree 05' W a distance of 172 feet to a point; thence N 88 degrees 55' W a distance of 204.42 feet to a point; thence N 1 degree 05' E a distance of 82 feet to a point; thence S 88 degrees 55' E a distance of 124.42 feet to a point; thence N 1 degree 05' E a distance of 564.05 feet to a point; thence S 88 degree 55' E a distance of 64 feet to the true point of beginning; together with (i) the right to connect and join any building, structure or improvement that may be constructed on the above described real property with existing structures, facilities and improvements adjacent to or abutting said real property, (ii) the right to tie into existing utilities situated on property adjacent to or abutting said real property and (iii) the right of ingress and egress to and from Alabama Highway No. 20 over property situated north of the above described real property, which right of ingress and egress, however, shall not interfere with the use and occupancy of existing structures, improvements or buildings.

together with the Plant and the Leased Equipment (hereinafter identified) and all other improvements thereto now or hereafter made (the said real property, plant, improvements, machinery and equipment, as they may at any time exist, being herein together called the "Project"). The Leased Equipment shall consist of the following items, which shall be further identified by the following serial numbers to be affixed thereto by the Company as provided in Section 1.5 of this Lease Agreement:

| Serial<br>Number<br>----- | Item<br>----   |
|---------------------------|--|
| 1-64A                     | Continuous casting line for casting sheets 58" wide including 50,000 pound capacity melting furnace. |
| 2-64A                     | Continuous casting line for casting sheets 58" wide including 50,000 pound capacity melting furnace. |
| 3-64A                     | Marinite tip milling machine and drying oven   |
| 4-64A                     | C02 gas generator  |
| 5-64A                     | Annealing furnace with an 80,000 lb. capacity.   |

The items of Leased Equipment identified by serial number 4-64A, the C02 gas generator, and by serial number 5-64A, the annealing furnace, shall be installed in the Plant (hereinafter defined) at the location shown on the following plat or drawing and the items of Leased Equipment identified by serial number 1-64A and 2-64A, the two continuous casting lines, and serial number 3-64A, the marinite tip milling machine and drying oven, will be installed in the building adjacent to and west of the Plant (herein called the "Adjacent Building") at the respective locations shown on said plat or drawing:

[MAP]

The following legends appearing on the foregoing plat or drawing, to-wit, 1-63A, 2-63A, 3-63A, 4-63A, 5-63A, 6-63A, 7-63A, 8-63A, 9-63A, 10-63A, 11-63A 12-63A, 13-63A, 14-63A, 15-63A, 16-63A, and 17-63A, show the location of various items of machinery and equipment now owned by the Board (herein called the "Existing Equipment") and now installed in the Adjacent Building which Existing Equipment and Adjacent Building are subject to that certain Mortgage and Indenture of Trust between the Board and the State National Bank of Alabama, recorded in the office of the Judge of Probate of Morgan County in Volume 709 at Pages 568, et seq., securing \$5,700,000 principal amount of the Board's First Mortgage Industrial Revenue Bonds dated May 1, 1963, as supplemented by the Supplemental Mortgage and Indenture of Trust recorded in the office of the Judge of Probate of Morgan County in Volume 732 pages 637, and which Existing Equipment and Adjacent Building are now leased by the Board to Fruehauf Corporation under separate Lease Agreement dated May 1, 1963, and recorded in the office of the Judge of Probate of Morgan County in Volume 709 at pages 630, et seq., and Supplemental Lease Agreement recorded in said office in Volume 732 at pages 645, The Adjacent Building and the Existing Equipment are not subject to the provisions of this Lease Agreement but are shown on the aforesaid plat or map solely for identification purposes and solely for the purpose of showing the location of the Existing Equipment in relation to the items of Leased Equipment which are subject to the provisions of this Lease Agreement.

This Lease Agreement is made upon and subject to the following terms and conditions, to each of which the Board and the Company hereby agree:

## ARTICLE I

ACQUISITION OF THE PLANT AND THE  
LEASED EQUIPMENT

Section 1.1 Agreement to Construct Plant and to Purchase Leased Equipment. Promptly following the issuance and sale of the Bonds and out of the principal proceeds derived therefrom, the Board (a) will construct on the Leased Realty an aluminum rolling mill and fabricating plant with approximately 48,000 square feet of floor space substantially in accordance with plans and specifications therefor to be prepared by the Company for the account of the Board and to be furnished to the Board by the Company, and (b) will purchase the Leased Equipment. All contracts and orders for such construction and purchase, which contracts and orders may provide for progress payments, and all request for payments out of the Construction Fund (to be created in the Mortgage and herein called the "Construction Fund") shall be signed on behalf of the Board, subject to written approval by the Company in all respects. If after the exercise of due diligence by the Board, it is impossible for the Board to construct any part of the Plant which the Company duly orders and directs the Board so to construct or to purchase any item of the Leased Equipment which the Company duly orders and directs the Board so to purchase, the Company (a) will withdraw the order and direction in question, or (b) will itself effect the construction or purchase ordered thereby, for and in the name and on behalf of the Board, in which case the Company shall be entitled to reimbursement from the Construction Fund for the costs incurred by it in effecting such construction or purchase, as the case may be.

The Board and the Company shall from time to time each appoint by written instrument an agent or agents authorized to act for each respectively in any or all matters relating to the construction of the Plant, the purchase of the Leased Equipment and

payments out of the Construction Fund. One of the agents appointed by the Company shall be designated its "Project Manager". Either the Board or the Company may from time to time revoke, amend or otherwise limit the authorization of any agent appointed by it to act on its behalf and designate another agent or agents to act on its behalf, provided that there shall be at all times at least one agent authorized to act on behalf of the Board, and at least one agent (who shall be the Project Manager) authorized to act on behalf of the Company, with reference to all the foregoing matters. In the event that after reasonable request made to the Board by the Company, the Board fails or refuses to enter into or execute any contract or order for such construction or purchase and fails or refuses to issue or execute a payment requisition from the Construction Fund for payment of any item that may under the terms of the Mortgage be paid from the Construction Fund, the Project Manager then designated by the Company, who is hereby irrevocably appointed as agent for the Board for such purposes, (a) may enter into, execute and deliver any such contract or order, for and in the name and on behalf of the Board, or (b) may issue and execute, also for and in the name and behalf of the Board and without any approval of any officer, employee or other agent thereof, payment requisition on the Construction Fund, as the case may be.

Section 1.2 Development and Design Expenses Incurred by Company. In order to expedite the construction of the Plant, the Board has heretofore authorized the Company to go forward with the planning, development and design thereof and with the planning, development and design of the items of Leased Equipment. The Board acknowledges that all reasonable costs, expenses and fees (including, without limitation, engineering, legal, procurement, accounting and auditing fees and expenses) incurred by the Company in connection with such planning, development and design (whether

before or after the execution and delivery of this Lease Agreement or before or after the issuance and sale of the Bonds) constitute a part of the project costs, for which the Company shall be entitled to reimbursement from the Construction Fund.

Section 1.3 No Warranty of Suitability by Board. The Company recognizes that since the plans and specifications for the Plant are to be prepared by it and that since the items of Leased Equipment are to be selected by it, the Board can make no warranty, either express or implied, or offer any assurances that the Plant or the Leased Equipment will be suitable for the Company's purposes or needs or that the proceeds derived from the sale of the Bonds will be sufficient to pay in full all the project costs.

Section 1.4 Completion of the Project. If the Construction Fund shall be insufficient to pay fully all sums required to construct the Plant and purchase all items of Leased Equipment, the Company shall be obligated to complete the construction and acquisition of the Project without interruption, at its own expense and the Company shall pay any such deficiency by making payments directly to the construction contractor or contractors and to the suppliers of materials, machinery and equipment as the same shall become due, and the Company shall save the Board whole and harmless from any obligation to pay such deficiency. The Company shall not by reason of the payment of such excess costs from its own funds be entitled to any diminution in the payment of the rents hereunder.

Should the Company fail to comply with the foregoing provisions of this section, the Board shall have any one or more of the following remedies:

(a) The Trustee shall be entitled to retain all payments made as rent under this Lease Agreement by the Company, and the Company shall be obligated to pay to the Trustee the rental payments as they become due as liquidated damages, subject, however, to a credit for the net proceeds which the Trustee may receive

from the sale of the Project or any part thereof, or from the lease or sublease of the Project or any part thereof to others than the Company herein, during and for the unexpired term of this Lease Agreement; or

(b) The Board may take possession of the Lease Realty and complete the Project at the expense of the Company, which expense with six per cent interest and a reasonable attorney's fee, if the services of an attorney are required for the collection thereof, the Company hereby agrees to pay; or

(c) The Board may terminate this Lease Agreement and sue for damages for breach thereof.

Section 1.5 Installation of Leased Equipment. The Company hereby grants to the Board the right to enter the Adjacent Building for the purpose of installing therein the items of Leased Equipment hereinabove identified with Serial Numbers 1-64A, 2-64A and 3-64A. None of said items of Leased Equipment shall be so installed that it cannot be removed without injury to the Adjacent Building. All of said items of Leased Equipment shall remain personal property although physically attached to the Adjacent Building. At the time of the installation of any item of Leased Equipment either in the Adjacent Building or in the Plant and any renewals or replacements thereof as provided in Sections 3.1 and 4.1 hereof, the Company shall plainly, distinctly, permanently and conspicuously place and fasten on each such item a metal plate, readily visible, bearing the following words: "This equipment is the property of The Industrial Development Board of the City of Decatur subject to the Mortgage and Indenture of Trust dated May 1, 1964, Serial Number \_\_\_\_\_" and the Serial Number on the metal plate on each item of the Leased Equipment shall correspond to the Serial Number for such item as hereinabove set forth. In case any such plate shall at any time be removed, defaced or destroyed, the Company shall immediately cause the same to be restored or replaced.

Section 1.6 The Company will not change the location of any items of Leased Equipment either in the Plant or in the Adjacent Building without the prior written approval of the Board and of the Trustee, which approvals shall not be unreasonably withheld if the Company shall enter into a supplemental agreement with the Board identifying the items of Leased Equipment with respect to its new location and confirming the lease thereof hereunder.

## ARTICLE II

### DURATION OF LEASE TERM AND RENTAL PROVISION

Section 2.1 Duration of Term. The primary term of this Lease Agreement and of the lease herein made (herein called the "Primary Term") shall begin on the date the construction of the Plant and the installation of the Leased Equipment are completed or on May 1, 1965, whichever date is earlier, and, subject to the provisions of this Lease Agreement, shall continue until midnight of April 30, 1984, but the Company will be permitted to have such possession of the Project prior to the beginning of the Primary Term as shall not interfere with the construction of the Plant and the installation of the Leased Equipment. The Board will deliver to the Company sole and exclusive possession of the Project on the commencement date of the Primary Term, subject to the inspection and other rights reserved in Section 6.2 hereof, and the Company will accept possession thereof at such time; provided, however, that in the event the Primary Term begins prior to the date the construction of the Plant and the installation of the Leased Equipment therein are completed, the Board will be permitted such possession of the Project as shall be necessary and convenient for it to complete the construction of the Plant and the installation of the Leased Equipment, and provided further, that the Board will be permitted such possession of the Project as shall be necessary and convenient for it to construct or install any additions or improvements and to

make any repairs or restorations required or permitted to be constructed, installed or made by the Board pursuant to the provisions hereof or pursuant to the provisions of any agreement between the Company and the Board supplemental hereto.

Section 2.2 Rental Provisions. For and during the Primary Term, the Company will pay to the Board not less than the following basic rental (herein called "Basic Rent") for use and occupancy of the Project:

(a) On or before the 20th day of each month beginning May 20, 1965, an amount equal to one sixth (1/6) of the interest becoming due on all outstanding Bonds on the next succeeding interest payment date, and;

(b) On October 20, 1965 and on each April 20 and October 20, thereafter, an amount equal to the principal of the outstanding Bonds due and payable on the then next succeeding semiannual principal payment date.

All Basic Rent payments shall be made directly to the Trustee or to its successor as Trustee under the Mortgage, for the account of the Board and shall be deposited in the Bond and Interest Fund established under the Mortgage. The monthly and semiannual installment of Basic Rent shall continue until the amount in the Bond and Interest Fund shall have become sufficient to pay in full the principal of (including redemption premium), and interest on all outstanding Bonds either at maturity or on earlier redemption. Any payment of Basic Rent due hereunder that is not made within ten (10) days of the due date thereof shall bear interest from that date until paid at the rate of 6% per annum.

The Company will also pay, as additional rental, the reasonable fees, charges and expenses of the Trustee under the Mortgage (other than the initial fee or charge of the Trustee) and of the paying agents for the Bonds, such fees, charges and reimbursement

for expenses to be paid directly to the Trustee and such paying agents for their own account as and when such fees, charges and expenses become due and payable.

Section 2.3 Obligations of Company Unconditional. The obligation of the Company to pay the Basic Rent, to make all other payments provided for herein and to perform and observe the other agreements and covenants on its part herein contained shall be absolute and unconditional, irrespective of any rights of set-off, recoupment or counter-claim it might otherwise have against the Board. The Company will not suspend or discontinue any such payment or fail to perform and observe any of its other agreements and covenants contained herein or terminate this Lease Agreement for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute an eviction or constructive eviction, failure of consideration or commercial frustration of purpose, or any damage to or destruction of the Project, or the taking by eminent domain of title to or the right to temporary use of all or any of the Project, or any change in the tax or other laws of the United States of America, the State of Alabama or any political subdivision of either thereof, or any failure of the Board to perform and observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease Agreement. Notwithstanding the foregoing, the Company may, at its own cost and expense and in its own name or in the name of the Board, prosecute or defend any action or proceeding or take any other action involving third persons which the Company deems reasonably necessary in order to secure or protect its rights of use and occupancy and the other rights hereunder. The provisions of the first and second sentences of this section shall apply only so long as any part of the principal of and the interest on the Bonds remains outstanding and unpaid,

and nothing contained therein shall be construed to affect adversely or to impair the option to terminate this Lease Agreement granted in Section 8.2 hereof. Furthermore, except as provided in the first and second sentences of this section, nothing contained herein shall be construed to be a waiver of any rights which the Company may have against the Board under this Lease Agreement or under any provision of law.

Section 2.4 Investment of Funds. The Board shall cause the Trustee to invest and reinvest the monies from time to time in the Construction Fund and the monies from time to time in the Bond and Interest Fund in the manner and to the extent and with such application of the income therefrom as is provided in the Mortgage.

### ARTICLE III

#### MAINTENANCE, TAXES AND INSURANCE

##### Section 3.1 Maintenance, Alterations and Improvements.

(a) The Company will, at its own expense, (i) keep the Project in as reasonably safe condition as its operations permit, and (ii) keep the Plant and the Leased Equipment in good order and repair, and from time to time make all needful and proper repairs, renewals and replacements thereto. The Company agrees to pay all gas, electric light and power, water, sewer and all other charges for the operation, maintenance, use and upkeep of the Plant, Leased Equipment and Project.

(b) The Company may, also at its own expense, make any additions, improvements or alterations to the Project that it may deem desirable for its business purposes, provided that such additions, improvements or alterations do not adversely affect the value or utility of the Project or its character as a "project" under said Act No. 648. In lieu of making such additions, improvements or alterations itself, the Company may, if it so desires, furnish to the Board the funds necessary therefor, in which case

the Board will proceed to make such additions, improvements or alterations.

(c) All such additions, improvements and alterations whether made by the Company or the Board shall become a part of the Project and shall be covered by the Mortgage; provided however, that any machinery, equipment, furniture or fixtures installed by the Company (not the Board) on the Project without expense to the Board and not constituting a part of the Leased Equipment or repairs, renewals or replacements of the Leased Equipment or the Plant may be removed by the Company at any time and from time to time while it is not in default under the terms of this Lease Agreement; and provided further that any damage to the Project occasioned by such removal shall be repaired by the Company at its own expense. The Company will not permit any mechanics or other liens to stand against the Project for labor or material furnished it in connection with any additions, improvements, alterations or repairs so made by it. The Company may, however, in good faith contest any such mechanics' or other liens and in such event may permit any such liens to remain unsatisfied and undischarged during the period of such contest and any appeal therefrom unless by such action the lien of the Mortgage on the Project or any part thereof, or the Project or any part thereof shall be subject to loss or forfeiture, in either of which events such mechanics' or other liens shall be promptly satisfied.

(d) The Company may, also at its own expense, connect or "tie-in" walls and utility and other facilities located on the Leased Realty to other facilities owned or leased by it on real property adjacent to the Leased Realty or partly on such adjacent real property and partly on the Leased Realty but only if the Company furnishes the Board and the Trustee a certificate of a nationally recognized independent consulting engineering firm that such

connection and "tie-in" of walls and facilities will not impair the operating unity of the Plant (that is, the operating unity of that portion of said Plant, as extended, that is located wholly within the boundary lines of the Leased Realty).

Section 3.2 Taxes, Other Governmental Charges and Utility Charges. The Board and the Company acknowledge (a) that under present law no part of the Project owned by the Board will be subject to ad valorem taxation by the State of Alabama or by any political or taxing subdivision thereof and that under present law the income and profits (if any) of the Board from the Project are not subject to either Federal or Alabama taxation, and (b) that these factors, among others, induce the Company to enter into this Lease Agreement. However, the Company will pay, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project or the Leased Equipment or any machinery, equipment or other property installed or brought by the Company in the Plant (including, without limiting the generality of the foregoing, any taxes levied upon or with respect to the income or profits of the Board from the Project which, if not paid, will become a lien on the Project prior to the lien of the Mortgage or a charge on the revenues and receipts therefrom prior to the charge thereon and pledge or assignment thereof to be created and made in the Mortgage), all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project, and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by lien on the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Company shall be obligated to pay only such installments as are required to be paid during the term hereof. The foregoing

provisions of this section shall be effective only so long as any part of the principal of or the interest on the Bonds remains outstanding and unpaid.

The Company may, at its own expense and in its own name and behalf or in the name and behalf of the Board, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless by such action the title of the Board to any part of the Project shall be materially endangered or the Project or any part thereof shall become subject to loss or forfeiture in which event such taxes, assessments or charges shall be paid prior to becoming delinquent. The Board will cooperate fully with the Company in any such contest.

Section 3.3 Insurance. (a) The Company will cause the Project to be insured and at all times keep the Project insured, even during the acquisition thereof, against loss and/or damage to the Project, under a policy or policies in form and amount covering such risks as are ordinarily insured against by similar manufacturing plants, machinery and equipment, including, without limiting the generality of the foregoing, fire and other perils customarily covered by the extended coverage clause of fire insurance policies, windstorm, explosion, tornado, lightning, riots, strikes, civil commotion and malicious damage. The Company will pay all premiums on such insurance. All such policies shall be for the benefit of the Board, the Company and the Trustee as their interests shall appear, shall be made payable to the Trustee and shall be deposited with the Trustee, and the Trustee shall have the sole right to receive the proceeds from such policies and to collect and receipt for claims thereunder. All such insurance policies shall be taken out and maintained in generally recognized responsible insurance

companies, each of which is qualified and authorized to assume the respective risks undertaken, and shall be in the amount of (a) the full insurable value of the Project, or (b) the amount required to pay the principal of and interest on the Bonds as they mature and come due, or (c) the redemption price thereof, whichever is less. No policy of insurance shall be so written that the proceeds thereof will produce less than the minimum coverage required by the preceding sentence, by reason of co-insurance provisions or otherwise, without the prior consent thereto in writing by the Trustee. In lieu of depositing the policy or policies of insurance with the Trustee, the Company may deposit with the Trustee a certificate or certificates of the respective insurers attesting the fact that such insurance is in force and effect. Prior to the expiration or cancellation of any such policy, the Company will furnish the Trustee satisfactory evidence that such policy has been renewed or replaced by another policy. The Company may insure under a blanket insurance policy or policies, and in the event the insurance coverage is by such blanket insurance coverage, it shall be sufficient to furnish to the Trustee a certificate or duplicate copy of each such blanket policy of insurance.

(b) The Company shall also take out and at all times maintain and pay the premium on policies of insurance in generally recognized responsible insurance companies, each of which is qualified to assume the risks, for the benefit of the Trustee, the Board and the Company as their interest may appear, against liability for injuries to persons and property or death or accidental injuries occurring on or about the Plant, or in or about adjoining streets and passageways, or in connection with the Leased Equipment, in the minimum amount of \$100,000 liability to any one person for personal injury or death, \$25,000 liability to any one person for property damage, and \$500,000 liability for any one accident. Such

insurance shall be provided from the date any of the Bonds are sold and delivered by the Board and shall be effective while the Project is being constructed as well as thereafter during the entire term of the lease. The insurance policies or certificates evidencing the same shall be filed with the Trustee so long as any of the Bonds shall be outstanding and thereafter with the Board. Such policies or certificates shall be filed with the Trustee on or before the delivery and sale of any of the Bonds. Such insurance may also be provided under a blanket insurance policy or policies as hereinabove provided.

Section 3.4 Advances by Board or Trustee. In the event the Company fails to take out or maintain the full insurance coverage required by this Lease Agreement, fails to pay the taxes and other charges referred to in Section 3.2 hereof at or prior to the time they are there required to be paid, or fails to keep the Project in as reasonably safe condition as its operating conditions permit and the Plant and the Leased Equipment in good order and repair, the Board or the Trustee, after first notifying the Company of any such failure on its part, may (but shall not be obligated to) take out the required policies of insurance and pay the premiums on the same, pay such taxes or other charges or make such repairs, renewals and replacements as may be necessary to maintain the Project in as reasonably safe condition as the Company's operations permit and the Plant and the Leased Equipment in good order and repair, respectively; and all amounts so advanced therefor by the Board or the Trustee shall become an additional obligation of the Company to the Board or to the Trustee, as the case may be, which amounts, together with interest thereon at the rate of 6% per annum from the date thereof, the Company will pay. Any remedy herein vested in the Board or the Trustee for the collection of the rental payments shall also be available to the Board and the Trustee for the collection of all such amounts so advanced.

Section 3.5 Indemnity of Board. The Board shall not be liable for any damage or personal injury to the Company, its officers, employees or the public, caused by or growing out of any breakage, leakage, getting out of order, or defective condition of any item of Leased Equipment or of water or sewer pipe, fixtures, toilets, plumbing, electric wires, gas pipes, apparatus, or connections, or machinery or equipment or any of them, on the Leased Realty, or caused by or growing out of any defects in the Project or any part thereof, even if such defect occurred or existed prior to the delivery of possession of the Leased Realty and the Project to the Company. The Company shall save the Board harmless from any action, suit, judgment, or liability against the Board on account of any defects in the condition of the Leased Realty, the Plant or the Leased Equipment for any personal injury or property damage occasioned or claimed to have been occasioned thereon or thereby and shall defend the Board against all such claims at Company's expense. The Board shall promptly notify Company of any and all such claims and shall cooperate with the Company in the defense thereof. Failure of the Board to notify the Company of such claim within time to permit the Company to defend against such claim will release the Company of the liability to defend against such claim.

#### ARTICLE IV

##### PROVISIONS RESPECTING DAMAGE, DESTRUCTION AND CONDEMNATION

Section 4.1 Damage and Destruction Provisions. In the event that the Project, including any item of Leased Equipment, is destroyed or damaged, by whatever cause, the Company shall have the option (a) to continue to pay the rent and to cause the Project to be repaired or rebuilt in the same condition and value as immediately preceding the event causing such loss, or (b) to pay to the Trustee for the account of the Bond and Interest Fund, held by the

Trustee under the Mortgage, a sum which, when added to all insurance proceeds which the Trustee has collected on account of such destruction or damage, shall be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same. In the event that the Company shall elect to cause the Project to be repaired or rebuilt, the Company shall continue to make the rental payments provided for in this Lease Agreement shall cause an estimate to be made of the expense of repairing or rebuilding the Project in the same condition and value as immediately preceding the event causing such loss, by a capable and reputable architect or engineer, or both, acceptable to the Board and the Trustee, and the Company shall forthwith pay to the Trustee for the account of the Construction Fund the amount by which such estimate exceeds the insurance proceeds collected by the Trustee on account of such damage or destruction; and the Company shall forthwith proceed with all practicable dispatch to cause the Project to be repaired or rebuilt in the same condition and value as immediately preceding the event causing such loss, and the Board shall cause the expenses thereof to be paid by the Trustee out of the Construction Fund, as in the Mortgage provided. If the actual cost of repairing or rebuilding the Project shall exceed the amount available therefor in the Construction Fund, the Company shall pay any deficiency from its own funds. In the event that the Company shall elect not to cause the Project to be repaired or rebuilt, the Company shall forthwith pay to the Trustee a sum of money which, when added to the insurance proceeds, will be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same; and upon the payment or retirement of all Bonds and interest thereon and all other obligations under the Mortgage, the Basic Rent for the Primary Term of the lease shall abate. Payment to the Trustee of insurance proceeds in excess of the

amounts used to repair or rebuild the Project in the same condition and value as immediately preceding the event causing the loss or destruction, or if insurance proceeds are paid to the Trustee to pay or redeem the Bonds, shall be credited as follows:

(1) To the abatement of Basic Rents which will thereafter be due and payable as herein provided and the latest installment thereof shall be first abated; and when all Bonds and interest thereon shall have been paid in full, whether at maturity or by call for prior redemption, and all other obligations under the Mortgage, including the payment of the Trustee's fees, charges and expenses, shall have been paid and discharged.

(2) The Company shall be entitled to the excess, if any, then remaining uncredited.

Section 4.2 Condemnation Provisions. In the event the Project and the Leased Realty or any part of either shall be taken under the exercise of the power of eminent domain, the award of compensation, except such portion as is allocable to the Company for damages, shall be paid to the Trustee to be applied to the payment of principal of and interest on all Bonds then outstanding or to redeem the same, with any excess to be paid to the Board, unless the Company shall have notified the Board of its desire to utilize the award for the purpose of adapting the Project to Company's continued use. In the event Company elects to cause the Project to be repaired or rebuilt for its continued use, the Company shall continue to make the rental payments provided for in this Lease Agreement and shall cause an estimate to be made of the expenses of such work by a capable and reputable architect or engineer, or both, acceptable to the Board and the Trustee, and the Company shall, prior to the commencement of construction, pay to the Trustee for the account of the Construction Fund the amount, if any, by which such estimate exceeds the condemnation award; and Company shall

forthwith proceed with all practicable dispatch to cause the Project to be repaired or rebuilt as aforesaid, and the Board shall cause the expenses thereof to be paid by the Trustee out of the Construction Fund. If the cost of repairing or rebuilding the Project exceeds the amount available therefor in the Construction Fund, the Company shall pay any deficiency from its own funds. In the event Company elects to redeem the outstanding Bonds and the award (or portion thereof after use by the Company as above provided) is insufficient to pay or redeem all outstanding Bonds, the Company shall either (a) pay to the Trustee, for the account of the Bond and Interest Fund held by the Trustee under the Mortgage, a sum which, when added to the proceeds of the condemnation award which shall be paid to the Trustee, shall be sufficient to pay the principal of and interest on the Bonds as they mature and come due or to redeem the same, or (b) continue to use and occupy the Project or any part thereof then remaining and cause the Board to apply the proceeds of the award of condemnation paid to the Trustee to the redemption of Bonds, whereupon the basic rental payments will be reduced to the amount required to pay the principal of and interest on the remaining outstanding Bonds as such principal and interest become due and payable.

#### ARTICLE V

##### CERTAIN PROVISIONS RELATING TO ASSIGNMENT, SUBLEASING AND MORTGAGING AND TO THE BONDS

Section 5.1 Provisions Relating to Assignment and Subleasing. The Company may assign this Lease Agreement, and may sublet the Project or any part thereof, without the necessity of obtaining the consent of either the Board or the Trustee. No such assignment or subleasing shall, however, in any way relieve the Company from primary liability for any of its obligations hereunder, and in the event of any such assignment or subleasing the Company

shall continue to remain primarily liable for payment of all rentals, herein provided to be paid by it and for performance and observance of the other agreements and covenants on its part herein provided to be performed and observed by it.

Section 5.2 Mortgaging of Project by Board. The Board may mortgage the Project to the Trustee as security for the payment of the Bonds, subject to this Lease Agreement (which shall be superior to the Mortgage), all as provided in the Mortgage, and may assign its interest in and pledge any monies receivable under this Lease Agreement to the Trustee as security for payment of the principal of and the interest on the Bonds. The Board may in the Mortgage obligate itself to follow the instructions of the Trustee or the holders of the Bonds or a certain percentage thereof in the election or pursuit of any remedies herein vested in it. In the event the Board's interest in this Lease Agreement is so assigned and pledged to the Trustee, the Trustee shall have all rights and remedies herein accorded the Board and any reference herein to the Board shall be deemed, with the necessary changes in detail, to include the Trustee, and the Trustee and the holders of the Bonds shall be deemed to be third party beneficiaries of the covenants and agreements of the Company herein contained. Subsequent to the issuance of the Bonds and prior to their payment in full, the Board and the Company shall have no power to modify, alter, amend or terminate this Lease Agreement without the prior written consent of the Trustee and then only as provided in the Mortgage, provided that the Board and the Company may, without any such consent, make such modifications, alterations and amendments of this Lease Agreement as are specifically authorized in or contemplated by this Lease Agreement or the Mortgage. The Board will not amend the Mortgage or any mortgage supplemental thereto without the prior written consent of the Company. Neither the Board nor the Company will

unreasonably withhold any consent herein or in the Mortgage required of either of them. The Company shall not be deemed to be a party to the Mortgage or the Bonds issued thereunder and reference in this Lease Agreement to said Mortgage and Bonds shall not impose any liability or obligation upon the Company other than its specific obligations and liabilities undertaken in this Lease Agreement.

Section 5.3 Redemption of Bonds. It is understood and agreed by the parties hereto that the amount necessary to redeem Bonds shall include, in addition to the redemption price, all expenses necessary to effect the redemption and interest on the Bonds to be redeemed to the next ensuing date on which they can be redeemed, and, if all Bonds are redeemed, all other obligations under the Mortgage, including the Trustee's fees, charges and expenses. Any payment made by the Company to be applied to the redemption of Bonds shall be made at least 45 days prior to the proposed redemption date and at the time of such payment the Company shall notify the Board, the Trustee and the original purchasers of the Bonds, in writing, as to the purpose of such payment, and the Board, upon receiving such notice, shall be obligated and hereby agrees to take all necessary action to have the payment made by Company for the purpose of redeeming Bonds applied to the redemption of as many Bonds as such payment will permit under the Bond redemption provisions of the Bonds and the Mortgage.

Section 5.4 References to Bonds Ineffective after Bonds Paid. Upon full payment of the Bonds, all references in this Lease Agreement to the Bonds and the Trustee shall be ineffective and neither the Trustee nor the holders of any of the Bonds shall thereafter have any rights hereunder, saving and excepting those that shall have theretofore vested. For purposes of this Lease Agreement, the Bonds shall be deemed fully paid:

- (a) If there is on deposit in the Bond and Interest Fund

a total amount sufficient to pay the principal of all the then outstanding Bonds plus the interest due thereon until and at their respective maturities and provision for payment of all Trustee's and paying agents' fees, accrued and to accrue, has been made in a manner satisfactory to the Trustee and such paying agents, or

(b) If there have been irrevocably deposited with the Trustee (i) monies sufficient to pay, redeem and retire all the then outstanding Bonds (including, without limitation, principal, premium, interest to maturity or earliest practicable redemption date, as the case may be, expenses of redemption and Trustee's and paying agents' fees), and (ii) evidence satisfactory to the Trustee that all redemption notices required by the Mortgage have been duly given by the Board or irrevocable powers authorizing the Trustee to give such redemption notices.

In the event the Bonds are fully paid prior to the last maturity thereof, or an amount sufficient to pay, redeem and retire all the then outstanding Bonds including principal, premium, interest to maturity or earliest practicable redemption date (as the case may be), expenses of redemption and Trustee's and paying agents' fees have been irrevocably deposited with the Trustee in the Bond and Interest Fund for such purpose, the Company shall be entitled to use and occupancy of the Project from the date of such payment until the expiration of the Primary Term without the payment of any further Basic Rent but otherwise on all the same terms and conditions hereof. If, after full payment of the Bonds, there is any surplus remaining in the Bond and Interest Fund, the Board will promptly pay such surplus to the Company.

#### ARTICLE VI

##### PARTICULAR COVENANTS OF THE COMPANY

Section 6.1 General Covenants. The Company will not do or permit anything to be done on or about the Project that will affect,

impair or contravene any policies of insurance that may be carried on the Project or any part thereof against loss or damage by fire, casualty or otherwise. The Company will, in the use of the Leased Realty and the Plant, the public ways abutting the same and the Leased Equipment, comply with all lawful requirements of all governmental bodies.

Section 6.2 Inspection of Project. The Company will permit the Board, the Trustee, any holder of not less than \$50,000 principal amount of Bonds and their duly authorized agents (subject to the restrictions and requirements imposed by contracts with the United States Government or agencies thereof, or by subcontracts governed by such contracts, being performed by the Company, or its subtenant or subtenants, in any part of the Leased Realty or the Project or the Adjacent Building), at all reasonable times to enter upon, examine, inspect and photograph the Leased Realty, the Leased Equipment (including the Leased Equipment situated in the Adjacent Building), the Plant and the Project; and in the event of default as hereinafter provided, the Company will permit any nationally recognized firm of certified public accountants designated by the Trustee, to have access to, inspect, examine and make copies of the books and records, accounts and data of the Company.

Section 6.3 Special Covenants. In order that the Board may be reasonably assured of the full payment of rent over the full Primary Term of the Lease,

(a) The Company shall install and maintain proper books of record and account, in which full and correct entries shall be made in accordance with standard accounting practice, of all business and affairs of the Company, and shall furnish to the Board, to the Trustee and to the original purchasers of the Bonds quarterly and annual balance sheets and income and expense statements showing, respectively, in reasonable detail, the financial condition of the

Company at the close of each such period and its financial operations during each such period. The annual balance sheet and income and expense statement shall be certified in accordance with the standard form of opinion adopted by the American Institute of Accountants, by a certified public accountant who is a member of the said American Institute of Accountants and against whom the Trustee makes no reasonable objection. The profit and loss statements shall accurately reflect gross income and the net earnings of the Company.

(b) The Company will at all times keep an office or agency in the City of Decatur, State of Alabama, where notices, requests and demands in respect of this Lease Agreement may be served, and it will in writing notify the Board and the Trustee of the location of each such office or agency. In default of any such office or agency or such notification thereof, such notices, requests and demands may be served at the principal office of the Trustee.

(c) The Company will duly pay and discharge all taxes, assessments and other governmental charges and liens lawfully imposed upon the Leased Realty, the Leased Equipment and the Plant and upon the properties of the Company, provided, however, the Company shall not be required to pay any taxes, assessments or other governmental charges so long as in good faith it shall contest the validity thereof by appropriate legal proceedings.

(d) The Company will maintain and preserve its Certificate of Incorporation or Charter and its corporate existence and organization, and its authority to do business in the State of Alabama, and will not voluntarily dissolve without first discharging its obligations under this Lease Agreement, and will comply with all valid laws, ordinances, regulations and requirements applicable to it or to its property and the Project.

(e) The Company will not merge or consolidate with any

other corporation and will not transfer or convey all of its property, assets and licenses, or any substantial portion thereof, except (i) upon terms and conditions that will fully protect the interest of the Board and the holders of the Bonds, and (ii) upon the execution and delivery to the Board and to the Trustee of an agreement supplemental hereto which will obligate the successor corporation or transferee to assume and perform and abide by all the terms and conditions of this Lease Agreement. In case the Company or any successor corporation or transferee shall be consolidated or merged with or into any other corporation or shall make a conveyance, as permitted under the provisions of this subsection, the corporation formed by or resulting from such consolidation or merger, or the transferee to which such conveyance shall have been made as aforesaid, upon complying with the provisions of this subsection, shall succeed to and be substituted for the Company with the same force and effect as if it had been named in and had executed this Lease Agreement as a party thereto, and shall have and possess and may exercise, subject to the terms and conditions of this Lease Agreement and of the Mortgage, each and every power, authority and right herein reserved to and conferred upon the Company. The term "Company" includes and means, unless the context otherwise requires, not only the Fruehauf Corporation but also any such successor corporation or transferee. The supplemental Lease Agreement provided for in this subsection shall never be construed as a novation, alteration or amendment of or to this Lease Agreement, but as part of this Lease Agreement and pursuant to its terms, and nothing herein contained shall be construed as authorizing or permitting the execution of any agreement which shall impair, or have the effect of impairing, the obligations intended to be imposed upon the Company by this Lease Agreement, and no such consolidation, merger or conveyance, and no such Lease Agreement or assumption of obligations,

shall release the Company from its liability under this Lease Agreement or from the covenants in this Lease Agreement.

#### ARTICLE VII

##### EVENTS OF DEFAULT AND REMEDIES

Section 7.1 Events of Default Defined. The following shall be "events of default" under this Lease Agreement, and the terms "events of default" or "default" shall mean, whenever they are used in this Lease Agreement, any one or more of the following events:

(a) Failure to pay any installment of Basic Rent that has become due and payable by the terms of this Lease Agreement;

(b) Failure of the Company to perform any of its obligations under this Lease Agreement or to duly observe any covenant, condition or agreement on its part required to be performed, provided such failure shall have continued for a period of thirty days after written notice by the Board or the Trustee specifying such non-performance or breach and requiring the same to be remedied, unless the Trustee shall have agreed in writing to an extension of such time prior to its expiration;

(c) The filing of a voluntary petition in bankruptcy or the commission of any act of bankruptcy by the Company, or the adjudication of the Company as a bankrupt, or the making by the Company of an assignment for the benefit of creditors, or the appointment by final order, judgment or decree of a court of competent jurisdiction of a receiver for the whole or any substantial part of the properties of the Company, provided such receiver shall not have been removed or discharged within sixty days of the date of his qualification, unless the Trustee shall have agreed in writing to an extension of the time within which to remove or discharge said receiver.

Section 7.2 Remedies on Default. Whenever any such event or default shall have happened and be continuing, the Board or the

Trustee may take any of the following remedial steps;

(a) The Board or the Trustee may, at their option, declare all installments of Basic Rent payable under this Lease Agreement for the remainder of the Primary Term immediately due and payable;

(b) The Board or the Trustee may reenter and take possession of the Leased Realty, exclude the Company from possession thereof, enter into the Adjacent Building, remove the Leased Equipment therefrom and rent the Project or any part thereof, for the account of the Company;

(c) The Board or the Trustee may, at their option, terminate the Lease Agreement, exclude the Company from possession of the Leased Realty and the Leased Equipment, remove any item of Leased Equipment from the Adjacent Building and, if the Board or Trustee elect so to do, lease the Project for the account of the Board, holding the Company liable for all rent due up to the date such lease is made for the account of the Board;

(d) The Board or the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the rent then due, whether by declaration or otherwise, or to enforce any obligation or covenant or agreement of the Company under this Lease Agreement or by law.

Section 7.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Board or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to

entitle the Board or the Trustee to exercise any remedy reserved to it in this Article VII, it shall not be necessary to give any notice; other than such notice as is herein expressly required.

Section 7.4 Agreement to Pay Attorneys' Fees. In the event the Trustee (in its own name or in the name and behalf of the Board) files court proceedings to collect Basic Rent due hereunder or to enforce any other obligation, covenant, agreement, term or condition of this Lease Agreement, the Company will pay to the Trustee reasonable attorneys' fees and other expenses so incurred by the Trustee in connection with such court proceedings.

#### ARTICLE VIII

##### OPTIONS

Section 8.1 Option to Renew. If the Company pays the rental herein reserved to the Board and is not otherwise in default hereunder, it shall have the right and option, herein granted by the Board, to renew the Primary Term for a period of twenty (20) additional years from midnight of April 30, 1984 (that is, for an additional term expiring on midnight of April 30, 2004) by giving written notice of such renewal to the Board at least sixty (60) days prior to the expiration of the Primary Term. The cash rental payable by the Company during any such renewal term shall be the sum of \$10,000 per year, payable annually in advance, but otherwise all the terms and conditions herein contained shall apply during such renewal term.

Section 8.2 Options to Terminate. The Company shall have, if it is not in default hereunder, the following options to cancel or terminate the term of this Lease Agreement:

(a) At any time prior to full payment of the Bonds, the Company may terminate this Lease Agreement by paying to the Board and the Trustee, as additional or prepaid rental, in bankable funds an amount which, when added to the amount on deposit in the Bond

and Interest Fund, will be sufficient to pay, retire and redeem all the outstanding Bonds in accordance with the provisions of the Mortgage (including, without limiting the generality of the foregoing, principal, interest to maturity or earliest practicable redemption date, as the case may be, premium, expenses of redemption and Trustee's and paying agents' fees);

(b) After full payment of the Bonds, the Company may terminate this Lease Agreement as of any then succeeding anniversary date by giving the Board notice in writing not less than one hundred eighty (180) days prior to the anniversary date on which such termination is to become effective.

#### ARTICLE IX

##### MISCELLANEOUS

Section 9.1 Covenant of Quiet Enjoyment, Surrender of Project. So long as the Company performs and observes all the covenants and agreements on its part herein contained, it shall peaceably and quietly have, hold and enjoy the Project during the Primary Term, subject to all the terms and provisions hereof. At the end of the term hereof, or upon any prior termination of this Lease Agreement, the Company will permit the Board to remove any item of Leased Equipment then situated in the Adjacent Building from said Building and will surrender possession of the Project peaceably and promptly to the Board in good order and repair, loss by fire or other casualty and ordinary wear and tear only excepted.

Section 9.2 Representations. The Company represents that it has corporate power to enter into this Lease Agreement and to perform all acts herein required to be performed by it and that its execution and delivery hereof have been duly authorized by all necessary corporate action. The Board represents that it has corporate power to enter into this Lease Agreement and that its execution and delivery hereof have been duly authorized by all necessary

corporate action.

Section 9.3 Retention of Title to Project by Board, Grant of Utility Easements and "Tie-In" of Utility Facilities. The Board will not itself sell, convey or otherwise dispose of all or any Part of the Project during the term of this Lease Agreement without the prior written consent of the Company. Neither will the Board dissolve or do anything that will result in the termination of its corporate existence. The Board will, however, grant such utility and other similar easements over, across or under the Leased Realty as shall be requested by the Company and as are necessary or convenient for the efficient operation of the Project. The Board will also, upon request of the Company, (a) grant such utility And other similar easements over, across or under the Leased Realty as shall be necessary or convenient for the furnishing of utility and other similar services to real property adjacent to or near the Leased Realty and owned or leased by the Company, provided that such easements shall not adversely affect the operations of the facilities forming a part of the Project, and (b) in addition to the rights granted the Company in subsection (d) of Section 3.1 hereof, permit any utility and other similar facilities serving the Project to be "tied-into" utility and other similar facilities serving real property adjacent to or near the Leased Realty and owned or leased by the Company, provided that such "tie-in" shall not adversely affect the operation of the facilities forming a part of the Project and, shall be so affected as to be subject to prompt disconnection at minimum expense.

Section 9.4 This Lease a Net Lease. The Company recognizes, understands and acknowledges that it is the intention hereof that this Lease be a net lease and that all the Basic Rent be available for payment of debt service on the Bonds. This Lease Agreement shall be construed to effectuate such intent.

Section 9.5 Installation of New Equipment by Board. In the event that at any time the Company desires to install in the Project additional machinery and equipment the Board will, on request of the Company and upon being furnished by the Company with the necessary funds, purchase and install in the Project such additional machinery and equipment, which shall then become and constitute a part of the Project, subject to the lease hereof.

Section 9.6 Notices. All notices hereunder shall be sufficient if sent by United States registered or certified mail, postage prepaid, addressed, if to the Board, at Decatur, Alabama; if to the Company, Detroit 32, Michigan (Attention, President), with a duplicate copy to the address of the Project; and if to the Trustee, Decatur, Alabama (Attention, Trust Officer). The Board, the Company and the Trustee may, by like notice, designate any further or different addresses to which subsequent notices shall be sent.

Section 9.7 Prior Agreements Cancelled. This Lease Agreement shall completely and fully supersede all other prior agreements, both written and oral, between the Board and the Company relating to the construction of the Plant, the purchase of the Leased Equipment, the leasing of the Project and any options to renew. No party to any such prior agreement shall hereafter have any rights thereunder but shall look solely to this Lease Agreement for definition and determination of all of its rights, liabilities and responsibilities relating to the construction of the Plant, the purchase of the Leased Equipment, the leasing of the Project and any options to renew.

Section 9.8 Board's Liabilities Limited. It is understood and agreed by and between the parties hereto that this Lease Agreement is entered into under and pursuant to the provisions of the aforesaid Act No. 648, adopted at the 1949 Regular Session of the Legislature of the State of Alabama and that no provision of this Lease Agreement shall be construed so as to give rise to a pecuniary

liability of the Board or a charge against its general credit. All obligations of the Board arising in connection with this Lease Agreement are limited to the proper application of the proceeds of the sale of the Bonds and revenues and receipts of the Project.

Section 9.9 Binding Effect. This Lease Agreement shall inure to the benefit of, and shall be binding upon, the Board, the Company and their respective successors and assigns.

Section 9.10 Severability. In the event any provision of this Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

Section 9.11 Article and Section Captions. The article and section headings and captions contained herein are included for convenience only and shall not be considered a part hereof or affect in any manner the construction or interpretation hereof.

IN WITNESS WHEREOF, the Board and the Company have caused this Lease Agreement to be executed in their respective corporate names, have caused their respective corporate seals to be hereunto affixed, and have caused this Lease Agreement to be attested, all by their duly authorized officers, and have caused this Lease Agreement to be dated as of May 1, 1964.

[SEAL]

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE CITY OF DECATUR

By /s/ F. W. TROUP  
-----  
Chairman of its Board of Directors

Attest:

/s/ ILLEGIBLE  
-----  
Its Secretary

FRUEHAUF CORPORATION

By /s/ W. E. GRACE  
-----  
Its President

[SEAL]

Attest:

/s/ ILLEGIBLE  
-----  
Secretary

STATE OF ALABAMA )  
 ) ss.  
COUNTY OF MORGAN )

I, the undersigned Notary Public in and for said County in said State, hereby certify that F. W. Troup whose name as Chairman of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal of office this 11th day of June, 1964.

/s/ JOHN A. CADDELL  
-----  
Notary Public

[NOTARIAL SEAL]

My commission expires: July 6, 1966.

STATE OF MICHIGAN  
 ) ss.  
COUNTY OF WAYNE )

I, the undersigned Notary Public in and for Macomb County in said State, hereby certify that W. E. Grace, whose name as President of FREUHAUF CORPORATION, organized under the laws of the State of Michigan, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said company.

Given under my hand and official seal of office this 10th day of June, 1964.

/s/ ALICE L. SWIDERSKI  
-----  
Notary Public

[NOTARIAL SEAL]

My commission expires January 28, 1968.

Exhibit A to this lease agreement, the Mortgage and Indenture of Trust dated as of May 1, 1964 is recorded in the office of the Judge of Probate of Morgan County in the Mortgage Records, Volume No. 4, pp. \_\_\_\_\_.

State of Alabama, Morgan County

I hereby certify that this instrument was filed in this office for record JUN 15 1964 at 1:15 o'clock PM, and recorded in Book 727 of DEEDS, Page 797.

/s/ ILLEGIBLE  
Judge of Probate

STATE OF ALABAMA     )  
                          )  
COUNTY OF MORGAN    )

THIS AGREEMENT entered into by and between The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of the State of Alabama (the "Board") and Fruehauf Corporation, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama (the "Company"), on and as of April 30, 1984,

WITNESSETH THAT:

RECITALS

As of May 1, 1964, the Board and the Company entered into a lease agreement which is recorded in the Office of the Judge of Probate of Morgan County, Alabama, in Book 727, at Pages 797, et seq., to which reference is here made for the description of the property leased thereby. On June 16, 1964, the Board sold and conveyed to the Company an option to purchase the premises described and referred to in said lease of May 1, 1964, at and for the sum of One Thousand and no/100 Dollars (\$1,000.00), at such time as no further rent was payable for the original term of said lease. Said lease contained an option to renew the primary term thereof for a period of twenty additional years from midnight of April 30, 1984, at a cash rental payable by the Company during such renewal term in the sum of Ten Thousand and no/100 Dollars (\$10,000.00) per year, payable annually in advance, but otherwise under all of the terms and conditions therein contained. The Company has notified the Board that it desires to renew the lease of May 1, 1964, as to the property described therein for an additional period of twenty years from May 1, 1984, to April 30, 2004, at and for a cash rental during said renewal term of Ten Thousand and no/100 Dollars (\$10,000.00) per year, payable annually in advance, but otherwise upon all the terms and conditions contained in said May 1, 1964 which terms and conditions shall apply during such renewal term. Also, the Company has notified the Board that it desires purchase an option from the Board to purchase said

premises upon which said renewal lease is to be made at any time during said renewal period at and for the sum of One Thousand and no/100 Dollars (\$1,000.00) payable in cash, with the provision that upon exercise of such option to purchase that no further or additional rents shall be payable for any unexpired portion of such renewal term of said lease.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements and undertakings of the parties hereinafter contained and of the sum of One and no/100 Dollars (\$1.00) cash to each of the parties in hand paid by the other, the receipt of which is hereby acknowledged, it is agreed, by and between the parties as follows:

1. The primary term of the above identified lease of May 1, 1964, as to the property described therein, is hereby renewed and extended for a period of twenty additional years from midnight of April 30, 1984 to midnight of April 30, 2004, at and for cash rental payable by the Company during such renewal term in the amount of Ten Thousand and no/100 Dollars (\$10,000.00) per year, payable annually in advance, but otherwise under all of the terms and conditions contained in said lease of May 1, 1964, which shall apply during such renewal term. The rental in the amount of Ten Thousand and no/100 Dollars (\$10,000.00) for the lease year beginning May 1, 1984, and ending April 30, 1985, in the sum of Ten Thousand and no/100 Dollars (\$10,000.00) is paid in cash by the Company to the Board upon the execution and delivery of this agreement, the receipt of which is hereby acknowledged by the Board.

2. In consideration of the sum of One Hundred and no/100 Dollars (\$100.00) cash to the Board in hand paid by the Company, the receipt of which is hereby acknowledged, the Board hereby agrees that the Company, not being in default under the aforementioned lease, shall have the option at any time, on written notice to the Board of its election to exercise such option, to purchase the premises described and referred to in said lease of May 1, 1964, together with all improvements thereon, including the buildings,

machinery and equipment and all other items of real or personal property referred to collectively in said lease as "the project" for the sum of One Thousand and no/100 Dollars (\$1,000.00) in cash provided that such option shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board in person or by registered or certified mail on or before 12:00 o'clock noon on April 30, 2004. In the event of the exercise of such option, the property shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of said lease, no further rental shall be payable for the unexpired portion of the said additional or renewal term.

IN WITNESS WHEREOF, the Board and the Company have caused this agreement to be executed in their respective corporate names and have caused their respective corporate seals to be hereunto affixed and have caused this agreement to be attested by their duly authorized officers and have caused this agreement to be dated as of April 30, 1984.

[SEAL]

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE CITY OF DECATUR

BY: /s/ B. C. SHELTON, JR.  
-----  
Chairman of It's Board of Directors

ATTEST:  
/s/ JAMES B. RIGGS  
-----  
Its Secretary

FRUEHAUF CORPORATION

By: /s/ Illegible  
-----  
Its Vice President

[SEAL]

ATTEST: State of Alabama  
Morgan County  
/s/ BARRY J. MILLER I hereby certify that no Mortgage Tax has  
----- been collected on this instrument.  
Its Ass't Secretary /s/ BOBBY DAY  
  
Judge of Probate  
"NO TAX COLLECTED"

STATE OF ALABAMA )  
                          )  
COUNTY OF MORGAN )

I, the undersigned authority, in and for said county in said state, hereby certify that B. C. Shelton, Jr., whose name as Chairman of the Board of Directors of The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

GIVEN under my hand and official seal this 16th day of February, 1984.

/s/ JOHN A. CADDELL  
-----  
NOTARY PUBLIC

[NOTARIAL SEAL]

STATE OF MICHIGAN )  
                          )  
COUNTY OF WAYNE )

I, the undersigned authority, in and for said county in said state, hereby certify that G. F. Malley, whose name as Vice-President of Fruehauf Corporation, a corporation organized under the laws of the State of Michigan, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

GIVEN under my hand and official seal this 9th day of February, 1984.

/s/ ANNE M. SPIRUDA  
-----  
NOTARY PUBLIC

[NOTARIAL SEAL]

My Commission Expires June 29, 1987

[THOMAS ABSTRACT COMPANY, INC. LETTERHEAD]

STATE OF ALABAMA            )  
COUNTY OF MORGAN         )

LEASE AGREEMENT dated as of the first day of October, 1965, between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of the State of Alabama (the "Board"), and FRUEHAUF CORPORATION, a corporation organized and existing under THE LAWS OF THE State of Michigan, and authorized to do business in the State of Alabama (the "Company").

R E C I T A L S

The Board, contemporaneously with and in reliance upon the execution and delivery by the Company of this Lease Agreement, has issued \$3,660,000 principal amount of its Industrial Revenue Bonds dated October 1, 1965 (the "Bonds") under a Mortgage and Indenture of Trust dated as of October 1, 1965, from the Board to the State National Bank of Alabama, Decatur, Alabama, as Trustee (the "Mortgage") and has pledged and assigned under the Mortgage this Lease Agreement and the rents payable hereunder to the payment of the principal of and interest on the Bonds. A copy of the Mortgage is attached hereto as Exhibit A

NOW, THEREFORE, THIS AGREEMENT

W I T N E S S E T H:

That in consideration of the respective agreements on the part of the Board and the Company hereinafter contained, the Board does hereby lease to the Company and the Company does hereby rent from the Board, for and during the Primary Term hereinafter referred to and upon and subject to the terms and conditions hereinafter specified, the following described real property situated in Morgan County, Alabama (the said real property being herein called the "Leased Realty"):

15.783 acres constituting all of Tract No. 13 being in Sections 13 and 14, Township 5, Range 5 West, said tract being according to the Subdivision of the L. W. Norton Farm as surveyed and platted by J. M. Holt, Surveyor, as shown by map or plat of said Subdivision filed in the Probate Office of Morgan County, Alabama, March 3, 1928, in Plat Book at page 62; less and except that part of Tract No. 13 described as follows, to-wit: beginning at a point on the Southerly right of way line of Alabama Highway No. 20, which is 41.5 feet East of a point 30 feet South of the Northeast corner of Section 14, Township 5 South, Range 5 West, and running thence South 0 degrees 54 minutes West 230 feet; thence North 89 degrees 06 minutes West 68 feet; thence South 0 degrees 54 minutes West 70 feet; thence South 89 degrees 06 minutes East 68 feet; thence South 0 degrees 54 minutes West 122 feet; thence North 89 degrees 06 minutes West 60 feet; thence South 0 degrees 54 minutes West 60 feet; thence South 89 degrees 06 minutes East 60 feet; thence South 0 degrees 54 minutes West 1122.04 feet; thence South 76 degrees 49 minutes West 341.76 feet; thence North 0 degrees 57 minutes East 1139.77 feet; thence South 89 degrees 03 minutes East 69 feet; thence North 0 degrees 57 minutes East 125 feet; thence South 89 degrees 03 minutes East 151 feet; thence North 0 degrees 57 minutes East 422.70 feet to a point on the South margin of Alabama Highway No. 20; thence South 89 degrees 03 minutes East along the South margin of Alabama Highway No. 20, 110 feet to the point of beginning, also

9.36 acres known as Tract No. 14 in Section 14, Township 5, Range 5 West, said Tract 14 being according to the aforesaid subdivision, also

9.35 acres known as Tract No. 15 in Section 14, Township 5, Range 5 West, said Tract 15 being according to the aforesaid subdivision.

Subject, however, to (1) the right of way over the South 30 feet thereof, as provided in the deed from L.W. Norton to W.H. Anderson, dated March 1, 1928, and recorded in Deed Book 356, page 328, in the Probate Office of Morgan County, Alabama, (2) any rights which may still exist under the condition respecting the drainage system, as set forth in said deed from L.W. Norton to W.H. Anderson dated March 1, 1928, and (3) that certain Mortgage and Indenture of Trust by and between the City of Decatur (the "City") and the First National bank of Montgomery, Montgomery, Alabama (the "First of Montgomery"), dated as of August 1, 1957 (the "1957 Mortgage"), recorded in the office of the Judge of Probate in Mortgage Book 589, at pages 41, et seq., under which the City of Decatur has heretofore issued and there are now outstanding \$1,600,000 principal amount of its First Mortgage Industrial Development Revenue Bonds dated August 1, 1957 (the "1957 Bonds");

together with the existing buildings, and improvements on the Leased Realty and the machinery and equipment more particularly described on Exhibit B attached hereto (the "Leased Equipment") and all additional buildings, improvements, machinery and equipment acquired from the proceeds of the sale of the Bonds (the Leased Realty, Leased Equipment, buildings and improvements as they may at any time exist, being herein together called the "Project").

This Lease is made, however, upon and subject to the following terms and conditions, to each of which the Board and the Company hereby agree:

#### ARTICLE I

Section 1.1 The Board, out of the proceeds derived from the sale of the Bonds, has (a) deposited in the Bond and Interest Fund established under the Mortgage the amount received as accrued interest from the sale of the Bonds, (b) paid to the City for the transfer by the City to the Board of the Leased Realty and the buildings, improvements, machinery and equipment thereon a sum which when invested in certificates of deposit as provided in the Trust Agreement referred to in Section 1.2 herein, will produce funds which, together with the amount in the Bond and Interest Fund established under the 1957 Mortgage, are estimated to be sufficient to pay the principal of and interest on the 1957 Bonds as the same become due and payable, (c) paid the acceptance fee of the Trustee under the Mortgage and (d) deposited the balance of the proceeds in the Construction Fund established under the Mortgage.

Section 1.2 The 1957 Lease. The Parties hereto recognize the matters set forth in this section and in view thereof have provided and do hereby agree as herein set forth. The Leased Realty and the buildings, machinery and equipment purchased by

the City from the proceeds of the sale of the 1957 Bonds and transferred by the City to the Board as aforesaid, are now leased by the City to the Company under Lease Agreement dated August 1, 1957 (the "1957 Lease"), under which 1957 Lease the Company has agreed to pay basic rentals in amounts sufficient to provide for the payment of the principal of and interest on the 1957 Bonds. The 1957 Lease and the rentals payable thereunder are pledged under the 1957 mortgage to the payment of the principal of and interest on the 1957 Bonds.

Subject to conditions and restrictions, etc.

IN WITNESS WHEREOF, the Board and the Company have caused this Lease Agreement to be executed in their respective corporate names, have caused their respective corporate seals to be hereunto affixed, and have caused this Lease Agreement to be attested, all by their duly authorized officers.

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE CITY OF DECATUR

By /s/ F. W. TROUP  
-----  
Chairman of its Board of Directors

[S E A L]

Attest:

/s/ [ILLEGIBLE]  
-----  
Its Secretary

FRUEHAUF CORPORATION  
By /s/ ROBERT D. ROWAN  
-----  
Its VICE PRESIDENT

[S E A L]

Attest:

/s/ [ILLEGIBLE]  
-----  
Its SECRETARY

STATE OF ALABAMA )  
 ) ss.  
COUNTY OF MORGAN )

I, the undersigned Notary Public in and for said County in said State, hereby certify that F. W. Troup whose name as Chairman of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal of office this 21st day of June, 1965.

/s/ JOHN A. CADDELL  
-----  
Notary Public

NOTARIAL SEAL

My Commission expires: 7-6-66

STATE OF MICHIGAN )  
 ) ss.  
COUNTY OF WAYNE )

I, the undersigned Notary Public in and for said County in said State, hereby certify that Robert D. Rowan, whose name as Vice President of FRUEHAUF CORPORATION, organized under the laws of the State of Michigan, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said company.

Given under my hand and official seal of office this 17th day of January, 1966.

/s/ ALICE L. SWIDERSKI  
-----  
Notary Public  
Alice L. Swiderski  
Notary Public, Macomb County, Mich.  
Acting in Wayne County, Michigan  
My Commission Expires Jan. 28, 1968

NOTARIAL SEAL

My commission expires:  
-----

## EXHIBIT A

To this lease agreement is the mortgage and indenture trust dated October 1, 1965 which has been recorded in the office of the Judge of Probate of Morgan County in mortgage

book 763 pages 239 et. seq.  
--- ---

## EXHIBIT B

TO LEASE AGREEMENT DATED AS OF  
OCTOBER 1, 1965, BETWEEN THE  
INDUSTRIAL DEVELOPMENT BOARD OF  
THE CITY OF DECATUR, AND  
FRUEHAUF CORPORATION

## Furnaces

- (a) Two (2) 50,000 lb. Gillespie & Powers aluminum melting furnaces with associated log casting equipment.
- (b) One (1) 155,000 lb. Loftus log homogenizing furnace.

## Extrusion Presses

- (a) One (1) 1,400 ton Watson Stillman extrusion press with a 25 ton hydraulic stretcher, a 7" Magnethermic induction billet heater and other related accessories and equipment.
- (b) One (1) 2,200 ton Watson Stillman extrusion press with a 60 ton hydraulic stretcher, a 9" Magnethermic billet heater and other related accessories and equipment.
- (c) One (1) 2,200 ton Watson Stillman extrusion press with a 100 ton hydraulic stretcher, a 5" x 14" Magnethermic billet induction billet heater and other related accessories and equipment.
- (d) One (1) 3,500 ton Watson Stillman extrusion press with a 200 ton hydraulic stretcher, a Grance gas fired billet heater and other related accessories and equipment.

## Extrusion Paint Facility

one (1) complete semi-automatic paint finishing system for cleaning and painting aluminum extrusions. System includes, chemical pretreatment stages, dryoff oven, two (2) paint booths, paint bake oven, electrostatic painting equipment, powered conveyor, and related controls and accessories.

## Fabrication Equipment

Various press brakes, contour correcting machines, straightening machines, aging ovens, punch presses, Radial saws, welders and other lesser equipment for fabricating aluminum extrusions into finished trailer parts.

## Tool Room and Maintenance Equipment

One (1) Elox electric discharge type die making machine.

One (1) Lindberg die heat treat equipment.

Various lathes, drill presses, milling machines, grinders, shapers and related miscellaneous equipment utilized in fabricating tools and dies in support of the production departments.

[STAMP]

THIS AMENDATORY LEASE AGREEMENT dated as of August 15, 1978, by and between The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of the State of Alabama (the "Board") and Fruehauf Corporation, a corporation organized and existing under the laws of the State of Michigan and authorized to do business in the State of Alabama (the "Company").

R E C I T A L S:

The Board, as Lessor, and the Company, as Lessee, have heretofore entered into that certain Lease Agreement dated as of August 1, 1965 (the "Lease Agreement"), which Lease Agreement is recorded in the office of the Judge of Probate of Morgan County in Volume 763, pages 300 et seq. The Lease Agreement was heretofore pledged and assigned and the Leased Realty, as therein defined, mortgaged by the Board under a Mortgage and Indenture of Trust dated as of October 1, 1965 (the "Mortgage") by and between the Board and Central Bank of Alabama, N.A., (formerly the State National Bank of Alabama) as Trustee, which Mortgage is recorded in the office of the Judge of Probate of Morgan County in Volume 763, pages 239 et seq.

All documents necessary to effect a release of the real property hereinafter described from the provisions of the Lease Agreement as required by Section 9.5 of the Lease Agreement and from the lien of the Mortgage as required by Section 21 of the Mortgage have heretofore been executed and filed and the Trustee has executed a release dated August 15, 1978, releasing said real property from the lien of the Mortgage, which release is recorded in the office of the Judge of Probate of Morgan County in Volume 994, pages 625 et seq.

The parties hereto desire to evidence their consent to the release of said real property from the provisions of the Lease Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and provisions of the parties hereto the parties do hereby covenant, agree and provide as follows:

1. The Lease Agreement in hereby amended by eliminating from the Leased Realty, as therein defined and described, the following described property:

Beginning at the Northeast corner of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama, and run thence S 0 degrees 54'W (Magnetic Bearing) along the east boundary of Section 14 a distance of 30.00 feet to a point on the south right of way margin of Alabama Highway No. 20; thence N 89 degrees 03'W along the south right of way margin of Alabama Highway No. 20 a distance of 67.4 feet to a point; thence N 89 degrees 08'W along the south right of way margin of Alabama Highway No. 20 a distance of 572.02 feet to a point; thence S 0 degrees 54'W a distance of 1023.75 feet to the true point of beginning of the tract herein described; thence from the true point of beginning run S 89 degrees 06'E a distance of 195.00 feet to a point; thence N 0 degrees 54'E a distance of 12.00 feet to a point; thence S 89 degrees 06'E a distance of 32.00 feet to a point; thence S 0 degrees 54'W a distance of 24.00 feet to a point; thence N 89 degrees 06'W a distance of 15.00 feet to a point; thence S 0 degrees 54'W a distance of 150.00 feet to a point; thence N 89 degrees 06'W a distance of 10.00 feet to a point; thence S 0 degrees 54'W a distance of 305.00 feet to a point; thence N 89 degrees 06'W a distance of 380.00 feet to a point; thence N 0 degrees 54'E a distance of 467.00 feet to a point; thence S 89 degrees 06'E a distance of 178.00 feet to the true point of beginning, lying and being within the NE 1/4 of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama and containing 4.1241 acres, more or less, subject, however, to (1) the right of way over the South 30 feet thereof, as provided in the deed from L.W. Norton to W.H. Anderson, dated March 1, 1928, and recorded in Deed Book 356, Page 328, in the Probate Office of Morgan County, Alabama, and (2) any rights which may still exist under the condition respecting the drainage system, as set forth in said deed from L.W. Norton to W. H. Anderson dated March 1, 1928, together with (i) the right to connect and join any building, structure or improvement that may be constructed on the above described real property with existing structures, facilities and improvements adjacent to or abutting said real property, and (ii) the right to tie into existing utilities situated on property adjacent to or abutting said real property.

Also an easement for access, ingress and egress across a portion of Tracts 14 and 15, according to the Map of Property belonging to L.W. Norton, as recorded in the Morgan County Probate Office in Plat Book 1, at Page 62, and being more particularly described as follows:

Beginning at the northeast corner of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama, and run

thence S 0 degrees 54'W along the east boundary of said Section 14, a distance of 30.00 feet to a point on the south right of way margin of Alabama Highway No. 20; thence N 89 degrees 3'W along the south right of way margin of Alabama Highway No. 20 a distance of 67.4 feet to a point; thence N 89 degrees 08'W along the south right of way margin of Alabama Highway No. 20 a distance of 921.10 feet to the true point of beginning of the tract herein described; thence from the true point of beginning continue N 89 degrees 08'W along the south right of way margin of Alabama Highway 20 a distance of 50.00 feet to an iron pipe on the northwest corner of Tract 15; thence S 0 degrees 54'W along the west boundary of Tract 15 a distance of 1490.52 feet to a point; thence S 89 degrees 06'E a distance of 221.08 feet to a point on the west boundary of the real estate described for Fruehauf - 1978 Extrusion Expansion; thence N 0 degrees 54'E along the west boundary of said real estate a distance of 50.00 feet to a point; thence N 89 degrees 06'W a distance of 171.08 feet to a point; thence N 0 degrees 54'E a distance of 1440.55 feet to the true point of beginning, lying and being within the NE 1/4 of Section 14, Township 5 South, Range 5 West, Morgan County Alabama, and containing 1.9073 acres, more or less.

2. The above described property is hereby released from the provisions of the Lease Agreement.

3. The Company does hereby covenant and agree that the aforesaid release shall not affect the liability or obligation of the Company for the payment of Basic Rent in amounts and at the times provided in the Lease Agreement, and that there shall be no abatement or adjustment in the Basic Rent by reason of the release of such realty and the obligation and liability of the Company shall continue in all respects as provided in the Lease Agreement, excluding, however, the property so released.

4. The provisions of the Lease Agreement as hereby amended are in all respects hereby ratified, approved and confirmed.

IN WITNESS WHEREOF, the Board and the Company have caused this Amendatory Lease Agreement to be executed in their respective corporate names, have caused their respective corporate seals to be hereunto affixed, and have caused this Amendatory Lease Agreement to be attested by their duly authorized officers.

THE INDUSTRIAL DEVELOPMENT BOARD OF  
THE CITY OF DECATUR

BY /s/ B.C. SHELTON, JR.

-----  
Chairman of the Board of Directors

[S E A L]

Attest: /s/ [ILLEGIBLE]

-----  
Secretary

FRUEHAUF CORPORATION  
By /s/ Frank P. Coyer Jr.

-----  
Its Vice President  
-----

[SEAL]

Attest /s/ [Illegible]

-----  
Its Secretary  
-----

STATE OF ALABAMA )

COUNTY OF MORGAN )

I, the undersigned Notary Public in and for said County in said State, hereby certify that B.C. Shelton, Jr., whose name as Chairman of The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation and instrumentality.

Given under my hand and official seal of office this 24th day of August, 1978.

/s/ John A. Caddell

-----  
Notary Public

[SEAL]

NOTARIAL SEAL

My commission expires: 10-17-78  
-----

STATE OF )

COUNTY OF )

I, the undersigned Notary Public in and for said County in said State, hereby certify that Frank P. Coyer Jr., whose name as Vice President of Fruehauf Corporation, organized under the laws of the State of Michigan, is signed to the foregoing instrument and who is known to me,

acknowledged before me on this day that, being informed of the contents of the within instrument, he as such officer and with full authority, executed the same voluntarily for and as the act of said company.

Given under my hand and official seal of office this 28th day of August, 1978.

/s/ [ILLEGIBLE]  
-----  
Notary Public

[NOTARIAL SEAL]

My commission expires: September 2, 1981

## =====

## LEASE AGREEMENT

Dated as of December 1, 1978

BETWEEN

THE INDUSTRIAL DEVELOPMENT BOARD  
OF  
THE CITY OF DECATUR (ALABAMA)

AND

FRUEHAUF CORPORATION

(Plant Project)

=====

As set forth in Section 11.2 hereof, The Industrial Development Board of the City of Decatur has assigned all of its right, title and interest in and to this Lease Agreement to The First National Bank of Birmingham, as Trustee under the Indenture of Mortgage and Deed of Trust dated as of December 1, 1978, referred to herein.

This instrument was  
prepared by:

M.C. O'Neal  
Cabaniss, Johnston, Gardner,  
Dumas & O'Neal  
1900 First National-Southern  
Natural Building  
Birmingham, Alabama 35203

## LEASE AGREEMENT

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LEASE AGREEMENT dated as of December 1, 1978, between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation duly organized and existing under the laws of the State of Alabama (the "Board"), whose address is P.O. Box 1727, Decatur, Alabama 35602, and FRUEHAUF CORPORATION, a Michigan corporation (the "Lessee"), whose address is 10900 Harper Avenue, Detroit, Michigan 48232.

ARTICLE I

Definitions

Section 1.1. Definitions.

(a) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(1) "This Agreement" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more instruments supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated "Articles", "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular.

(4) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(b) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Additional Rent" means the rent payable under Section 5.2 (b), (c) or (d).

"Affiliate" means as specified in Section 8.4.

"Authorized Lessee Representative" means at any time each officer or employee of the Lessee authorized to act hereunder and under the Indenture on behalf of the Lessee as evidenced by a Lessee Certificate to such effect and containing the specimen signature of such officer.

"Basic Rent" means the rent payable under Sections 5.2(a) and 5.3.

"Board" means the Person named as the Board in the first paragraph of this instrument until a successor public corporation shall have become such pursuant to Section 6.5 of the Indenture, and thereafter Board shall mean such successor.

"Bond" or "Bonds" means the 9.70% First Mortgage Industrial Development Revenue Bonds (Fruehauf Corporation Plant Project) Series 1978A, due December 1, 1998, of the Board issued and to be issued pursuant to the Indenture.

"Bond Fund" means the Bond Fund created by Section 8.2 of the Indenture.

"Bond Payment Date" means the date on which the principal of (and premium, if any) or interest on any of the Bonds becomes due and payable, whether on a Redemption Date or a Sinking Fund Payment Date (each as defined in the Indenture), at Stated Maturity, by declaration or acceleration or otherwise, in accordance with the terms of the Bonds and the Indenture, including, without limitation, Section 6.1 of the Indenture.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated as of December 1, 1978, among the Board, the Lessee and Connecticut General Life Insurance Company.

"Business Day" means any day other than a Saturday, a Sunday, any legal holiday in the State in which the place of payment is located or any other day on which the State banking

institutions in such place of payment are authorized to suspend operations under the laws of said State.

"Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Event of Default" means those events specified in Section 10.1.

"Financing Act" means Act No. 648, enacted at the 1949 Regular Session of the Legislature of Alabama, as heretofore amended, and further supplemented by Act No. 1893, enacted at the 1971 Regular Session of the Legislature of Alabama (Code of Alabama 1975, Title 11, Section 11-54-80 et seq.).

"Guaranty" means the Guaranty and Financial Agreement of even date herewith among the Lessee, the Trustee and Connecticut General Life Insurance Company (relating to the Bonds), as supplemented and amended.

The term "holder" when used with respect to any Bond means a Bondholder as defined in the Indenture.

"Indenture" means the Indenture of Mortgage and Deed of Trust of even date herewith between the Board and The First National Bank of Birmingham, as Trustee, as supplemented and amended.

"Independent Engineer" means an engineer or an engineering firm registered and qualified to practice the profession of engineering under the laws of Alabama and who or which is not the full-time employee of the Board or the Lessee.

"Leased Land" means the property described in Schedule A attached hereto and made a part hereof.

"Lessee" means Fruehauf Corporation until a successor corporation shall have become such pursuant to Section 9.2, and thereafter "Lessee" shall mean such successor corporation.

"Lessee Certificate", "Lessee Request" and "Lessee Order" mean, respectively, a written certificate, request and order signed in the name of the Lessee by its Chairman of the Board, President or a Vice President, and by its Treasurer, an Assistant Treasurer, Controller, an Assistant Controller,

Secretary, or an Assistant Secretary, and delivered to the Trustee.

"Net Proceeds" means the proceeds received in respect to the Project from any fire or extended coverage insurance or condemnation or eminent domain award or payment, net, after deduction of all expenses incurred in the collection thereof.

"Opinion of Counsel" means a written opinion of counsel addressed to the Trustee, for the benefit of the Holders of the Bonds, who may (except as otherwise expressly provided in this Agreement) be counsel for the Board or the Lessee, and who, if not General Counsel of the Lessee, is acceptable to the Trustee.

The term "outstanding" when used with reference to the Bonds means Outstanding as defined in the Indenture.

"Permitted Encumbrances" with respect to the Project means:

(i) the right reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law to terminate such right, power, franchise, grant, license or permit, provided, that the exercise of such right would not materially impair the use of the Project for the purposes for which it is held by the Lessee or materially affect its value;

(ii) the right reserved to or vested in any municipality or public authority to purchase, condemn or appropriate the Project or any part thereof;

(iii) liens for the taxes, assessments, levies, fees, charges, duties, imposts, claims and demands referred to in Section 6.4 which are not at the time due and payable, or the validity or amount of which is being contested in compliance with the provisions of Section 6.6;

(iv) easements, rights of way, restrictions and other defects, liens, encumbrances and irregularities in the title to the Project which do not materially impair the use thereof for the purposes for which it is held by the Lessee or materially affect its value;

(v) rights reserved to or vested in any municipality or public authority to control or regulate the Project or to use the Project in any manner which does not materially impair the use thereof for the purposes for which it is held by the Lessee or materially affect its value;

(vi) the lien and security interest of the Indenture;

(vii) the rights of the Lessee under this Agreement; and

(viii) any encroachment, encumbrance, exception or violation set forth in Schedule A hereto.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Progress Certificate" means a written certificate signed in the name of the Lessee by an Authorized Lessee Representative, and delivered to the Trustee.

"Project" means the Leased Land, and the Project Equipment.

"Project Costs" means the aggregate of (a) the costs reasonably and appropriately incurred by the Board or the Lessee in connection with the acquisition of the Project, including the acquisition and installation of the Project Equipment, the construction of any buildings, structures or permanent improvements on the Leased Land and interest on the Bonds during the estimated construction period contemplated by Section 4.1, and charged or properly chargeable to fixed property accounts in accordance with generally accepted accounting principles, including, without limitation, engineers' and architects' fees, charges for labor, wages, salaries, materials, supplies, superintendence, insurance, taxes and all other items (except operating or maintenance expenses) in connection with such construction and so charged, properly chargeable and conforming to such accounting principles, but excluding the cost of any materials and supplies obtained in connection with any buildings, structures or permanent improvements constructed or to be constructed on the Leased Land and not incorporated therein, and (b) all costs and expenses of the Board incurred in

connection with the sale of the Bonds, including financial advisory fees, legal fees and expenses, title insurance expenses, recording fees, survey costs and other financing expenses.

"Project Equipment" means the property described in Schedule B attached hereto and made a part hereof, and any machinery, apparatus, equipment, fittings and fixtures to be acquired in addition thereto or in substitution or renewal or repair thereof pursuant to Sections 4.1, 6.1, 6.2, 6.3, 7.1 or 7.2, less any removed by the Lessee in accordance with Sections 6.3, 7.1 and 7.2.

"Project Fund" means the Project Fund created by Section 7.1 of the Indenture.

"Redemption Date" when used with respect to any Bonds to be redeemed means the date fixed by the Lessee in notices given to the Board and the Trustee hereunder for redemption by or pursuant to the Indenture.

"Redemption Price" when used with respect to any Bond to be redeemed means the price at which it is to be redeemed pursuant to the Indenture.

"Stated Maturity" when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

"Subsidiary" means as specified in Section 8.4.

"Trustee" means the Person named above as the "Trustee" under the Indenture until a successor trustee shall have become such pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean such successor trustee.

"Weighted Average Life to Maturity" means as specified in Section 8.4.

Section 1.2. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

## ARTICLE II

## Representations

## Section 2.1. Representations by the Board.

The Board hereby represents that:

(a) it is duly incorporated and existing under the provisions of the Financing Act, has the power thereunder to enter into this Agreement and to carry out its obligations hereunder and by proper corporate action has been duly authorized to execute and deliver this Agreement;

(b) it proposes to lease, and upon purchase pursuant to Article VIII to sell, the Project to the Lessee for the public purpose of promoting industry, developing trade and furthering the use of the natural and human resources of the State of Alabama and the development and preservation of the said resources, by inducing manufacturing, commercial and research enterprises to enlarge, expand and improve existing operations in said State, as contemplated by the Financial Act;

(c) it proposes to finance actual Project Costs as certified in a Lessee Certificate, by issuing and selling pursuant to the Bond Purchase Agreement its Bonds in the aggregate principal amount of \$3,500,000 and having the terms and conditions specified in the Indenture; and

(d) the Project constitutes and will constitute a "project" of the Board within the meaning of the Financing Act and the Board is issuing the Bonds to aid in the financing of the Project to accomplish the public purposes of the Financing Act.

## Section 2.2. Representations by the Lessee.

The Lessee hereby represents that:

(a) it is a corporation duly incorporated and existing in good standing under the laws of the State of Michigan, is qualified to do business and is in good standing as a foreign corporation in the State of Alabama, has power to enter into this Agreement and by proper corporate action has been duly authorized to execute and deliver this Agreement;

(b) it has received executed counterparts of the Indenture and the Bond Purchase Agreement;

(c) the acquisition and construction of the Project have been approved by the issuance of all necessary governmental construction permits and the Project as designed complies with all presently applicable building and zoning ordinances;

(d) it is in possession of the Leased Land and began construction of the Project after April 6, 1978 (the date of adoption by the Board of a resolution with respect to the Project and the financing thereof);

(e) the acquisition and construction of the Project by the Board, the financing thereof through the sale of the Bonds and the leasing thereof hereunder has induced it to enlarge, expand and improve existing operations in the State of Alabama;

(f) it intends to operate the Project as a manufacturing facility throughout the term of this Agreement, and no changes will be made in the acquisition or construction of the Project which will have the effect of impairing the effective use or character of the Project as contemplated by this Agreement or of disqualifying the Project as a "project" within the meaning of the Financing Act; and

(g) it has conveyed to the Board by warranty deed good and marketable title to the Leased Land, and has conveyed, or as soon as possible after acquisition and installation will from time to time convey, to the Board by bill of sale good title to the Project Equipment, subject to Permitted Encumbrances (other than the Indenture).

ARTICLE III

Lease of Project, Title and Condition;  
Use and Quiet Enjoyment

Section 3.1. Lease. The Board hereby leases the Project to the Lessee for the term specified in Section 5.1 and upon the terms and conditions of this Agreement.

Section 3.2. Title and Condition. The Project is leased subject to (a) the rights of any parties in possession and to the existing state of the title thereof as of the commencement of the term of this Agreement, (b) any state of facts which an accurate survey or physical inspection thereof might show, (c) all zoning regulations, restrictions, rules and ordinances, building restrictions and other laws and regulations now in effect or hereafter adopted by any governmental authority having jurisdiction, (d) with respect to buildings, structures and other improvements, if any, located on the Project, their condition as of the commencement of the term of this Agreement and (e) Permitted Encumbrances (except the lien and security interest of the Indenture). The Lessee represents to the Board that the Lessee has examined the title to the Project immediately prior to the execution and delivery of this Agreement and has found the same to be satisfactory for all purposes.

Section 3.3. Disclaimer of Warranties.

THE BOARD DOES NOT MAKE OR SHALL IT BE DEEMED TO HAVE MADE ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF, OR AS TO THE SUITABILITY FOR ANY PURPOSE OF, THE PROJECT OR ANY PART THEREOF OR AS TO THE ABILITY OF THE PROJECT TO PERFORM ANY FUNCTION OR ANY WARRANTY OF MERCHANTABILITY OR FITNESS OF THE PROJECT OR ANY PART THEREOF FOR ANY PARTICULAR PURPOSE OR AS TO THE TITLE TO OR THE BOARD'S INTEREST IN THE PROJECT OR ANY PART THEREOF (SUBJECT TO SECTION 3.4) OR AS TO THE BOND PROCEEDS BEING SUFFICIENT TO PAY THE PROJECT COSTS OR AS TO ANY OTHER MATTER RELATING TO THE PROJECT OR ANY PART THEREOF, IT BEING AGREED THAT ALL SUCH RISKS, AS BETWEEN THE BOARD, ON THE ONE HAND, AND THE LESSEE, ON THE OTHER HAND, ARE TO BE BORNE BY THE LESSEE, AND THE BENEFITS OF ANY AND ALL IMPLIED WARRANTIES AND REPRESENTATIONS OF THE BOARD ARE HEREBY WAIVED BY THE LESSEE.

THE LESSEE CONFIRMS THAT IT HAS SELECTED THE PROJECT AND EACH PART THEREOF ON THE BASIS OF ITS OWN JUDGMENT AND

EXPRESSLY DISCLAIMS RELIANCE UPON ANY STATEMENTS, REPRESENTATIONS OR WARRANTIES MADE BY THE BOARD, AND THE BOARD REPRESENTS AND THE LESSEE ACKNOWLEDGES THAT THE BOARD IS NOT A MANUFACTURER OR VENDOR OF ANY PART OF THE PROJECT.

Section 3.4. Use of Project and Quiet Enjoyment.

The Lessee may use and occupy the Project for any lawful purpose permitted by the Financing Act.

As long as the Lessee shall substantially perform and observe all covenants and conditions required to be performed and observed by it hereunder, the Board warrants that it will not interfere with the peaceful and quiet occupation and enjoyment of the Project by the Lessee; provided, that the Board, the Trustee and Connecticut General Life Insurance Company (if it or its nominee holds any of the Bonds) and any other institutional holder of at least 25% in principal amount of the outstanding Bonds, and their agents, may enter upon and examine the Project in a reasonable manner and at reasonable times.

Any failure by the Board to comply with the foregoing covenant shall not give the Lessee any right, as long as any of the Bonds are outstanding under the Indenture, to any abatement, reduction or offset against the Basic Rent, Additional Rent or other amounts payable by the Lessee hereunder or to fail to perform or observe any other covenants or conditions required to be performed or observed by the Lessee hereunder.

ARTICLE IV

Acquisition and Construction of the Project;  
Application of Bond Proceeds

Section 4.1. Agreement to Acquire and Construct the Project.

The Board agrees to construct, or cause the construction of, a new industrial manufacturing building containing 57,600 square feet of floor space with related improvements (including, without limitation, the Project Equipment specifically described in Schedule B and such other Project Equipment deemed necessary or appropriate by the Lessee for the operation, maintenance or protection of such building) for use in the manufacturing of trailers or trailer components and other transportation-related equipment to be located on

the Leased Land in accordance with plans and specifications, including supplements thereto and amendments thereof, now or hereafter filed by the Lessee in the office of the Board. The Board has heretofore appointed the Lessee as its agent to acquire, construct and install, or cause acquisition, construction and installation of, the aforesaid building, equipment and related improvements.

All construction and installation shall be performed in a good and workmanlike manner in compliance with all applicable laws, ordinances, rules and regulations and shall comply with the requirements of any insurance policy required to be maintained by the Lessee hereunder.

The Project Equipment and each item thereof shall be so installed in buildings or structures on the Leased Land as to be removable without significant permanent injury or structural damage to the Project. Prior to the installation of any item of Project Equipment, the Lessee shall plainly, distinctly, permanently and conspicuously place and fasten on each such item a metal or other permanent plate, readily visible, bearing the following words: "Property of the Industrial Development Board of the City of Decatur, subject to Indenture of Mortgage and Deed of Trust dated as of December 1, 1978 (Fruehauf Corporation Plant Project)". In case any such plate shall at any time be removed, defaced or destroyed, the Lessee shall immediately cause the same to be restored or replaced.

The Board agrees to use its best efforts to complete or substantially to complete the Project no later than June 1, 1981, subject only to such delays in construction as are occasioned by circumstances not reasonably within its control.

#### Section 4.2. Application of Bond Proceeds.

Upon the sale of the Bonds pursuant to the Bond Purchase Agreement, the Trustee is required under Section 7.1 of the Indenture to deposit the purchase price of the Bonds in the Project Fund.

#### Section 4.3. Disbursements from the Project Fund.

Unless the Trustee has actual knowledge of an Event of Default under the Indenture or has received written advice thereof from the holders of at least 25% in principal amount of the Bonds at the time outstanding, the Board and the Lessee shall be entitled, in accordance with Section 7.2 of the Indenture,

to withdraw the moneys in the Project Fund from time to time in payment, or in reimbursement for the payment, of Project Costs upon furnishing to the Trustee an order, signed by an authorized officer of the Board, and accompanied by a Progress Certificate, dated not more than 30 days prior to the request for withdrawal, setting forth in substance as follows:

(a) as to Project Costs relating to the sale of the Bonds, that the sum then requested to be withdrawn either has been paid by the Lessee and/or is justly due to persons whose names and addresses shall be stated, who have rendered services or advanced expenses in connection therewith, including expenses contemplated by Section 3.3 of the Bond Purchase Agreement; or

(b) as to Project Costs relating to the acquisition or construction of the Project,

(i) that the sum then requested to be withdrawn either has been paid by the Lessee and/or is justly due to contractors, subcontractors, materialmen, engineers, architects, or other Persons (whose names and addresses shall be stated) who have rendered services or furnished materials or equipment for the Project, pursuant to the plans and specifications therefor referred to in Section 4.1, and giving a brief description of such services and the materials or equipment and the principal subdivisions thereof and the several amounts so paid or due to each of said persons in respect thereof;

(ii) that the sum then requested to be withdrawn, plus all sums previously withdrawn on account of such acquisition or construction, do not exceed the total cost thereof insofar as actually accomplished up to the date of said Progress Certificates;

(iii) that, except for the amounts, if any, stated in said Certificate to be due for services or materials and retained for the correction of defects or similar items in accordance with the applicable construction contract or customary practice, there is no outstanding indebtedness known to the Lessee, after due inquiry, which is then due and payable for labor, wages, services, materials or supplies in connection with such acquisition or construction;

(iv) that no part of such several amounts paid and/or due has been or is being made the basis of the withdrawal of any moneys from the Project Fund in any previous or then pending application, or has been paid out of the proceeds of insurance received by Lessee as provided in Section 6.5; and

(v) that, if any part of the sum then requested to be withdrawn is related to the acquisition of the Project Equipment showing a brief description thereof, such Project Equipment either has been installed as part of the Project or the payment therefor is to be made to the Person manufacturing, assembling or installing such Project Equipment;

(c) as to the Project Costs relating to interest on the Bonds due on any Bond Payment Date commencing June 1, 1979 to and including December 1, 1981, that the sum then requested to be withdrawn is due on the date of such Progress Certificate as Basic Rent under Section 5.3, in which case such sum shall be deposited by the Trustee in the Bond Fund to constitute a credit against Basic Rent or has theretofore been paid by the Lessee (otherwise than out of the Project Fund) in which case such sum shall be paid by the Trustee to or upon Lessee Order.

## Section 4.4. Certification of Completion Date.

Upon the completion or substantial completion of the acquisition and construction of the Project, the Lessee will deliver to the Trustee:

(a) a Completion Certificate which shall be a Lessee Certificate dated not more than 10 days prior to receipt by the Trustee, setting forth in substance as follows:

(i) that the acquisition and construction of the Project have been completed or substantially completed pursuant to the plans and specifications therefor referred to in Section 4.1;

(ii) that all sums which the Lessee is entitled to withdraw from the Project Fund on account of services rendered or materials furnished in connection with the Project have been withdrawn;

(iii) that all sums for the payment of which the Board or the Lessee is liable in respect to such acquisition or construction have been paid in full; and

(iv) that no Event of Default under this Agreement has occurred and is continuing.

(b) an Opinion of Counsel is dated not more than 30 days prior to receipt by the Trustee setting forth in substance as follows:

(i) that the Board has acquired good, valid and legal title to the Project, including the Project Equipment described in said Certificate, free and clear of all mortgages, liens, security interests, charges or encumbrances, except Permitted Encumbrances; and

(ii) that all of the Board's right, title and interest in and to the Project is subject to the lien and security interest of the Indenture and that the Board has complied with Section 6.3 of the Indenture;

and counsel in giving such Opinion of Counsel may rely as to matters related to title to the Leased Land, recording of instruments in the real property records and priority of real property liens upon the mortgage title policy delivered pursuant to the Bond Purchase Agreement, as the same may have been supplemented or endorsed to a date not more than 30 days prior to the date of such Opinion of Counsel.

Section 4.5. Insufficiency of Project Fund.

If the amount in the Project Fund is not sufficient to pay all Project Costs of the Project, the Lessee will pay all costs in excess of such amount without any rights of (i) set-off, counterclaim, abatement against the Basic Rent, Additional Rent or other amounts payable by the Lessee hereunder or (ii) reimbursement from the Trustee or the holders of the Bonds or the Board.

ARTICLE V

Lease Term; Rentals

Section 5.1. Lease Term; Renewal Term.

The original term of this Agreement shall begin upon the delivery hereof and, subject to earlier termination under Article VIII or X, shall expire at the close of business on the first to occur of (a) the date on which the Indenture ceases to be of further effect pursuant to the terms of Section 9.1 of the Indenture or (b) December 1, 1998; provided, however, that, until the entire indebtedness on the Bonds has been paid in full and discharged, the covenant to pay Basic Rent and Additional Rent contained in Section 5.2 shall survive the termination or expiration of this Agreement and the satisfaction and discharge of the Indenture.

So long as no Default or Event of Default shall have occurred and be continuing and such renewal shall not be prohibited by applicable law or governmental regulation, upon the expiration of the original term of this Agreement as

aforesaid, this Agreement shall be automatically renewed for an additional term beginning on the date of such expiration and expiring at the close of business on November 30, 2018. Such renewal term shall commence automatically unless and until notice is given in writing by the Lessee to the Board at least 30 days before the expiration of the original term of its intention to terminate this Agreement at the end of such term, in which event this Agreement shall terminate in accordance with the terms of this Section 5.1. All of the provisions of this Agreement shall be applicable during any such renewal term unless otherwise agreed upon by the Board and the Lessee, except as follows:

(a) the Basic Rent during each of the first 10 years of the renewal term shall be \$778 per year and during each of the second 10 years shall be \$26,250, payable in arrears on December 1 in each year;

(b) the Trustee shall act as escrow agent on behalf of the Board for the purposes of receiving and applying the net proceeds received by the Lessee from sales or dispositions by the Lessee of Project Equipment pursuant to Section 6.3 hereof, the purchase price for any unimproved land purchased by the Lessee pursuant to Section 8.5 hereof, and the Net Proceeds of insurance or from any condemnation or eminent domain award or payment, which amounts shall be applied by the Trustee in the same manner as such amounts would be applied by the Trustee under the terms of the Indenture if the Indenture were then in effect, except that any amounts which would have been applied for the purposes set forth in paragraphs (1) and (2) of Section 7.3 of the Indenture shall be payable to the Lessee promptly after the occurrence of the event or events which would have permitted the Trustee to apply such amounts in the manner set forth in said Section 7.3;

(c) the provisions of Article II, Article IV, Section 5.2(b) and (d), Section 5.3, Section 6.5 (except the first and final paragraphs thereof), Section 6.8, Section 6.9, Section 6.10, Section 9.1, Section 9.2, clauses (b), (c), (d) and (e) of Section 10.1, Section 10.2 (except that the Board will retain its rights and remedies afforded by Alabama law generally to lessors and landlords), Section 10.3, Section 10.4, Section 10.5 and Article XI of this

Agreement shall be deemed deleted and of no force and effect during any such renewal term; and

(d) all Lessee Certificates, Lessee Requests, Lessee Orders and Opinions of Counsel and all other certificates, documents, opinions and notices required to be delivered or given to the Trustee by the Lessee during the original term of this Agreement shall be delivered or given during such renewal term to the Trustee in its capacity as escrow agent as aforesaid.

The Lessee and the Board agree to enter into an escrow agreement with the Trustee containing terms substantially identical to Sections 7.1 through 7.3, inclusive, (except that Section 7.3 shall be modified to conform to the provisions of clause (b) above) of the Indenture or such other provisions with respect to the application of amounts received by the Trustee as escrow agent as may be mutually agreeable to the Lessee, the Board and the Trustee. The escrow agreement may also contain such additional terms and provisions as may be mutually agreeable to said parties. All fees and expenses of the Trustee as escrow agent during any such renewal term shall be paid by the Lessee.

#### Section 5.2. Basic Rent and Additional Rent.

(a) On the Business Day immediately preceding each Bond Payment Date during the original term of this Agreement, subject to Section 3.2 of the Bond Purchase Agreement, the Lessee shall pay to the Trustee at its principal corporate trust office, in funds immediately available to the Trustee, for the account of the Board, as Basic Rent for the Project, a sum equal to the amount becoming due and payable on such Bond Payment Date as principal of (including without limitation the amounts becoming due and payable on the Bonds by operation of the Sinking Fund provided in Article V of the Indenture) and premium, if any, or interest on, the Bonds, less the amount to be used as a credit against such Basic Rent pursuant to Section 4.3(c) hereof or Section 7.3(i) or 8.3 of the Indenture, and, on demand, shall pay to the Trustee interest on any Basic Rent not paid on the due date therefor (to the extent enforceable under applicable law) at the rate of 10.7% per annum until paid. If, as a result of investment by the Trustee or otherwise, the immediately available funds in the Bond Fund at the opening of business on any Bond Payment Date are less than the amount due and payable on such Bond Payment Date as principal of (and premium, if any) or interest on the Bonds, the Lessee shall pay to the Trustee as aforesaid, as Basic Rent for the Project, a sum equal to

the deficiency.

(b) The Lessee agrees to pay to the Trustee, as Additional Rent, promptly upon receipt of an itemized request of the Trustee, all amounts owing by the Board to the Trustee pursuant to Section 11.7 of the Indenture as compensation, in reimbursement of expenses, disbursements and advances, or in indemnification for loss, liability or expense incurred.

(c) The Lessee agrees to pay, from time to time to the Board, as Additional Rent, promptly upon the request of the Board, its reasonable costs and expenses, including legal fees of counsel for the Board, incurred in performing its covenants (other than its covenant to pay the principal of, premium, if any, and interest on, the Bonds) under this Agreement and the Indenture or in performing any covenants of the Lessee under this Agreement which have not been duly performed by the Lessee.

(d) In the event the Lessee should fail to pay when due any of the payments required under subsections (b) or (c) of this Section, the Lessee agrees to pay, upon demand, as Additional Rent, interest on the overdue amount at the rate of 10.7% per annum until paid.

#### Section 5.3. Prepayment of Basic Rent.

The Lessee may elect to prepay Basic Rent in a sum equal to the amount sufficient to redeem outstanding Bonds pursuant to Section 4.1(c) of the Indenture as a whole or in part (but if in part in units of \$50,000 or integral multiples of \$1,000 in excess thereof, as specified by the Lessee in the notice referred to hereinafter) on the Business Day immediately preceding the Redemption date by giving written notice thereof to the Board and the Trustee not more than 60 nor less than 40 days prior to such Redemption Date, which notice shall specify the Redemption Date and certify that the refunding limitations set forth in Section 8.4 have been complied with in connection with any such prepayment of Basic Rent to be made prior to December 1, 1988. Notice having been given as aforesaid, the Lessee covenants to prepay such Basic Rent on the Business Day immediately preceding such Redemption Date.

Neither the Lessee's exercise of any prepayment option referred to in this Section 5.3 nor the resulting partial redemption of Bonds (otherwise than through operation of the Sinking Fund) shall reduce or otherwise affect its obligation

to make the payment of Basic Rent required by Section 5.2(a).

#### Section 5.4. Obligations of Lessee Unconditional.

The obligations of the Lessee to pay the Basic Rent, Additional Rent and other amounts payable hereunder and to perform and observe the other covenants and conditions on its part contained herein shall be absolute and unconditional and shall not be subject to diminution by set-off, counterclaim, abatement or otherwise, and the Lessee (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments of Basic Rent, Additional Rent and other amounts payable hereunder, (ii) will perform and observe all of its other covenants and conditions contained in this Agreement, and (iii) will not suspend the performance of its obligations hereunder for any cause including, without limitation, the fact that the proceeds in the Project Fund may not be sufficient to pay, or reimburse the Lessee for the payment of, all costs in connection with the Project, the removal of any portion thereof, failure to complete the Project, any acts or circumstances that may constitute failure of consideration, failure of or a defect of title to the Project or any part thereof, eviction or constructive eviction, destruction of or damage to all or any part of the Project, the taking by condemnation of all or any part of the Project, commercial frustration of purpose, any change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State of Alabama or any political subdivision of either, any change in the environmental or pollution control laws or administrative rulings of or administrative actions by the United States of America or the State of Alabama or any political subdivision of either, or any failure of the Board to perform and observe any agreement, express or implied, or any duty, liability or obligation arising out of or connected with this Agreement.

### ARTICLE VI

#### Covenants of Lessee

##### Section 6.1. Maintenance and Modifications.

The Lessee will at its own expense maintain the Project in as reasonably safe condition as its operations permit and in good repair and operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof, whether structural or

non-structural, foreseen or unforeseen, or ordinary or extraordinary.

The Board shall not be required to maintain, repair or rebuild, nor to make any alterations, replacements or renewals of any nature or description to, the Project or any part thereof (whether structural or non-structural, foreseen or unforeseen or ordinary or extraordinary), nor to maintain the Project of any part thereof, in any way, and the Lessee hereby expressly waives any right to make repairs at the expense of the Board, which may now or hereafter be provided for in any statute or law.

In the event that any buildings, structures or other improvements on the Leased Land (whether now situated or hereafter constructed thereon) shall (i) encroach upon any property, street or right-of-way adjoining or adjacent to the Leased Land, (ii) violate the agreements or conditions contained in any restrictive covenant affecting the Leased Land or any part thereof, (iii) hinder or obstruct any easement or right-of-way to which the Leased Land is subject or (iv) impair the rights of others under any such easement or right-of-way, the Lessee shall, at its expense, either (x) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation, hindrance, obstruction or impairment, whether the same shall affect the Board, the Lessee or both, or (y) make such changes in the buildings, structures and other improvements to the Leased Land and take such other action as shall be reasonably necessary to remove such encroachments, hindrances or obstructions and to end such violations or impairments, subject in the case of any alterations or removals to the requirements of Section 6.2.

#### Section 6.2. Alterations and Additional Improvements.

The Lessee may, at its expense, make additions to, alterations of, removals of and substitutions for the buildings, structures, facilities or other improvements or portions thereof situated on the Leased Land, provided, that (i) the market value of the Project upon completion thereof shall not thereby be lessened, (ii) the foregoing actions shall be performed in a good and workmanlike manner, and (iii) such additions, alterations, removals or substitutions shall be expeditiously completed in compliance with all laws, ordinances, orders, rules, regulations and requirements applicable thereto. All work done in connection with each such addition, alteration, removal or substitution shall not violate the requirements of any insurance

policy required to be maintained by the Lessee hereunder or the orders, rules and regulations of the National Fire Protection Association or any body exercising similar functions. The Lessee shall promptly pay all costs and expenses of each such addition, alteration, removal or substitution and shall discharge all liens filed against the Project arising out of the same. The Lessee shall procure and pay for all permits and licenses required in connection with any such addition, alteration, removal or substitution.

The Lessee may, at its expense, (i) construct or cause to be constructed upon the Leased Land any additional buildings, structures or other improvements and (ii) install, assemble or place or cause to be installed, assembled or placed, upon the Project any items of machinery or equipment used or useful in the Lessee's business, in each case upon compliance with all the terms and conditions set forth in the preceding paragraph. All such buildings, structures and other improvements, as well as any additions, alterations and substitutions made pursuant to the preceding paragraph, shall be and remain a part of the realty and the property of the Board, subject to this Agreement, and the Board shall have full right, power and authority to subject the same to the lien of the Indenture. Such machinery or equipment shall not constitute a part of the Project nor be subject to the lien and security interest of the Indenture and may be removed from the Project at any time prior to the expiration or earlier termination of this Lease, provided that the Lessee shall repair any damage to the Project resulting from such removal.

Section 6.3. Disposition of Project Equipment, Covenant Against Waste.

The Lessee shall have the right, at any time and from time to time, unless an Event of Default shall have occurred and be continuing under this Agreement, without the consent of the Board, to sell or dispose of any Project Equipment which, in the opinion of the Lessee, may have become obsolete or unfit for use or no longer useful or profitable in the conduct of the operations of the Lessee under this Agreement.

Any net cash proceeds received by the Lessee from the sale or disposition of Project Equipment under this Section shall be paid to the Trustee for deposit into the Project Fund unless the sum of such proceeds and any other proceeds received by the Lessee from sales or dispositions of Project Equipment during the preceding 12-month period and not paid to the Trustee

under this Section is less than \$250,000.

The Lessee shall be entitled, in accordance with Section 7.2 of the Indenture, to withdraw such proceeds within 12 months after the receipt thereof by the Trustee to pay, or to reimburse the Lessee for the payment of, the cost of acquiring other Project Equipment not necessarily of the same character, but of the value at least equal to that so sold or disposed of at the time of sale or disposition, which shall forthwith become the property of the Board, upon furnishing a Progress Certificate dated not more than 30 days prior to the request for withdrawal, setting forth in substance the matters set forth in subsection (b) of Section 4.3, but with respect to such acquisition of Project Equipment.

Any such proceeds which remain in the Project Fund for a period of 12 months after receipt by the Trustee shall be applied in accordance with Section 7.3 of the Indenture and, if to be applied in redemption of Bonds under Section 7.3(2) of the Indenture, the Lessee shall specify in a written notice given to the Board and the Trustee the Redemption Date for such redemption.

The Lessee covenants not to do or suffer any waste to any buildings or structures on the Leased Land or to the Project Equipment.

Section 6.4. Taxes, Mechanics' and Materialmen's Liens.

Subject to Section 6.6, the Lessee shall pay when due

(a) all taxes, assessments (including assessments for benefits from public works or improvements, whether or not begun or completed prior to the commencement of the term of this Agreement and whether or not to be completed within said term), levies, fees, water and sewer rents and charges, and all other governmental charges, general and special, ordinary and extraordinary, and whether or not the same shall have been within the express contemplation of the parties hereto, together with any interest and penalties thereon, which are, at any time, imposed or levied upon or assessed against (i) the Project or any part thereof, (ii) any Basic Rent, Additional Rent or other amounts payable by the Lessee under this Agreement,

(iii) this Agreement or the leasehold estate hereby created or which arise in respect of the operation, possession, occupancy or use of the Project and which if not paid when due would materially impair the security of the Bonds or materially encumber the Board's title to the Project;

(b) any gross receipts or similar taxes imposed or levied upon, assessed against or measured by the Basic Rent, Additional Rent or other amounts payable by the Lessee hereunder;

(c) all sales and use taxes which may be levied or assessed against or payable by the Board or the Lessee on account of the acquisition, leasing or use of the Project or any portion thereof; and

(d) all charges for water, gas, light, heat, telephone, electricity, power and other utility and communication services rendered or used on or about the Project.

The Lessee agrees to furnish to the Board, within 30 days after the last day for payment without penalty or interest, and upon written demand by the Board or the Trustee therefor, proof of the payment of all such taxes, assessments, levies, fees, expenses, rents and charges and all such utility and communication charges which are payable by the Lessee as provided in this Section. In the event that any assessment levied or assessed against the Project may be legally paid in installments, the Lessee shall have the option to pay such assessments in installments.

Subject to Section 6.6 and to such delays as are occasioned by circumstances not reasonably within the Lessee's control, the Lessee shall, at its expense, comply with and shall cause the Project to comply with all governmental statutes, laws, rules, orders, regulations and ordinances affecting the Project or any part thereof, or the use thereof, including those which require the making of any structural, unforeseen or extraordinary changes, whether or not any of the same, which may hereafter be enacted, involve a change of policy on the part of the governmental body enacting the same. The Lessee shall, at its expense, comply with the requirements of all policies of insurance which at any time may be in force with respect to the Project, and with the provisions of all contracts, agreements and restrictions affecting the Project or any part

thereof or the ownership, occupancy or use thereof.

Subject to Section 6.6, the Lessee will not, directly or indirectly, create, or permit to be created or to remain, and will promptly discharge, or cause to be discharged, any lien with respect to the Project or any part thereof or the Lessee's interest therein or the Basic Rent, Additional Rent or other amounts payable by the Lessee under this Agreement, other than Permitted Encumbrances. The existence of any mechanic's, laborer's, materialman's, supplier's or vendor's lien, or any right in respect thereof, shall not constitute a violation of this Section, if payment is not yet due upon the contract or for the goods or services in respect of which any such lien has arisen.

From and after the date of delivery to the Trustee of the Completion Certificate described in the first paragraph of Section 4.4, nothing contained in this Agreement shall be construed as constituting, expressly or impliedly, the consent of the Board to, or request of the Board for, the performance of any labor or services or the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to the Project or any part thereof by any contractor, subcontractor, laborer, materialman or vendor. Notice is hereby given that the Board will not be liable from and after such date for any labor, services or materials furnished or to be furnished to the Lessee or to anyone holding the Project or any part thereof through or under the Lessee, and that no mechanic's or other liens for any such labor, services or materials shall attach to or affect the interest of the Board in and to the Project.

#### Section 6.5. Insurance.

The Lessee will maintain, at its expense, insurance on the Project against such casualties and contingencies of such types (including fire and extended coverage, public liability, and workmen's compensation insurance) and in such amounts, if any, as is customary in the case of corporations of established reputations engaged in the same or similar business and similarly situated; provided that the Lessee may self-insure to the extent that such self-insurance is customary in the case of corporations of established reputations engaged in the same or similar business and similarly situated.

The insurance referred to above shall be written by financially sound and responsible companies which are authorized

to do an insurance business in the State of Alabama, and such fire and extended coverage insurance shall name as the insured parties thereunder the Board and the Lessee, as their interests may appear. The public liability insurance referred to above shall be written by financially sound and responsible companies and such insurance shall name as the insured parties thereunder the Board, the Trustee and the Lessee, as their interests may appear. Neither the Board nor the Trustee shall be required to prosecute any claim against, or to contest any settlement proposed by, any insurer, provided that the Lessee may, at its expense, prosecute any such claim or contest any such settlement.

Insurance claims by reason of damage to or destruction of any portion of the Project shall be adjusted by the Lessee, but the Board shall have the right to join with the Lessee in adjusting any such loss.

Every fire and extended coverage insurance policy referred to above shall bear a first mortgage endorsement in favor of the Trustee; and the proceeds of such insurance arising out of any single casualty in excess of \$250,000 shall be made payable to the Trustee, provided that any recoveries under any of said policies shall be applied by the Trustee in the manner provided in Section 7.1. Each such policy shall contain an agreement by the insurer that it waives all rights of subrogation against the Lessee, the Board and any owner of the Project and that it will not cancel such policy except after 10 days' prior written notice to the Board and the Trustee.

The Lessee shall deliver to the Trustee promptly after the execution and delivery of this Agreement the original or duplicate policies or certificates of the insurers satisfactory to the Trustee evidencing all the insurance which is required to be maintained by the Lessee hereunder, and the Lessee shall, within 10 days prior to the expiration of any such insurance, deliver other original or duplicate policies or other certificates of the insurers evidencing the renewal of such insurance, if then required to be maintained by the Lessee hereunder.

The Lessee shall not obtain or carry separate insurance concurrent in form or contributing in the event of loss with that required in this Section to be furnished by the Lessee unless the Board, or the Board and the Trustee (as specified above), are included therein as named insureds, with loss payable as in this Agreement provided. The Lessee shall immediately notify the Board and the Trustee whenever any such separate

insurance is obtained and shall deliver to the Trustee the policies or certificates evidencing the same.

All proceeds of any insurance on the Project, to the extent that the same shall not be payable to the Trustee as aforesaid, shall be applied by the Lessee to the repair, restoration or replacement of the property destroyed or damaged within 12 months after receipt thereof. If the Lessee Certificate furnished under Section 6.9 shows insurance proceeds remaining to be applied or paid during the 12-month period referred to in the preceding sentence, the Lessee will deliver to the Trustee, within 90 days after the end of such 12-month period, a Lessee Certificate showing that such proceeds have been so applied.

#### Section 6.6. Permitted Contests.

The Lessee shall not be required to (a) pay any tax, assessment, levy, fee, rent or charge referred to in the first paragraph of Section 6.4, (b) comply with any statute, law, rule, order, regulation or ordinance referred to in the second paragraph of Section 6.4, (c) discharge or remove any lien referred to in Section 6.2 or the third paragraph of Section 6.4, or (d) obtain any waivers or settlements or make any changes or take any action with respect to any encroachment, hindrance, obstruction, violation or impairment referred to in the third paragraph of Section 6.1, so long as the Lessee shall contest, in good faith and at its expense, the existence, the amount or the validity thereof, the amount of the damages caused thereby, the extent of its liability therefor or for any other reason, by appropriate proceedings which shall operate during the pendency thereof to prevent (i) the collection of, or other realization upon, the tax, assessment, levy, fee, rent or charge or lien, encumbrance or charge so contested, (ii) the sale, forfeiture or loss of the Project, or any part thereof, or the Basic Rent, Additional Rent or other amounts payable by the Lessee under this Agreement to satisfy the same or to pay any damages caused by the violation of any such statute, law, rule, order, regulation or ordinance or by any such encroachment, hindrance, obstruction, violation or impairment, (iii) any interference with the use or occupancy of the Project or any part thereof, and (iv) any interference with the payment of the Basic Rent, Additional Rent or other amounts payable by the Lessee under this Agreement, or any portion thereof. The Lessee further agrees that each such contest shall be diligently prosecuted to a final conclusion. The Lessee will save the Board harmless against any and all losses, judgments, decrees

and costs (including all reasonable attorneys' fees and expenses) in connection with any such contest and will, promptly after the final settlement, compromise or determination of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interests, costs and expenses thereof or in connection therewith, and perform all acts the performance of which shall be ordered or decreed as a result thereof. No such contest shall subject the Board or the Trustee to the risk of any material civil liability or the risk of any criminal liability, and the Lessee shall give such reasonable security to the Board and the Trustee as may be reasonably requested by the Board or the Trustee to insure compliance with the foregoing provisions of this Section.

Section 6.7. Indemnification of Board.

The Lessee agrees to pay, and to indemnify the Board against, any and all liabilities, losses, damages, claims or actions (including all reasonable attorneys' fees and expenses of the Lessee and the Board), of any nature whatsoever incurred by the Board without gross negligence on its part arising from or in connection with its performance or observance of its covenants or conditions under the Bond Purchase Agreement, this Agreement or the Indenture, including without limitation, (1) any injury to, or the death of, any person or any damage to property on the Leased Land or upon adjoining sidewalks, streets or ways, or in any manner growing out of or connected with the use, nonuse, condition or occupation of the Project or any part thereof or resulting from the condition thereof or of adjoining sidewalks, streets, or ways, (ii) any other act or event occurring upon, or affecting, any part of the Project, (iii) violation by the Lessee of any contract, agreement or restriction affecting the Project or the use thereof of which the Lessee has notice and which shall have existed at the commencement of the term hereof or shall have been approved by the Lessee or of any law, ordinance or regulation affecting the Project or any part thereof or the ownership, occupancy or use thereof and (iv) liabilities, losses, damages, claims or actions arising out of the offer and sale of the Bonds or a subsequent sale or distribution of any of the Bonds, except if the same resulted from a representation or warranty of the Board in the Bond Purchase Agreement or any certificate delivered by the Board pursuant thereto being false or misleading in a material respect and such representation or warranty was not based upon a similar representation or warranty of the Lessee furnished to the Board

in connection therewith. The Lessee hereby agrees that the Board shall not incur any liability to the Lessee, and shall be indemnified against all liabilities, in exercising or refraining from asserting, maintaining or exercising any right, privilege or power given to the Board under the Indenture if the Board is acting in good faith and without gross negligence or in reliance upon a Lessee Request. The covenants of indemnity by the Lessee contained in this paragraph shall survive the termination of this Agreement.

Nothing contained in the foregoing paragraph shall impose any obligation on the Lessee to indemnify the Board when it is acting otherwise than in its capacity as the lessor under this Agreement or the issuer of the Bonds under the Indenture.

Section 6.8. Further Assurances.

The Lessee agrees to do, execute, acknowledge and deliver all and every such further acts, conveyances and assurances as the Board shall reasonably require in order that the Board may comply with its obligations under Section 6.3 of the Indenture and to cause to be furnished to the Board and the Trustee any financing statements (and any continuation statements in respect thereof) and the Opinions of Counsel, as required by said Section 6.3 and within the times specified therein.

Section 6.9. Reports: Certificates as to No Default.

If during any calendar year (commencing with the 1979 calendar year) there have been either (i) any sales or disposition of Project Equipment under Section 6.3 of \$250,000 or more; or (ii) any proceeds of insurance on the Project of \$250,000 or more, have been paid as provided in Section 6.5, the Lessee will deliver to the Trustee, within 90 days after the end of each such calendar year, a Lessee certificate stating

(a) in respect of such sales or dispositions aggregating \$250,000 or more (i) that each such action was duly taken in conformity with Section 6.3, (ii) the date thereof, (iii) the net cash proceeds received, (iv) the amount, if any, of such proceeds paid to the Trustee pursuant to Section 6.3 and (v) the amount, if any, of such proceeds remaining to be withdrawn on or before a date to be specified therein (which shall be 12 months from the date paid to the Trustee) under Section 6.3 or

(b) in respect of such payments of insurance proceeds aggregating \$250,00 or more (i) the amount of and the date on which such proceeds were so paid, (ii) the amount, if any, of such proceeds applied prior to the date of such Lessee Certificate to the repair, restoration or replacement of the property destroyed or damaged, and (iii) the amount, if any, of such proceeds remaining to be applied on or before a date to be specified therein (which shall be 12 months from the date of such receipt) under Section 7.1.

Section 6.10. Notice of Default.

The Lessee will give notice to the Board, each holder of the Bonds and the Trustee of the occurrence of any Event of Default promptly upon having knowledge thereof.

ARTICLE VII

Casualty and Condemnation

Section 7.1. Casualty.

If at any time after the completion or substantial completion of the Project, the Project or any part thereof shall be damaged or destroyed by fire or other casualty, but not to the extent contemplated by Section 8.3(a) the Lessee shall promptly notify the Board and the Trustee thereof and the Lessee shall within a reasonable time, subject only to such delays in acquisition or construction as are occasioned by circumstances not reasonably within its control, rebuild, replace or repair such damage or destruction in conformity with Section 6.1 and the first paragraph of Section 6.2 and in such manner as to restore the Project to at least as good a condition as existed immediately prior to such damage or destruction and to a manufacturing unit having a fair market value not less than the fair market value of the Project immediately prior to such damage or destruction.

Unless the Trustee has actual knowledge of an Event of Default under the Indenture or has received written advice thereof from the holders of at least 25% in principal amount of the Bonds at the time outstanding, the Lessee shall be entitled, in accordance with Section 7.2 of the Indenture, to withdraw the Net Proceeds of insurance received by the Trustee on account of such damage or destruction to pay, or to reimburse the Lessee

for the payment of, the costs and expenses of rebuilding, replacing and repairing of such damage or destruction upon receipt by the Trustee of a Progress Certificate dated not more than 30 days prior to the request for withdrawal, setting forth in substance the matters set forth in subsection (b) of Section 4.3, but with respect to such rebuilding, replacing and repairing.

After the completion or substantial completion of such rebuilding, replacing or repairing such damage or destruction, the Lessee shall deliver to the Board a Completion Certificate and, if the costs and expenses thereof (irrespective of any available Net Proceeds) are at least \$250,000, an Opinion of Counsel setting forth in substance the matters set forth, respectively, in subsections (a) and (b) of Section 4.4, but with respect to such rebuilding, replacing and repairing.

Any Net Proceeds of insurance on account of such damage or destruction which remain in the Project Fund after the delivery to the Trustee of the Completion Certificate and any Opinion of Counsel required under this Section shall be applied by the Trustee in accordance with Section 7.3 of the Indenture.

#### Section 7.2. Condemnation.

The Lessee hereby irrevocably assigns to the Trustee any award or payment to which the Lessee may be or become entitled during the term of this Agreement by reason of any taking of the Project or any part thereof in or by condemnation or other eminent domain proceeding pursuant to any law, general or special, by any governmental authority, civil or military, whether the same shall be paid or payable in respect of the Lessee's leasehold interest hereunder or otherwise. The Lessee shall be entitled to direct and control the defense of any such proceedings, and to contest the proposed taking and the amount payable therefor by such governmental authority.

If at any time a portion of the Project shall be taken by condemnation or other eminent domain proceedings, which taking is not sufficient to render the remaining portion thereof unsuitable for the Lessee's continued use or occupancy or the use or occupancy of the Project or any part thereof shall be temporarily requisitioned by any governmental authority, civil or military, then this Agreement shall continue in full effect without abatement or reduction of the Basic Rent, Additional Rent or other amounts payable by the Lessee hereunder. The Lessee shall promptly notify the Board and the Trustee thereof,

and in the case of such taking, the Lessee shall within a reasonable time, subject only to such delays in acquisition or construction as are occasioned by circumstances not reasonably within its control, repair any damage caused by such taking in conformity with Section 6.1 and the first paragraph of Section 6.2, and in such manner as to restore the Project to at least as good a condition as existed immediately prior to such taking or requisition. In the event of such temporary requisition, the Lessee shall be entitled to receive the entire Net Proceeds payable by reason of such temporary requisition.

Unless the Trustee has actual knowledge of an Event of Default under the Indenture or has received written advice thereof from the holders of at least 25% in principal amount of the Bonds at the time outstanding, the Lessee shall be entitled, in accordance with Section 7.2 of the Indenture, to withdraw the Net Proceeds received by the Trustee on account of such taking, to pay or to reimburse the Lessee for the payment of the costs and expenses of such repair upon receipt by the Trustee of a Progress Certificate dated not more than 30 days prior to the request for withdrawal, setting forth in substance the matters set forth in subsection (b) of Section 4.3 but with respect to such repair.

After the completion or substantial completion of such repair or such taking, the Lessee shall deliver to the Board a Completion Certificate and, if the costs and expenses thereof (irrespective of any available Net Proceeds) are at least \$250,000, an Opinion of Counsel setting forth in substance the matters set forth, respectively, in subsections (a) and (b) of Section 4.4, but with respect to such repair.

Any Net Proceeds on account of such taking which remain in the Project Fund after the delivery to the Trustee of the Completion Certificate and any Opinion of Counsel required under this Section shall be applied by the Trustee in accordance with Section 7.3 of the Indenture.

## ARTICLE VIII

## Purchase of Project

## Section 8.1. General Option to Purchase.

The Lessee is hereby granted the option to purchase the Project at any time on any Redemption Date at a purchase price equal to the amount sufficient to redeem the then outstanding Bonds as a whole pursuant to Section 4.1(b) of the Indenture by giving written notice thereof to the Board and the Trustee not more than 60 nor less than 40 days prior to such Redemption Date, which notice shall specify the Redemption Date and certify that the refunding limitations set forth in Section 8.4 have been complied with in connection with any such purchase to be made prior to December 1, 1988. Notice having been given as aforesaid, the Lessee covenants to purchase the Project on such Redemption Date in accordance with Section 8.8.

## Section 8.2. Option to Purchase Upon Certain Contingencies.

The Board hereby grants to the Lessee the option to purchase the Project at any time on or after December 1, 1988 at a purchase price equal to the amount sufficient to redeem the then outstanding Bonds as a whole pursuant to Section 4.1(c) of the Indenture, in the event that:

(a) as a result of (i) any changes in the Constitution of Alabama or the Constitution of the United States of America, (ii) any legislative or administrative action (State or Federal) or (iii) a final decree, judgment or order of any court (State or Federal) entered after the contest thereof by the Lessee in good faith, this Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent of the parties as expressed in this Agreement or any unreasonable burdens or excessive liabilities shall have been imposed on the Board or the Lessee in respect of the Project, or

(b) changes in the economic availability of labor, energy sources, raw materials, operating supplies or facilities necessary for the operation of the Project shall have occurred or such technological or other changes shall have occurred which, in the Lessee's reasonable judgment, render the Project uneconomic.

If the Lessee elects to exercise such option, it shall give written notice thereof within 90 days following such event to the Board and the Trustee specifying as the closing date of the purchase the Redemption Date (which shall be not less than 40 days after the date of such notice) and which shall be accompanied by a Lessee Certificate showing the event giving rise to such option to purchase and certifying that the Board of Directors or the Executive Committee of such Board of Directors of the Lessee has determined to discontinue the operations of the Lessee, at the Project (and at any adjoining or adjacent plants of the Lessee) at the earliest practicable date. The option to purchase having been exercised as aforesaid, the Lessee covenants to purchase the Project on such Redemption Date in accordance with Section 8.8

Section 8.3. Obligation to Purchase Upon Casualty or Condemnation.

The Lessee hereby covenants to purchase, and the Board hereby covenants to sell, the Project, at a purchase price equal to the amount sufficient to redeem the then outstanding Bonds as a whole pursuant to Section 4.1(d) of the Indenture, in the event that:

(a) the Project shall be substantially damaged or destroyed in any casualty so that, in the reasonable judgment of the Lessee, the rebuilding, replacing and repairing of the Project would be uneconomic and the Lessee has determined not to effect such rebuilding, replacing and repairing, or

(b) the entire Project shall be taken in or by condemnation or eminent domain proceedings pursuant to any law, general or special, or any substantial portion of the Project, which is sufficient, in the reasonable judgment of the Lessee, to render the remaining portion thereof unsuitable for the Lessee's continued use or occupancy, shall be taken in or by such proceedings.

The Lessee shall give written notice within 90 days following such event to the Board and the Trustee specifying as the closing date of the purchase the Redemption Date (which shall be not less than 40 days after the date of such notice) and which shall be accompanied by a Lessee Certificate showing the event giving rise to such obligation to purchase and certifying that the Lessee has determined to discontinue the operations of the Lessee at the Project (and any adjoining or adjacent plants of the Lessee) at the earliest practicable date. On the closing date specified in such notice, the purchase of the Project will be made in accordance with Section 8.8.

Section 8.4. Refunding Limitations.

No prepayment of Basic Rent pursuant to Section 5.3 or purchase pursuant to Section 8.1 shall be made prior to December 1, 1988 (or, in the case of a prepayment of Basic Rent, prior to the Business Day immediately preceding December 1, 1988), as a part of a refunding or anticipated refunding operation by the application, directly or indirectly, to such purchase, of funds borrowed by the Lessee or any Subsidiary or Affiliate having (i) an effective interest cost of less than 9.70% per annum or (ii) as of the date of the proposed prepayment or purchase, a Weighted Average Life to Maturity less than the remaining Weighted Average Life to Maturity of the Bonds.

The term "Subsidiary" herein means, as to a particular parent corporation at any time, any corporation of which at least a majority of the outstanding stock having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation, irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency, is, directly or indirectly, owned by such parent corporation, or by one or more Subsidiaries of such parent corporation, or by such parent corporation and one or more Subsidiaries.

The term "Affiliate" means, as to a particular corporation, a Person (other than a Subsidiary of such corporation) (1) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such corporation, (2) which beneficially owns or holds 5% or more of any class of the common stock of such corporation, or (3) 5% or more of the common stock (or in the case of a Person which is not a corporation, 5% or more

of the equity interest) of which is beneficially owned or held by such corporation or a Subsidiary; and the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction, the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

The term "Weighted Average Life to Maturity" of any indebtedness for borrowed money means as at the time of the determination thereof the number of years obtained by dividing the then Remaining Dollar-years of such indebtedness by the then outstanding principal amount of such indebtedness. The term "Remaining Dollar-years" of any indebtedness for borrowed money means the amount obtained by (i) multiplying the amount of each then remaining sinking fund, serial maturity or other required repayment, including repayment at final maturity, by the number of years (calculated at the nearest one-twelfth) which will elapse between the date of the proposed prepayment or purchase and the date of that required repayment and (ii) totaling all the products obtained in (i).

#### Section 8.5. Option to Purchase Unimproved Land.

If no Default exists under this Agreement, the Lessee shall have, and is hereby granted, the option to purchase any part of the Leased Land (i) on which neither a building or other fixed improvement is located (but upon which public transportation or public utility facilities may be located) and (ii) all boundaries of which are not less than ten feet from the nearest such building or other fixed improvement (other than public transportation or public utility facilities), at any time and from time to time at and for the purchase price of \$890 per acre, upon furnishing the Trustee and the Board:

(a) a Lessee Certificate showing (i) an adequate legal description of such portion of the Leased Land, (ii) that the Lessee will exercise such option on the date specified therein (which shall not be less than 45 nor more than 90 days from the date of such notice) and (iii) the purpose for which such portion of the Leased Land is being purchased will be in furtherance of the Financing Act;

(b) a Lessee Certificate stating that no Default exists under this Agreement;

(c) a certificate signed by an Independent Engineer, dated not more than 30 days prior to the date of the purchase, and stating that (i) such portion of the Leased Land is not needed for the operation of the Project for the purposes for which it was designed to be used or most recently modified, and (ii) such purchase will not impair the usefulness of the Project as a manufacturing plant and will not impair the means of ingress thereto and agrees therefrom; and

(d) an amount of money equal to the purchase price which shall be deposited by the Trustee in the Project Fund for application in accordance with Section 7.3 of the Indenture.

The provisions of the first, second and third paragraphs of Section 8.8 shall be applicable to the purchase under this Section, but only with respect to such portion of the Leased Land. If such option relates to Leased Land on which transportation or utility facilities are located, the Board shall retain an easement to use such transportation or utility facilities to the extent necessary for the efficient operation of the Project.

Notwithstanding the limitation upon the Lessee's option to purchase part of the Leased Land set forth in clause (ii) of the first sentence of this Section 8.5, the Lessee shall be entitled to purchase a part of the Leased Land which has a boundary which is contiguous to a wall of a building located on the Leased land if such part of the Leased Land is being purchased by the Lessee for the purpose of constructing thereon an addition to such building, provided, however, that such purchase shall in all other respects conform to the requirements of this Section 8.5 and provide for equitable sharing of maintenance if there is not common control by the Lessee. The Lessee and the Board agree that all walls presently standing or hereafter erected on or contiguous to the boundary line of the portion of the Leased Land so purchased shall be party walls and each party grants the other a 10-foot easement adjacent to any such party wall for the purpose of inspection, maintenance, repair and replacement thereof and the tying-in of new construction. If the Lessee utilizes any party wall for the purpose of tying-in construction that will be utilized

under common control with the Project, the Lessee may also tie in to the utility facilities on the Leased Land for the purpose of serving the new construction and may remove any non-loadbearing wall panels in the party wall; provided, however, that if the property so purchased ceases to be operated under common control with the Project or if an Event of Default occurs hereunder, the Lessee covenants that it will install non-loadbearing wall panels similar in quality to those that have been removed, will provide separate utility services for the new construction and will make such other repairs and modifications as may be reasonably necessary to restore the portion of the building and the remainder of the Project affected by the new construction to at least as good condition as prior to the new construction (ordinary wear and tear excepted). No wall may be so utilized by the Lessee unless prior thereto the Board and the Trustee have been furnished with a certificate signed by an Independent Engineer stating that the proposed utilization will not impair the usefulness of the Project as a manufacturing plant.

In the event the Lessee shall exercise such option, it shall not be entitled to any set-off, counterclaim, abatement or reduction of the Basic Rent, Additional Rent or other sums payable by the Lessee hereunder other than is provided in Section 7.3 of the Indenture.

Section 8.6. Easements. If no Default exists under this Agreement, the parties hereto reserve the right, from time to time, to amend this Agreement for the purpose of effecting the release from this Agreement of any part (or an interest in such part) of the Leased Land with respect to which the Board proposes to grant an easement or convey fee title for a railroad, utility services or roads which, in the Lessee's judgment, will benefit the Project; provided, there shall be deposited with the Trustee:

(a) an executed copy of said amendment;

(b) a resolution of the Board (i) stating that the Board is not in default under any of the provisions of the Indenture and the Lessee is not, to the knowledge of the Board, in default under any of the provisions of this Agreement, (ii) giving a legal description of that portion (or the interest in such portion) of the Leased Land to be released, (iii) stating the purpose for which the Board desires the

release, and (iv) requesting such release;

(c) a Lessee Certificate stating that no Default exists under this Agreement;

(d) a copy of the instrument granting the easement or conveying the title to a railroad, public utility or public body; and

(e) a certificate of an Independent Engineer, dated not more than 30 days prior to the date of the release, and stating that (i) the portion of the Leased Land so proposed to be released is necessary or desirable in order to obtain railroad, utility services or roads to benefit the Project and is not otherwise needed for the operation of the Project for the purposes for which it was designed to be used or most recently modified, and (ii) the release so proposed to be made will not impair the usefulness of the Project as a manufacturing plant and will not destroy the means of ingress thereto and degrees therefrom.

If such release relates to Leased Land on which transportation or utility facilities are located, the Board shall retain an easement to use such transportation or utility facilities to the extent necessary for the efficient operation of the Project as a manufacturing plant.

Upon compliance with the above conditions of this Section 8.6, the Trustee shall be authorized to release any such property from the lien of the Indenture and the Lessee shall be entitled to receive and retain any compensation payable in connection with such grant or conveyance.

No release effected under the provisions of this Section 8.6 shall entitle the Lessee to any set-off, counterclaim, abatement or reduction of the Basic Rent, Additional Rent or other sums payable by the Lessee hereunder.

Section 8.7. Obligation to Purchase upon Termination: Option to Purchase During Renewal Terms.

The Lessee hereby agrees to purchase the Project for a purchase price of \$10.00 in accordance with Section 8.8 upon the termination of this Agreement at any time following the payment of the Bonds in full pursuant to the Indenture. The Board hereby grants to the Lessee an option to purchase the

Project for a purchase price of \$1.00 in accordance with Section 8.8 at any time during any renewal term of this Agreement provided for in the second paragraph of Section 5.1, provided, that the Bonds shall have been theretofore paid in full pursuant to the Indenture.

Section 8.8. Closing of Purchase.

At 10:00 o'clock A.M. on the date fixed for any purchase of the Project, the Lessee shall pay to the Trustee, for the account of the Board, at the principal corporate trust office of the Trustee, the applicable purchase price specified in this Article, in funds immediately available to the Trustee, against receipt by the Lessee of:

(a) a deed conveying the Board's title to the Leased Land to the Lessee, in form suitable for recording, as such title existed on the date of the commencement of this Agreement, subject, however, to all liens, encumbrances and charges, exceptions and restrictions attaching thereto on or after such date of commencement which have not been created by the Board or which the Lessee is obligated under this Agreement to discharge and to all applicable laws, regulations and ordinances, but free of the lien of the Indenture and Lease,

(b) such bills of sale, Uniform Commercial Code termination statements and other instruments as shall be necessary to transfer irrevocably and unconditionally to the Lessee the Project Equipment and other property comprising the Project but free of the security interest of the Indenture and the Lease; and

(c) an assignment of all insurance policies, taxes, assumption contracts and other contracts affecting the Project, all unpaid proceeds of insurance (including any held for restoration) in respect of fire or other casualty and all unpaid condemnation awards.

Any liens or encumbrances which the Board is obligated to discharge shall not constitute an objection to title if the Board delivers at the closing instruments sufficient to discharge the same of record.

The Lessee shall pay all reasonable out-of-pocket expenses of the Board incident to such conveyance and transfer (including reasonable counsel fees of the Board and the Trustee), escrow fees, recording fees, title insurance premiums and all applicable taxes which may be incurred or imposed by reason of such conveyance and transfer and by reason of the delivery of said deed or other instruments.

Upon completion of such purchase, but not prior thereto (whether or not any delay shall be the fault of the Board), this Agreement and all obligations hereunder shall terminate with respect to the Project, except those obligations, actual or contingent, under this Agreement which arose prior to such date of purchase.

#### ARTICLE IX

Corporate Existence; Consolidation, Merger, Etc.

##### Section 9.1. Corporate Existence; Qualification in Alabama.

Subject to Section 9.2, the Lessee will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its right to do business as a foreign corporation in the State of Alabama.

##### Section 9.2. Consolidation or Merger.

The Lessee shall not consolidate with or merge into any other Person or convey or transfer or lease its properties and assets substantially as an entirety to any Person or permit any other Person to consolidate with or merge into it, except as permitted by the Guaranty.

##### Section 9.3. Assignment or Subleasing.

Subject to Section 9.2, the Lessee shall not assign this Agreement or sublease the Project in whole or in part except under the following conditions:

(a) neither the assignment or this Agreement nor the assumption of the obligations of the Lessee by an assignee or sublessee shall operate to relieve the Lessee from primary liability for its obligations hereunder; and the Lessee shall continue to remain primarily liable for payment of the Basic Rent,

Additional Rent and other amounts payable hereunder and for the performance and observance of the other covenants and conditions to be performed and observed by it to the same extent as though no assignment or sublease had been made unless the holders of at least 66 2/3% in principal amount of the Bonds outstanding under the Indenture give written consent otherwise;

(b) the assignee or the sublessee, as the case may be, shall expressly assume, by an instrument supplemental hereto, executed and delivered to the Board and the Trustee, in form satisfactory to the Trustee, all obligations of the Lessee hereunder; and

(c) the Lessee shall deliver to the Board and the Trustee, in form satisfactory to the Trustee, a Lessee Certificate and an Opinion of Counsel, each stating that such assignment or sublease and such assumption of the obligations of the Lessee hereunder comply with this Section and that all conditions precedent provided for in this Section relating to such assignment or sublease and assumption have been fully and legally complied with.

#### ARTICLE X

##### Events of Default and Remedies

###### Section 10.1. Events of Default.

"Event of Default", whenever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment when due of any installment of Basic Rent, Additional Rent or other amount payable hereunder;

(b) any material representation made by the Lessee in this Agreement or in any certificate, notice, demand or request made by the Lessee in writing and delivered to the Board, the Trustee or any holder of the Bonds pursuant to or in connection with any of said documents or the Indenture shall prove to be untrue or incorrect in any material respect as of the date made;

(c) default in the performance or breach of any other covenant or warranty of the Lessee in this Agreement and continuance of such default or breach for a period of 60 days after any officer of the Lessee has actual knowledge thereof; provided that if any such default (other than one curable by payment of money) may be cured, but not within such 60-day period, it shall not be an Event of Default hereunder unless the Lessee does not commence to cure such default promptly during such 60-day period or thereafter within a period of 120 days does not diligently prosecute such curing to completion;

(d) an "Event of Default" within the meaning of the Guaranty shall have occurred thereunder; or

(e) an "Event of Default" within the meaning of the Indenture shall have occurred thereunder.

#### Section 10.2. Remedies on Default.

This Agreement and the term and estate hereby granted are subject to the limitation that whenever an Event of Default shall have occurred, the Board shall have the right at its election, then or thereafter while any such Event of Default shall continue, and notwithstanding the fact that the Board may have some other remedy hereunder or at law or in equity, to give the Lessee written notice of the intention of the Board to terminate the term of this Agreement on the date specified in such notice, which shall be not less than 30 business days after the giving of such notice, and upon the date so specified, the term of this Agreement and the estate hereby granted shall expire and terminate with the same force and effect as if the date specified in such notice were the date fixed in Section 5.1 for the expiration of the term of this Agreement, and all rights of the Lessee hereunder shall expire and terminate, but the Lessee shall remain liable as hereinafter provided.

If any such notice is given, the Board shall have the immediate right of re-entry and possession of the Project and the right to remove all Persons and property therefrom on the date specified in such notice.

In the event of any termination of the term of this Agreement as provided above in this Section 10.2 or as permitted by law, the Lessee shall peaceably quit and surrender the Project to the Board and the Board may without further notice enter upon, re-enter, possess and repossess the same by summary proceedings, ejectment or otherwise, and again have, repossess and enjoy the same as if this Agreement had not been made, and in any such event neither the Lessee nor any person claiming through or under the Lessee by virtue of any law or an order of any court shall be entitled to possession or to remain in possession of the Project, but shall forthwith quit and surrender the Project, and the Board at its option shall forthwith, notwithstanding any other provision of this Agreement, be entitled to recover from the Lessee (in lieu of all other claims for damages on account of such termination) as and for liquidated damages an amount equal to the excess of all Basic Rent reserved hereunder for the unexpired portion of this Agreement discounted at the rate of 9.70% per annum to then present worth, over the fair rental value of the Project at the time of termination for such unexpired portion, discounted at the rate of 9.70% per annum to then present worth. Nothing herein contained shall limit or prejudice the right of the Board, in any bankruptcy or reorganization or insolvency proceeding, to prove for and obtain as liquidated damages by reason of such termination an amount equal to the maximum allowed by any bankruptcy or reorganization or insolvency proceedings, or to prove for and obtain as liquidated damages by reason of such termination, an amount equal to the maximum allowed by any statute or rule of law.

If the Board shall re-enter and obtain possession of the Project following an Event of Default, the Board shall have the right, without notice, to repair or alter the Project in such manner as the Board may deem necessary or advisable so as to put the Project in good order and to make the same rentable, and shall have the right, at the Board's option, to re-let the Project or a part thereof, and the Lessee agrees to pay to the Board on demand all reasonable expenses incurred by the Board in obtaining possession and in altering, repairing and putting the Project in good order and condition and in re-letting the same, including reasonable fees of attorneys and architects, and all other reasonable expenses or commissions,

and the Lessee further agrees to pay to the Board upon the Basic Rent payment dates following the date of such re-entry to and including December 1, 1998 the sums of money which would have been payable by the Lessee as Basic Rent hereunder on such Basic Rent payment dates if the Board had not re-entered and resumed possession of the Project, deducting only the net amount of rent, if any, which the Board shall actually receive (after deducting from the gross receipts the expenses, costs and payments of the Board which in accordance with the terms of this Agreement would have been borne by the Lessee) in the meantime from and by any reletting of the Project, and the Lessee hereby agrees to remain liable for all sums otherwise payable by the Lessee under this Agreement, including but not limited to, the aforesaid, and the Board shall have the right from time to time to begin and maintain successive actions or other legal proceedings against the Lessee for the recovery of such deficiency, expenses or damages or for a sum equal to any installments of Basic Rent or Additional Rent and other sums payable hereunder, and to recover the same upon the liability of the Lessee herein provided, which liability it is expressly covenanted shall survive the initiation of any action to secure possession of the Project. Nothing herein contained shall be deemed to require the Board to wait to begin such action or other legal proceedings until the date when this Agreement would have expired by limitation had there been no such Event of Default.

If, under any of the preceding provisions of this Section 10.2, the Board shall be entitled to give the Lessee a notice of termination of the term of this Agreement, the Board, without giving such notice of termination and notwithstanding the continuance of the term of this Agreement, shall have, to the extent permitted by applicable law, all the rights, powers and remedies given to the Board by the preceding provisions of this Section 10.2, and the Lessee shall have the obligations imposed upon it by such provisions. No such re-entry or taking of possession of the Project by the Board shall be construed as an election on the Board's part to terminate the term of this Agreement unless a written notice of such intention be given to the Lessee or unless such termination be decreed by a court of competent jurisdiction.

## Section 10.3. Additional Rights of the Board.

No right or remedy herein conferred upon or reserved to the Board is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute. The failure of the Board to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power or remedy contained in this Agreement shall not be construed as a waiver or a relinquishment thereof for the future. A receipt by the Board of any Basic Rent, any Additional Rent or any other amount payable hereunder with knowledge of the breach of any covenant or agreement contained in this Agreement shall not be deemed a waiver of such breach, and no waiver by the Board of any provision of this Agreement shall be deemed to have been made unless expressed in writing and signed by the Board. In addition to other remedies provided in this Agreement, the Board shall be entitled to the extent permitted by applicable law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the covenants, agreements, conditions or provisions of this Agreement, or to a decree compelling performance of any of the covenants, agreements, conditions or provisions of this Agreement, or to any other remedy allowed to the Board at law or in equity.

To the extent permitted by law, the Lessee hereby waives and surrenders for itself and all those claiming under it, including creditors of all kinds; (i) any right and privilege which it or any of them may have under any present or future constitution, statute or rule of law to redeem the Project or to have a continuance of this Agreement for the terms hereby demised after termination of the Lessee's right of occupancy by order or judgment of any court or by any legal process or writ, or under the terms of this Agreement, or after the termination of the term of this Agreement as herein provided, and (ii) the benefits of any present or future constitution, statute or rule of law which exempts property from liability for debt or for distress for rent.

If following an Event of Default, an action shall be brought for the enforcement thereof in which it shall be finally determined that such Event of Default has occurred, the Lessee shall pay to the Board all reasonable expenses incurred in connection therewith, including reasonable attorneys' fees. In the event the Board shall, without fault on its part,

be made a party to any litigation commenced against the Lessee, if the Lessee, at its expense, shall fail to provide the Board with counsel approved by the Board, the Lessee shall pay all reasonable costs and reasonable attorney's fees incurred or paid by the Board in connection with such litigation.

Section 10.4. No Remedy Exclusive.

No remedy herein conferred upon or reserved to the Board is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Board to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Section 10.5. No Additional Waiver Implied by One Waiver.

In the event any covenant contained in this Agreement should be breached and thereafter waived, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE XI

Provisions Relating to Indenture

Section 11.1. Restrictions on Termination or Modification of this Agreement.

The Lessee covenants, for the benefit of the Trustee and the holders of the Bonds outstanding under the Indenture, that this Agreement shall not terminate or be terminated or surrendered (except as expressly permitted by Article VIII, Section 9.3 or Article X) by the Lessee without the express written consent of the Trustee and the holders of all the outstanding Bonds. The provisions of this Agreement may, by supplements hereto and to the Indenture, be modified or amended with the prior written consent of the Trustee given in accordance with the provisions of Section 12.1 of the Indenture or with the prior

written consent of the Trustee and of the holders of not less than 66-2/3% in principal amount of the Bonds outstanding under the Indenture given in accordance with the provisions of Section 12.2 of the Indenture; provided, however, that no such instrument shall, without the written consent of the holders of all of the outstanding Bonds, change the duration of the term of this Agreement or reduce the amount of Basic Rent payable hereunder or the purchase price payable upon the purchase of the Project or change the place of payment where, or the funds in which, any such Basic Rent or purchase price is payable, or impair the right to exercise any of the remedies upon the occurrence of an Event of Default hereunder or change the provisions of this Section. Any attempted termination, surrender, modification or amendment otherwise than as permitted in this Section shall be without force and effect and shall be null and void.

Section 11.2. Lessee's Assent to Indenture.

The Lessee hereby assents to all terms and conditions of the Indenture being delivered concurrently herewith, including, without limitation, the assignment by the Board to the Trustee of the right, title and interest of the Board in, to and under this Agreement and the creation of a first mortgage lien and security interest, subject to Permitted Encumbrances, on the Project in favor of the Trustee. If at any time the Board has the right under Section 11.9(e) of the Indenture to appoint a successor Trustee, the Lessee shall have the right to select or approve the selection of such successor Trustee prior to appointment by the Board. The Lessee further acknowledges that the Indenture provides for the exercise by the Trustee of all rights of the Board hereunder to give any consents, approvals, waivers, notices or the like and the right to take any other discretionary action hereunder. The Lessee agrees to furnish to the Trustee counterparts of all notices, certificates, opinions, reports or other documents of any kind required to be delivered hereunder by the Lessee to the Board. To the extent, if any, that this Agreement constitutes chattel paper (as such term is defined in the Alabama Uniform Commercial Code as in effect), no security interest in this Agreement may be created by the transfer of possession of any counterpart thereof other than the original counterpart which shall be identified as the counterpart containing the receipt therefor executed by the Trustee on or immediately following the signature page hereof.

## Section 11.3. Supplemental Indentures.

As long as no Event of Default exists hereunder, the Board agrees to enter into supplemental indentures to the Indenture permitted by Article XII thereof only upon receipt of a Lessee Request approving the form of, and requesting the Board to execute and deliver to the Trustee, each supplemental indenture; provided, however, the Board shall not be obligated to enter into any such supplemental indenture which, in the opinion of its counsel, either has not been duly authorized by law or affects adversely the Board's rights, duties or immunities under this Lease, the Bonds, the Indenture or the Bond Purchase Agreement.

## Section 11.4. Method of Payment.

Notwithstanding any provisions of this Agreement to the contrary, any payment hereunder which is due on a date which is not a Business Day shall be paid, subject to Section 3.2 of the Bond Purchase Agreement, on the next preceding Business Day, but no such payment on a date prior to the due date thereof shall entitle the Lessee to any discount or any credit with respect thereto.

## ARTICLE XII

## Miscellaneous

## Section 12.1. No Merger.

There shall be no merger of this Agreement nor of the leasehold estate created hereby with any other estate in the Project, or any part thereof, by reason of the fact that the same Person may acquire or own such estates, directly or indirectly, and no such merger shall occur until all Persons having any interest in this Agreement and the leasehold estate created hereby shall join in a written instrument effecting such merger and shall duly record it.

## Section 12.2. Limitation on Board's Liability.

The Board is entering into this Lease in accordance with the Financing Act and in no case whatsoever shall the Board have any pecuniary liability for any loss in respect of any of the statements, representations, warranties, agreements or obligations of the Board hereunder, as to all of which the Lessee agrees to look solely to the Project, and none of which shall

constitute an indebtedness of the Board or a loan of credit thereof within the meaning of any constitutional or statutory provision.

Section 12.3. Governing Law.

This Agreement shall be governed exclusively by the laws of the State of Alabama.

Section 12.4. Notices.

All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows:

- (a) if to the Board, at P.O. Box 1727, Decatur, Alabama 35602, Attention: Chairman;
- (b) if to the Lessee, at 10900 Harper Avenue, Detroit, Michigan 48232, Attention: General Counsel;
- (c) if to the Trustee, at 1905 5th Avenue North, Birmingham, Alabama 35203, Attention: Corporate Trust Department.

A duplicate copy of each notice, certificate, report or other communication given hereunder by either the Board or the Lessee to the other shall also be given to the Trustee. The Board, the Lessee and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 12.5. Binding Effect.

This Agreement shall inure to the benefit of and shall be binding upon the Board and the Lessee and their successors and assigns.

Section 12.6. Execution in Counterparts.

This Agreement may be executed in counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.7. Severability.

In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

IN WITNESS WHEREOF, the Board and the Lessee have caused this Agreement to be duly executed, all as of the date first above written, but actually on the dates specified in their respective acknowledgments hereto.

THE INDUSTRIAL DEVELOPMENT BOARD  
OF THE CITY OF DECATUR

By /s/ B. C. SHELTON JR.  
-----  
Chairman of the Board of Directors

[SEAL]  
[SEAL]

Attest:

/s/ [ILLEGIBLE]  
-----  
Secretary

FRUEHAUF CORPORATION

By /s/ FRANK P. COYER, JR.  
-----  
Vice President

[SEAL]  
[SEAL]

Attest:

/s/ [ILLEGIBLE]  
-----  
Secretary

STATE OF ALABAMA )  
 ) SS  
COUNTY OF MORGAN )

I, Gwyn L. Hayes, a Notary Public in and for said County in said State, hereby certify that B.C. Shelton Jr. and James B. Riggs whose names as Chairman and Secretary of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, a public corporation under the laws of the State of Alabama, are signed to the foregoing instrument and who are known to me, acknowledged before me on this date that, being informed of the contents of the instrument, they, as such officers and with full authority, executed the same voluntarily for and as the act of said corporation.

GIVEN under my hand and official seal of office this 22nd day of December, 1978.

/s/ GWYN L. HAYES  
-----  
Notary Public

[NOTARIAL SEAL]

My Commission expires: 10-11-82  
-----

STATE OF MICHIGAN )  
 ) SS  
COUNTY OF WAYNE )

I, Geraldine M. Collins, a Notary Public in and for said County in said State, hereby certify that Frank P. Coyer, Jr. and T. Neal Combs, whose names as Vice President and Secretary of FRUEHAUF CORPORATION, a corporation under the laws of the State of Michigan are signed to the foregoing instrument and who are known to me, acknowledged before me on this day that, being informed of the contents of the instrument, they, as such officers and with full authority, executed the same voluntarily for and as the act of said corporation.

GIVEN under my hand and official seal of office this 19th day of December, 1978.

/s/ GERALDINE M. COLLINS  
-----  
Notary Public

[NOTARIAL SEAL]

My Commission expires: September 2, 1981  
-----

## SCHEDULE A

## DESCRIPTION OF LEASED LAND

The following described land, together with the entire interest (whether now owned or hereafter acquired) in and to said land and the entire interest of The Industrial Development Board of the City of Decatur (the "Board") in and to all buildings, structures, improvements and appurtenances now standing or at any time hereafter constructed or places upon said land, including all right, title and interest of the Board, if any, in and to all building material, building equipment and fixtures of every kind and nature whatsoever on said land or in any building, structure or improvement now or hereafter standing on said land, and the reversion or reversions, remainder or remainders, in and to said land, said land being:

Beginning at the Northeast corner of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama, and run thence S 0 degrees 54'W (Magnetic Bearing) along the east boundary of Section 14 a distance of 30.00 feet to a point on the south right of way margin of Alabama Highway No. 20; thence N 89 degrees 03'W along the south right of way margin of Alabama Highway No. 20 a distance of 67.4 feet to a point; thence N 89 degrees 08'W along the south right of way margin of Alabama Highway No. 20 distance of 572.02 feet to a point; thence S 0 degrees 54'W a distance of 1023.75 feet to the true point of beginning of the tract herein described; thence from the true point of beginning run S 89 degrees 06'E a distance of 195.00 feet to a point; thence N 0 degrees 54'E a distance of 12.00 feet to a point; thence S 89 degrees 06'E a distance of 32.00 feet to a point; thence S 0 degrees 54'W a distance of 24.00 feet to a point; thence N 89 degrees 06'W a distance of 15.00 feet to a point; thence S 0 degrees 54'W a distance of 150.00 feet to a point; thence N 89 degrees 06'W a distance of 10.00 feet to a point; thence S 0 degrees 54'W a distance of 305.00 feet to a point; thence N 89 degrees 06'W a distance of 380.00 feet to a point; thence N 0 degrees 54'E a distance of 467.00 feet to a point; thence S 89 degrees 06'E a distance of 178.00 feet to the true point of beginning, lying and being within the NE 1/4 of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama and containing 4.1241 acres, more or less, subject, however, to (1) the right of way over the South 30 feet thereof, as provided in the deed from L.W. Norton to W. H. Anderson, dated March 1, 1928, and recorded in Deed Book 356, Page 328, in the Probate Office of Morgan County, Alabama, and (2) any rights which may still exist under the condition respecting the drainage

system, as set forth in said deed from L. W. Norton to W. H. Anderson dated March 1, 1928, together with (i) the right to connect and join any building, structure or improvement that may be constructed on the above described real property with existing structures, facilities and improvements adjacent to or abutting said real property, and (ii) the right to tie into existing utilities situated on property adjacent to or abutting said real property.

Also an easement for access, ingress and egress across a portion of Tracts 14 and 15, according to the Map of Property belonging to L. W. Norton, as recorded in the Morgan County Probate Office in Plat Book 1, at Page 62, and being more particularly described as follows:

Beginning at the northeast corner of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama, and run thence S 0 degrees 54'W along the east boundary of said Section 14, a distance of 30.00 feet to a point on the south right of way margin of Alabama Highway No. 20; thence N89 degrees 03'W along the south right of way margin of Alabama Highway No. 20 a distance of 67.4 feet to a point; thence N 89 degrees 08'W along the south right of way margin of Alabama Highway No. 20 a distance of 921.10 feet to the true point of beginning of the tract herein described; thence from the true point of beginning continue N 89 degrees 08'W along the south right of way margin of Alabama Highway 20 a distance of 50.00 feet to an iron pipe on the northwest corner of Tract 15; thence S 0 degrees 54'W along the west boundary of Tract 15 a distance of 1490.52 feet to a point; thence S 89 degrees 06'E a distance of 221.08 feet to a point on the west boundary of the real estate described for Fruehauf - 1978 Extrusion Expansion; thence N 0 degrees 54'E along the west boundary of said real estate a distance of 50.00 feet to a point; thence N 89 degrees 06'W a distance of 171.08 feet to a point; thence N 0 degrees 54'E a distance of 1440.55 feet to the true point of beginning, lying and being within the NE 1/4 of Section 14, Township 5 South, Range 5 West, Morgan County, Alabama, and containing 1.9073 acres, more or less.

## SCHEDULE B

## DESCRIPTION OF PROJECT EQUIPMENT

All right, title and interest of The Industrial Development Board of the City of Decatur, (the "Board") in and to all machinery, apparatus, equipment, fittings and fixtures of every kind and nature whatsoever, now owned or hereafter acquired by the Board under the foregoing instrument to which this Schedule B is attached, and now or hereafter placed in or affixed to any building, structure or improvement now or hereafter constructed upon any real property which (or upon any real property an interest in which) is now or hereafter subject to the foregoing instrument to which this Schedule B is attached and which is used in connection with the operation, maintenance or protection of said buildings, structures and improvements as such, including, without limitation, all engines, furnaces, conveyors, boilers, stokers, pumps, heaters, tanks, dynamos, motors, generators, fans, blowers, vents, switchboards, electrical equipment, heating, plumbing, lifting and ventilating apparatus, air-cooling and air-conditioning apparatus, gas and electrical fixtures, elevators, escalators, shades, awnings, screens, radiators, partitions, ducts, compressors, vacuum cleaning systems, call systems, fire prevention and extinguishing apparatus, fixtures, partitions, furniture, furnishings, machinery and equipment used or procured for use in connection with the operation, maintenance or protection of such buildings, structures and improvements, as such, whether or not affixed to said real property, together with the following described items of machinery and equipment to be used in connection with the operation of the manufacturing and assembling business to be conducted upon said real property:

General Plant Equipment

Panel Corrugators (2)

Panel piercing system

Piercing machine (low volume)  
panel band saw and shear

[STAMP]

[STAMP]

[STAMP]

## ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Assignment") is made and entered into as of the 9TH day of October 1998, by and between FRUEHAUF TRAILER CORPORATION ("Assignor"), and DECATUR ALUMINUM CORP., a Delaware corporation ("Assignee").

## RECITALS

WHEREAS, Assignor or Assignor's predecessors in title as tenants have heretofore entered into certain leases with The Industrial Development Board of the City of Decatur, Alabama (the "IDB") covering certain real property situated in Morgan County, Alabama, as those leases are more particularly described on EXHIBIT A which is attached hereto and made a part hereof for all purposes (the leases are sometimes referred to herein as the "Leases"); and

WHEREAS, IDB has also granted to Assignee or Assignor's predecessors in title certain options to purchase the property which is the subject of the Leases, as those options are particularly described on Exhibit A attached hereto (the "Decatur Options"); and

WHEREAS, Assignor and Assignee entered into that certain Sublease Agreement dated January 7, 1994 with respect to the real and personal property covered by the Leases (the "Sublease"); and

WHEREAS, Assignor is subject to that certain proceeding (the "Proceeding") described as IN RE: Fruehauf Trailer Corporation, Maryland Shipbuilding and Dry Dock Company, F.G.R., Inc., Jacksonville Shipyards, Inc., Fruehauf International Limited, Fruehauf Corporation, The Mercer Co., Deutsche-Fruehauf Holding Corporation, MJ Holdings, Inc. and E.L. Devices, Inc., Chapter 11 Case No. 96-1563 (PJM), in the United States Bankruptcy Court for the District of Delaware (the "Court"); and

WHEREAS, the transaction evidenced by this Assignment is authorized under that certain ORDER APPROVING THE SALE OF PERSONAL PROPERTY TO DECATUR ALUMINUM CORP. FREE AND CLEAR OF LIENS, CLAIMS AND OTHER INTERESTS entered by the Court in the Proceeding on October 8, 1998.

WHEREAS, Assignee desires to purchase from Assignor, and Assignor desires to sell and assign to Assignee, all of Assignor's rights, title and interest in and to the leasehold estates created under the Leases and the Decatur Options upon the terms and conditions set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the agreements and covenants herein set forth, together with the sum of TEN DOLLARS (\$10.00) and other good and valuable consideration on this day paid and delivered by Assignee to Assignor, the receipt and sufficiency of which are hereby acknowledged and confessed by Assignor, Assignor does hereby ASSIGN, TRANSFER, SET OVER, DELIVER and CONVEY unto Assignee all of Assignor's right, title and interest in the Leases and the leasehold estates created thereby, and 911 of the rights, benefits and privileges of the lessee thereunder, together with all of Assignor's right, title and interest in and

to the Decatur Options, free and clear of all liens, claims and encumbrances, except Declaration of Restrictions recorded at Book 1276, Page 341 and Volume 1274, Page 650, Morgan County Probate Records, Sewer Assessment of City of Decatur in the amount of \$70,745 and 30' wide easement recorded at Book 350, Page 328, Morgan County Probate Records, but subject to all terms, conditions, reservations and limitations set forth in the Leases and the Decatur Options (all such properties, rights and interests, subject as aforesaid, being hereinafter collectively called the "Assigned Rights").

TO HAVE AND TO HOLD all and singular the Assigned Rights unto Assignee, its heirs, executors, legal representatives, successors and assigns, forever.

1. By accepting this Assignment and by its execution hereof, Assignee hereby assumes and agrees to perform all of the terms, covenants and conditions of the Leases on the part of the lessee therein required to be performed, from and after the date hereof, but not prior thereto.
2. Assignee agrees to accept the Assigned Rights, and acknowledges that sale of the Assigned Rights as provided for herein, is made by Assignor on an "AS IS, WHERE IS" basis. Assignee expressly acknowledges that, except for the limited warranty of title contained herein, Assignor makes no representation or warranty of any kind, oral or written, express or implied, or arising by operation of law, including but not limited to, any warranty of condition, habitability, merchantability, or fitness for a particular use or purpose. Nothing contained herein shall affect any rights of Assignee against any insurer of Assignor and any third parties, other than the Liquidating Trust created or to be created pursuant to the Plan of Reorganization approved in Case No. 96-1563 (PJW) in the United States Bankruptcy Court for the District of Delaware, In Re: Fruehauf Trailer Corporation, et al..
3. Assignee and Assignor acknowledge and agree that the Sublease is hereby terminated without penalty and that neither party shall have any further liability or obligation to the other thereunder.
4. All of the covenants, terms and conditions set forth herein shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors and assigns.
5. This Assignment may be executed in identical counterparts, all of which, when taken together, will constitute one and the same instrument.

IN WITNESS WHEREOF, Assignee and Assignor have caused this Assignment to be executed effective as of the 9th day of October, 1998.

ASSIGNOR:

FRUEHAUF TRAILER CORPORATION,  
A DELAWARE CORPORATION.

By: /s/ CHRISS W. STREET  
-----

Name: Chriss W. Street  
-----

Title: President  
-----

ASSIGNEE:

DECATUR ALUMINUM CORP.,  
A DELAWARE CORPORATION

By: /s/ JAMES P. MARRA  
-----

Name: James P. Marra  
-----

Title: Vice President  
-----

THE STATE OF CALIFORNIA

COUNTY OF ORANGE

I, the undersigned Notary Public in and for said County, in said State, hereby certify that C.W. Street, whose name as President of Fruehauf Trailer Corporation is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal, this 8th day of October, 1998.

/s/ ELEANOR J. GANN  
-----  
Notary Public  
Printed Name: Eleanor J. Gann  
-----  
My commission expires:  
  
3-26-99  
-----

[SEAL]

THE STATE OF TEXAS

COUNTY OF HARRIS

I, the undersigned Notary Public in and for said County, in said State, hereby certify that James P. Marra, whose name as Vice President of Decatur Aluminum Corp. is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, James P. Marra, as such officer with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal, this 9th day of October, 1998.

/s/ DARICE ANGEL  
-----  
Notary Public  
Printed Name: Darice Angel  
-----  
My commission expires:  
  
12-10-2001  
-----

[SEAL]

## EXHIBIT A

TO

## ASSIGNMENT AND ASSUMPTION AGREEMENT

- (1) (a) Lease agreement dated May 1, 1963 between The Industrial Development Board of the City of Decatur (the "IDB") and Fruehauf Trailer Company predecessor in title to Fruehauf Trailer Corporation ("Fruehauf") which was recorded in the office of Judge of Probate of Morgan County, Alabama (the "Recorder's Office") in Book 709 at page 630, as supplemented by that Supplemental Lease dated as of June 12, 1964 and recorded in the Recorder's Office in Book 732, page 645, and as extended by agreement dated as of April 30, 1983 and recorded in the Recorder's Office in Book 1097, page 573 and incorporating an option to purchase the leased property.
- (b) An agreement of the IDB dated May 21, 1963, relating to Lease 1(a) identified above.
- (c) An agreement between the IDB and Fruehauf dated as of April 30, 1983, relating to Lease 1(a) identified above.
- (2) (a) Lease agreement between the IDB and Fruehauf dated May 1, 1964 and recorded in the Recorder's Office in Book 727 at pages 797 et seq. which was renewed and extended by agreement dated as of April 30, 1984, recorded in the Recorder's Office in Book 1113, page 160.
- (b) An agreement of the IDB dated June 16, 1964, relating to Lease 2(a) identified above.
- (c) An agreement between the IDB and Fruehauf dated as of April 3, 1984, relating to Lease 2(a) identified above.
- (d) An option dated as of April 30, 1984 granting to Fruehauf the option to purchase the property identified in Lease 2(a) described above.
- (3) Lease agreement between the IDB and Fruehauf dated as of October 1, 1965 recorded in the Recorder's Office in Book 763, page 300, as amended by agreement recorded in the Recorder's Office in Book 995, page 653, which has been renewed and extended, and the option on the leased property.
- (4) Lease agreement between the IDB and Fruehauf dated as of December 1, 1978 recorded in the Recorder's Office in Book 1003, page 788 and incorporating an option to purchase the leased property.

STATE OF ALABAMA            )  
                                   :  
 COUNTY OF MORGAN            )

THIS AGREEMENT entered into by and between The Industrial Development Board of the City of Decatur, a public corporation and instrumentality under the laws of the State of Alabama (the "Board") and Decatur Aluminum Corp., a Delaware corporation (the "Company") on this 23rd day of September, 1998:

RECITALS

The Board and Fruehauf Trailer Company, a Michigan corporation ("Fruehauf Trailer") have heretofore entered into a Lease Agreement dated as of May 1, 1963 (the "1963 Lease") which is recorded in the Office of the Judge of Probate of Morgan County, Alabama, in Book 709, Page 630, et. seq., pursuant to which the Board has leased to Fruehauf Trailer certain premises described and referred to therein, together with all improvements thereon, including the buildings, machinery and equipment and all other items of real or personal property referred to collectively in the 1963 Lease as the "Project" (the "1963 Project"). The 1963 Lease was supplemented by a Supplemental Lease Agreement dated June 12, 1964, and recorded in said Probate Office in Book 732, Page 645. The initial term of the 1963 Lease expired on April 30, 1983, and the Company, as the successor in interest to Fruehauf Trailer under the 1963 Lease, is currently leasing the 1963 Project from the Board pursuant to a renewal term which expires on April 30, 2003, said extension being evidenced by a certain agreement dated as of April 30, 1983, and recorded in said Probate Office in Book 1097, Page 593.

The Board and Fruehauf Corporation, a Michigan corporation ("Fruehauf Corporation") have heretofore entered into a Lease Agreement dated as of May 1, 1964 (the "1964 Lease") which is rendered in the Office of the Judge of Probate of Morgan County, Alabama, in Book 727, Page 797, et. seq., pursuant to which the Board has leased to Fruehauf Corporation certain premises described and referred to in the 1964 Lease, together with all improvements thereon, including the buildings, machinery and equipment and all other items of real or personal property referred to collectively in the 1964 Lease as the "Project" (the "1964 Project"). The initial term of the 1964 Lease expired on April 30, 1984, and the Company, as the successor in interest to Fruehauf Corporation under the 1964 Lease, is currently leasing the 1964 Project from the Board pursuant to a renewal option which expires on April 30, 2004, said extension being evidenced by a certain agreement dated as of April 30, 1984, and recorded in said Probate Office in Book 1113, Page 160.

The Board and Fruehauf Corporation have also entered into a Lease Agreement dated as of October 1, 1965 (the "1965 Lease") which is recorded in the Office of the Judge of Probate of Morgan County, Alabama, in Book 763, Page 300, et. seq., pursuant to which the Board leased the premises described and referred to in the 1965 Lease, together with all improvements thereon, including the buildings, machinery and equipment and all other items of real or personal property referred to collectively in the 1965 Lease as "the Project" (the "1965 Project"). The 1965 Lease was amended by an agreement dated August 15, 1978,

and recorded in said Probate Office in Book 995, Page 653. The 1965 Lease expired on September 30, 1985, and the Company, as the successor in interest to Fruehauf Corporation under the 1965 Lease, is currently leasing the 1965 Project from the Board pursuant to a renewal term which expires on September 30, 2005.

The Board and Fruehauf Corporation have also entered into a Lease Agreement dated as of December 1, 1978 (the "1978 Lease") which is recorded in the Office of the Judge of Probate of Morgan County, Alabama, in Book 1003, Page 788, et. seq., pursuant to which the Board has leased to Fruehauf Corporation certain premises described and referred to in the 1978 Lease, together with all improvements thereon, including the buildings, machinery and equipment and all other items of real or personal property referred to collectively in the 1978 Lease as "the Project" (the "1978 Project"). The initial term of the 1978 Lease has expired, and the Company, as the successor in interest to Fruehauf Corporation under the 1978 Lease, is currently leasing the 1978 Project from the Board pursuant to a renewal term which expires on November 30, 2018.

The Board and the Company desire to enter into this Agreement to confirm the rights of the Company to acquire from the Board the 1963 Project, the 1964 Project, the 1965 Project and the 1978 Project.

NOW, THEREFORE, in consideration of the payment by the Company to the Board of \$1.00 and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Board and the Company do hereby agree as follows:

Section 1. OPTION TO PURCHASE 1963 PROJECT. The Board hereby agrees that the Company shall have the option, at any time during which it is not in default under the 1963 Lease, on written notice to the Board of its election to exercise such option, to purchase the 1963 Project for the sum of \$30,000; provided, however, that the purchase option hereby granted shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board, in person or by registered mail, on or before 12:00 noon, on April 30, 2003. In the event of the exercise of such option, the 1963 Project shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of the 1963 Lease, no further rental shall be payable for the unexpired portion of the said renewal term.

Section 2. OPTION TO PURCHASE 1964 PROJECT. The Board hereby agrees that the Company shall have the option, at any time during which it is not in default under the 1964 Lease, on written notice to the Board of its election to exercise such option, to purchase the 1964 Project for the sum of \$1,000; provided, however, that the purchase option hereby granted shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board, in person or by registered mail, on or before 12:00 noon, on April 30, 2004. In the event of the exercise of such option, the 1964 Project shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of the 1964 Lease, no further rental shall be payable for the unexpired portion of the said renewal term.

Section 3. OPTION TO PURCHASE 1965 PROJECT. The Board hereby agrees that the Company shall have the option, at any time during which it is not in default under the 1965 Lease, on written notice to the Board of its election to exercise such option, to purchase the 1965 Project for the sum of \$65,000; provided, however, that the purchase option hereby granted shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board, in person or by registered mail, on or before 12:00 noon, on September 30, 2005. In the event of the exercise of such option, the 1965 Project shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of the 1965 Lease, no further rental shall be payable for the unexpired portion of the said renewal term.

Section 4. OPTION TO PURCHASE 1978 PROJECT. The Board hereby agrees that the Company shall have the option, at any time during which it is not in default under the 1978 Lease, on written notice to the Board of its election to exercise such option, to purchase the 1978 Project for the sum of \$1.00; provided, however, that the purchase option hereby granted shall become null and void and of no effect if not exercised by the Company by written notice served on the Board by delivery to the President or Secretary of the Board, in person or by registered mail, on or before 12:00 noon, on November 30, 2018. In the event of the exercise of such option, the 1978 Project shall be conveyed to the Company, or its nominee, by proper deed of conveyance, without special covenants of warranty, and if such option is exercised prior to the expiration of the renewal term of the 1978 Lease, no further rental shall be payable for the unexpired portion of the said renewal term.

Section 5. RATIFICATION OF 1963 LEASE, 1964 LEASE, 1965 LEASE AND 1978 LEASE. The Board and the Company do hereby ratify and confirm that the 1963 Lease, the 1964 Lease, the 1965 Lease and the 1978 Lease, as amended, are in full force and effect.

IN WITNESS WHEREOF, the Board and the Company have caused this agreement to be executed in their respective corporate names and have caused their respective corporate seals to be hereunto affixed and have caused this agreement to be attested by their duly authorized officers and have caused this agreement to be dated as of the date above first written.

THE INDUSTRIAL DEVELOPMENT BOARD

OF THE CITY OF DECATUR

By /s/ B. C. SHELTON, JR.

-----  
B. C. Shelton, Jr.  
Its Chairman of the Board of Directors

Attest:

/s/ JAMES B. RIGGS  
-----  
James B. Riggs  
Its Secretary

DECATUR ALUMINUM CORP.

By /s/ JAMES P. MARRA

-----  
James P. Marra  
Its VICE PRESIDENT  
-----

Attest:

/s/ JENNIFER W. BERLIN  
-----  
Its  
-----

STATE OF ALABAMA                    )  
  :  
COUNTY OF MORGAN                    )

I, the undersigned, a notary public in and for said county in said state, hereby certify that B. C. Shelton, Jr., whose name as Chairman of the Board of Directors of THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF DECATUR, an Alabama corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he/she, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 23rd day of September, 1998.

                                  /s/ JOHN A. CADDELL  
-----  
                                  Notary Public

[NOTARIAL SEAL]

My commission expires: June 22, 2002

STATE OF TEXAS        )  
                          :  
COUNTY OF HARRIS    )

I, the undersigned, a notary public in and for said county in said state, hereby certify that James P. Marra, whose name as Vice President of DECATUR ALUMINUM CORP., a Delaware corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he/she, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 9th day of October, 1998.

/s/ LANETTE HOPKINS

-----

Notary Public

[NOTARIAL SEAL]

My commission expires: April 30, 2001

This Instrument Prepared By:

P. Nicholas Greenwood  
Bradley Arant Rose & White LLP  
2001 Park Place, Suite 1400  
Birmingham, Alabama 35203

## SUBSIDIARIES OF QUANEX CORPORATION

## JURISDICTION OF INCORPORATION

|  |                     |
|--|---------------------|
| Piper Impact, Inc.                     | Delaware            |
| Quanex Metals, Inc.                    | Delaware            |
| Nichols-Homesfield, Inc.               | Delaware            |
| Quanex Bar, Inc.                       | Delaware            |
| Quanex Steel, Inc.                     | Delaware            |
| Quanex Health Management Company, Inc. | Delaware            |
| Quanex Manufacturing, Inc.             | Delaware            |
| Quanex Solutions, Inc.                 | Delaware            |
| Quanex Enterprises, Inc.               | Delaware            |
| Quanex Technologies, Inc.              | Delaware            |
| Quanex Foreign Sales Corporation       | U.S. Virgin Islands |
| Piper Impact Europe B.V.               | The Netherlands     |
| Nichols Aluminum-Alabama, Inc.         | Delaware            |
| Quanex Windows, Inc.                   | Delaware            |
| Quanex Two, Inc.                       | Delaware            |
| Quanex Three, Inc.                     | Delaware            |
| Quanex Four, Inc.                      | Delaware            |
| Quanex Five, Inc.                      | Delaware            |
| Quanex Six, Inc.                       | Delaware            |

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-23474, No. 33-29585, No. 33-22550, No. 33-35128, No. 33-38702, No. 33-46824, No. 33-57235, No. 33-54081, No. 33-54085, No. 33-54087, No. 333-18267, No. 333-22977, No. 333-36635 and No. 333-66777 of Quanex Corporation of our report dated November 23, 1998 appearing in this Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 1998.

Deloitte & Touche LLP

Houston, Texas  
January 12, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AS OF OCTOBER 31, 1998 AND THE INCOME STATEMENT FOR THE YEAR ENDED OCTOBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| YEAR    |             |         |
|---------|-------------|---------|
|         | OCT-31-1998 |         |
|         | NOV-01-1997 |         |
|         | OCT-31-1998 | 26,279  |
|         |             | 0       |
|         |             | 85,166  |
|         |             | 11,752  |
|         |             | 85,397  |
|         | 209,812     |         |
|         |             | 702,955 |
|         | 307,901     |         |
|         | 674,288     |         |
| 146,833 |             | 188,302 |
|         | 0           |         |
|         |             | 0       |
|         |             | 7,090   |
| 674,288 |             | 264,954 |
|         |             | 797,490 |
|         | 797,490     |         |
|         |             | 736,726 |
|         |             | 795,226 |
|         |             | 0       |
|         |             | 1,088   |
|         | 14,904      |         |
|         | (5,964)     |         |
|         | (2,087)     |         |
| (3,877) |             |         |
|         | 0           |         |
|         | 13,046      |         |
|         |             | 0       |
|         |             | 9,169   |
|         |             | 0.650   |
|         |             | 0.650   |