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

FORM 10-K

(Mark One)

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

For the fiscal year ended October 31, 2002

or

o **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	**38-1872178**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1900 West Loop South, Suite 1500, Houston, Texas	**77027**
(Address of principal executive offices)	(zip code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.50 par value	**New York Stock Exchange, Inc.**
Rights to Purchase Series A Junior Participating Preferred Stock	**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 o

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. o

The aggregate market value of the registrant's voting stock held by non-affiliates as of November 30, 2002, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was $498,490,477. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

The aggregate market value of the voting common equity held by non-affiliates as of April 30, 2002, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was $506,334,420. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At December 13, 2002, there were outstanding 16,443,519 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, 2002, for its Annual Meeting of Stockholders to be held on February 26, 2003, 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

Quanex was organized in 1927 as a Michigan corporation under the name 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 indicates otherwise.

The Company's businesses are managed on a decentralized basis. Each operating division has administrative, operating and marketing functions. The Company measures each division's return on investment, and seeks to reward superior performance with incentive compensation, which is a significant portion of total compensation for salaried employees. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by 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.

Quanex is a technological leader in the production of engineered carbon and alloy steel bars, aluminum flat-rolled products, and precision-formed metal and wood products which primarily serve the vehicular products and building products markets. The Company uses state-of-the-art manufacturing technologies, low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications. Quanex believes these capabilities also provide the Company with unique competitive advantages. The Company's growth strategy is focused on the continued penetration of its two target markets, vehicular products and building products, and protecting, nurturing and growing its two core businesses, MACSTEEL and Engineered Products, that serve those markets.

Business Developments in Fiscal 2002

In February 2002, Quanex completed the purchase of Colonial Craft, Inc. ("COLONIAL CRAFT"), a leading manufacturer of value-added, wood and door (fenestration) related wood products, located in Roseville, Minnesota (relocated to Mounds View, Minnesota in December 2002). COLONIAL CRAFT manufactures custom wood window accessories and their two primary product lines are hardwood architectural mouldings and wood window grilles used by wood window manufacturers. The company compliments Quanex's other Engineered Products businesses by serving a similar customer base.

In the Company's MACSTEEL operations, rotary centrifugal continuous casters are used with an in-line manufacturing process to produce bearing grade quality, seam-free, engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets within its vehicular products market. Since 1990, the Company has invested approximately $285 million to enhance its steel bar manufacturing and refining processes, to improve rolling and finishing capability, and to expand shipping capacity at its MACSTEEL operations to approximately 720,000 tons per year. Phases I through VI of the MACSTEEL expansions have been completed. Phase V, completed in December 2000, included projects at MACSTEEL Heat Treating, based in Huntington, Indiana, where a third processing line was built, and at Pleasant Prairie, Wisconsin-based MACSTEEL NitroSteel, where efficiency enhancing equipment has been installed. In Phase VI, finished in December 2002, the Company installed additional equipment at each of the MACSTEEL plants in Jackson, Michigan, and Ft. Smith, Arkansas to increase their bar cutting capability and value-added turning capacity. This project increased MACPLUS engineered steel bar shipping capacity by approximately 13% to 270,000 tons annually with the installation of two additional bar turning and polishing lines, one at the plant in Jackson, which was completed in December of 2001 and the other at the Ft. Smith plant, which was completed in December 2002. MACSTEEL now has a total of six value-added MACPLUS lines.

Manufacturing Processes, Markets, and Product Sales by Business Segment

Quanex operates 18 manufacturing facilities in ten states in the United States. These facilities feature efficient plant design and flexible manufacturing processes, enabling the Company to produce a wide variety of custom engineered products and materials for the Company's vehicular products and building products markets. 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.

During the latter portion of the fiscal year ended October 31, 2001, the Company completed a strategic review of its business, which resulted in a shift of strategy away from primarily a manufacturing "process" oriented enterprise to a more "market-focused" enterprise. As expected, the review underscored a high concentration of sales in two market segments—vehicular products and building products. Beginning in fiscal 2002, the Company realigned its management, strategy and tactics to support this new focus and now reports operations in those two market-focused segments.

The majority of the company's products are sold into the vehicular products and building products markets with minimal sales to the industrial machinery and capital equipment markets.

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 14 to the Consolidated Financial Statements. For net sales of the Company by major product lines see Note 14 to the Consolidated Financial Statements. For the years ended October 31, 2002, 2001 and 2000, no one customer accounted for 10% or more of the Company's sales.

Vehicular Products Segment

The vehicular products segment is comprised of MACSTEEL, Piper Impact and Temroc Metals. The segment includes engineered steel bar operations, impact-extrusion operations, steel bar and tube heat-treating services, steel bar and tube corrosion and wear resistant finishing services, and aluminum extrusion and fabricated metal products.

MACSTEEL

The Company's engineered steel bar operations, which represent the majority of the segment's sales and operating income, are conducted through its MACSTEEL division. MACSTEEL includes two plants, one located in Ft. Smith, Arkansas, and the other in Jackson, Michigan, which in the aggregate are capable of shipping up to 720,000 tons annually of hot finished, precision engineered, carbon and alloy steel bars. The Company believes that MACSTEEL has the only two plants in North America using scrap-fed continuous rotary centrifugal casting technology. This casting process produces seam-free bars, without surface defects or 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, and particularly integrated steel mills. The Company typically sells only complete heat lots, or batches, which are made to specific customer requirements.

MACSTEEL produces various grades of customized, engineered steel bars by melting steel scrap and casting it in a rotary centrifugal continuous caster. MACSTEEL's molten steel is further processed through secondary refining processes that include argon stirring, ladle injection, and vacuum arc degassing prior to casting. These processes enable MACSTEEL to produce higher quality, "cleaner" steel.

As a result of its state-of-the-art continuous manufacturing technology, which reduces labor and energy costs and process yield loss, the Company believes that MACSTEEL is one of the lowest cost producers of engineered carbon and alloy steel bars in North America. 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 less than two

man-hours of labor per ton compared with an estimated average of four to five man-hours per ton for U.S. integrated steel producers.

MACSTEEL products are custom manufactured primarily for the vehicular product markets serving the passenger car, light truck, sport utility vehicle, heavy truck, anti-friction bearing, off-road and farm 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 components, steering components, hydraulic mechanisms and seamless tube production. Also, MACSTEEL engineered steel bars are used for the manufacture of components for safety critical steel air bag inflators at the Company's Piper Impact plant in New Albany, Mississippi.

Also included in the MACSTEEL division is a heat treating plant in Huntington, Indiana ("Heat Treat") and a plant in Pleasant Prairie, Wisconsin that 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, "cut-to-length", and metallurgical testing. This plant primarily serves customers in the vehicular products and energy 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 made for specific customer applications and are used for fluid power applications in primarily the vehicular products markets.

Piper Impact

Piper Impact includes two impact-extrusion facilities in New Albany, Mississippi, dedicated to aluminum and steel impact-extruded products.

Piper Impact is a manufacturer of custom designed, impact extruded aluminum and steel parts primarily for vehicular and defense applications. Piper Impact's operations use impact extrusion technology to produce highly engineered near-net shaped components from aluminum and steel slugs. 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. Products may be further processed with heat-treating and precision machining. The parts are then delivered to customers' assembly lines, requiring little or no additional processing. Though down from prior years, one customer remains a majority of Piper's sales for use in the automotive air bag systems.

Temroc Metals

Temroc Metals is located in Hamel, Minnesota. Temroc Metals is an aluminum extruder and fabricator of metal products. The single facility manufactures engineered products that primarily serve the outdoor recreational vehicular products market.

Building Products Segment

The building products segment is comprised of the Engineered Products and Nichols Aluminum divisions. The segment includes four fabricated metal components operations, two wood fenestration product operations, two aluminum sheet casting and three stand alone finishing operations.

Engineered Products

The Engineered Products division, which includes AMSCO in Rice Lake, Wisconsin, HOMESHIELD, with two plants in Chatsworth, Illinois, IMPERIAL PRODUCTS in Richmond, Indiana, and COLONIAL CRAFT in Roseville and Maplewood, Minnesota (relocated to Mounds View, Minnesota in December 2002) and Luck, Wisconsin, produces various engineered products for the building products markets. These products include

aluminum window and patio door screens, window frames, residential exterior door products, custom wood window grilles and accessories, and a broad line of custom designed, roll-formed aluminum products and stamped aluminum shapes for manufacturers of premium wood windows and vinyl windows for the home improvement, residential, and commercial construction markets. AMSCO combines strong product design and development expertise with reliable, just-in-time delivery. HOMESHIELD also coats and/or paints aluminum sheet in many colors, sizes, and finishes, and fabricates aluminum coil into rain carrying systems, soffit, exterior housing trim and roofing products. IMPERIAL PRODUCTS produces sophisticated residential exterior door thresholds, astragals, patio door systems and other miscellaneous door components. COLONIAL CRAFT produces custom hardwood architectural moulding and window and door accessories for premium wood window manufacturers.

Nichols Aluminum

Nichols Aluminum manufactures mill finished and coated aluminum sheet for the building products market and the food packaging market. The division comprises five plants: a thin-slab casting and hot rolling mill ("NAC") located in Davenport, Iowa, three cold rolling and finishing plants located in Davenport, Iowa ("NAD"), Lincolnshire, Illinois ("NAL"), and Decatur, Alabama ("NAA"), and Nichols Aluminum–Golden ("NAG"), an aluminum production facility located in Fort Lupton, Colorado.

NAC's mini-mill uses an in-line casting process that can produce 400 million pounds of reroll (hot-rolled aluminum sheet) annually. The mini-mill converts aluminum scrap to sheet through melting, continuous casting, and in-line hot rolling processes. NAC has shredding and blending capabilities, including two rotary barrel furnaces and dross recovery system that broaden its sources of raw material, allow it to melt cheaper grades of scrap, and improve raw material yields. Delacquering equipment improves the quality of the raw material before it reaches the melting furnaces by burning off combustibles in the scrap. Scrap is blended using computerized processes to most economically achieve the desired molten aluminum alloy composition.

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

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

Operations at NAG include melting and casting aluminum into sheet, cold rolling to specific gauge, annealing, leveling, custom coating and slitting to width. NAG manufactures high quality aluminum sheet from scrap, then finishes the sheet for specialized applications primarily for food packaging markets.

Raw Materials and Supplies

The Company's MACSTEEL plants purchase their principal raw material, steel scrap or substitutes such as pig iron, beach iron and hot briquetted iron on the open market. Collection and transportation of these raw materials to the Company's 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 activity.

Temroc Metal's raw material consists primarily of aluminum billet, which it purchases from several suppliers on the open market.

Piper Impact's raw material consists of aluminum bars and slugs that it purchases on the open market, and steel bars that it purchases from MACSTEEL.

AMSCO and HOMESHIELD's primary raw material is coated and uncoated aluminum sheet purchased primarily from Nichols Aluminum. Raw materials utilized at IMPERIAL PRODUCTS include aluminum, wood

and vinyl that are available from a number of suppliers. Prices for aluminum are typically set on a monthly basis based upon market rates. In addition, IMPERIAL PRODUCTS purchases two types of wood materials—hardwood and softwood, which it purchases at market prices.

COLONIAL CRAFT's primary raw material is kiln-dried hardwood and softwood lumber. This is purchased from sawmills and lumber concentration yards throughout North America at market prices.

Nichols Aluminum's principal raw material is aluminum scrap purchased on the open market, which can also be adversely affected by extreme weather conditions. Nichols purchases and sells aluminum ingot futures contracts on the London Metal Exchange to hedge against fluctuations in the price of aluminum scrap required to manufacture products for fixed-price sales contracts.

Backlog

At October 31, 2002, Quanex's backlog of orders to be shipped in the next twelve months was approximately $240 million. This compares to approximately $165 million at October 31, 2001. Because many of the markets in which Quanex operates have short lead times, the Company does not believe that backlog figures are reliable indicators of annual sales volume or operating results.

Competition

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

MACSTEEL competes primarily with one large integrated steel producer and two large non-integrated steel producers. Although these producers may be larger and have greater resources than the Company, Quanex believes that the technology used at MACSTEEL facilities permits it to compete effectively in the markets it serves.

Piper Impact competes with several other impact extrusion companies, and companies that offer other technologies that can provide similar products, on the basis of design, quality, price and service. Temroc Metals competes largely with other small aluminum extrusion and machining facilities.

Engineered Products competes with many small and midsize metal and wood fabricators and wood moulding facilities, primarily on the basis of custom engineering, product development, quality, service, and price. The division also competes against in-house operations of vertically integrated fenestration original

equipment manufacturers ("OEM"s).

Nichols Aluminum competes 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 finished products, primarily on the basis of the breadth of product lines, the quality and responsiveness of its services, and price.

Sales and Distribution

The Company has sales organizations with sales representatives in many parts of the U.S. MACSTEEL sells engineered steel bars primarily to tier-one or tier-two suppliers through its sales organization and manufacturers' representatives. Piper Impact and Temroc Metals sell directly to OEMs. The Engineered Products division's products are sold primarily to OEMs, except for some residential building products, which are also sold through distributors. Nichols Aluminum products are sold directly to OEMs and through metal service centers.

Seasonal Nature of Business

Sales for Engineered Products and Nichols Aluminum are seasonal. The primary markets of these divisions are in the Northeast and Midwest regions of the United States, where winter weather typically reduces homebuilding and home improvement activity. These divisions typically experience their lowest sales during the Company's first fiscal quarter. Profits tend to be lower in quarters with lower sales because a high percentage of their manufacturing overhead and operating expense is due to labor and other costs that are generally semi-variable throughout the year.

Sales for the other businesses in which the Company competes are generally not seasonal. However, due to the number of holidays in the Company's first fiscal quarter, sales have historically been lower in this period as some customers reduce build schedules. As a result of reduced production days, combined with the effects of seasonality, the Company generally expects that, absent unusual activity, its lowest sales will occur in the first fiscal quarter.

Service Marks, Trademarks, Trade Names, and Patents

The Company's Quanex, Quanex 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 yet registered in the United States. The trade name Nichols-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, Colonial Craft, MACSTEEL and Quanex 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

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. 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 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 locations Quanex has owned or operated at any time. The Company is currently involved in environmental investigations or remediation at several such 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 is alleged to have 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, 2002, for Quanex's current plants, former operating locations, and disposal facilities were approximately $17 million. Of that, approximately 80% is allocated to the cleanup of

historical soil and groundwater contamination and other corrective measures at the Piper Impact division 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.

Environmental agencies continue to develop regulations implementing the Federal Clean Air Act. 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. In fiscal 2003, the Company plans to have capital expenditures for equipment upgrades in order to comply with secondary aluminum production emissions standards at two of its Nichols Aluminum facilities. 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 $4 million and $3 million during fiscal 2002 and 2001, respectively, in expenses in order to comply with existing environmental regulations. For 2003, the Company estimates expenses at various of its facilities will be approximately $3 million for continuing environmental compliance. Capital expenditures for compliance with existing or proposed environmental regulations were approximately $1.5 million during fiscal 2002 and were immaterial in 2001. For fiscal 2003, the Company estimates that capital expenditures for environmental compliance will be approximately $6 million, which includes amounts for upgrades related to secondary aluminum production emissions standards at two of its Nichols Aluminum facilities. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and its facilities of future regulations and government decisions. Quanex will continue to have expenditures in connection with environmental matters beyond 2003, but it is not possible at this time to reasonably estimate the amount of those expenditures.

Employees

At October 31, 2002, the Company employed 3,476 persons. Of the total employed, 31% were covered by collective bargaining agreements. A five-year collective bargaining agreement for Temroc Metals was ratified by the United Automobile Workers International Union of Americas in February, 2002. A five year collective bargaining agreement for Nichols Aluminum Casting and Nichols Aluminum Davenport was ratified by the International Brotherhood of Teamsters in November 2002. MACSTEEL Arkansas' collective bargaining agreement expires January 31, 2003 and negotiations for the renewal of that agreement will begin in January.

Financial Information About Foreign and Domestic Operations

For financial information on the Company's foreign and domestic operations, see Note 14 of the Financial Statements contained in this Annual Report on Form 10-K.

Website

The Company's required Securities and Exchange Act filings such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q are accessible free of charge on its website at www.Quanex.com.

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. (See Item 1, "Business", for some discussion of capacity of various facilities.)

Location	Plant	Square footage
Owned:	*Vehicular Products*	
Fort Smith, Arkansas	MACSTEEL	614,000
Jackson, Michigan	MACSTEEL	386,000
Huntington, Indiana	Heat Treating	99,821
Pleasant Prairie, Wisconsin	NitroSteel	35,000
New Albany, Mississippi	Piper Impact (two plants)	683,000
Hamel, Minnesota	Temroc Metals	240,000
Owned:	*Building Products*	
Lincolnshire, Illinois	Nichols Aluminum	142,000
Davenport, Iowa	Nichols Aluminum	236,000
Davenport, Iowa	Nichols Aluminum Casting	300,000
Fort Lupton, Colorado	Nichols Aluminum Golden	240,400
Rice Lake, Wisconsin	AMSCO	336,000
Chatsworth, Illinois	HOMESHIELD (two plants)	218,000
Richmond, Indiana	IMPERIAL PRODUCTS	92,000
Luck, Wisconsin	COLONIAL CRAFT	105,000
Leased (3 leases expiring 2003, 2003 and 2008, respectively):		
Maplewood, Minnesota[(1)]	COLONIAL CRAFT	35,000
Roseville, Minnesota[(1)]	COLONIAL CRAFT	48,000
Mounds View, Minnesota	COLONIAL CRAFT	125,000
Leased (4 leases expiring 2003, 2004, 2005 and 2018):		
Decatur, Alabama	Nichols Aluminum Alabama	410,000

Leased (expires 2010):	*Executive Offices*	
Houston, Texas	Quanex Corporation	21,000

(1) These leases expire during fiscal 2003. COLONIAL CRAFT consolidated these facilities into the Mounds View, Minnesota facility in December 2002.

Item 3. ***Legal Proceedings***

Other than the proceedings described under Item 1, "Environmental Matters", there are no material legal proceedings to which Quanex, 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

Quarter Ended	2002	2001	2000	1999	1998
January	.16	.16	.16	.16	.16
April	.16	.16	.16	.16	.16
July	.16	.16	.16	.16	.16
October	.16	.16	.16	.16	.16
Total	.64	.64	.64	.64	.64

Quarterly Common Stock Sales Price (High & Low)

Quarter Ended	2002	2001	2000	1999	1998
January	29.64	21	26.5625	23.875	30.4375
	25.71	16.375	19.0625	16.8125	27.0625
April	38.35	21.15	23.6875	26.25	33.8125
	28.63	17.35	16.125	15.375	28.50
July	44.19	27.55	18.625	29	32.1875
	31.01	20.70	14.375	25.125	27.25
October	40.55	27.48	20.6875	27.375	27.875
	33.18	20.75	17.0625	20.125	15.625

The terms of Quanex's new revolving credit agreement, which was entered into in November 2002, does not specifically limit the total amount of dividends and other distribution on its stock. However, the covenant to maintain a certain fixed charge coverage ratio indirectly impacts the Company's ability to pay dividends. As of October 31, 2002, the aggregate amount available for dividends under the new credit facility was approximately $33 million.

There were 5,006 holders of Quanex common stock (excluding individual participants in securities positions listings) on record as of November 30, 2002.

The following table summarizes as of October 31, 2002, certain information regarding equity compensation to our employees, officers, directors and other persons under our equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))

	(a)	(b)	(c)
Equity compensation plans approved by security holders	777,137	$ 23	593,143
Equity compensation plans not approved by security holders[(1)]	163,465	23	130,454
Total	940,602	$ 23	723,597

(1) The Quanex Corporation 1997 Key Employee Stock Plan was approved by the Company's Board of Directors in October 1997. This plan provides for the granting of stock options to eligible persons employed by the Company who are not executive officers of the Company. Under the plan, the total number of stock options which may be granted is 400,000 shares. Stock options may be granted at not less than the fair market value (as defined in the plan) on the date the options are granted and generally become exercisable after one year in $33^{1}/_{3}$ percent annual increments. The options expire ten years after the date of grant. The Board of Directors may amend, terminate or suspend the plan at any time.

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.

EBITDA: Earnings before interest, taxes, depreciation and amortization, excluding unusual items.

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 1997–2002

Fiscal years ended October 31,	2002	2001	2000	1999	1998	1997
			($ thousands, except per share data)			
Revenues and Earnings						
Net sales[(1),(8)]	994,387	924,353	964,518	834,902	821,507	768,743
Cost of sales including operating depreciation and amortization	855,177	809,027	841,047	706,607	707,971	666,691
Gross profit	139,210	115,326	123,471	128,295	113,536	102,052
Piper Impact Asset Impairment Charge	—	—	56,300[(2)]	—	58,500[(2)]	—
Loss on sale of Piper Impact Europe	—	—	14,280[(3)]	—	—	—
Other depreciation and amortization	1,502	3,808	3,308	3,434	5,059	3,669
Selling, general and administrative expenses	54,408	54,202	53,545	53,104	47,713	43,375
Operating income (loss)	83,300	57,316	(3,962)	71,757	2,264	55,008
Percent of net sales[(8)]	8.4	6.2	(0.4)	8.6	0.3	7.2
Retired executive life insurance benefit (See Note 5 to financial statements)	9,020					
Other income—net	2,227	3,195	2,420	2,021	2,278	1,637
Interest expense—net	12,933	14,889	13,314	12,791	10,506	14,002
Income (loss) before income taxes and income from discontinued operations	81,614	45,622	(14,856)	60,987	(5,964)	42,643
Income taxes (credit)	26,132	16,428	(5,191)	21,271	(2,087)	14,925
Income (loss) from continuing operations	55,482	29,194	(9,665)	39,716	(3,877)	27,718
Income from discontinued operations	0	—	—	—	—	5,176
Gain on sale of discontinued operations	0	—	—	—	13,046	36,290
Net income (loss)	55,482	29,194	(9,665)	39,716	9,169	69,184
Percent of net sales[(8)]	5.6	3.2	(1.0)[(7)]	4.8	1.1[(6)]	9.0[(5)]
Per Share Data						

Basic Earnings per share:						
Income (loss) from continuing operations	3.74	2.18	(0.70)	2.79	(0.27)	2.01
Income from discontinued operations	—	—	—	—	—	0.37
Gain on sale of discontinued operations	—	—	—	—	0.92	2.63
Net earnings (loss)	3.74	2.18	(0.70)[7]	2.79	0.65[6]	5.01
Cash dividends declared	0.64	0.64	0.64	0.64	0.64	0.61
Book value	25.67	20.88	19.90	21.24	19.19	19.13
Average shares outstanding (000)	14,823	13,399	13,727	14,234	14,149	13,807
Market closing price range:						
High	44.15	27.38	26.56	28.94	33.50	36.50
Low	25.89	17.00	14.38	15.50	16	23.38

Financial Position—Year End						
Working capital	100,997	102,288	104,944	76,247	62,979	52,818
Property, plant and equipment—net	353,132	357,635	338,248	406,841	395,054	379,071
Other assets	100,207	103,118	71,665	71,218	69,422	119,738
Total assets	689,140	697,631	645,859	690,446	674,288	685,705
Noncurrent deferred income taxes	29,210	29,282	27,620	43,910	33,412	48,111
Long-term debt	75,131	219,608	191,657	179,121	188,302	201,858
Stockholders' equity	421,395	279,977	266,497	301,061	272,044	268,823
Total capitalization	496,526	499,585	458,154	480,182	460,346	470,681
Long-term debt percent of capitalization	15.2	44.0	41.8	37.3	40.9	42.9
Other Data						
Asset turnover[8]	1.4	1.4	1.4	1.2	1.2	1.2
Current ratio	1.7 to 1	1.8 to 1	1.8 to 1	1.6 to 1	1.4 to 1	1.4 to 1
Return on average investment—percent	12.8	8.1	(0.2)[7]	10.0	3.4[6]	16.7[5]
Return on average common equity—percent	15.8	10.7	(3.4)[7]	13.9	3.4[6]	29.7[5]
EBITDA[4]	129,092	104,567	116,061	118,217	102,439	92,541
Depreciation and amortization	43,987	43,910	48,445	45,883	42,400	37,865
Capital expenditures	34,513	55,640	42,355	60,934	60,936	69,146
Backlog for shipment in next 12 months	325,000	185,000	157,830	164,128	183,847	225,498
Number of stockholders	5,030	5,313	5,697	5,113	5,720	5,488
Average number of employees	3,378	3,340	3,361	3,393	3,261	2,994
Sales per employee[8]	294	277	287	246	252	257

Note: Several acquisitions and divestitures have been made in past years. See Notes 2 and 3 to the financial statements for a description of these transactions.
(1) Excludes sales from discontinued operations for the fiscal year 1997 of $187,123.
(2) During fiscal 2000 and 1998, Piper Impact recorded a $56.3 million and $58.5 million, respectively, asset impairment charge as described by Statement of Financial Accounting Standards No. 121. See Footnote 4 to the financial statements for further information.
(3) See Note 3 to the financial statements for further information regarding the loss on the sale of Piper Impact Europe.
(4) EBITDA is defined as earnings before interest, taxes, depreciation and amortization, excluding unusual items such as the Retired executive life insurance benefit, Piper Impact asset impairment charges and the Loss on the sale of Piper Impact Europe.
(5) Includes gain on sale of discontinued operations.
(6) Includes effect of Piper Impact's asset impairment charge ($58.5 million in fiscal 1998) and gain on sale of discontinued operations ($13 million in fiscal 1998).
(7) Includes effect of Piper Impact's asset impairment charge ($56.3 million in fiscal 2000) and the loss on sale of Piper Impact Europe ($14.3 million in fiscal 2000).
(8) Beginning in fiscal 2001, freight costs are no longer netted against sales, they are included in cost of sales. Prior year's net sales and sales ratios have been restated to conform to this presentation.

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 of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" are "forward-looking" statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements which address future operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and

statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors exist that could cause the Company's actual results to differ materially from the expected results described in or underlying our Company's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular and home building and remodeling markets, any material changes in purchases by the Company's principal customers, labor supply and relations, environmental regulations, 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 acquisition strategies, 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. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

Results of Operations

Overview

Summary Information as % of Sales

	Fiscal Year Ended October 31,					
	2002		2001		2000	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
	(Dollars in millions)					
Net Sales	$ 994.4	100%	$ 924.3	100%	$ 964.5	100%
Cost of Sales	813.0	82	769.3	83	796.4	83
Selling, general and admin.	54.4	6	54.2	6	53.5	5
Depreciation and amortization	43.7	4	43.5	5	47.9	5
Piper Impact Impairment Charge	—	—	—	—	56.3	6
Loss on sale of Piper Impact Europe	—	—	—	—	14.3	1
Operating Income (Loss)	83.3	8%	57.3	6%	(3.9)	0%
Interest Expense	(14.8)	(1)	(16.6)	(1)	(15.3)	(2)
Capitalized Interest	1.9	0	1.7	0	1.9	0
Retired executive life insurance benefit	9.0	1	—	0	—	0
Other, net	2.2	0	3.2	0	2.4	0
Income tax benefit (expense)	(26.1)	(2)	(16.4)	(2)	5.2	1
Net income (loss)	$ 55.5	6%	$ 29.2	3%	$ (9.7)	(1)%

The Company achieved record level net sales and operating income in fiscal 2002 and demonstrated its ability to generate healthy results notwithstanding the somewhat weak broad-based economic climate. The Company also ended the year with a strong balance sheet as the total debt to capitalization ratio decreased from 44% as of October 31, 2001 to 15.2% at October 31, 2002.

Acquisitions/Divestitures Since October 31, 1999

In January 2000, the Company purchased from Alcoa, Inc. the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for $9 million plus working capital valued at approximately $13 million. The newly acquired facility became part of Quanex's flat-rolled aluminum sheet division—Nichols Aluminum in the building products segment. It was renamed Nichols Aluminum–Golden, Inc., ("Nichols Aluminum–Golden"), a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum–Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum–Golden can produce up to 60 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

In April 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately $15 million. Imperial Products, Inc., ("IMPERIAL PRODUCTS"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's Engineered Products division in the building products segment.

In July 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in The Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of $14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a

notional amount of 30 million Guilders was closed. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the charge on the sale of Piper Impact Europe.

On November 30, 2000, the Company completed the purchase of all of the capital stock of Temroc Metals, Inc. ("Temroc"), a Minnesota corporation for approximately $22 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Temroc has production facilities in Hamel, Minnesota, where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's vehicular products segment and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products.

On February 12, 2002, Quanex completed the purchase of certain assets and assumption of certain liabilities of Ekamar, Inc., formerly known as Colonial Craft, Inc., a Minnesota corporation, through its wholly owned subsidiary, Quanex Windows, Inc., for approximately $17.3 million in cash, $1.5 million of which has been set aside in an escrow fund for environmental and certain other issues that may arise. The business operates as a wholly owned subsidiary of the Company and has been renamed Colonial Craft, Inc. ("COLONIAL CRAFT"). COLONIAL CRAFT is a leading manufacturer of value-added, fenestration related wood products based in Roseville, Minnesota (relocated to Mounds View, Minnesota in December 2002). COLONIAL CRAFT manufactures custom wood window accessories with two primary product lines: wood window grilles and hardwood architectural mouldings. COLONIAL CRAFT has become part of the Engineered Products division within the building products business segment. COLONIAL CRAFT provides direct synergy with one of the Company's two core businesses, sharing a similar customer base with Engineered Products.

Business Segments

Business segments are reported in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131. SFAS No. 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.

The Company completed a strategic review of its business during fiscal 2001, which resulted in a shift of strategy away from primarily a manufacturing "process" oriented enterprise to a more "market focused" enterprise. The chief executive officer believes the focus on customers will provide a more effective corporate strategy to drive growth and shareholder value. As expected, the review underscored a high concentration of sales in two market segments—vehicular products and building products. The Company has made organizational and reporting changes aligned to this new strategy. The chief executive officer evaluates performance and allocates the Company's resources under this segment structure.

The vehicular products segment is comprised of MACSTEEL, Piper Impact (US operations only) and Temroc. That segment's main driver is North American light vehicle builds. MACSTEEL's sales and operating income for fiscal 2002 represented approximately 80% and 95%, respectively of the segment's results. The building products segment is comprised of Engineered Products and Nichols Aluminum. The main drivers of this segment are residential housing starts and remodeling expenditures. For fiscal 2002, Engineered Products' sales and operating income represented about 30% and 65% of the segment's results.

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

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
Vehicular Products: [2][3]			
Net sales	$ 459,531	$ 439,307	$ 444,124
Operating income	57,606	47,466	(8,052)
Depreciation and amortization	27,849	25,905	28,769
Identifiable assets	$ 363,559	$ 362,442	$ 321,204
Building Products: [1][4]			
Net sales	$ 534,856	$ 485,046	$ 502,562
Operating income	37,985	23,662	35,830
Depreciation and amortization	15,492	17,061	16,408
Identifiable assets	$ 283,475	$ 269,387	$ 291,164

(1) Fiscal 2000 results include Nichols Aluminum–Golden operations acquired January 25, 2000 and IMPERIAL PRODUCTS operations, acquired April 2000. See Note 2 to the consolidated financial statements.
(2) Fiscal 2001 results include Temroc operations, acquired November 2000. See Note 2 to the consolidated financial statements.
(3) Fiscal 2000 results include the $56.3 million asset impairment charge relating to Piper Impact facilities in New Albany, Mississippi. See Note 4 to the consolidated financial statements.
(4) Fiscal 2002 results include Colonial Craft operations, acquired February 2002. See Note 2 to the consolidated financial statements.

Within the vehicular products segment, strong North American light vehicle builds continued to drive demand for MACSTEEL's engineered steel bar products. This year's light vehicle builds, which had been estimated to be about 15.2 million builds at the beginning of fiscal 2002, will finish the calendar year closer to 16.6 million, exceeding 2001 builds by approximately 8%. On top of these build rates, MACSTEEL remains the supplier of choice and continues to capture new business. Ongoing lean manufacturing initiatives also contribute to MACSTEEL's success. The other businesses within the vehicular products segment also earned positive operating income for fiscal year 2002. However, Piper Impact experienced approximately a $1 million loss in the fiscal fourth

quarter as aluminum airbag sales continued to decline and new business was slower than expected. New business prospects look promising, but meaningful sales volumes are slow to materialize.

Within the building products segment, strong residential housing starts and remodeling expenditures during fiscal 2002 resulted in strong demands and operating results for both Engineered Products and Nichols Aluminum. For Engineered Products, this strong level of demand, combined with improved productivity through lean manufacturing efforts, resulted in record net sales and operating income even without the results of the COLONIAL CRAFT acquisition.

Outlook

For 2003, Quanex believes it is in a position to outperform the markets it serves. The Company expects its primary drivers to be down slightly for fiscal 2003 when compared to 2002 levels. However, it expects to offset nominal market weakness with more value-added products at both MACSTEEL and Nichols Aluminum, price relief at MACSTEEL and new programs at Engineered Products. Market share gains at several business units should also bolster revenues. On the cost side, lean manufacturing initiatives are expected to contribute to margin improvement.

Quanex will continue to explore both internal and external growth opportunities in fiscal 2003. The Company has purposely built a tough set of prerequisites for any acquisition candidate recognizing the fact that acquisitions have inherent risks. Generally, acquisition candidates must support one of the two core businesses: MACSTEEL or Engineered Products. An acquisition candidate should have projections to earn in excess of its cost of capital by at least the third year. Quanex will continue to look for opportunities for internal growth. Currently the Company is looking at ways to further increase both base load and value-added capabilities of MACSTEEL and ways to add more painted production at Nichols Aluminum with small investments.

The Company's fiscal first quarter (November, December and January) is historically its least profitable as there are fewer production days due to the holidays, customers manage year-end inventories tightly and the winter months reduce building product sales. Because this year's strong inventory replenishment activity during the first quarter is not expected to repeat in fiscal 2003, the diluted earnings per share for the fiscal first quarter 2003 may be near the results of this year's first quarter. Assuming a slowly recovering economy, the Company would expect to report sequentially better operating results for the other quarters of fiscal 2003 compared to 2002.

2002 Compared to 2001

Net Sales—Consolidated net sales for fiscal 2002 were $994.4 million representing an increase of $70.0 million, or 8%, when compared to consolidated net sales for fiscal 2001. Both the vehicular and building products segments experienced increased net sales.

Net sales from the Company's vehicular products segment for fiscal 2002 were $459.5 million representing an increase of $20.2 million, or 5%, when compared to the prior year due to increases at MACSTEEL, offset somewhat by lower net sales at both Piper and Temroc. MACSTEEL's net sales increase was due largely to a 13% increase in volume, which more than offset lower selling prices compared to the fiscal 2001. Over half of MACSTEEL's business is based on fixed contracts, so their ability to change pricing was limited on a near term basis. Piper experienced lower net sales as aluminum airbag component sales declined from its prior year levels. This decline was only partially offset by sales of new products, as meaningful sales volumes of these products have been slower to materialize than expected.

Net sales from the Company's building products segment for fiscal 2002 were $534.9 million, representing an increase of $49.8 million, or 10%, when compared to fiscal 2001. Engineered Products' net sales increases were due largely to the acquisition of COLONIAL CRAFT in February. Nichols Aluminum's net sales also increased from the prior year due to increased volume resulting from continuing strength in the building construction markets, despite lower selling prices.

Operating income—Consolidated operating income for fiscal 2002 was $83.3 million, representing an increase of $26.0 million, or 45%, when compared to last year. Both the vehicular and building products segments experienced increased operating income.

Operating income from the Company's vehicular products segment for fiscal 2002 was $57.6 million, representing an increase of $10.1 million, or 21%, when compared to last year. This increase was due to higher operating income at MACSTEEL compared to the prior year's results, partially offset by lower operating income at Piper and Temroc. The higher net sales volume combined with productivity gains and lower conversion costs at MACSTEEL more than offset the impact of lower spreads between selling prices and scrap prices. Piper and Temroc had lower operating income for the periods due largely to lower net sales and volume. Depreciation expense for the vehicular products segment was higher with the completion of MACSTEEL capital projects.

Also contributing to the improvement in the vehicular products segment is the elimination of goodwill amortization in accordance with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" effective the beginning of the current fiscal year. The vehicular products segment had goodwill amortization of approximately $500 thousand in the prior year ended October 31, 2001.

Operating income from the Company's building products segment for fiscal year 2002 was $38.0 million, representing an increase of $14.3 million, or 61%, when compared to the prior year. This increase was a result of record operating income at Engineered Products, as well as improved results at Nichols Aluminum. Engineered Products benefited from the acquisition of COLONIAL CRAFT in February 2002, however it achieved record operating income levels without COLONIAL CRAFT's contribution due largely to strong demand for its products, productivity improvements and new product development and cost reduction efforts. Nichols Aluminum also had increased operating income. This increase was largely a result of increased volume and cost reduction initiatives, as well as a $1.6 million business interruption insurance recovery collected during the year (See Note 20 to the financial statements). Although spreads between selling price and raw material costs improved

during the second half of the year, as compared to the same prior year period, for the year ended October 31, 2002, spreads were lower as scrap prices rose more quickly than Nichol's ability to raise selling prices.

Also contributing to the improvement in the building products segment is the elimination of goodwill amortization in accordance with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" effective the beginning of the current fiscal year. The building products segment had goodwill amortization of approximately $1.8 million in the prior year ending October 31, 2001.

In addition to the two operating segments mentioned above, corporate level operating expenses for fiscal 2002 decreased by approximately $1.5 million. Included in corporate and other are the consolidated inventory LIFO adjustments, corporate office expenses and inter-segment eliminations. (See Note 8 to the financial statements regarding LIFO valuation method of inventory accounting.)

Selling, general and administrative expense was $54.4 million for fiscal 2002, representing an increase of $206 thousand, less than 1%, when compared to last year. This increase results primarily from the acquisition of COLONIAL in February 2002.

Depreciation and amortization—Depreciation and amortization expense (excluding goodwill amortization) increased $2.5 million in fiscal 2002 as compared to the prior year. Most of the increase came from the vehicular products segment due largely to recently completed capital projects at MACSTEEL.

Effective November 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill is no longer amortized. Goodwill amortization, on a consolidated basis, for the year ended October 31, 2001, was $2.3 million. (See Note 6 to the financial statements for further information.)

Interest expense for fiscal 2002 was $14.8 million compared to $16.6 million last year. The decrease in interest expense is due largely to the Company's outstanding debt balance substantially decreasing year over year as 1) the 6.88% convertible subordinated debentures were converted to Company stock or redeemed in June of 2002 and 2) the Company paid down its bank revolver and other interest bearing debt and notes. See Note 12 to the financial statements for further information.

Another factor affecting interest expense was the discontinuance of hedge accounting under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" for the interest swap agreements. Based on future cash flow projections that were prepared during the second fiscal quarter ended April 30, 2002, it was determined there was a high likelihood the Company would pay down its variable rate debt under the Bank Agreement Revolver to approximately $65 million by the end of this fiscal year. Based on these projections, a portion of the future projected cash flow being hedged (interest payments) would not occur. Therefore, during the period ended April 30, 2002, the Company discontinued hedge accounting under SFAS 133 for $35 million of the interest swap agreement and reclassified the related portion of other comprehensive income, a loss of $1.3 million, to interest expense. Additionally, during the fourth fiscal quarter ended October 31, 2002, the timing of the finalization of the new bank agreement was determined. Since the swaps were designated as hedges of the Bank Agreement Revolver, which was expected to terminate upon completion of the new bank agreement, the swap no longer qualified as a hedge, as those specific forecasted transactions would not occur (future interest payments). As a result, the Company discontinued hedge accounting under SFAS No. 133 on the swaps based on the projected new bank agreement date and reclassified the related portion of other comprehensive income, a loss of $2.1 million, to interest expense. The Company however has not terminated or closed any of the $100 million swap agreement and therefore the entire swap agreement's fair market value is reflected on the balance sheet. (See Note 18 to the financial statements for further explanation.)

Capitalized interest increased $213 thousand for fiscal 2002 compared to 2001. The entire amount of capitalized interest is due to the long-term capital expansion programs that were underway at MACSTEEL. These capital projects have been completed and the capitalization of interest ceased after the third fiscal quarter of 2002.

Other, net decreased $968 thousand from fiscal 2001. During fiscal 2002, as a result of the redemption of the subordinated debentures, a loss of $922 thousand was recognized due to the early extinguishment of debt. This

loss resulted from the write-off of the remaining debt issuance costs associated with the subordinated debentures, as well as the .688% premium paid on the $1.3 million of debentures which were redeemed. Fiscal 2001 included a $573 thousand gain on the early extinguishment of debt. In accordance with SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which was adopted by the Company in the period ended July 31, 2002, these early extinguishment of debt items were classified as ordinary instead of extraordinary items, net of tax. Also included in other, net is investment income and the amortization of debt issuance costs.

Net income was $55.5 million for fiscal 2002 compared to $29.2 million for fiscal 2001. In addition to the items mentioned above, fiscal 2002 included a non-taxable $9.0 million retired executive life insurance benefit. (See Note 5 to the financial statements.)

2001 Compared to 2000

Net sales—Consolidated net sales for fiscal 2001 were $924.4 million, representing a decrease of $40.2 million, or 4%, when compared to fiscal 2000. Both operating segments experienced decreased net sales.

Net sales from the Company's vehicular products segment for fiscal 2001 were $439.3 million, representing a decrease of $4.8 million, or 1%, when compared to fiscal 2000. MACSTEEL experienced lower volume resulting from weaker markets in the transportation and capital goods industries as well as lower sales prices. The business continued to experience pricing pressures; however, due to the increased proportion of MACPLUS volume, a value added product, the impact on overall average sales price was lessened. Piper (US operations) net sales decreased 3% over the same prior year period. These results were impacted by declining aluminum air bag product sales and competitive pricing pressures. Comparable net sales of Piper's operations, excluded Piper Europe. Also included in the vehicular products was the net sales of Temroc which was acquired in November 2000.

Net sales for fiscal 2001 from the Company's building products segment decreased by $17.5 million, or 3%, to $485.0 million when compared to fiscal 2000. Nichols Aluminum's results for fiscal 2001 included a full year of Nichols Aluminum Golden, which was acquired January 25, 2000. The decrease in net sales at Nichols Aluminum was due to lower volume as well as lower sales prices. Volume was affected by more severe winter weather during the first fiscal quarter than was experienced in the prior year, as well as a general economic slowdown. These factors negatively affected the building and construction and truck-trailer markets that Nichols Aluminum serves. Sales prices were also negatively impacted by the extremely competitive pricing environment, and the fact that other mills were aggressively seeking available business during the economic slowdown. The lower net sales at Nichols Aluminum was offset however by increased net

sales from Engineered Products. The increase was largely due to the acquisition of IMPERIAL PRODUCTS in April of 2000. Engineered Products' net sales also benefited from the capital expansion project at AMSCO, which was completed in November 2000, and new product development initiatives.

Corporate and Other for the period ending October 31, 2000 included net sales from Piper Impact Europe which was sold in July of 2000.

Operating income—Consolidated operating income for fiscal 2001 was $57.3 million, compared to $66.6 million in 2000, excluding the $14.3 million loss on the sale of Piper Impact Europe and the $56.3 million asset impairment charge. This represents a decrease of $9.3 million, or 14% as both the vehicular products and building products segments had lower operating income compared to fiscal 2000.

Operating income from the Company's vehicular products segment was $47.5 million for fiscal 2001, representing a decrease of $782 thousand, or 2%, excluding the $56.3 million asset impairment charge, when compared to fiscal 2000. At MACSTEEL, the decrease was due largely to lower net sales resulting from the sluggish demand in the transportation and capital goods markets as well as competitive pricing pressures. Lower material scrap prices helped offset some of the impact of reduced volume and lower selling price. The MACSTEEL division experienced increased utility costs as energy prices rose and recognized higher depreciation expense with the completion of capital projects. Comparative operating income for Piper Impact US, excluding

the fiscal 2000 $56.3 million asset impairment charge improved $12.7 million from the prior year's results, despite a decline in net sales. This improvement is a result of lower costs realized from cellular manufacturing and cost cutting efforts as well as a $6.3 million reduction of depreciation expense. Depreciation expense decreased due to the asset impairment charge recorded in the fourth quarter of fiscal 2000. Also included in vehicular products were the operational results of Temroc which was acquired in November 2000.

Operating income for fiscal 2001 from the Company's building products segment was $23.7 million, representing a decrease of $12.2 million, or 34%, from last year. Nichols Aluminum experienced a decrease largely due to significantly lower net sales, lower spreads and higher energy costs. On the other hand, Engineered Products experienced a 40% increase in operating income from fiscal 2000. The increase at Engineered Products was due in part to the acquisition of IMPERIAL PRODUCTS, acquired in April of 2000. Additionally, operating income increased at the other facilities as a result of new product development initiatives, higher net sales and improved productivity.

In addition to the two operating segments mentioned above, operating expenses for corporate and other for fiscal 2001 were $13.8 million, representing a decrease of $17.9 million from the $31.7 million recorded in fiscal 2000. Included in corporate and other are the corporate office expenses, impact of inventory accounting using LIFO method and inter-segment eliminations. Also included in corporate and other are the results of Piper Europe, which was sold in July 2000 for a loss of $14.3 million dollars. See Note 8 to the financial statements regarding LIFO valuation method of inventory accounting.

Selling, general and administrative expenses—Selling, general and administrative expenses increased by $657 thousand, or 1%, in fiscal 2001 as compared to last year. This increase largely resulted from the following items: 1) acquisitions of IMPERIAL PRODUCTS in April 2000 and Temroc in November 2000 2) write-down of assets held for disposition to estimated realizable value in the corporate and other segment and 3) severance costs. These increases were partially offset, however, by 1) reduced expenses due to the sale of Piper Europe in July 2000, and 2) cost cutting initiatives throughout the Company.

Depreciation and amortization—Depreciation and amortization decreased by $4.4 million, or 9%, in fiscal 2001 as compared to last year. MACSTEEL, Nichols Aluminum and Engineered Products all experienced increased depreciation expense compared to last year due to the completion of capital projects as well as recent acquisitions. Piper Impact's depreciation and amortization decreased substantially from the prior year due to the sale of Piper Europe in July of 2000, as well as the reduced asset base, which resulted from the asset impairment charge recorded in the fourth quarter of fiscal 2000.

Interest expense—Interest expense increased by $1.3 million, or 9%, in fiscal 2001 as compared to the prior year. The increase was primarily due to 1) higher outstanding debt balances during fiscal 2001 (resulting largely from the Temroc acquisition) and 2) the ineffective portion of the loss on certain interest rate swap derivatives recognized during that period. (See Note 12 and 18 to the financial statements.)

Capitalized interest—Capitalized interest decreased by $275 thousand in fiscal 2001 as compared to fiscal 2000 primarily due to the completion of the Phase V capital project at MACSTEEL in December of 2000.

Other, net—"Other, net" increased by $775 thousand in fiscal 2001 as compared to last year primarily as a result of increased investment income. Additionally, fiscal 2001 included a $573 thousand gain on the early extinguishment of debt, compared to a $551 thousand gain in fiscal 2000.

Net income/loss—Fiscal 2001 net income was $29.2 million, compared to a net loss of $9.7 million for fiscal 2000. In addition to the items mentioned above, fiscal 2000 included a $9.3 million after-tax loss on the sale of Piper Impact Europe and a $36.6 million after-tax impairment charge associated with Piper Impact.

Liquidity and Capital Resources

Total capitalization at October 31, 2002 was $497.0 million, consisting of $75.6 million of debt and $421.4 million of equity. The debt-to-capitalization ratio at the end of fiscal 2002 was 15.2% compared with 44.0% and 41.9% at the end of fiscal years 2001 and 2000, respectively. The lower debt-to-capitalization ratio in fiscal

2002 resulted from 1) the conversion of $57.4 million aggregate principal amount of the subordinated debentures to 1.8 million shares of Company stock combined with redemption of the remaining balance in fiscal year 2002 and 2) paying down approximately $85 million of other debt instruments during fiscal year 2002. Quanex was able to reduce the debt level as a result of cash provided from operations, cash received from the exercise of stock options and cash received from a retired executive life insurance policy.

At October 31, 2002, the Company had commitments of $5 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under the new secured $200 million Revolving Credit Agreement described below. 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 and the stock purchase program.

Moody's Investor Services announced on May 10, 2002, that it upgraded its ratings for Quanex. The following ratings were upgraded: $250 million unsecured revolving credit facility to Ba1 from Ba2, the $58.7 million of 6.88% convertible subordinated debentures due 2007 to Ba3 from B1(these debentures have subsequently been converted/redeemed), its senior implied rating to Ba1 from Ba2, and senior unsecured issuer rating to Ba1 from Ba2. In support of the upgrade, Moody's cited the Company's strong performance in a difficult industry and its prospects for further improved financial performance.

Debt Structure and Activity

Old Bank Agreement "Revolver"—In July 1996, the Company entered into an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). This Bank Agreement consisted of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement had an expiration date of July 23, 2003, and provided for up to $25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bore 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, 2002 and 2001, the Company had $65 and $140 million, respectively, outstanding under the Revolver. This Bank Agreement was replaced with a new Bank Agreement which is described below. The intent and ability to refinance the outstanding balance on this bank agreement on a long-term basis was evidenced by the signing of the new bank agreement in November 2002. Therefore, the outstanding balance under the old bank agreement revolver was classified as non-current as of October 31, 2002.

New Bank Agreement "Revolver"—In November 2002, the Company entered into a secured $200 million Revolving Credit Agreement ("new Bank Agreement"). The new Bank Agreement is secured by all Company assets, excluding land and buildings. The new Bank Agreement expires November 2005 and provides for up to $25 million for standby letters of credit, limited to the undrawn amount available under the new Bank Agreement. All borrowings under the new bank agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. The Bank Agreement requires facility fees, which are not significant, maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of October 31, 2002, the Company was in compliance with all new Bank Agreement covenants.

Convertible Subordinated Debentures—The Company accepted unsolicited block offers to buy back $4.6 and $10.4 million principal amount of the 6.88% Convertible Subordinated Debentures for $3.9 and $9.6 million in cash during the years ended October 31, 2001 and 2000, respectively.

On May 9, 2002, the Company announced that it would redeem the remaining $58.7 million principal amount of its 6.88% Convertible subordinated debentures. The Company set a redemption date of June 12, 2002 for all

debentures outstanding. Notice of the redemption was mailed on May 10, 2002 to the current holders. The redemption price was 100.688% of the principal amount plus accrued interest to the redemption date. Holders of the debentures had the right, as an alternative to redemption, to convert the debentures into shares of common stock of Quanex Corporation at a conversion price of $31.50 per share of common stock. The right to convert the debentures expired at the close of business on June 5, 2002. As of June 5, 2002, $57.4 million aggregate principal amount of the subordinated debentures were converted to 1.8 million shares of Company stock and $1.3 million aggregate principal amount of the subordinated debentures was redeemed on June 12, 2002.

Other Debt—During the year ended October 31, 2002, the Company made an early payment in the amount of $7.0 million on a contingent note payable as well as an early retirement in the amount of $1.6 million for one of the industrial revenue and economic development bonds.

See Note 12 to the financial statements for further details of all of the Company's debt instruments, outstanding balances and aggregate maturities over each of the next five years and beyond.

Stock Purchase Program

On December 9, 1999, the Company announced that its Board of Directors approved a program to repurchase shares of the Company's common stock. Under terms of the program, the Company would periodically purchase up to a total of 2 million shares of its common stock in the open market or in privately negotiated transactions. Funds for the program would be provided from the Company's available working capital and bank credit line. During the fiscal year ended October 31, 2001, the Company repurchased 119,000 shares for $2.2 million. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares for $17.2 million. No shares were purchased during fiscal 2002 and the stock purchase program was suspended. On December 5, 2002, the Board of Directors again approved a program to purchase up to a total of one 1 million shares (6%) of its common stock in the open market or in privately negotiated transactions. The Company indicated that it would be active in the buyback program during the first fiscal quarter 2003. See Note 16 to the financial statements.

Operating Activities

Cash provided by operating activities during fiscal 2002 was $81.1 million, compared to $85.0 million in the prior year. This represents a decrease of $3.8 million, or 5%, compared to fiscal 2001. Net income, adjusted for non-cash items, in fiscal 2002 provided approximately $89 million compared to approximately $75 million of cash in fiscal 2001. However, the period ended October 31, 2002 had an increase in working capital and other operating requirements as compared to the prior year.

Investment Activities

Net cash used by investment activities in fiscal 2002 was $29.8 million compared to a use of cash of $77.1 million in fiscal 2001. Fiscal 2002 cash from investing activities included the receipt of $26.1 million of retired executive life insurance proceeds and the use of $17.3 million for the acquisition of COLONIAL CRAFT, whereas fiscal 2001 cash from investing activities included the acquisition of Temroc Metals for $17.9 million. Net capital expenditures decreased from $55.6 million in 2001 to $34.3 million in 2002. The Company estimates that fiscal 2002 capital expenditures will be approximately $35 million.

Financing Activities

Net cash used by financing activities for fiscal 2002 was $62.6 million, compared to $692 thousand in the prior year. During fiscal 2002, the Company made net bank repayments of $75 million as well as other debt payments of $9.8 million. During fiscal 2001, the Company had net bank borrowings of $30 million, however it used $3.9 million to purchase subordinated debentures and $2.2 million to purchase Quanex common stock. Additionally, in fiscal 2001, Quanex repaid $17.3 million of life insurance cash surrender value policy loans. Dividend payments amounted to $9.6 million in fiscal 2002 compared to $8.6 million in fiscal 2001. Proceeds from the issuance of Company common stock in fiscal 2002 totaled $33.9 million, largely due to the exercise of stock options, compared to $2.5 million in fiscal 2001.

Contractual Obligations and Commercial Commitments

The following tables set forth certain information concerning the Company's unconditional obligations and commitments to make future payments under contracts with remaining terms in excess of one year, such as debt and lease agreements, and under contingent commitments.

Payments Due by Period

Contractual Cash Obligations	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
			($ In thousands)		
Long-Term Debt	$ 75,565	$ 434	$ 4,654	$ 65,928	$ 4,549
Operating Leases	8,552	2,428	2,764	2,162	1,198
Unconditional Purchase Obligations	26,218	9,748	8,267	2,678	5,525
Total Contractual Cash Obligations	$ 110,335	$ 12,610	$ 15,685	$ 70,768	$ 11,272

Amount of Commitment Expiration Per Period

Other Commercial Commitments	Total Amounts Committed	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
			($ In thousands)		
Standby Letters of Credit	$ 2,896	$ 2,861	$ 35	$ —	$ —
Guarantees	1,050	—	—	—	1,050
Total Commercial Commitments	$ 3,946	$ 2,861	$ 35	$ —	$ 1,050

Effects of Inflation

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

Critical Accounting Policies

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting policies used in the preparation of the Company's consolidated financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Inherent in the Company's revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

Inventory

The Company records inventory valued at the lower of cost or market value. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

Risk Management and Derivative Instruments

The Company's current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include: (1) the use of commodity futures and options to fix the price of a portion of anticipated future purchases of certain raw materials and energy to offset the effect of fluctuations in the costs of those commodities, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. These hedges have been designated as cash flow hedges. The effective portion of gains and losses is recorded in the accumulated other comprehensive income (loss) component of stockholders' equity in accordance with SFAS No. 133. The Company evaluates all derivative instruments each quarter to determine if they are highly effective. Any ineffectiveness (as defined by SFAS No. 133) is recorded in the statement of income. If the anticipated future transactions are no longer expected to occur, the unrealized gains and losses on the related hedge are reclassified to the consolidated statement of income. (See Note 18 to the financial statements for further explanation.)

Long-Lived Assets

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, and other assets, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are periodically reviewed for impairment and further reviewed whenever events or changes in circumstances indicate that carrying value may be impaired. The carrying values are compared with the fair value of such assets calculated based on the anticipated future cash flows related to those assets. If the carrying value of a long-lived asset exceeds its fair value, an impairment charge is recorded in the period in which such review is performed. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Significant and unanticipated changes to assumptions could require a provision for impairment in a future period.

Income Taxes

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's consolidated balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax liability reflects the Company's assumption that the Company will be able to generate sufficient future taxable income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the consolidated statement of income.

Retirement and Pension Plans

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations". SFAS No. 141 addresses financial accounting and reporting for business combinations. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The Company followed the guidance of this statement for the business acquisition completed in fiscal 2002. See Note 2 to the consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The Company adopted this statement on November 1, 2001 for its fiscal year ended October 31, 2002. In accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter ended April 30, 2002, which indicated that goodwill was not impaired. The Company again reviewed goodwill for impairment as of August 31, 2002, which indicated that goodwill was not impaired. The Company plans to perform this impairment test as of August 31 each year or more frequently if certain indicators arise. The assessments were based on assumptions regarding estimated future cash flows and other factors, including the discount rate. If these estimates or their related assumptions change in the future, because of changes in events and circumstances, the Company may be required to record impairment charge in a future period.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years

beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The rescission of Statement 4 is the only portion of this SFAS which currently has an impact on the Company. Under Statement 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 eliminates Statement 4. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occurring Events and Transactions". The provisions of SFAS No. 145 related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this Statement related to the rescission of Statement 4 was encouraged. The Company adopted this pronouncement effective the third quarter ended July 31, 2002 and restated prior periods.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

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 18 to the Consolidated Financial Statements.

Interest Rate Risk

The Company and its subsidiaries have a Bank Agreement, 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, 2002 and 2001, the Company had fixed-rate debt totaling $4.4 million and $72.9 million, respectively. 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 12 and 18 to the Company's Consolidated Financial Statements.

The Company and certain of its subsidiaries' floating-rate obligations total $71.2 million and $147.1 million at October 31, 2002 and 2001, respectively. See Note 12 to the Company's consolidated financial statements. The Company has $100 million of swap agreements to limit the exposure of these obligations to increases in short-term interest rates. These swap agreements effectively fix the interest rate, 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 (1.82% and 2.31% at October 31, 2002 and 2001, respectively). At October 31, 2002 and 2001, the fair market value related to the interest rate swap agreements was a loss of $4.0 million and a loss of $7.3 million, respectively. If the floating rates were to change by 10% from October 31 levels, the fair market value of these swaps would change by approximately $79 thousand and $411 thousand as of October 31, 2002 and 2001, respectively. However, it should be noted that any change in value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the value of the underlying hedged item.

As mentioned above, $100 million of the floating rate obligations are protected by interest swap agreements. To the extent these obligations are in excess of or less than $100 million, the Company is subject to changes in the underlying interest rates. For the year ended October 31, 2002, the Company's floating rate obligations were $28.8 million less than the $100 million swap agreement. Increases or decreases in the underlying interest rate of the swap agreement would have a direct impact on interest expense for this differential in balances. For the year ended October 31, 2001, the Company's floating rate obligations exceeded the amount covered by the swap agreements by $47.1 million. Increases or decreases in the underlying interest rates of the obligations would have a direct impact on interest expense for those uncovered balances.

Commodity Price Risk

The Company's aluminum mill sheet products segment, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce

the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments as well as forward contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of fixed price purchase commitments.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material

purchase commitments, changes in aluminum prices should have no effect on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

At October 31, 2002, the Company had no open LME forward contracts and therefore no asset or liability associated with metal exchange derivatives. During the year ended October 31, 2002, Nichols Aluminum used firm price raw material purchase commitments instead of LME forward contracts to lock in raw material prices.

At October 31, 2001, the Company had open futures contracts for aluminum pounds with a fair value of $27.1 million. The contracts had fair value losses of $1.8 million at October 31, 2001 and covered a notional volume of 45,415,185 pounds of aluminum. A hypothetical 10% change from the October 31, 2001 average London Metal Exchange ("LME") ingot price on open contracts of $.596 per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately $2.7 million. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap. See Note 18 to the financial statements for further information.

Item 8. ***Financial Statements and Supplementary 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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2002. Our audits also included the financial statement schedule listed in the index at Item 15. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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
November 22, 2002

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 accounting principles generally accepted in the United States of America 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/ RAYMOND A. JEAN

Raymond A. Jean
Chairman of the Board, President and Chief Executive Officer

/s/ TERRY M. MURPHY

Terry M. Murphy
Vice President—Finance and Chief Financial Officer

QUANEX CORPORATION

CONSOLIDATED BALANCE SHEETS

	October 31,	
	2002	2001
	(In thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 18,283	$ 29,573
Accounts and notes receivable, less allowance for doubtful accounts of $6,877,000 in 2002 and $8,953,000 in 2001	116,122	109,706
Inventories	90,756	83,109
Deferred income taxes	9,302	10,907
Other current assets	1,338	3,583
Total current assets	235,801	236,878
Property, plant and equipment, net	353,132	357,635
Goodwill, net	66,436	59,226
Cash surrender value insurance policies, net	25,799	37,300
Intangible assets	2,870	—
Other assets	5,102	6,592
	$ 689,140	$ 697,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,588	$ 76,831
Accrued expenses	48,973	50,659
Income taxes payable	4,839	1,087
Other current assets	3,970	5,593
Current maturities of long-term debt	434	420
Total current liabilities	134,804	134,590
Long-term debt	75,131	219,608
Deferred pension credits	4,960	7,962
Deferred postretirement welfare benefits	7,928	7,777
Deferred income taxes	29,210	29,282
Other liabilities	15,712	18,435
Total liabilities	267,745	417,654
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; issued and outstanding—none in 2002 and 2001	—	—
Common stock, $.50 par value, 50,000,000 shares authorized; 16,455,633 and 14,085,642 shares issued in 2002 and 2001, respectively	8,227	7,043
Additional paid-in capital	185,972	108,314
Retained earnings	232,074	186,274
Unearned compensation	(418)	(897)
Accumulated other comprehensive income	(3,479)	(7,212)
	422,376	293,522
Less common stock held by rabbi trust—42,538 and 42,484 shares in 2002 and 2001, respectively,	(981)	(873)
Less cost of shares of common stock in treasury (no shares in 2002 and 633,935 shares in 2001)	—	(12,672)
Total stockholders' equity	421,395	279,977
	$ 689,140	$ 697,631

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years ended October 31,		
	2002	2001	2000
	(In thousands, except per share amounts)		
Net sales	$ 994,387	$ 924,353	$ 964,518
Costs and expenses:			
Cost of sales	812,949	769,328	796,434
Selling, general and administrative	54,408	54,202	53,545
Depreciation and amortization	43,730	43,507	47,921
Loss on sale of Piper Impact Europe	—	—	14,280
Piper Impact asset impairment charge	—	—	56,300
Operating income (loss)	83,300	57,316	(3,962)
Other income (expense):			
Interest expense	(14,812)	(16,555)	(15,255)
Capitalized interest	1,879	1,666	1,941
Retired executive life insurance benefit	9,020	—	—
Other, net	2,227	3,195	2,420
Income (loss) before income taxes	81,614	45,622	(14,856)
Income tax benefit (expense)	(26,132)	(16,428)	5,191
Net income (loss) attributable to common stockholders	$ 55,482	$ 29,194	$ (9,665)
Earnings (loss) per common share:			
Basic net earnings (loss)	$ 3.74	$ 2.18	$ (0.70)
Diluted net earnings (loss)	$ 3.52	$ 2.07	$ (0.70)
Weighted average number of shares outstanding			
Basic	14,823	13,399	13,727
Diluted	16,237	15,426	13,727

See notes to consolidated financial statements.

QUANEX CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended October 31, 2002, 2001, and 2000	Comprehensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Minimum Pension Liability	Accumulated Other Comprehensive Income: Foreign Currency Translation	Accumulated Other Comprehensive Income: Derivative Gain (Loss)	Treasury Stock and Other	Total Stockholders' Equity
		(Dollar amounts in thousands)							
Balance at October 31, 1999		$ 7,135	$ 110,317	$ 186,867	$ (462)	$ (303)	$ —	$ (2,493)	$ 301,061
Comprehensive loss:									
Net loss	$ (9,665)			(9,665)					(9,665)
Adjustment for minimum pension liability (net of tax expense of $103)	161				161				161
Foreign currency translation adjustment	303					303			303
Total Comprehensive loss	$ (9,201)								
Common dividends ($.64 per share)				(8,884)					(8,884)
Common stock held by Rabbi Trust								(1,027)	(1,027)
Cost of common stock in treasury								(13,398)	(13,398)
Other		(25)	744	(2,477)				(296)	(2,054)
Balance at October 31, 2000		$ 7,110	$ 111,061	$ 165,841	$ (301)	$ —	$ —	$ (17,214)	$ 266,497
Comprehensive income:									
Net income	$ 29,194			29,194					29,194
Adjustment for minimum pension liability (net of tax expense of $965)	(1,508)				(1,508)				(1,508)
Derivative transactions:									
Current period hedging transactions (net of taxes of $4,264)	(6,669)						(6,669)		(6,669)

Reclassifications into earnings (net of taxes of $809)		1,266					1,266		1,266
Total Comprehensive income	$	22,283							
Common dividends ($.64 per share)					(8,621)				(8,621)
Common stock held by Rabbi Trust								2,476	2,476
Cost of common stock in treasury								726	726
Other			(67)	(2,747)	(140)			(430)	(3,384)
Balance at October 31, 2001			$ 7,043	$ 108,314	$ 186,274	$ (1,809)	$ —	$ (5,403)	$ (14,442)	$ 279,977
Comprehensive income:									
Net income	$	55,482			55,482				55,482
Adjustment for minimum pension liability (net of tax expense of $798)		(1,247)				(1,247)			(1,247)
Derivative transactions:									
Current period hedging transactions (net of taxes of $511)		(798)					(798)		(798)
Reclassifications into earnings (net of taxes of $3,694)		5,778					5,778		5,778
Total Comprehensive income	$	59,215							
Common dividends ($.64 per share)					(9,637)				(9,637)
Common stock held by Rabbi Trust								(108)	(108)
Cost of common stock in treasury								12,672	12,672
Other			1,184	77,658	(45)			479	79,276
Balance at October 31, 2002			$ 8,227	$ 185,972	$ 232,074	$ (3,056)	$ —	$ (423)	$ (1,399)	$ 421,395

See notes to consolidated financial statements.

	Years Ended October 31, 2002, 2001 and 2000				
	Preferred Shares	Common Shares			
	Issued	Issued	Treasury	Rabbi Trust	Net Outstanding
Balance at October 31, 1999	—	14,269,800	—	(94,606)	14,175,194
Shares purchased and cancelled		(156,700)			(156,700)
Treasury shares purchased			(677,600)		(677,600)
Stock issued—options exercised (net of trade-ins)		3,337	74		3,411
Stock issued—compensation plans		104,229			104,229
Rabbi Trust				(53,083)	(53,083)
Balance at October 31, 2000	—	14,220,666	(677,526)	(147,689)	13,395,451
Treasury shares purchased			(119,000)		(119,000)
Stock issued—options exercised (net of trade-ins)			47,960		47,960
Stock issued—compensation plans			84,812		84,812
Rabbi Trust		(135,024)	29,819	105,205	—
Balance at October 31, 2001	—	14,085,642	(633,935)	(42,484)	13,409,223
Stock issued—options exercised (net of trade-ins)		562,926	597,284		1,160,210
Stock issued—compensation plans		(1,902)	22,797		20,895
Stock issued—conversion of subordinated debentures		1,822,594	173		1,822,767
Rabbi Trust		(13,627)	13,681	(54)	—
Balance at October 31, 2002	—	16,455,633	—	(42,538)	16,413,095

See notes to consolidated financial statements.

QUANEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
OPERATING ACTIVITIES:			
Net Income (Loss)	$ 55,482	$ 29,194	$ (9,665)

Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Piper Impact asset impairment charge (net of deferred taxes of $19,705 in fiscal 2000	—	—	36,595
Loss on sale of Piper Impact Europe (net of taxes of $4,998)	—	—	9,282
Loss (Gain) on early extinguishment of debt	922	(573)	(551)
Adjustment for retired executive life insurance benefit	(9,020)		
Depreciation and amortization	43,987	43,910	48,445
Deferred income taxes	2,330	4,154	11,839
Deferred pension and postretirement benefits	(4,734)	(1,231)	659
Changes in assets and liabilities net of effects from acquisitions and dispositions:			
Increase in accounts and notes receivable	(5,144)	(7,917)	(9,149)
Decrease (increase) in inventory	(5,249)	20,808	(12,474)
Increase (decrease) in accounts payable	(857)	(2,569)	5,412
Decrease in accrued expenses	(3,655)	(911)	(6,314)
Other, net (including income tax refund)	7,049	85	3,791
Cash provided by operating activities	81,111	84,950	77,870
INVESTMENT ACTIVITIES:			
Acquisition of Colonial Craft, net of cash and equivalents acquired	(17,283)	—	—
Acquisition of Temroc Metals, Inc., net of cash and equivalents acquired	—	(17,922)	—
Acquisition of Golden Aluminum, net of cash and equivalents acquired	—	—	(20,148)
Acquisition of Imperial Products, net of cash and equivalents acquired	—	—	(15,303)
Capital expenditures, net of retirements	(34,271)	(55,575)	(42,327)
Retired executive life insurance proceeds	26,111	—	—
Other, net	(4,365)	(3,597)	(1,809)
Cash used by investment activities	(29,808)	(77,094)	(79,587)
Cash provided (used) by operating and investment activities	51,303	7,856	(1,717)
FINANCING ACTIVITIES:			
Bank borrowings (repayments), net	(75,000)	30,000	33,394
Repayment of borrowing on insurance policies	—	(17,273)	—
Prepayment of note payable	(7,029)	—	—
Purchase of subordinated debentures	(1,314)	(3,942)	(9,586)
Purchase of Quanex common stock	—	(2,226)	(17,185)
Common stock dividends paid	(9,637)	(8,621)	(8,884)
Issuance of common stock, net	33,948	2,473	1,002
Other, net	(3,561)	(1,103)	(556)
Cash used by financing activities	(62,593)	(692)	(1,815)
Effect of exchange rate changes on cash and equivalents	—	—	67
Increase (decrease) in cash and equivalents	(11,290)	7,164	(3,465)
Cash and equivalents at beginning of period	29,573	22,409	25,874
Cash and equivalents at end of period	$ 18,283	$ 29,573	$ 22,409

See notes to consolidated financial statements.

QUANEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting policies used in the preparation of the Company's consolidated financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Inherent in the Company's revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

Inventory

The Company records inventory valued at the lower of cost or market value. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

Risk Management and Derivative Instruments

The Company's current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include: (1) the use of commodity futures and options to fix the price of a portion of anticipated future purchases of certain raw materials and energy to offset the effect of fluctuations in the costs of those commodities, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. These hedges have been designated as cash flow hedges. The effective portion of gains and losses is recorded in the accumulated other comprehensive income (loss) component of stockholders' equity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". The Company evaluates all derivative instruments each quarter to determine if they are highly effective. Any ineffectiveness is recorded in the statement of income. If the anticipated future transactions are no longer expected to occur, the unrealized gains and losses on the related hedge are reclassified to the consolidated statement of income. (See Note 18 to the financial statements for further explanation.)

Long-Lived Assets

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, and other assets, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation

and amortization methods and useful lives. Additionally, carrying values of these assets are periodically reviewed for impairment and further reviewed whenever events or changes in circumstances indicate that carrying value may be impaired. The carrying values are compared with the fair value of such assets calculated based on the anticipated future cash flows related to those assets. If the carrying value of a long-lived asset exceeds its fair value, an impairment charge is recorded in the period in which such review is performed. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Significant and unanticipated changes to assumptions could require a provision for impairment in a future period.

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
Land improvements	10 to 25
Buildings	10 to 40
Machinery and equipment	3 to 20

Income Taxes

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's consolidated balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax liability reflects the Company's assumption that the Company will be able to generate sufficient future taxable income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the consolidated statement of income.

Retirement and Pension Plans

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

Principles of Consolidation

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

Earnings Per Share Data

Basic earnings per share 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 earnings per share 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.

Scope of Operations

The Company operates primarily in two industry segments: vehicular products and building products. The Company's products include engineered steel bars, coiled aluminum sheet (mill finish and coated), aluminum and steel fabricated products, impact extrusions and hardwood architectural moulding and window and door accessories. The Company's manufacturing operations are conducted primarily in the United States.

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 2002, 2001, and 2000, cash paid for income taxes was $17,666,000, $11,324,000, and $10,650,000, respectively. These amounts are before refunds of $135,000, $219,000, and $7,290,000, respectively. Cash paid for interest for fiscal 2002, 2001, and 2000 was $13,070,000, $15,894,000, and $14,421,000, respectively.

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.

Reclassification

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to fiscal 2002 presentations.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations". SFAS No. 141 addresses financial accounting and reporting for business combinations. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The Company followed the guidance of this statement for the business acquisition completed in fiscal 2002. See Note 2.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The Company adopted this statement on November 1, 2001 for its fiscal year ended October 31, 2002. In accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter ended April 30, 2002, which indicated that goodwill was not impaired. The Company again reviewed goodwill for impairment as of August 31, 2002, which indicated that goodwill was not impaired. The Company plans to perform this impairment test as of August 31 each year or more frequently if certain indicators arise. The assessments were based on assumptions regarding estimated future cash flows and other factors, including the discount rate. If these estimates or their related assumptions change in the future, because of changes in events and circumstances, the Company may be required to record impairment charges in a future period.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The rescission of Statement 4 is the only portion of this SFAS which currently has an impact on the Company. Under Statement 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 eliminates Statement 4. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occurring Events and Transactions". The provisions of SFAS No. 145 related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this Statement related to the rescission of Statement 4 was encouraged. The Company adopted this pronouncement effective the third quarter ended July 31, 2002 and restated prior periods.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

2. Acquisitions

Nichols Aluminum–Golden

On January 25, 2000, the Company completed the purchase from Alcoa, Inc. of the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for $9 million plus working capital valued at approximately $13 million. The newly acquired facility has become part of Quanex's flat-rolled aluminum sheet division—Nichols Aluminum in the building products segment. It has been renamed Nichols Aluminum–Golden, Inc., ("Nichols Aluminum–Golden"), a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum–Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum–Golden can produce up to 60 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

IMPERIAL PRODUCTS

On April 3, 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately $15 million. Imperial Products, Inc., ("IMPERIAL PRODUCTS"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's building products segment. Goodwill associated with IMPERIAL PRODUCTS is approximately $11 million.

Temroc

On November 30, 2000, Quanex completed the purchase of all of the capital stock of Temroc Metals, Inc., ("Temroc"), a Minnesota corporation, for approximately $22 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Goodwill associated with Temroc is approximately $14 million.

Temroc is a leading aluminum extrusion and fabrication company based in Hamel, Minnesota where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's vehicular segment and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products. To finance the acquisition, the Company borrowed against its existing $250 million unsecured revolving credit and term loan facility with a group of six banks.

COLONIAL CRAFT

This transaction and the following disclosure are in accordance with SFAS No. 141, which was effective for all business combinations initiated after June 30, 2001.

On February 12, 2002, Quanex completed the purchase of certain assets and assumption of certain liabilities of Ekamar, Inc., formerly known as Colonial Craft, Inc., a Minnesota corporation, through its wholly owned subsidiary, Quanex Windows, Inc., for approximately $17.3 million in cash. Approximately $1.5 million of this purchase price was set aside in an escrow fund for environmental and certain other issues that may arise. To date, no claims have been made against this escrow fund, and as such, $500 thousand was released in August of 2002.

The acquired business operates as a wholly owned subsidiary of the Company and has been renamed Colonial Craft, Inc. ("COLONIAL CRAFT"). COLONIAL CRAFT's financial results since February 12, 2002 have been included in the consolidated financial statements of Quanex.

COLONIAL CRAFT is a manufacturer of value-added fenestration related wood products based in Roseville, Minnesota and Luck, Wisconsin (relocating Roseville facility to Mounds View, Minnesota in December 2002). COLONIAL CRAFT manufactures custom wood window accessories with two primary product lines: wood window grilles and hardwood architectural mouldings. COLONIAL CRAFT has become part of the Engineered Products division within the building products business segment. COLONIAL CRAFT provides direct synergy with one of the Company's two core businesses, sharing a similar customer base with Engineered Products.

Within the terms of the purchase agreement, both selling and purchasing parties acknowledged that environmental reports showed evidence of minimal soil contamination at the Luck, Wisconsin facility, one of three COLONIAL CRAFT facilities. During the fiscal quarter ended July 31, 2002, the Company received notification from the Wisconsin Department of Commerce which stated that the residual soil and groundwater contamination was at levels below state regulatory limits and that they had determined that this site does not pose a significant threat to the environment or human health. During the fourth fiscal quarter of 2002, the Company closed the monitoring wells, as required, and received a notification from the Wisconsin Department of Commerce in November 2002 that the site was now listed as "closed".

Below is a condensed balance sheet of the acquired entity disclosing the amounts preliminarily assigned to each major asset and liability at the acquisition date (dollars in thousands):

Condensed Balance Sheet	February 12, 2002
Current assets	$ 3,806
Property plant and equipment	4,775
Goodwill	7,210
Tradename	2,200
Patents	443
Non-compete agreements	313
Other non-current assets	29
Total assets	$ 18,776
Current liabilities	$ 1,265
Non-current liabilities	30
Total liabilities	1,295
Investment	17,481
Total liabilities and equity	$ 18,776

The patents, which were valued at $443 thousand, will be amortized on a straight-line basis over a weighted average period of approximately 11 years. The non-compete agreements valued at $313 thousand will be amortized on the straight-line basis over 5 years. The tradename and goodwill are not subject to amortization, but will be evaluated periodically in accordance with SFAS 142.

Goodwill for COLONIAL CRAFT is deductible for tax purposes. The tax basis of goodwill for COLONIAL CRAFT is approximately $12 million.

3. Disposed Operations

On July 19, 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in The Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of $14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a notional amount of 30 million Guilders was cashed in. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the loss on the sale of Piper Impact Europe.

4. Piper Impact Impairment Disclosure

Under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", companies must review the carrying amount of long-lived assets and certain intangibles, including related goodwill, whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable.

An asset impairment charge in the amount of $56.3 million was recorded in the fourth quarter of fiscal 2000 related to the property, plant and equipment of Piper Impact. The impairment charge resulted in an after-tax impact on net income of $36.6 million or $2.67 per share.

Piper Impact experienced declines in sales and operating cash flow during fiscal 1999 and fiscal 2000. The declining results were primarily due to decreased demand for aluminum airbag components from Piper Impact's

most significant customer. Although the management of Piper Impact conducted negotiations with this customer in an attempt to obtain a price increase and a commitment for future sourcing of impacted aluminum and steel airbag components, management became less optimistic about any near-term prospects for price increase without losing a significant amount of business from this customer. Additionally, opportunities for new products did not materialize at a rate necessary to offset the continued declining volume of airbag components. Consequently, in the fourth quarter of fiscal 2000, it became necessary to assess Piper Impact for asset impairment as required under SFAS No. 121.

Management performed an evaluation of the recoverability of all of the assets of Piper Impact as described in SFAS No. 121. Management concluded from the results of this evaluation that a significant impairment of long-lived assets had occurred. An impairment charge was required because the estimated fair value was less than the carrying value of the assets. Fair value of Piper Impact's net assets was determined by discounting estimated future cash flows using a discount rate commensurate with the risks involved. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results may vary significantly from management's estimates.

5. Executive Life Insurance Benefit

During the fiscal year ended October 31, 2002, one of the Company's former executives, on whose life it held life insurance policies, died. As a result, the Company received life insurance proceeds totaling $26.1 million. Estimates of the cash surrender value of these life insurance policies amounting to $15.9 million were previously recognized in "Other assets" on the financial statements. The excess of the proceeds over the previously recorded cash surrender value and the liability to the beneficiaries of the executive amounting to $9.0 million was recognized as a non-taxable benefit on the income statement during the period ended October 31, 2002. The impact on October 31, 2002 earnings per share of this benefit was $0.61 basic and $0.56 diluted.

6. Goodwill and Acquired Intangible Assets

As of November 1, 2001, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. In accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter ended April 30, 2002, which indicated that goodwill was not impaired. The Company again reviewed goodwill for impairment as of August 31, 2002, which indicated that goodwill was not impaired. The Company plans to perform this annual impairment test as of August 31 each year or more frequently if certain indicators arise.

The changes in the carrying amount of goodwill for the twelve months ended October 31, 2002 are as follows:

	Vehicular Segment	Building Products Segment	Total
Balance as of October 31, 2001	$ 13,496	$ 45,730	$ 59,226
Goodwill acquired during year	—	7,210	7,210
Balance as of October 31, 2002	$ 13,496	$ 52,940	$ 66,436

Intangible assets consist of the following (dollars in thousands):

	As of October 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Non-compete Agreements	$ 313	$ 51
Patents	443	35
Total	$ 756	$ 86
Unamortized intangible assets:		
Tradename	$ 2,200	

The aggregate amortization expense for intangible assets for the year ended October 31, 2002 is $86 thousand. Estimated amortization expense for the next five years follows (dollars in thousands):

Fiscal years ending October 31,	Estimated Amortization
2003	$ 115
2004	$ 115
2005	$ 100
2006	$ 86
2007	$ 46

Below is a presentation of the prior period's results excluding amortization expense related to assets that are no longer being amortized in accordance with SFAS 142:

	For the Year Ended October 31,		
	2002	2001	2000
Reported Net income (loss)	$ 55,482	$ 29,194	$ (9,665)
Add back: Goodwill amortization (net of taxes)	—	1,487	1,245
Adjusted Net income (loss)	$ 55,482	$ 30,681	$ (8,420)
Basic earnings per share:			
Reported Net income (loss)	$ 3.74	$ 2.18	$ (0.70)
Goodwill amortization (net of taxes)	—	0.11	0.09
Adjusted Net income (loss)	$ 3.74	$ 2.29	$ (0.61)
Diluted earnings per share:			
Reported Net income (loss)	$ 3.52	$ 2.07	$ (0.70)
Goodwill amortization (net of taxes)	—	0.10	0.09
Adjusted Net income (loss)	$ 3.52	$ 2.17	$ (0.61)

7. Earnings Per Share

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

	For the Year Ended October 31, 2002		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
BASIC EPS			
Total basic net income	$ 55,482	14,823	$ 3.74
EFFECT OF DILUTIVE SECURITIES			
Effect of common stock equivalents arising from stock options	—	284	
Effect of common stock held by rabbi trust	—	40	
Effect of conversion of subordinated debentures	1,610	1,090	
DILUTED EPS			
Total diluted net income	$ 57,092	16,237	$ 3.52

	For the Year Ended October 31, 2001		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
BASIC EPS			
Total basic net income	$ 29,194	13,399	$ 2.18
EFFECT OF DILUTIVE SECURITIES			
Effect of common stock equivalents arising from stock options	—	58	
Effect of common stock held by rabbi trust	—	74	
Effect of conversion of subordinated debentures	2,810	1,895	
DILUTED EPS			
Total diluted net income	$ 32,004	15,426	$ 2.07

	For the Year Ended October 31, 2000		
	Numerator (Income)	Denominator (Shares)	Per Share Amount
BASIC AND DILUTED[(1)] EPS			
Total basic and diluted net loss	$ (9,665)	13,727	$ (0.70)

(1) The effect of certain securities or debentures are anti-dilutive and, therefore, not included in the diluted earnings per share calculation. As a result, diluted EPS is the same as basic EPS.

8. Inventories

Inventories consist of the following:

	October 31,	
	2002	2001
	(In thousands)	
Raw materials	$ 24,307	$ 20,097
Finished goods and work in process	58,108	55,757
	82,415	75,854
Other	8,341	7,255
Total	$ 90,756	$ 83,109

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

LIFO	$ 64,269	$ 56,691
FIFO	26,487	26,418
Total	$ 90,756	$ 83,109

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $7,884,000 and $5,400,000 at October 31, 2002 and 2001, respectively.

9. Property Plant and Equipment

Property, plant and equipment consists of the following:

	October 31,	
	2002	2001
	(In thousands)	
Land and land improvements	$ 22,339	$ 20,389
Buildings	125,510	106,876
Machinery and equipment	609,888	564,300
Construction in progress	16,118	45,387
	773,855	736,952
Less accumulated depreciation and amortization	(420,723)	(379,317)
	$ 353,132	$ 357,635

The Company had commitments for the purchase or construction of capital assets amounting to approximately $5 million at October 31, 2002.

10. Accrued Expenses

Accrued expenses consist of the following:

	October 31,	
	2002	2001
	(In thousands)	
Payroll, payroll taxes and employee benefits	$ 31,127	$ 28,609
Accrued contribution to pension funds	1,518	1,760
Utilities	3,940	3,359
Interest	196	1,653
State and local taxes	3,257	3,892
Other	8,935	11,386
	$ 48,973	$ 50,659

11. Income Taxes

Income taxes are provided on taxable income at the statutory rates applicable to such income.

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
Current:			
Federal	$ 15,043	$ 8,101	$ 11,082
State	1,410	1,105	847
Foreign	—	—	(1,067)
	16,453	9,206	10,862

Deferred	9,679	7,222	(16,053)
Income tax expense (benefit)	$ 26,132	$ 16,428	$ (5,191)

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,	
	2002	2001
	(In thousands)	
Deferred tax liability:		
Property, plant and equipment	$ 43,794	$ 40,791
Other	11,767	21,050
	55,561	61,841
Deferred tax assets:		
Intangibles	12,680	13,800
Postretirement benefit obligation	3,363	3,472
Other employee benefit obligations	7,004	9,535
Environmental accruals	6,518	7,583
Other	6,088	9,076
	35,653	43,466
Net deferred tax liability	$ 19,908	$ 18,375
Deferred income tax non-current liability	$ 29,210	$ 29,282
Deferred tax current assets	(9,302)	(10,907)
Net deferred tax liability	$ 19,908	$ 18,375

No U.S. deferred taxes were provided on the Company's foreign subsidiary's cumulative undistributed losses of $(1,782,000). The foreign subsidiary was sold in July 2000.

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

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
Income tax expense (benefit) at statutory tax rate	$ 28,565	$ 15,968	$ (5,200)
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal effect	2,339	772	(148)
Life insurance proceeds	(3,157)		
Goodwill	—	664	420
Other items, net	(1,615)	(976)	(263)
	$ 26,132	$ 16,428	$ (5,191)

The Company reached a settlement with the Internal Revenue Service with respect to the tax audits of fiscal year 1996 and certain portions of fiscal years 1997 and 1998. The Company has filed a petition in Tax Court regarding the disallowance of a capital loss realized in 1997. Fiscal year 1999 is currently under audit.

During 2002, the Company made tax payments of $8,304,000 related to the audits. Adequate provision had been made in prior years and the payments did not have a material effect on earnings.

12. Long-Term Debt and Financing Arrangements

Long-term debt consists of the following:

	October 31,	
	2002	2001
	(In thousands)	
"Bank Agreement" Revolver	$ 65,000	$ 140,000
Convertible subordinated debentures	—	58,727
Industrial Revenue and Economic Development Bonds, unsecured, principle due in the years 2005 and 2010, bearing interest ranging from 6.50% to 8.375%	1,665	3,275
State of Alabama Industrial Development Bonds	3,800	4,500
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,400	2,600
Temroc Industrial Development Revenue Bonds	2,425	2,608
Other	275	8,318
	$ 75,565	$ 220,028
Less maturities due within one year included in current liabilities	434	420
	$ 75,131	$ 219,608

Old Bank Agreement "Revolver"

In July 1996, the Company entered into an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consisted of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement had an expiration date of July 23, 2003, and provided for up to $25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bore 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, 2002 and 2001, the Company had $65 and $140 million, respectively, outstanding under the Revolver. The weighted average interest rates on borrowings under the Revolver were 2.64%, 6.03%, and 7.0%, in 2002, 2001 and 2000, respectively. This Bank Agreement was replaced with a new Bank Agreement which is described below. The intent and ability to refinance the outstanding balance on this bank agreement on a long-term basis was evidenced by the signing of the new bank agreement in November 2002. Therefore, the outstanding balance under the old bank agreement revolver was classified as non-current as of October 31, 2002.

New Bank Agreement

In November 2002, the Company entered into a secured $200 million Revolving Credit Agreement ("Bank Agreement"). The new Bank Agreement is secured by all Company assets, excluding land and buildings. The new Bank Agreement expires November 2005 and provides for up to $25 million for standby letters of credit, limited to the undrawn amount available under the new Bank Agreement. All borrowings under the new bank agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. The new Bank Agreement requires facility fees, which are not significant, maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of October 31, 2002, the company was in compliance with all new Bank Agreement covenants.

Convertible Subordinated Debentures

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for the 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). Interest was payable semi-annually on June 30 and December 31 of each year. The

Debentures were subordinate to all senior indebtedness of the Company and were 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 fiscal 2001 and 2000, respectively, the Company accepted unsolicited block offers to buy back $4.6 and $10.4 million, respectively, principal amount of its Convertible Subordinated Debentures.

On May 9, 2002, the Company announced that it would redeem the remaining $58.7 million principal amount of its 6.88% Convertible Subordinated Debentures. The Company set a redemption date of June 12, 2002 for all debentures outstanding. Notice of the redemption was mailed on May 10, 2002 to the current holders. The redemption price was 100.688% of the principal amount plus accrued interest to the redemption date. Holders of the debentures had the right, as an alternative to redemption, to convert the debentures into shares of common stock of Quanex Corporation at a conversion price of $31.50 per share of common stock. The right to convert the debentures expired at the close of business on June 5, 2002. As of June 5, 2002, $57.4 million aggregate principal amount of the subordinated debentures were converted to 1.8 million shares of Company stock and $1.3 million of the subordinated debentures were redeemed on June 12, 2002.

As a result of the redemption of the subordinated debentures, a loss of $930 thousand was recognized due to the early extinguishment of debt. This loss resulted from the write-off of the remaining debt issuance costs associated with the subordinated debentures, as well as the .688% premium paid on the

$1.3 million of debentures, which were redeemed. In accordance with SFAS 145, which was early adopted by the Company in the fiscal year ended October 31, 2002, this loss was classified as ordinary instead of an extraordinary item, net of tax.

Other Debt Instruments

The State of Alabama 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 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. Interest rates during the year ended October 31, 2002 ranged from 1.25% to 2.05%. These bonds are secured by a Letter of Credit.

On June 1, 1999, the Company borrowed $3 million through Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of $200 thousand beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest that would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month. Interest rates on these bonds during fiscal 2002 have ranged from 1.4% to 2.3%. These bonds are secured by a Letter of Credit.

The Temroc Industrial Development Revenue Bonds were obtained as part of the acquisition of Temroc. These bonds are due in annual installments through October 2012. Interest is payable semi-annually at fixed rates from 4.5% to 5.6% depending on maturity (average rate of 5.1% over the term of the bonds). These bonds are secured by a mortgage on Temroc's land and building.

During the year ended October 31, 2001, the Company borrowed on the Revolver to pay back $17.3 million of loans taken against the cash surrender value of various officer life insurance policies. These loans had previously been netted as an offset to the cash surrender value and classified as "Other assets" on the balance sheet.

During the twelve month period ended October 31, 2002, the Company made an early payment in the amount of $7.0 million on a contingent note classified in "Other" above as well as an early retirement in the amount of $1.6 million for one of the industrial revenue and economic development bonds.

Aggregate maturities of long-term debt at October 31, 2002, are as follows (in thousands):

2003	$ 434
2004	4,226
2005	428
2006	65,478
2007	450
Thereafter	4,549
	$ 75,565

13. Pension Plans and Other Postretirement 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, the plant or location of his/her employment determines an employee's coverage for retirement benefits. The single employer defined benefit pension 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. However, in fiscal 2002, the Company made the maximum income tax deductible contribution amount allowed. The plans invest primarily in marketable equity and debt securities.

The Company also 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. For fiscal year 2002, the Company made benefit payments totaling $458,000, compared to $411,000 and $422,000 in fiscal 2001 and 2000, respectively.

A reconciliation of the beginning benefit obligation to the ending benefit obligation follows:

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2002	2001	2002	2001
	(In thousands)			
Benefit obligation at beginning of year	$ 37,151	$ 31,900	$ 7,321	$ 7,098
Service cost	2,170	1,976	101	100
Interest cost	2,617	2,450	560	521
Amendments	19	—	(25)	(2)
Actuarial loss	2,734	1,653	935	15
Benefits paid	(743)	(533)	(458)	(411)
Administrative expenses	(365)	(295)	—	—

Benefit obligation at end of year	$ 43,583	$ 37,151	$ 8,434	$ 7,321

A reconciliation of the beginning fair value of plan assets to the ending fair value of plan assets follows:

	Pension Benefits October 31,	
	2002	2001
	(In thousands)	
Fair value of plan assets at beginning of year	$ 22,760	$ 23,996
Actual loss on plan assets	(1,407)	(3,517)
Employer contributions	8,182	3,109
Benefits paid	(743)	(533)
Administrative expenses	(365)	(295)
Fair value of plan assets at end of year	$ 28,427	$ 22,760

A reconciliation of the funded status of the plans with the amounts recognized in the accompanying balance sheets is set forth below:

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2002	2001	2002	2001
	(In thousands)			
Funded status	$ (15,156)	$ (14,391)	$ (8,434)	$ (7,321)
Unrecognized transition asset	(268)	(379)	—	—
Unrecognized prior service cost	1,305	1,450	(595)	(628)
Unrecognized net loss	13,953	8,032	1,131	200
Other	5	—	(30)	(28)
Accrued benefit cost	$ (161)	$ (5,288)	$ (7,928)	$ (7,777)
Amounts recognized in the Balance Sheet:				
Deferred benefit credit	$ (4,960)	$ (7,962)	$ (7,928)	$ (7,777)
Accrued contribution to pension	(1,518)	(1,760)	—	—
Intangible asset	1,305	1,467	—	—
Accumulated other comprehensive income	5,012	2,967	—	—
Accrued benefit cost	$ (161)	$ (5,288)	$ (7,928)	$ (7,777)

Below is data related to pension plans in which the accumulated benefit obligation exceeds plan assets.

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2002	2001	2002	2001
	(In thousands)			
Accumulated benefit obligation	$ 34,910	$ 29,699	$ 8,434	$ 7,321
Fair value of plan assets	28,427	22,760	—	—

Below are the assumptions used.

	Pension Benefits			Postretirement Benefits		
	October 31,					
	2002	2001	2000	2002	2001	2000

			(In thousands)			
Discount rate	6.75%	7.25%	7.75%	6.75%	7.25%	7.75%
Expected return on plan assets	8.50%	10.00%	10.00%	—	—	—
Rate of compensation increase	4.00%	4.00%	4.50%	—	—	—

The assumed health care cost trend rate was 6.92% in 2002, decreasing uniformly to 4.75% in the year 2008 and remaining level thereafter. If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 2002 would be increased by 1.12%. The effect of this change on the sum of the service cost and interest cost would be an increase of 1.00%. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of October 31, 2002 would be decreased by 1.01%. The effect of this change on the sum of the service cost and interest cost would be a decrease of 0.90%.

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

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
Service Cost	$ 2,170	$ 1,976	$ 2,000
Interest cost	2,617	2,450	2,215
Expected return on plan assets	(2,044)	(2,421)	(2,228)
Amortization of unrecognized transition asset	(111)	(111)	(111)
Amortization of unrecognized prior service cost	163	109	109
Amortization of unrecognized net loss	263	—	—
Other	(2)	—	104
Net periodic pension cost	$ 3,056	$ 2,003	$ 2,089

Net periodic costs for the postretirement benefit plans other than pensions were as follows:

	Years Ended October 31,		
	2002	2001	2000
	(In thousands)		
Net periodic postretirement benefit cost:			
Service cost	$ 102	$ 100	$ 109
Interest cost	560	521	516
Net amortization and deferral	(54)	(65)	(60)
Other	—	—	—
Net periodic postretirement benefit cost	$ 608	$ 556	$ 565

One of the Company's subsidiaries, Piper Impact Europe, which was sold in July of 2000, participated in two multi-employer plans. The plans provided defined benefits to substantially all of Piper Impact Europe's employees. Amounts charged to pension cost and contributed to the plans for the year ended October 31, 2000, totaled approximately NLG 1,302,000, or approximately $575,000.

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 $5,456,000, $4,696,000, and $3,978,000, during fiscal 2002, 2001, and 2000, 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 $2,234,000, $5,456,000, $5,923,000, at October 31, 2002, 2001 and 2000, respectively. These benefits are funded with life insurance policies purchased by the Company.

14. Industry Segment Information

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 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.

During the latter portion of the fiscal year ending October 31, 2001, the Company completed a strategic review of its business, which resulted in a shift of strategy away from primarily a manufacturing "process" oriented enterprise to a more "market focused" enterprise. The chief executive officer, who is the chief operating decision maker of Quanex, believes the focus on customers will provide a more effective corporate strategy to drive growth and shareholder value. As expected, the review underscored a high concentration of sales in two market segments—vehicular products and building products. The Company has made

organizational and reporting changes aligned to this new strategy in fiscal 2002. The chief executive officer evaluates performance and allocates the Company's resources under this new segment structure.

Beginning in 2002, Quanex began reporting under these two market focused segments. The vehicular products segment is comprised of MACSTEEL, Piper Impact (US operations only) and Temroc. The building products segment is comprised of Engineered Products and Nichols Aluminum. Corporate and other will include corporate office charges and intersegment eliminations as well as Piper Impact Europe, which was sold in the fiscal year ended October 31, 2000.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, with the exception of the inventory valuation method. Quanex measures its inventory at the segment level on a FIFO basis, however at the consolidated Quanex level, the majority of the inventory is measured on a LIFO basis. See Note 8 to the financial statements for more information. The Company accounts for intersegment sales and transfers as though the sales or transfers were to third parties, that is, at current market prices.

For the years ended October 31, 2002, 2001 and 2000, no one customer represented 10% or more of the consolidated net sales of the Company.

	For the Years Ended October 31,		
	2002	2001	2000
	($ in thousands)		
Net Sales			
Vehicular Products[3]	$ 459,531	$ 439,307	$ 444,124
Building Products[4][5][8]	534,856	485,046	502,562
Corporate and Other[1]	—	—	17,832
Consolidated	$ 994,387	$ 924,353	$ 964,518
Operating Income (Loss):			
Vehicular Products[3][7]	$ 57,606	$ 47,466	$ (8,052)
Building Products[4][5][8]	37,985	23,662	35,830
Corporate & Other[1][6]	(12,291)	(13,812)	(31,740)
Consolidated	$ 83,300	$ 57,316	$ (3,962)
Depreciation and Amortization:			
Vehicular Products[3]	$ 27,849	$ 25,905	$ 28,769
Building Products[4][5][8]	15,492	17,061	16,408
Corporate & Other[1]	646	944	3,268
Consolidated	$ 43,987	$ 43,910	$ 48,445
Capital Expenditures:[2]			
Vehicular Products[3]	$ 22,931	$ 47,234	$ 31,196
Building Products[4][5][8]	11,464	8,241	8,295
Corporate & Other[1]	118	165	2,864
Consolidated	$ 34,513	$ 55,640	$ 42,355
Identifiable Assets:			
Vehicular Products[3]	$ 363,559	$ 362,442	$ 321,204
Building Products[4][5][8]	283,475	269,387	291,164
Corporate & Other[1]	42,106	65,802	33,491
Consolidated	$ 689,140	$ 697,631	$ 645,859
Goodwill, Net			
Vehicular Products	$ 13,496	$ 13,496	
Building Products	52,940	45,730	
	$ 66,436	$ 59,226	

(1) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and Piper Impact Europe's results until its sale in fiscal 2000.

(2) Includes capitalized interest.

(3) Fiscal 2001 results include Temroc operations since the acquisition date of November 30, 2000. See Note 2 to the financial statements.

(4) Fiscal 2000 results include Nichols Aluminum–Golden operations since the acquisition date of January 25, 2000. See Note 2 to the financial statements.

(5) Fiscal 2000 results include IMPERIAL PRODUCTS operations since the acquisition date of April 3, 2000. See Note 2 to the financial statements.

(6) Fiscal 2000 results include the $14.3 million pretax loss on the sale of Piper Impact Europe. See Note 3 to the financial statements.

(7) Fiscal 2000 results include the $56.3 million pretax asset impairment charge on Piper Impact. See Note 4 to the financial statements.

(8) Fiscal 2002 results include COLONIAL CRAFT operations since the acquisition date of February 12, 2002. See Note 2 to the financial statements.

Net Sales by Product Information

	Years Ended October 31,		
	2002	2001	2000
	($ In thousands)		
Net Sales			
Engineered Steel Bars	$ 365,393	$ 330,692	$ 355,540
Aluminum Mill Sheet Products	383,864	361,660	395,697
Window and Door Components	150,992	123,386	106,865
Extruded and Fabricated Products	94,138	108,615	106,416
Total	$ 994,387	$ 924,353	$ 964,518

Geographic Information

	Years Ended October 31,		
	2002	2001	2000
	($ In thousands)		
Net Sales[1]			
United States	$ 930,734	$ 870,163	$ 895,702
Mexico	19,242	16,148	24,336
Canada	32,797	26,176	18,712
Asian countries	7,882	7,128	4,415
European countries	3,533	4,315	20,423
Other foreign countries	199	423	930
Total	$ 994,387	$ 924,353	$ 964,518

	Years Ended October 31,		
	2002	2001	2000
	($ in thousands)		
Net Sales[2]			
United States	$ 994,387	$ 924,353	$ 946,686
The Netherlands	—	—	17,832
	$ 994,387	$ 924,353	$ 964,518

	Years Ended October 31,		
	2002	2001	2000
	($ In thousands)		
Operating Income (Loss)[4]			
United States	$ 83,300	$ 57,316	$ 12,754[3]
The Netherlands	—	—	(16,716)[5]
	$ 83,300	$ 57,316	$ (3,962)

All identifiable assets are located in the United States.

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

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

(3) Including the asset impairment charge of $56.3 million in FY 2000. See Note 4.

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

(5) Including the loss on sale of Piper Impact Europe. See Note 3.

15. 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. On April 15, 1999, the Second Amended and Restated Rights Agreement went into effect. 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 $90. 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 $90. 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 $90. 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 April 15, 2009.

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.

16. Stock Repurchase Program and Treasury Stock

In December 1999, Quanex announced that its Board of Directors approved a program to repurchase up to 2 million shares of the Company's common stock in the open market or in privately negotiated transactions. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares at a cost of $17.2 million. During the fiscal year ended October 31, 2001, the Company repurchased 119,000 shares at a cost of $2.2 million. The Company retired 156,700 of these shares purchased at a cost of approximately $3.8 million. No shares were purchased during fiscal 2002 and the stock purchase program was suspended.

For shares purchased by the Company and retired: 1) Common stock is charged for the par value of the shares, 2) additional paid-in capital is charged for the pro-rata portion associated with those shares and 3) retained earnings is charged for the remainder of the cost of the retired shares. For the shares purchased and retired in the year ended October 31, 2000, the equity was reduced as shown below:

Repurchase Cost	Common Stock	Additional Paid-in Capital	Retained Earnings
	(In thousands)		
$3,785	$ 78	$ 1,222	$ 2,485

The Company accounted for the remaining shares purchased as treasury stock. The cost of such shares of $12.7 million at October 31, 2001 was reflected as a reduction of stockholders' equity in the balance sheet.

During the twelve months ended October 31, 2002, the Company issued 1,166,250 shares for stock option exercises (See Note 17). The balance of the shares held in treasury stock was used for the exercise of some of these options and therefore as of October 31, 2002, there were no treasury shares.

On December 5, 2002, the Board of Directors again approved a program to purchase up to a total of one 1 million shares (6%) of its common stock in the open market or in privately negotiated transactions. The Company indicated that it would be active in the buyback program during the first fiscal quarter 2003.

17. 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 awards vest over a specified time period. 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 0, 44,000, and 22,750 restricted shares granted in 2002, 2001 and 2000, respectively. The amount charged to compensation expense in 2002, 2001 and 2000 was $479,000, $368,000 and $57,000, respectively, relating to restricted stocks granted in 2001, 2000 and 1999.

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 391,597, 388,145, and 650,194 shares available for granting of options at October 31, 2002, 2001, and 2000, respectively. The exercise price for the outstanding options as of October 31, 2002 range from $18.19 to $36.00 per share.

Stock option transactions for the three years ended October 31, 2002, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share

Balance at October 31, 1999	966,391	1,421,271	23
Granted		244,250	18
Exercised		(3,000)	9
Cancelled		(40,418)	26
Balance at October 31, 2000	1,139,546	1,622,103	22
Granted		382,000	24
Exercised		(70,048)	20
Cancelled/Lapsed		(23,751)	21
Balance at October 31, 2001	1,291,129	1,910,304	23
Granted		15,000	36
Exercised		(1,085,250)	23
Cancelled/Lapsed		(18,452)	22
Balance at October 31, 2002	489,366	821,602	$ 23

In December 2002, subsequent to the fiscal year ended October 31, 2002, the Company granted 240,500 options to certain officers and employees at an exercise price of $32 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, 2002, 2001, or 2000. The exercise price of the all of the shares outstanding as of October 31, 2002 was $19.88. Stock option transactions for the three years ended October 31, 2002, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1999	20,000	20,000	20
Granted		—	—
Exercised		—	—
Cancelled		—	—
Balance at October 31, 2000	20,000	20,000	20
Granted		—	—
Exercised		—	—
Cancelled		—	—
Balance at October 31, 2001	20,000	20,000	20
Granted		—	—
Exercised		(15,000)	20
Cancelled		—	—
Balance at October 31, 2002	5,000	5,000	$ 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 no shares available for granting of options at October 31, 2002, 2001 or 2000. The exercise price of the options outstanding as of October 31, 2002 ranged from $16.88 to $28.50. Stock option transactions for the three years ended October 31, 2002, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1999	124,000	136,000	23
Granted		—	—
Exercised		(1,000)	17
Cancelled		—	—
Balance at October 31, 2000	135,000	135,000	23
Granted		—	—
Exercised		(14,000)	20
Cancelled		(6,000)	22
Balance at October 31, 2001	115,000	115,000	24
Granted		—	—
Exercised		(51,000)	23
Cancelled		(3,000)	19
Balance at October 31, 2002	61,000	61,000	$ 25

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. There are two types of grants under this plan which are described below:

Automatic Annual Grants

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. These options are exercisable in full immediately upon the date of grant.

New Director Grants

While this plan is in effect and shares are available for the granting of options hereunder, there shall be granted to each non-employee Director who was not granted an option under the 1987 Non-Employee Director Stock Option Plan as of the date upon which such director shall have continuously served as a director of the Company for a period of one year an option to purchase such number of Quanex Corporation shares of stock as is determined by the Board of Directors. These Plan 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 332,000, 350,000 and 364,000 shares available for granting of options at October 31, 2002, 2001 and 2000, respectively. The exercise price of the options outstanding as of October 31, 2002 ranged from $18.25 to $35.85. Stock option transactions for the three years ended October 31, 2002, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1999	2,000	18,000	21

Granted		18,000	20
Exercised		—	—
Cancelled		—	—
Balance at October 31, 2000	25,333	36,000	21
Granted		14,000	26
Exercised		—	—
Cancelled		—	—
Balance at October 31, 2001	44,666	50,000	22
Granted		18,000	36
Exercised		(15,000)	21
Cancelled		—	—
Balance at October 31, 2002	47,000	53,000	$ 27

Stock Based Compensation

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company continues to apply the rules for stock-based compensation contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and discloses 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,		
	2002	2001	2000
	(In thousands)		
Net income (loss) attributable to common stockholders	$ 55,482	$ 29,194	$ (9,665)
SFAS No. 123 adjustment	(1,407)	(1,154)	(1,042)
Pro forma net income (loss) attributable to common stockholders	$ 54,075	$ 28,040	$ (10,707)
Earnings (loss) per common share:			
Basic as reported	$ 3.74	$ 2.18	$ (0.70)
Basic pro forma	$ 3.65	$ 2.09	$ (0.78)
Diluted as reported	$ 3.52	$ 2.07	$ (0.70)
Diluted pro forma	$ 3.43	$ 2.00	$ (0.78)

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.

	2002	2001	2000
Risk-free interest rate	3.58%	4.28%	5.75%
Dividend yield	2.01%	3.10%	3.33%
Volatility factor	44.14%	42.87%	42.89%
Weighted average expected life	5 years	5 years	5 years

18. Financial Instruments and Risk Management

Effective November 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Metal Exchange Forward Contracts

The Company's aluminum mill sheet products segment, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133) as

well as forward contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of fixed price purchase commitments.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

The Company grouped LME contracts into two types: customer specific and non-customer specific. The customer specific contracts have been designated as cash flow hedges of forecasted aluminum raw material purchases in accordance with SFAS No. 133. The non-customer specific LME contracts that were used to manage or balance the raw material needs were designated as hedges and, therefore, did not receive hedge accounting under SFAS No. 133. Both types of contracts were measured at fair market value on the balance sheet.

Accounting before adoption of SFAS No. 133: As the Company did not adopt SFAS No. 133 until November 1, 2000, hedging gains and losses were included in "Cost of sales" in the income statement concurrently with the related sales of inventory.

Accounting after adoption of SFAS No. 133: On November 1, 2000, when the Company adopted SFAS 133, it recorded a derivative liability of $372 thousand representing the fair value of these contracts as of that date. A corresponding amount, net of taxes of $145 thousand, was recorded to other comprehensive income.

At October 31, 2002, the Company had no open LME forward contracts and therefore no asset or liability associated with metal exchange derivatives. During the year ended October 31, 2002, Nichols Aluminum used more firm price raw material purchase commitments instead of LME forward contracts to lock in raw material prices. At October 31, 2001, open LME contracts covered notional volumes of 45,415,185 pounds and had a fair value net loss of approximately $1.8 million, which is recorded as part of other current and non-current assets and liabilities in the financial statements.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of October 31, 2002, losses of approximately $428 thousand ($261 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts related to hedge ineffectiveness, are reflected in "Cost of sales" in the income statement. For the year ended October 31, 2002 and 2001, a net gain of $136 thousand and a net loss of $283 thousand, respectively, was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness. (No components of these gains and losses were excluded from the assessment of hedge effectiveness. Additionally, no hedge contracts were discontinued due to the determination that the original forecasted transaction would not occur. Therefore, there was no income statement impact related to that action.)

The entire amount of gains and losses of the non-customer specific forward LME contracts not designated as hedges were reflected in "Cost of sales" in the income statement in the period in which they occurred. These gains and losses included the changes in fair market value during the period for all open and closed contracts.

Interest Rate Swap Agreements

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement Revolver to fixed rate. The Company's risk management policy related to these swap agreements is to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the 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 (1.82% at October 31, 2002). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The Company has designated the interest rate swap agreements as cash flow hedges of future interest payments on its variable rate debt under the Bank Agreement Revolver.

Accounting before adoption of SFAS No. 133: Prior to the adoption of SFAS No. 133 on November 1, 2000, hedging gains and losses were included in "Interest Expense" in the income statement based on the quarterly swap settlement.

Accounting after adoption of SFAS No. 133: On November 1, 2000, the Company recorded a derivative liability of $918 thousand, representing the fair value of the swaps as of that date. A corresponding amount, net of income taxes of $358 thousand, was recorded to other comprehensive income.

The fair value of the swaps as of October 31, 2002 and 2001 was a loss of $4.0 million and $7.3 million, respectively, which is recorded as part of other current liabilities. Gains and losses related to the swap agreements will be reclassified into earnings in the periods in which the related hedged interest payments are made. As of October 31, 2002, losses of approximately $257 thousand ($156 thousand net of taxes) are expected to be reclassified into earnings over the next twelve months. Gains and losses on these agreements, including amounts recorded related to hedge ineffectiveness, are reflected in "Interest expense" in the income statement. A net loss

of $386 thousand and $730 thousand, respectively, was recorded in interest expense in the year ended October 31, 2002 and 2001, respectively, representing the amount of the hedge's ineffectiveness. (No components of the swap instruments' losses were excluded from the assessment of hedge effectiveness.)

Discontinuance of cash flow hedge: Based on future cash flow projections that were prepared during the second fiscal quarter period ended April 30, 2002, it was determined that it was probable that the Company would pay down its variable rate debt under the Bank Agreement Revolver to approximately $65 million by the end of this fiscal year. Based on these projections, a portion of the future projected cash flow being hedged (interest payments) would not occur. Therefore, during the period ended April 30, 2002, the Company discontinued hedge accounting under SFAS 133 for $35 million of the interest swap agreement and reclassified the related portion of other comprehensive income, a loss of $1.3 million to interest expense. Additionally, during the fourth fiscal quarter ended

October 31, 2002, the timing of the finalization of the new bank agreement was determined. Since the swaps were designated as hedges of interest payments under the old Bank Agreement Revolver, which terminated upon completion of the new Bank Agreement Revolver, the swap no longer qualified as a hedge, as those forecasted transactions will not occur (future interest payments). As a result, the Company discontinued hedge accounting under SFAS 133 on the swaps after the projected new bank agreement date and reclassified the related portion of other comprehensive income, a loss of $2.1 million to interest expense. The Company however has not terminated or closed any of the $100 million swap agreement and therefore the entire swap agreement's fair market value is reflected on the balance sheet as indicated in the previous paragraph. Any change in the fair market value, in fiscal 2003, will be recorded in interest expense.

If the floating rates were to change by 10% from October 31, 2002 levels, the fair market value of these swaps would change by approximately $79 thousand. In terms of the impact on cash flow to the Company, as floating interest rates decline, the market value of the swap agreement rises, thus increasing the quarterly cash settlement of the swaps paid by the Company. However, the interest paid on the floating rate debt balance decreases. The inverse situation occurs with rising interest rates.

Foreign Currency Contracts

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 limited the Company's exposure to large fluctuations in the US Dollar/Dutch Guilder exchange rate. Under the terms of the agreement, Quanex had the option to let the agreement expire at no cost if the exchange rate remained within an established range on the expiration date of October 25, 2000. At October 31, 1999, the Company booked a $378 thousand gain to the stockholders' equity cumulative foreign currency translation adjustment. During the third quarter ended July 31, 2000, the Company sold the Piper Impact Europe subsidiary. As such, this range forward agreement was closed, realizing a gain of approximately $1.7 million. This gain was offset against the loss on the sale of Piper Impact Europe as the investment in Piper Impact Europe was the underlying hedged item.

See the Statement of Stockholder's Equity for components of comprehensive income and the disclosure of accumulated other comprehensive income related to hedging transactions.

Other Financial Assets and Liabilities

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value and carrying value of long-term debt was $75.6 million and $220.0 million, as of October 31, 2002 and 2001, 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.

19. Leases

Quanex has operating leases for certain real estate and equipment. Rental expense for the years ended October 31, 2002, 2001 and 2000 was $2.2 million, $2.1 million and $2.1 million, respectively.

Future minimum payments as of October 31, 2002, by year and in the aggregate under operating leases having non-cancelable lease terms in excess of one year were as follows (in thousands):

	Operating Leases
2003	$ 2,428
2004	$ 1,521
2005	$ 1,243
2006	$ 1,110
2007	$ 1,052
Thereafter	$ 1,198
Total	$ 8,552

20. 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, 2002, were approximately $17 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 the Company's 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. Because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities, 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.

During the second quarter of fiscal 2001, some of Nichols Aluminum Casting's aluminum reroll product was damaged in a fire at a third-party offsite warehouse storage facility. The loss was covered under the Company's property insurance policy. As of October 31, 2001, only the Company's cost in the material had been recovered. The Company also filed a claim under the business interruption provisions of the policy to recover additional costs, as well as lost profit sustained due to the fire. The Company received $858 thousand in the first fiscal quarter ended January 31, 2002 and a final settlement of $1.6 million in the third fiscal quarter ended July 31, 2002 against the business interruption claim. These proceeds were recorded as a reduction of cost of sales.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Although the ultimate resolution and impact of such litigation on the Company is not presently determinable, the Company's management believes that the eventual outcome of such litigation will not have a material adverse effect on the overall financial condition or results of operations of the Company.

QUANEX CORPORATION

SUPPLEMENTARY FINANCIAL DATA

Quarterly Results of Operations (Unaudited)

The following sets forth the selected quarterly information for the years ended October 31, 2002 and 2001.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
2002:				
Net sales	$ 204,243	$ 249,500	$ 266,891	$ 273,753
Gross profit	22,305	34,123	39,493	43,289
Net income	5,460	10,632	24,337	15,053
Earnings per share:				
Basic earnings per share	0.41	0.77	1.56	0.92
Diluted earnings per share	$ 0.39	$ 0.70	$ 1.42	$ 0.97
2001:				
Net sales	$ 199,942	$ 220,257	$ 248,121	$ 256,033
Gross profit	20,845	23,762	32,761	37,958
Net income	4,057	4,289	9,608	11,240
Earnings per share:				
Basic net earnings	0.30	0.32	0.72	0.84
Diluted net earnings	$ 0.30	$ 0.32	$ 0.67	$ 0.77

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Charged to Costs & Expenses	Write-offs	Other	Balance at End of Year
			(In thousands)		
Allowance for doubtful accounts:					
Year ended October 31, 2002	$ 8,953	$ 1,113	$ (3,227)	$ 38	$ 6,877
Year ended October 31, 2001	$ 11,240	$ 868	$ (3,213)	$ 58	$ 8,953
Year ended October 31, 2000	$ 12,154	$ 738	$ (1,284)	$ (368)	$ 11,240

Quarterly Financial Results

(from continuing operations)

	2002	2001	2000
Net Sales (millions)			
January	204.24	199.94	205.90
April	249.50	220.26	251.05
July	266.89	248.12	262.65
October	273.76	256.03	244.92

Total	994.39	924.35	964.52
Gross Profit (Loss) (millions)			
January	22.31	20.85	22.24
April	34.12	23.76	30.57
July	39.49	32.76	19.60
October	43.29	37.96	(19.51)
Total	139.21	115.33	52.90
Income (Loss) from Continuing Operations (millions)			
January	5.46	4.05	4.18
April	10.63	4.29	9.38
July[1][3]	24.34	9.61	0.71
October[2]	15.05	11.24	(23.94)
Total	55.48	29.19	(9.67)
Income (Loss) from Continuing Operations Per Basic Common Share			
January	.41	.30	.29
April	.77	.32	.68
July[1][3]	1.56	.72	.05
October[2]	.92	.84	(1.78)
Year	3.74	2.18	(0.70)
Quarterly Common Stock Dividends			
January	.16	.16	.16
April	.16	.16	.16
July	.16	.16	.16
October	.16	.16	.16
Total	.64	.64	.64
Common Stock Sales Price (High & Low)			
January	29.64	21	26.5625
	25.71	16.375	19.0625
April	38.35	21.15	23.6875
	28.63	17.35	16.125
July	44.19	27.55	18.625
	31.01	20.70	14.375
October	40.55	27.48	20.6875
	33.18	20.75	17.0625

(1) Fiscal 2000 third quarter income from continuing operations includes an after-tax loss of $9.3 million on the sale of Piper Impact Europe.

(2) Fiscal 2000 fourth quarter loss from continuing operations includes an after-tax asset impairment charge of $36.6 million or $2.67 per share.

(3) Fiscal 2002 third quarter income from continuing operations includes a retired executive life insurance benefit of $9.0 million.

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, 2002.

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, 2002.

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, 2002.

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, 2002.

Item 14. ***Controls and Procedures***

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the principal executive officer and principal financial officer of Quanex have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14[c] and 15d-14[c] under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There were no significant changes in Quanex's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

Exhibit Number	Description of Exhibits
3.1	Restated Certificate of Incorporation of the Registrant dated as of November 10, 1995, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1995 and incorporated herein by reference.
3.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2 fiscal year ended October 31, 1999 and incorporated herein by reference.
3.3	Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.4	Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.5	Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999 filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, 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 (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.
4.2	Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999, and incorporated herein by reference.
4.3	Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.
*4.4	Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks. Certain schedules and exhibits to this Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
†10.1	Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option year 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 (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
†10.2	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 1997, filed as Exhibit 10.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.3	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 9, 1999, filed as Exhibit 10.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.4	Quanex Corporation Deferred Compensation Plan, as amended and restated, dated September 29, 1999, filed as Exhibit 10.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.5	First Amendment to Quanex Corporation Deferred Compensation Plan, dated December 7, 1999, filed as Exhibit 10.5 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.6	Quanex Corporation Executive Incentive Compensation Plan, as amended and restated, dated October 12, 1995, filed as Exhibit 10.8 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.7	Quanex Corporation Supplemental Benefit Plan, as amended and restated effective June 1, 1999, filed as Exhibit 10.9 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference
†10.8	Form of Change in Control Agreement, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.10 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 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 (Reg. No. 001-05725) for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
†10.10	Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.11	Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
†10.12	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 (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
†10.13	Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 1997, filed

as Exhibit 10.16 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.14 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.17 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.15 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 (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.

†10.16 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.17 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.20 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.18 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.

†10.19 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.20 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.21 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.

†10.23 Amendment to Quanex Corporation Non-Employee Director Retirement Plan dated May 25, 1995, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.

†10.24 Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1996, and incorporated herein by reference.

†10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.

†10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.28 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.

†10.29 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.

†10.30 Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.31 Amendment and restatement of the Quanex Corporation Deferred Compensation Plan, effective November 1, 2001 filed as Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q dated March 7, 2002, and incorporated herein by reference.

†10.32 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.

†10.33 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.34 Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) as amended and restated, dated October 20, 1999, filed as Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001.

†10.35 Amendment to Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) dated December 9, 1999, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.

†10.36 Amendment to Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) effective July 1, 2000, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.

†10.37 Amendment to the Quanex Corporation 1997 Key Employee Stock Option Plan effective October 25, 2001, filed as Exhibit 10.36 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 2001 and incorporated herein by reference.

†10.38 Quanex Corporation Long-Term Incentive Plan effective November 1, 2001, filed as Exhibit 10.37 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 2001 and incorporated herein by reference.

†10.39 Letter Agreement between Quanex Corporation and Raymond A. Jean, dated February 14, 2001, filed as Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q, dated March 7, 2002 and incorporated herein by reference.

*10.40 First Amendment to Quanex Corporation Hourly Bargaining Unit Savings Plan, dated October 30, 2002, and effective December 12, 1994.

10.41 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 (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.

10.42 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 (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.

10.43 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 (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.

10.44 Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated herein by reference.

10.45 First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.

10.46 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.

10.47 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.

10.48	Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.49	Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.50	Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum–Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.51	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, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
*10.52	Lease Agreement between Cabot Industrial Properties, L.P. and Quanex Corporation dated August 30, 2002.
*21	Subsidiaries of the Registrant.
*23	Consent of Deloitte & Touche LLP.
*99.1	Certification by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† 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, 2002.

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/ RAYMOND A. JEAN December 20, 2002

Raymond A. Jean
Chairman of the Board, President and Chief Executive Officer

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.

Name	Title	Date
/s/ RAYMOND A. JEAN Raymond A. Jean	Chairman of the Board, President and Chief Executive Officer	December 20, 2002
/s/ DONALD G. BARGER, JR.	Director	December 20, 2002

Donald G. Barger, Jr.		
/s/ VINCENT R. SCORSONE Vincent R. Scorsone	Director	December 20, 2002
/s/ MICHAEL J. SEBASTIAN Michael J. Sebastian	Director	December 20, 2002
/s/ RUSSELL M. FLAUM Russell M. Flaum	Director	December 20, 2002
/s/ SUSAN F. DAVIS Susan F. Davis	Director	December 20, 2002
/s/ JOSEPH J. ROSS Joseph J. Ross	Director	December 20, 2002
/s/ TERRY M. MURPHY Terry M. Murphy	Vice President—Finance and Chief Financial Officer (Principal Financial Officer)	December 20, 2002
/s/ VIREN M. PARIKH Viren M. Parikh	Controller (Principal Accounting Officer)	December 20, 2002

CERTIFICATIONS

I, Raymond A. Jean, certify that:

1. I have reviewed this annual report on Form 10-K of Quanex Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RAYMOND A. JEAN December 20, 2002

Raymond A. Jean
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

I, Terry M. Murphy, certify that:

1. I have reviewed this annual report on Form 10-K of Quanex Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ TERRY M. MURPHY December 20, 2002

Terry M. Murphy
Vice President—Finance and
Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibits
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3.2 Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

3.3 Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

3.4 Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

3.5 Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999 filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, 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 (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.

4.2 Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999, and incorporated herein by reference.

4.3 Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.

*4.4 Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks. Certain schedules and exhibits to this Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request. Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option year Agreement filed as Exhibit 10.4 to the Registrant's.

†10.1 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 (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.

†10.2 Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 1997, filed as Exhibit 10.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.3 Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 9, 1999, filed as Exhibit 10.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.4 Quanex Corporation Deferred Compensation Plan, as amended and restated, dated September 29, 1999, filed as Exhibit 10.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.5 First Amendment to Quanex Corporation Deferred Compensation Plan, dated December 7, 1999, filed as Exhibit 10.5 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.6 Quanex Corporation Executive Incentive Compensation Plan, as amended and restated, dated October 12, 1995, filed as Exhibit 10.8 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.7 Quanex Corporation Supplemental Benefit Plan, as amended and restated effective June 1, 1999, filed as Exhibit 10.9 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.8 Form of Change in Control Agreement, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.10 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 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 (Reg. No. 001-05725) for

the year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.

†10.10 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.11 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.12 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 (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.

†10.13 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.16 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.14 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.17 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.15 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 (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.

†10.16 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.17 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.20 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.18 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.

†10.19 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.20 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.21 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 (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.

†10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31,1994, and incorporated herein by reference.

†10.23 Amendment to Quanex Corporation Non-Employee Director Retirement Plan dated May 25, 1995, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.

†10.24 Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1996, and incorporated herein by reference.

†10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999,

filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.

†10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.28 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.

†10.29 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.

†10.30 Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

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†10.31 Amendment and restatement of the Quanex Corporation Deferred Compensation Plan, effective November 1, 2001 filed as Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q dated March 7, 2002, and incorporated herein by reference.

†10.32 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.

†10.33 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

†10.34 Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) as amended and restated, dated October 20, 1999, filed as Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001.

†10.35 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) dated December 9, 1999, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.

†10.36 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) effective July 1, 2000, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.

†10.37 Amendment to the Quanex Corporation 1997 Key Employee Stock Option Plan effective October 25, 2001, filed as Exhibit 10.36 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 2001 and incorporated herein by reference.

†10.38 Quanex Corporation Long-Term Incentive Plan effective November 1, 2001, filed as Exhibit 10.37 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 2001 and incorporated herein by reference.

†10.39 Letter Agreement between Quanex Corporation and Raymond A. Jean, dated February 14, 2001, filed as Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q, dated March 7, 2002 and incorporated herein by reference.

*10.40 First Amendment to Quanex Corporation Hourly Bargaining Unit Savings Plan, dated October 30, 2002, and effective December 12, 1994.

10.41 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 (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.

10.42 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 (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.

10.43 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 (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.

10.44	Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated herein by reference.
10.45	First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.
10.46	Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.47	Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.48	Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.49	Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.50	Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum–Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
10.51	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, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
*10.52	Lease Agreement between Cabot Industrial Properties, L.P. and Quanex Corporation dated August 30, 2002.
*21	Subsidiaries of the Registrant.
*23	Consent of Deloitte & Touche LLP.
*99.1	Certification by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Management Compensation or Incentive Plan

* Filed herewith

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Exhibit 4.4

Execution Copy

QUANEX CORPORATION

REVOLVING CREDIT AGREEMENT

DATED AS OF NOVEMBER 26, 2002

COMERICA BANK
AS LEAD ARRANGER AND ADMINISTRATIVE AGENT

HARRIS BANK AND
U.S. BANK AS CO-SYNDICATION AGENTS

WELLS FARGO BANK AND BANK OF AMERICA
AS CO-DOCUMENTATION AGENTS

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REVOLVING CREDIT AGREEMENT

This Revolving Credit Agreement ("Agreement") is made as of November 26, 2002, by and among the financial institutions from time to time signatory hereto (individually a "Bank," and any and all such financial institutions collectively the "Banks"), Comerica Bank, as agent for the Banks (in such capacity, "Agent"), and Quanex Corporation, a Delaware corporation (the "Company").

RECITALS

A. The Company has requested that the Banks extend to it credit and letters of credit on the terms and conditions set forth herein.

B. The Banks are prepared to extend such credit as aforesaid, but only on the terms and conditions set forth in this Agreement.

NOW THEREFORE, in consideration of the covenants contained herein, the Company, the Banks and the Agent agree as follows:

1. DEFINITIONS

1.1 *Certain Defined Terms*. For the purposes of this Agreement the following terms will have the following meanings:

"Account Party(ies)" shall mean, with respect to any Letter of Credit, the account party or parties (which shall be the Company or a Guarantor) as named in an application to the Agent for the issuance of such Letter of Credit.

"Advance(s)" shall mean, as the context may indicate, a borrowing requested by the Company, and made by the Revolving Credit Banks under Section 2.1 hereof or the Swing Line Bank under Section 2.5 hereof, including without limitation any readvance, refunding or conversion of such borrowing pursuant to Section 2.3 or 2.5 hereof, and any advance deemed to have been made in respect of a Letter of Credit under Section 3.6(a) hereof, and shall include, as applicable, a Eurocurrency-based Advance, a Prime-based Advance and a Quoted Rate Advance.

"Affiliate" shall mean, with respect to any Person, any other Person or group acting in concert in respect of the first Person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with such first Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person or group of Persons, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise. Unless otherwise specified to the contrary herein, or the context requires otherwise, Affiliate shall refer to Affiliates of the Company.

"Agent" shall mean Comerica Bank, in its capacity as agent for the Banks hereunder, or any successor agent appointed in accordance with Section 11.4 hereof.

"Agent's Correspondent" shall mean for Advances in eurodollars, Agent's Grand Cayman Branch (or for the account of said branch office, at Agent's main office in Detroit, Michigan, United States).

"Alternate Base Rate" shall mean, for any day, an interest rate per annum equal to the Federal Funds Effective Rate in effect on such day, plus one percent (1%).

"Applicable Fee Percentage" shall mean, as of any date of determination thereof, the applicable percentage used to calculate certain of the fees due and payable hereunder, determined by reference to the appropriate columns in the Pricing Matrix attached to this Agreement as Schedule 1.1.

"Applicable Interest Rate" shall mean (i) in respect of Revolving Credit Advances, the Eurocurrency-based Rate and the Prime-based Rate; and (ii) in respect of Swing Line Advances, the

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Prime-based Rate and the Quoted Rate; in each case, as selected by Company from time to time subject to the terms and conditions of this Agreement.

"Applicable Margin" shall mean, as of any date of determination thereof, the applicable interest rate margin, determined by reference to the appropriate columns in the Pricing Matrix attached to this Agreement as Schedule 1.1.

"Asset Sale" shall mean the sale, transfer or other disposition by the Company or any Subsidiary of any tangible asset (other than stock or other ownership interests of any Subsidiary) to any Person (other than to the Company or any Subsidiary), other than sales, transfers or other dispositions of inventory in the ordinary course of business and sales of assets or other dispositions of assets that have been damaged, become obsolete, worn out or are no longer useable or useful in the conduct of Company's or such Subsidiary's business.

"Assignment Agreement" shall have mean an Assignment Agreement substantially in the form of Exhibit I hereto.

"Bank Hedging Agreement" means any Hedging Transaction entered into between the Company and any Bank or an Affiliate of a Bank.

"Bankruptcy Code" shall mean Title 11 of the United States Code and the rules promulgated thereunder.

"Banks" shall mean Comerica Bank and such other financial institutions from time to time parties hereto as lenders and shall include the Revolving Credit Banks and the Swing Line Bank and any assignee which becomes a Bank pursuant to Section 12.8 hereof.

"Business Day" shall mean any day on which commercial banks are open for domestic and international business in Detroit, Michigan and if related to a determination of the Eurocurrency-based Rate or to a Eurocurrency-based Advance, a day on which commercial banks are open in the relevant interbank market for eurodollar transactions.

"Capital Stock" shall mean (i) in the case of any corporation, all capital stock and any securities exchangeable for or convertible into capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents of corporate stock (however designated) in or to such association or entity, (iii) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distribution of assets of, the issuing Person, and including, in all of the foregoing cases described in clauses (i), (ii), (iii) or (iv), any warrants, rights or other options to purchase or otherwise acquire any of the interests described in any of the foregoing cases.

"Capital Expenditures" shall mean, for any period, with respect to any Person, the aggregate of all expenditures incurred by such Person and its Subsidiaries during such period for the acquisition or leasing (pursuant to a Capitalized Lease) of fixed or capital assets or additions to equipment, plant and property that should be capitalized under GAAP on a consolidated balance sheet of such Person and its Subsidiaries.

"Capitalized Lease" shall mean, as applied to any Person, any lease of any property (whether real, personal or mixed) with respect to which the discounted present value of the rental obligations of such Person as lessee thereunder, in conformity with GAAP, is required to be capitalized on the balance sheet of that Person.

"Collateral" shall mean all property or rights in which a security interest, mortgage, lien or other encumbrance for the benefit of the Banks is or has been granted or arises or has arisen, under or in connection with this Agreement, the other Loan Documents, or otherwise to secure the Indebtedness.

"Collateral Documents" shall mean the Security Agreement and all of the other acknowledgments, certificates, stock powers, financing statements, instruments and other security documents executed by Company or any Subsidiary in favor of the Agent for the benefit of the Banks and delivered to the Agent, as security for the Indebtedness, in each case as of the Effective Date or, from time to time subsequent thereto, in connection with such collateral documents, in each case, as such collateral documents may be amended or otherwise modified from time to time.

"Comerica Bank" shall mean Comerica Bank, a Michigan banking corporation, its successors or assigns.

"Commitment" shall mean the Revolving Credit Aggregate Commitment.

"Commonly Controlled Entity" shall mean an entity, whether or not incorporated, which is under common control with the Company within the meaning of Section 4001 of ERISA or which is part of a group which includes the Company and which is treated as a single employer under Section 414 of the Internal Revenue Code.

"Company" is defined in the preamble.

"Consolidated" (or "consolidated") or "Consolidating" (or "consolidating") shall mean, when used with reference to any financial term in this Agreement, the aggregate for two or more Persons of the amounts signified by such term for all such Persons determined on a consolidated (or consolidating) basis in accordance with GAAP, applied on a consistent basis. Unless otherwise specified herein, "Consolidated" and "Consolidating" shall refer to Company and its Subsidiaries (or if the context so indicates, the Company and its significant subsidiaries), determined on a Consolidated or Consolidating basis, as the case may be.

"Consolidated EBITDA" shall mean for any period, Consolidated Net Income for such period *plus*, without duplication and only to the extent reflected as a charge or reduction in the statement of such Consolidated Net Income for such period, the sum of (a) Consolidated Interest Expense, (b) income tax expense, (c) depreciation and amortization expense, (d) any extraordinary non-cash expenses or losses including non-cash losses on sales of assets outside of the ordinary course of business, (e) amortization of debt discount and (f) less any extraordinary gains; *provided*, *however*, that notwithstanding the foregoing, "Consolidated

EBITDA" shall be determined on a pro forma basis for each period during which a Permitted Acquisition shall have occurred, giving effect to such Permitted Acquisition as if it had occurred on the first day of the relevant period.

"Consolidated Fixed Charges" shall mean, for any period, the sum, without duplication, of (i) all Consolidated Interest Expense paid or payable during such period plus (ii) all installments of principal or other sums payable during such period by Company and the Subsidiaries with respect to the Consolidated Funded Debt (excluding prepayments of Consolidated Funded Debt) plus (iii) the amount of dividends declared and paid in cash by Company during such period, all as determined in accordance with GAAP.

"Consolidated Fixed Charge Coverage Ratio" shall mean for any period, the ratio of (a) Consolidated EBITDA for such period minus Capital Expenditures for such period and minus all Income Taxes paid or payable for such period (other than Income Taxes properly deferred for payment in a subsequent period) to (b) Consolidated Fixed Charges for such period.

"Consolidated Funded Debt" shall mean at any date, the aggregate amount of all Funded Debt of the Company and its Subsidiaries at such date, determined on a Consolidated basis.

"Consolidated Interest Expense" shall mean for any period total cash interest expense (including that attributable to Capitalized Leases) of the Company and its Consolidated Subsidiaries plus, without duplication, capitalized interest expense, plus all fees and expenses incurred in connection with the Indebtedness to the extent such costs are allocable to such period in accordance with GAAP.

"Consolidated Leverage Ratio" shall mean for any period, the ratio of (a) Consolidated Funded Debt on such date to (b) Consolidated EBITDA for such period.

"Consolidated Net Income" shall mean for any period, the consolidated net income (or loss) of the Company and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; *provided* that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or any of its Subsidiaries and (b) the undistributed earnings of any Subsidiary of Company to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any Contractual Obligation (other than under any Loan Document) or Requirement of Law applicable to such Subsidiary.

"Consolidated Tangible Net Worth" shall mean as of any date the sum of (a) all amounts that would be included under stockholders' equity on a Consolidated balance sheet of Company and its Consolidated Subsidiaries, less goodwill and other intangible assets plus (b) the outstanding principal amount of Subordinated Debt as of such date, all as determined in accordance with GAAP.

"Contractual Obligation" shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Covenant Compliance Report" shall mean the report to be furnished by the Company to the Agent pursuant to Section 6.2(a) hereof, in the form attached hereto Exhibit M and certified by a Responsible Officer, which report shall include, among other things, detailed calculations and the resultant ratios or financial tests with respect to the financial covenants contained in Sections 6.9 through 6.11 and 7.7 of this Agreement, accompanied by such other supplemental or supporting information as may be reasonably requested by Agent or Majority Banks.

"De Minimis Matters" shall mean any suits, actions, proceedings, investigations, or other matters, the existence of which and any liability which may result therefrom, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

"Debt" shall mean as to any Person, without duplication (a) all Funded Debt of a Person, (b) all Guarantee Obligations of such Person, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all indebtedness of such Person arising in connection with any interest rate swap transaction, basis swap transaction, forward rate transaction, commodity swap transaction, equity transaction, equity index transaction, foreign exchange transaction, cap transaction, floor transaction (including any option with respect to any of these transactions and any combination of any of the foregoing) entered into by such Person, (e) any obligations in respect of phantom stock or comparable employee incentive plans which would be classified as liabilities on the balance sheet of a Person, and (f) any items that would be classified as liabilities on the balance sheet of a Person.

"Default" shall mean any event which with the giving of notice or the passage of time, or both, would constitute an Event of Default under this Agreement.

"Defaulting Bank" is defined in Section 2.4(c).

"Distribution" is defined in Section 7.6 hereof.

"Dollars" and the sign "$" shall mean lawful money of the United States of America.

"Domestic Advance" shall mean any Advance other than a Eurocurrency-based Advance.

"Domestic Subsidiary(ies)" shall mean any direct or indirect Subsidiary of the Company which is incorporated under the laws of the United States of America, or any state, territory or other political subdivision thereof.

"Effective Date" shall mean the date on which all the conditions precedent set forth in Sections 4.1 through 5.11 have been satisfied.

"Equity Offering" shall mean the issuance and sale for cash, on or after the date hereof, by Company or any of its Subsidiaries of additional capital stock or other equity interests.

"Equity Offering Adjustment" shall mean that amount to be added to the minimum Consolidated Tangible Net Worth required to be maintained under Section 6.10 hereof consisting of an amount equal to fifty percent (50%) of each Equity Offering conducted by the Company or any of its Subsidiaries (excluding any Equity Offering resulting from the exercise of stock options issued pursuant to any employee benefit plans or any secondary offering of the capital stock of the Company or any of its Subsidiaries by a third party, provided that the Company or such Subisidiary shall not receive any cash proceeds resulting from such secondary offering), net of costs of the offering and issuance, on and after the Effective Date, on a cumulative basis.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor act or code and the regulations in effect from time to time thereunder.

"Eurocurrency-based Advance" shall mean any Advance which bears interest at the Eurocurrency-based Rate.

"Eurocurrency-based Rate" shall mean a per annum interest rate which is equal to the sum of (a) the Applicable Margin, plus (b) the quotient of:

(A) the per annum interest rate at which deposits in the relevant eurocurrency are offered to Agent's Eurocurrency Lending Office by other prime banks in the eurocurrency market in an amount comparable to the relevant Eurocurrency-based Advance and for a period equal to the relevant Eurocurrency-Interest Period at approximately 11:00 A.M. Detroit time two (2) Business Days prior to the first day of such Eurocurrency-Interest Period, divided by

(B) a percentage equal to 100% minus the maximum rate on such date at which Agent is required to maintain reserves on "Eurocurrency Liabilities' as defined in and pursuant to Regulation D of the Board of Governors of the Federal Reserve System or, if such regulation or definition is modified, and as long as Agent is required to maintain reserves against a category of liabilities which includes eurocurrency deposits or includes a category of assets which includes eurocurrency loans, the rate at which such reserves are required to be maintained on such category,

such sum to be rounded upward, if necessary, to the nearest whole multiple of 1/100th of 1%.

"Eurocurrency-Interest Period" shall mean, for any Eurocurrency-based Advance, an interest period of one, two, three or six months (or any lesser or greater number of days agreed to in advance by the Company, Agent and the Banks) as selected by the Company, for such Eurocurrency-based Advance pursuant to Section 2.3 or 2.5 hereof, as the case may be.

"Eurocurrency Lending Office" shall mean, (a) with respect to the Agent, Agent's office located at its Grand Caymans Branch or such other branch of Agent, domestic or foreign, as it may hereafter designate as its Eurocurrency Lending Office by written notice to Company and the Banks and (b) as to each of the Banks, its office, branch or affiliate located at its address set forth on the signature pages hereof (or identified thereon as its Eurocurrency Lending Office), or at such other office, branch or affiliate of such Bank as it may hereafter designate as its Eurocurrency Lending Office by written notice to Company and Agent.

"Event of Default" shall mean each of the Events of Default specified in Section 8.1 hereof.

"Existing Letter of Credit" shall mean a letter of credit issued under the Prior Credit Agreement which is outstanding on the effective date hereof.

"Federal Funds Effective Rate" shall mean, for any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Agent from three Federal funds brokers of recognized standing selected by it, all as conclusively determined by the Agent, such sum to be rounded upward, if necessary, to the nearest whole multiple of 1/100th of 1%.

"Fee Letter" shall mean each fee letter in effect from time to time between Company and the Agent or any Bank hereunder, as amended from time to time.

"Fees" shall mean the Revolving Credit Facility Fee, the Letter of Credit Fees and the other fees and charges payable by the Company to the Banks or Agent hereunder.

"Foreign Subsidiary(ies)" shall mean each Subsidiary of the Company which is not a Domestic Subsidiary.

"Funded Debt" of any Person shall mean, on a Consolidated basis (without duplication) as of the date of determination, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services as of such date (other than operating leases and trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) or which is evidenced by a note, bond, debenture or similar instrument, (b) the principal component of all obligations of such Person under Capitalized Leases, (c) all reimbursement obligations (actual, contingent or otherwise) of such Person in respect of letters of credit, acceptances or similar obligations issued or created for the account of such Person, (d) all liabilities secured by any liens on any property owned by such Person as of such date even though such Person has not assumed or otherwise become liable for the payment thereof, in each case determined in accordance with GAAP; provided however that so long as such Person is not personally liable for such liabilities, the amount of such liability shall be deemed to be the lesser of the fair market value at such date of the property subject to the lien securing such liability and the amount of the liability secured, (e) liabilities for obligations which may arise by operation of law (excluding taxes, but including, by way of example and not limitation, liabilities for ERISA funding, environmental hazards and other liabilities under Hazardous Materials Laws) and (f) all Guarantee Obligations in respect of any liability which constitutes Funded Debt; provided, however that, except for purposes of Section 9.1 hereof, Funded Debt shall not include any interest rate swap transaction, basis swap transaction, forward rate transaction, commodity swap transaction, equity transaction, equity index transaction, foreign exchange transaction, cap transaction, floor transaction (including any option with respect to any of these transactions and any combination of any of the foregoing) entered into by such Person prior to the occurrence of a termination event with respect thereto.

"GAAP" shall mean generally accepted accounting principles in the United States of America, consistently applied.

"Governmental Obligations" means noncallable direct general obligations of the United States of America or obligations the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

"Guarantee Obligation" shall mean as to any Person (the "guaranteeing person") any obligation of the guaranteeing person in respect of any obligation of another Person (including, without limitation, any bank under any letter of credit), the creation of which was induced by a reimbursement agreement, guaranty agreement, keepwell agreement, purchase agreement, counterindemnity or similar obligation issued by the guaranteeing person, in either case guaranteeing or in effect guaranteeing any Debt, leases, dividends or other obligations (the "primary obligations") of any other third Person (the

"primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by Company in good faith.

"Guarantors" shall mean the Significant Domestic Subsidiaries described on Schedule 1.3 hereto, and each Significant Domestic Subsidiary which is required by the Banks to guarantee the obligations of the Company under the terms set forth in Section 6.16 of this Agreement and under the other Loan Documents; provided, however, that for purposes of this Agreement, so long as the assets of Quanex Health Management Company consist only of intercompany accounts receivables, such Subsidiary shall not be required to execute a Guaranty or be deemed to be a Guarantor under this Agreement.

"Guaranty" shall mean that certain guaranty of all outstanding Indebtedness of the Company, executed and delivered (or to be executed and delivered) by the Guarantors (whether by execution thereof, or by execution of the Joinder Agreement attached as "Exhibit A" to the form of such Guaranty), to the Agent, on behalf of the Banks, in the form annexed hereto as Exhibit J, as amended from time to time.

"Hazardous Material" shall mean any hazardous or toxic waste, substance or material defined or regulated as such in or for purposes of the Hazardous Material Laws.

"Hazardous Material Law(s)" shall mean all laws, codes, ordinances, rules, regulations, orders, decrees and final, written directives issued by any federal, state, local or other governmental or quasi-governmental authority or body (or any agency, instrumentality or political subdivision thereof) pertaining to any substance or material which is regulated for reasons of health, safety or the environment and which is present or alleged to be present on or about or used in any facilities owned, leased or operated by the Company or any of Subsidiaries, or any portion thereof including, without limitation, those relating to surface and subsurface soil and ground water conditions and the condition of the indoor and outdoor ambient air; any so-called "superfund" or "superlien" law; and any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any Hazardous Material, as now in effect or at any time during the term of the Agreement.

"Hedging Transaction" means each interest rate swap transaction, basis swap transaction, forward rate transaction, commodity swap transaction, equity transaction, equity index transaction, foreign exchange transaction, cap transaction, floor transaction (including any option with respect to any of these transactions and any combination of any of the foregoing) entered into by the Company from time to time, but only for risk management purposes and not for speculative purposes.

"Hereof", "hereto", "hereunder" and similar terms shall refer to this Agreement and not to any particular paragraph or provision of this Agreement.

"Income Taxes" shall mean for any period the aggregate amount of taxes based on income or profits for such period of the operations of Company and its Subsidiaries determined in accordance with GAAP on a Consolidated basis (to the extent such income and profits were included in computing Consolidated Net Income).

"Indebtedness" shall mean all indebtedness and liabilities including interest, fees and other charges (including interest accruing at the then applicable rate provided in this Agreement or any other applicable Loan Document after the Revolving Credit Maturity Date and interest accruing at the then applicable rate provided in this Agreement or any other applicable Loan Document after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company or any Guarantor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), arising under this Agreement or any of the other Loan Documents, whether direct or indirect, absolute or contingent, of the Company or any Subsidiary to any of the Banks or Affiliates thereof or to the Agent, in any manner and at any time, whether arising under this Agreement or under the Guaranty or any of the other Loan Documents, due or hereafter to become due, now owing or that may hereafter be incurred by the Company or any Subsidiary to, any of the Banks or Affiliates thereof or to the Agent (and which shall be deemed to include any liabilities of the Company or any Subsidiary to any Bank arising in connection with account overdrafts or other cash management services related to this Agreement), and any judgments that may hereafter be rendered on such indebtedness or any part thereof, with interest according to the rates and terms specified, or as provided by law, any payment obligations, if any, under Hedging Transactions evidenced by Bank Hedging Agreements, and any and all consolidations, amendments, renewals, replacements, substitutions or extensions of any of the foregoing; provided, however that for purposes of calculating the Indebtedness outstanding under this Agreement or any of the other Loan Documents, the direct and indirect and absolute and contingent obligations of the Company and the Subsidiaries (whether direct or contingent) shall be determined without duplication.

"Intercompany Loan" shall mean any loan (or advance in the nature of a loan) by the Company to any Subsidiary, or by any Subsidiary to the Company or to any other Subsidiary, provided that each such loan or advance is subordinated in right of payment and priority to the Indebtedness on terms and conditions satisfactory to Agent and the Majority Banks.

"Intercompany Loans, Advances or Investments" shall mean any Intercompany Loan, and any advance or investment by the Company or any Subsidiary (including without limitation any guaranty of obligations or indebtedness to third parties) to or in another Subsidiary (or by any Subsidiary to the Company).

"Intercompany Note" shall mean any promissory note issued or to be issued by the Company or any Subsidiary to evidence an Intercompany Loan substantially in the form of Exhibit L.

"Interest Period" shall mean (a) with respect to a Eurocurrency-based Advance, a Eurocurrency-Interest Period, commencing on the day a Eurocurrency-based Advance is made, or on the effective date of an election of the Eurocurrency-based Rate made under Section 2.3 hereof, and (b) with respect to a Swing Line Advance carried at the Quoted Rate, an interest period of 30 days (or any lesser or greater number of days agreed to in advance by the Company, Agent and the Swing Line Bank; provided, however that (i) any Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day, except that as to an Interest Period in respect of a Eurocurrency-based Advance, if the next succeeding Business Day falls in another calendar month, such Interest Period shall end on the next preceding Business Day, (ii) when an Interest Period in respect of a Eurocurrency-based Advance begins on a day which has no numerically corresponding day in the calendar month during which such Interest Period is to end, it shall end on the last Business

Day of such calendar month, and (iii) no Interest Period in respect of any Advance shall extend beyond the Revolving Credit Maturity Date.

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated thereunder.

"Investment" shall mean, when used with respect to any Person, (a) any loan, investment or advance made by such Person to any other Person (including, without limitation, any contingent obligation) in respect of any capital stock, Debt, obligation or liability of such other Person and (b) any other investment made by such Person (however acquired) in stock or other ownership interests in any other Person, including, without limitation, any investment made in exchange for the issuance of shares of stock of such Person.

"Issuing Bank" shall mean Comerica Bank in its capacity as issuer of one or more Letters of Credit hereunder, or its successor designated by the Company and the Revolving Credit Banks.

"Issuing Office" shall mean such office as Issuing Bank shall designate as its Issuing Office.

"Letter of Credit Agreement" shall mean, in respect of each Letter of Credit, the application and related documentation satisfactory to the Issuing Bank of an Account Party or Account Parties requesting Issuing Bank to issue such Letter of Credit, as amended from time to time.

"Letter of Credit Documents" is defined in Section 3.7.

"Letter of Credit Fees" shall mean the fees payable to Agent for the accounts of the Revolving Credit Banks in connection with Letters of Credit pursuant to Section 3.4(a) and (b) hereof.

"Letter of Credit Maximum Amount" shall mean Twenty Five Million Dollars ($25,000,000).

"Letter of Credit Obligations" shall mean at any date of determination, the sum of (a) the aggregate undrawn amount of all Letters of Credit outstanding as of such date, (b) the aggregate face amount of all Letters of Credit requested but not yet issued as of such date and (c) the aggregate amount of Reimbursement Obligations as of such date.

"Letter of Credit Payment" shall mean any amount paid or required to be paid by the Issuing Bank in its capacity hereunder as issuer of a Letter of Credit as a result of a draft or other demand for payment under any Letter of Credit.

"Letter(s) of Credit" shall mean any standby letters of credit issued by Issuing Bank at the request of or for the account of an Account Party or Account Parties pursuant to Article 3 hereof, including without limitation any Existing Letters of Credit.

"Lien" shall mean the security interest or lien arising from any pledge, assignment, hypothecation, mortgage, security interest, deposit arrangement, option, trust receipt, conditional sale or title retaining contract, sale and leaseback transaction, Capitalized Lease, consignment or bailment for security or any other type of lien, charge, title exception, encumbrance (including, with respect to stock, any stockholder agreements, voting trust agreements, buy-back agreements and all similar arrangements), preferential or priority arrangement affecting Property, whether based on common law or statute.

"Loan Documents" shall mean, collectively, this Agreement, the Notes (if issued), the Letter of Credit Agreements, the Letters of Credit, the Guaranty, the Collateral Documents, any Bank Hedging Agreement and any other documents, certificates, instruments or agreements executed or delivered pursuant to or in connection with any such document or this Agreement, as such documents may be amended or otherwise modified from time to time.

"Loan Parties" shall mean the Company and each Guarantor and "Loan Party" shall mean any one of them, as the context indicates or otherwise requires.

"Majority Banks" shall mean (a) so long as the Revolving Credit Aggregate Commitment is outstanding hereunder, at any time Banks holding not less than 51% of the aggregate principal amount of the Revolving Credit Aggregate Commitment and (b) if the Revolving Credit Aggregate Commitment has been terminated, at any time the Banks holding not less than 51% of the aggregate principal amount of the Indebtedness then outstanding under the Revolving Credit (provided that, for purposes of determining Majority Banks hereunder, Indebtedness outstanding under the Swing Line or under any Letter of Credit shall be allocated among the Banks based on their respective Percentages; provided however that so long as there are fewer than three Banks, "Majority Banks" shall mean all Banks).

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company and the Guarantors to perform their respective obligations under this Agreement, the Notes (if issued) or any other Loan Document to which any of them is a party, or (c) the validity or enforceability of this Agreement, any of the Notes (if issued) or any of the other Loan Documents or the rights or remedies of the Agent or the Banks hereunder or thereunder.

"Multiemployer Plan" shall mean a Pension Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Non-Defaulting Bank" is defined in Section 2.4(c).

"Notes" shall mean the Revolving Credit Notes and the Swing Line Note.

"Operating Lease" shall mean any lease (or other arrangement conveying the right to use) real or personal property, or any combination thereof, which lease is not required to be classified as a Capitalized Lease in accordance with GAAP.

"Pension Plan" shall mean any plan established and maintained by the Company or any Subsidiary which is qualified under Section 401(a) of the Internal Revenue Code and subject to the minimum funding standards of Section 412 of the Internal Revenue Code.

"Percentage" shall mean with respect to each Revolving Credit Bank, its percentage share, as set forth on Schedule 1.2 under column 1, of the Revolving Credit and its risk participation in Letters of Credit and in any outstanding Swing Line Advances, as such Schedule may be revised from time to time by Agent in accordance with Section 12.8.

"Permitted Acquisition" shall mean any acquisition (including by way of merger) by Company or any Guarantor of all or substantially all of the assets of another Person, or of a division or line of business of another Person, or shares of stock or other ownership interests of another Person, which is conducted in accordance with the following requirements:

(a) Such acquisition is of a business or Person engaged in a line of business reasonably related to that of the Company and its Subsidiaries;

(b) If such acquisition is structured as a stock acquisition, then the Person so acquired shall either (X) become a wholly-owned Subsidiary of the Company, a Guarantor or other wholly-owned Subsidiary of the Company and the Company shall comply, or cause such Subsidiary to comply, with Section 6.16 hereof (if applicable) or (Y) such Person shall be merged with and into the Company, a Guarantor or other wholly-owned Subsidiary of the Company (with the Company or such Guarantor or such Subsidiary being the surviving entity);

(c) If such acquisition is structured as the acquisition of assets, such assets shall be acquired by Company or a Guarantor or other wholly-owned Subsidiary of the Company;

(d) The Company shall have delivered to the Agent not less than fifteen (15) nor more than ninety (90) days prior to the target consummation date of such acquisition, notice of such

acquisition together with Pro Forma Projected Financial Information, copies of all material documents relating to such acquisition, and historical financial information (including income statements, balance sheets and cash flows) covering at least two (2) complete fiscal years of the acquisition target prior to the effective date of the acquisition or the entire credit history of the acquisition target, whichever period is shorter, in each case in form and substance satisfactory to the Agent and the Majority Banks;

(e) Both immediately before and after such acquisition no Default or Event of Default shall have occurred and be continuing;

(f) The board of directors (or other Person(s) exercising similar functions) of the seller of the assets or issuer of the shares of stock or other ownership interests being acquired shall not have disapproved such transaction or recommended that such transaction be disapproved;

(g) The purchase price of such proposed new acquisition, computed on the basis of total acquisition consideration paid or incurred, or to be paid or incurred, with respect thereto, including the amount of Funded Debt assumed or to which such assets, businesses or business or ownership interests or shares, or any Person so acquired is subject (and including payments made or to be made under any non-compete agreements), but excluding the value of any common shares of the Company, any Subsidiary or any other Person transferred as a part of such acquisition, (X) is less than Fifty Million Dollars ($50,000,000), and (Y) when added to the purchase price for each other Permitted Acquisition consummated during the same fiscal year, does not exceed One Hundred Million Dollars ($100,000,000).

"Permitted Investments" shall mean with respect to any Person:

(a) Governmental Obligations;

(b) Obligations of a state of the United States, the District of Columbia or any possession of the United States, or any political subdivision thereof, which are described in Section 103(a) of the Internal Revenue Code and are graded in any of the highest three (3) major grades as determined by at least one Rating Agency; or secured, as to payments of principal and interest, by a letter of credit provided by a financial institution or insurance provided by a bond insurance company which in each case is itself or its debt is rated in one of the highest three (3) major grades as determined by at least one Rating Agency;

(c) Banker's acceptances, commercial accounts, demand deposit accounts, money market accounts, certificates of deposit, or depository receipts issued by or maintained with any Bank or a bank, trust company, savings and loan association, savings bank or other financial institution whose deposits are insured by the Federal Deposit Insurance Corporation and whose reported capital and surplus equal at least $250,000,000, provided that such minimum capital and surplus requirement shall not apply to demand deposit accounts maintained by the Company or any of the Subsidiaries in the ordinary course of business;

(d) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two Rating Agencies, and which matures within 270 days after the date of issue;

(e) Secured repurchase agreements against obligations itemized in paragraph (a) above, and executed by a bank or trust company or by members of the association of primary dealers or other recognized dealers in United States government securities, the market value of which must be maintained at levels at least equal to the amounts advanced; and

(f) Any fund or other pooling arrangement which exclusively purchases and holds the investments itemized in (a) through (e) above.

"Permitted Liens" shall mean with respect to any Person:

(a) Liens for taxes not yet delinquent or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of such Person in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's liens or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith by appropriate proceedings; provided however that a reserve or other appropriate provisions shall have been made therefor;

(c) pledges or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements;

(d) deposits to secure (i) the performance of tenders or bids, trade contracts (other than for borrowed money), statutory obligations, surety, customs, stay and appeal bonds, performance and return of money bonds, government contracts and other obligations of a like nature or (ii) the performance of leases permitted hereunder, in each case given or incurred on terms, in amounts and otherwise in the ordinary course of business;

(e) easements, rights-of-way, restrictions, minor defects or irregularities in title and other similar encumbrances or Liens incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of such Person; and

(f) any attachment or judgment Lien not constituting an Event of Default under Section 8.1(h);

(g) leases or subleases of real property interests granted to third parties in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business by Company or any of its Subsidiaries;

(h) any (i) interest or title of a lessor or sublessor under any lease permitted hereunder, (ii) restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to, or (iii) subordination of the interest of the lessee or sublessee under such lease to any restriction or encumbrance referred to in the preceding clause (ii), so long as the holder of such restriction of encumbrance agrees to recognize the rights of such lessee or sublessee under such lease;

(i) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;

(j) any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;

(k) licenses of patents, trademarks and other intellectual property rights granted by Company or any of its Subsidiaries in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business by Company or any of its Subsidiaries.

"Person" shall mean a natural person, corporation, limited liability company, partnership, limited liability partnership, trust, incorporated or unincorporated organization, joint venture, joint stock company, or a government or any agency or political subdivision thereof or other entity of any kind.

"Potential Financial Institution" is defined in Section 2.4(c).

"Prime-based Advance" shall mean an Advance which bears interest at the Prime-based Rate.

"Prime-based Rate" shall mean, for any day, that rate of interest which is equal to the sum of the Applicable Margin plus the greater of (i) the Prime Rate, and (ii) the Alternate Base Rate.

"Prime Rate" shall mean the per annum rate of interest announced by the Agent, at its main office from time to time as its "prime rate" (it being acknowledged that such announced rate may not necessarily be the lowest rate charged by the Agent to any of its customers), which Prime Rate shall change simultaneously with any change in such announced rate.

"Prior Credit Agreement" shall mean that certain Quanex Corporation $250,000,000 Revolving Credit and Term Loan Agreement dated as of July 23, 1996, by and among the Company, the banks signatory thereto and Comerica Bank as Agent for the Banks, and any and all amendments or other modifications thereto.

"Pro Forma Projected Financial Information" shall mean, as to any proposed acquisition, a statement executed by a Responsible Officer (supported by reasonable detail) setting forth the total consideration to be paid or incurred in connection with the proposed acquisition, and pro forma combined projected

financial information for the Company and the Consolidated Subsidiaries and the acquisition target (if applicable), consisting of projected balance sheets as of the proposed effective date of the acquisition or the closing date thereof and as of the end of at least the next succeeding three (3) fiscal years of the Company following the acquisition and projected statements of income and cash flows for each of those years, including sufficient detail to permit calculation of the amounts and the ratios described in Sections 6.9 through 6.11 and 7.7 hereof, as projected as of the effective date of the acquisition and for those fiscal years and accompanied by (i) a statement setting forth a calculation of the ratios and amounts so described, (ii) a statement in reasonable detail specifying all material assumptions underlying the projections and (iii) such other information as the Agent or Majority Banks shall reasonably request.

"Purchasing Bank" shall have the meaning set forth in Section 10.7.

"Quoted Rate" shall mean the rate of interest per annum offered by the Swing Line Bank in its sole discretion with respect to a Swing Line Advance.

"Quoted Rate Advance" means any Swing Line Advance which bears interest at the Quoted Rate.

"Rating Agency" shall mean Moody's Investor Services, Inc., Standard and Poor's Ratings Services, their respective successors or any other nationally recognized statistical rating organization which is acceptable to the Agent.

"Register" is defined in Section 12.8(f) hereof.

"Reimbursement Obligation(s)" shall mean the aggregate amount of all unreimbursed drawings under all Letter of Credit Agreements (excluding for the avoidance of doubt, amounts deemed to have been advanced under Section 3.6(a)) together with all other sums, fees, charges and amounts which may be owing to the Issuing Bank under such Letter of Credit Agreement or this Agreement relating to Letters of Credit.

"Request for Advance" shall mean a Request for Revolving Credit Advance or a Request for Swing Line Advance, as the context may indicate, or otherwise require.

"Request for Revolving Credit Advance" shall mean a request for a Revolving Credit Advance issued by the Company under Section 2.3 of this Agreement in the form annexed hereto as Exhibit A, as amended or otherwise modified in accordance with the terms hereof.

"Request for Swing Line Advance" shall mean a request for a Swing Line Advance issued by the Company under Section 2.5(c) of this Agreement in the form attached hereto as Exhibit D, as amended or otherwise modified in accordance with the terms of this Agreement.

"Requirement of Law" shall mean as to any Person, the certificate of incorporation and bylaws, the partnership agreement or other organizational or governing documents of such Person and any law, treaty, rule or regulation or determination of an arbitration or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer" shall mean the chief executive officer, chief financial officer, treasurer or the president of the Company, or with respect to compliance with financial covenants, the chief financial officer or the treasurer of the Company or any other officer having substantially the same authority and responsibility.

"Revolving Credit" shall mean the revolving credit loans to be advanced to the Company by the applicable Revolving Credit Banks pursuant to Article 2 hereof, in an aggregate amount (subject to the terms hereof), not to exceed, at any one time outstanding, the Revolving Credit Aggregate Commitment.

"Revolving Credit Advance" shall mean a borrowing requested by the Company and made by the Revolving Credit Banks under Section 2.1 of this Agreement, including without limitation any readvance, refunding or conversion of such borrowing pursuant to Section 2.3 hereof and any advance in respect of a Letter of Credit under Section 3.6(a) hereof, and shall include, as applicable, a Eurocurrency-based Advance and/or a Prime-based Advance.

"Revolving Credit Aggregate Commitment" shall mean Two Hundred Million Dollars ($200,000,000), subject to any reduction or termination under Section 2.13, 2.14 or 8.2 hereof.

"Revolving Credit Banks" shall mean the financial institutions from time to time parties hereto as lenders of the Revolving Credit.

"Revolving Credit Facility Fee" shall mean the fees payable to Agent for distribution to the Revolving Credit Banks pursuant to Section 2.12 hereof.

"Revolving Credit Maturity Date" shall mean the earlier to occur of (i) November 15, 2005, as such date may be extended pursuant to Section 2.15 hereof, and (ii) the date on which the Revolving Credit Aggregate Commitment shall terminate in accordance with the provisions of this Agreement.

"Revolving Credit Notes" shall mean the revolving credit notes described in Section 2.2 hereof, made by the Company to each of the Revolving Credit Banks in the form annexed to this agreement as Exhibit B, as such notes may be amended or supplemented from time to time, and any other notes issued in substitution, replacement or renewal thereof from time to time.

"Security Agreement" shall mean the Security Agreement substantially in the form of the Security Agreement annexed hereto as Exhibit K executed and delivered by the Company and the Guarantors in favor of the Agent, as amended or otherwise modified from time to time.

"Significant Domestic Subsidiary" shall mean any Domestic Subsidiary, whether existing as of the Effective Date or created or acquired (directly or indirectly) by the Company thereafter, which has total assets, on an individual basis, on any date of determination, of $15,000,000 (or more) or which has, on an individual basis, as of the most recent trailing twelve month period, then ending, total revenues (determined in conformity with GAAP) of $30,000,000 or more.

"Subordination Agreement" shall mean any subordination agreement entered into from time to time between Agent, for and on behalf of the Banks, and any holder of Subordinated Debt, to evidence

the subordination of such Debt to the Indebtedness hereunder, as each such subordination agreement may be amended from time to time.

"Subordinated Debt" shall mean (i) any Funded Debt of the Company having a maturity date which is later than the Revolving Credit Maturity Date then in effect and which, when added to all other Subordinated Debt then outstanding, does not exceed in the aggregate $75,000,000, and which has been has been subordinated in right of payment and priority to the Indebtedness substantially on the terms and conditions set forth on the attached Exhibit N and (ii) any Funded Debt which, when added to all other Subordinated Debt then outstanding, exceeds in the aggregate $75,000,000, and which has been has been subordinated in right of payment and priority to the Indebtedness on terms and conditions satisfactory to the Agent and the Majority Banks.

"Subordinated Debt Adjustment" shall mean that amount to be added to the minimum Consolidated Tangible Net Worth required to be maintained under Section 6.10 hereof consisting of an amount equal to fifty percent (50%) of the cash proceeds of all Subordinated Debt issued by the Company or any of its Subsidiaries on or after the Effective Date, on a cumulative basis.

"Subordinated Debt Documents" shall mean and include any documents evidencing any Subordinated Debt, as the same may be amended, modified or supplemented from time to time in compliance with the terms of this Agreement.

"Subsidiary(ies)" shall mean any other corporation, association, joint stock company, business trust, limited liability company or any other business entity of which more than fifty percent (50%) of the outstanding voting stock, share capital, membership or other interests, as the case may be, is owned either directly or indirectly by any Person or one or more of its Subsidiaries, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by any Person and/or its Subsidiaries. Unless otherwise specified to the contrary herein or the context otherwise requires, Subsidiary(ies) shall refer to each Person which is a Subsidiary of the Company.

"Swing Line" shall mean the revolving credit loans to be advanced to the Company by the Swing Line Bank pursuant to Section 2.5 hereof, in an aggregate amount (subject to the terms hereof), not to exceed, at any one time outstanding, the Swing Line Maximum Amount.

"Swing Line Advance" shall mean a borrowing made by Swing Line Bank to the Company pursuant to Section 2.5 hereof.

"Swing Line Bank" shall mean Comerica Bank in its capacity as lender under Section 2.5 of this Agreement or its successor as lender of the Swing Line.

"Swing Line Maximum Amount" shall mean Fifteen Million Dollars ($15,000,000).

"Swing Line Notes" shall mean the swing line notes which may be issued by the Company at the request of Swing Line Bank pursuant to Section 2.5(a) hereof in the form annexed hereto as Exhibit C, as the case may be, as such Notes may be amended or supplemented from time to time, and any notes issued in substitution, replacement or renewal thereof from time to time.

"Uniform Commercial Code" or "UCC" shall mean the Uniform Commercial Code of any applicable state, and, unless specified otherwise the Uniform Commercial Code as in effect in the State of Michigan.

2. REVOLVING CREDIT

2.1 *Commitment.* Subject to the terms and conditions of this Agreement (including without limitation Section 2.3 hereof), each Revolving Credit Bank severally and for itself alone agrees to make Advances of the Revolving Credit in Dollars to the Company from time to time on any Business Day during the period from the Effective Date hereof until (but excluding) the Revolving Credit Maturity

Date in an aggregate amount, not to exceed at any one time outstanding such Bank's Percentage of the Revolving Credit Aggregate Commitment. Subject to the terms and conditions set forth herein, advances, repayments and readvances may be made under the Revolving Credit.

2.2 *Accrual of Interest and Maturity; Evidence of Indebtedness.* (a) The Company hereby unconditionally promises to pay to the Agent for the account of each Revolving Credit Bank the then unpaid principal amount of each Revolving Credit Advance (plus all accrued and unpaid interest) of such Revolving Credit Bank to the Company on the Revolving Credit Maturity Date and on such other dates and in such other amounts as may be required from time to time pursuant to this Agreement.

(b) Each Revolving Credit Bank shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Company to the appropriate lending office of such Revolving Credit Bank resulting from each Revolving Credit Advance made by such lending office of such Revolving Credit Bank from time to time, including the amounts of principal and interest payable thereon and paid to such Revolving Credit Bank from time to time under this Agreement.

(c) The Agent shall maintain the Register pursuant to Section 12.8(f), and a subaccount therein for each Revolving Credit Bank, in which Register and subaccounts (taken together) shall be recorded (i) the amount of each Revolving Credit Advance made hereunder, the type thereof and each Interest Period applicable to any Eurocurrency-based Advance, (ii) the amount of any principal or interest due and payable or to become due and payable from the Company to each Revolving Credit Bank hereunder in respect of the Revolving Credit Advances and (iii) both the amount of any sum received by the Agent hereunder from the Company in respect of the Revolving Credit Advances and each Revolving Credit Bank's share thereof.

(d) The entries made in the Register and the accounts of each Revolving Credit Bank maintained pursuant to paragraphs (b) and (c) of this Section 2.2 shall, absent manifest error, to the extent permitted by applicable law, be conclusive evidence of the existence and amounts of the obligations of the Company therein recorded; *provided, however*, that the failure of any Revolving Credit Bank or the Agent to maintain the Register or any such account, as applicable, or any error therein, shall not in any manner affect the obligation of the Company to repay the Revolving Credit Advances (and all other amounts owing with respect thereto) made to the Company by the Revolving Credit Banks in accordance with the terms of this Agreement.

(e) The Company agrees that, upon written request to the Agent (with a copy to the Company) by any Revolving Credit Bank, the Company will execute and deliver, to such Revolving Credit Bank, at Company's own expense, a Revolving Credit Note evidencing the outstanding Revolving Credit

Advances owing to such Revolving Credit Bank.

2.3 *Requests for and Refundings and Conversions of Advances.* The Company may request an Advance of the Revolving Credit, refund any such Advance in the same type of Advance or convert any such Advance to any other type of Advance of the Revolving Credit only after delivery to Agent of a Request for Revolving Credit Advance executed by a Responsible Officer or other person previously authorized (in a writing delivered to the Agent) by the Company to execute such Request, subject to the following:

(a) each such Request for Revolving Credit Advance shall set forth the information required on the Request for Revolving Credit Advance form annexed hereto as Exhibit A, including without limitation:

(i) the proposed date of such Advance, which must be a Business Day;

(ii) whether such Advance is a refunding or conversion of an outstanding Advance; and

(iii) whether such Advance is to be a Prime-based Advance or a Eurocurrency-based Advance, and, except in the case of a Prime-based Advance, the first Interest Period applicable thereto.

(b) each such Request for Revolving Credit Advance shall be delivered to Agent by 1:00 p.m. (Detroit time) at least three (3) Business Days prior to the proposed date of Advance, except in the case of a Prime-based Advance, for which the Request for Advance must be delivered by 1:00 p.m. (Detroit time) on such proposed date for Advances;

(c) on the proposed date of such Advance, the sum of (x) the aggregate principal amount of all Advances of the Revolving Credit and of the Swing Line requested or outstanding on such date (including without limitation all Advances and Letters of Credit requested by the Company but not yet funded or issued on such date and including, without duplication, the deemed Advances funded by the Agent under Section 3.6(a) hereof in respect of the Company's or an applicable Account Party's Reimbursement Obligation hereunder) plus (y) the Letter of Credit Obligations as of such date, shall not exceed the Revolving Credit Aggregate Commitment; *provided however*, that, in the case of any Advance being applied to refund or convert an outstanding Advance, the aggregate principal amount of such Advances to be refunded or converted shall not be included for purposes of calculating availability under this Section 2.3(c);

(d) in the case of a Prime-based Advance, the principal amount of the initial funding of such Advance, as opposed to any refunding or conversion thereof, shall be at least $2,000,000;

(e) in the case of a Eurocurrency-based Advance, the principal amount of such Advance, plus the amount of any other outstanding Advance of the Revolving Credit to be then combined therewith having the same Applicable Interest Rate and Interest Period, if any, shall be at least $3,000,000 (or a larger integral multiple of $100,000) and at any one time there shall not be in effect more than ten (10) Eurocurrency-based Rates and Eurocurrency-Interest Periods;

(f) a Request for Revolving Credit Advance, once delivered to Agent, shall not be revocable by the Company;

(g) each Request for Revolving Credit Advance shall constitute a certification by the Company, as of the date thereof that:

(i) both before and after such Advance, the obligations of the Loan Parties set forth in this Agreement and the other Loan Documents to which such Persons are parties are valid, binding and enforceable obligations of such Loan Parties (subject to the limitations set forth in Section 5.7 of this Agreement);

(ii) all conditions to Advances of the Revolving Credit have been satisfied, and shall remain satisfied to the date of such Advance (both before and after giving effect to such Advance);

(iii) there is no Default or Event of Default in existence, and none will exist upon the making of such Advance (both before and after giving effect to such Advance);

(iv) the representations and warranties contained in this Agreement and the other Loan Documents are true and correct in all material respects and shall be true and correct in all material respects as of the making of such Advance (both before and after giving effect to such Advance), other than any representation or warranty that expressly speaks only as of a different date; and

(v) the execution of such Request for Advance will not violate the material terms and conditions of any material contract, agreement or other borrowing of the Company.

Agent, acting on behalf of the Revolving Credit Banks, may, at its option, lend under this Section 2.3 upon the telephone request of a person previously authorized (in a writing delivered to the Agent) by the Company to make such requests and, in the event Agent, acting on behalf of the Revolving Credit Banks, makes any such Advance upon a telephone request, the requesting person shall fax to Agent, on the same day as such telephone request, a Request for Advance. The Company hereby authorizes Agent to disburse Advances under this Section 2.3 pursuant to the telephone instructions of any person purporting to be a person identified by name on a written list of persons authorized by the Company and delivered to Agent prior to the date of such request to make Requests for Advance on behalf of the Company. Notwithstanding the foregoing, the Company acknowledges that the Company shall bear all risk of loss resulting from disbursements made upon any telephone request. Each telephone request for an Advance shall constitute a certification of the matters set forth in the Request for Revolving Credit Advance form as of the date of such requested Advance.

2.4 *Disbursement of Advances.*

(a) Upon receiving any Request for Revolving Credit Advance from the Company under Section 2.3 hereof, Agent shall promptly notify each Revolving Credit Bank by wire, telex or telephone (confirmed by wire, telecopy or telex) of the amount of such Advance to be made and the date such Advance is to be made by said Revolving Credit Bank pursuant to its Percentage of such Advance. Unless such Revolving Credit Bank's commitment to make Advances of the Revolving Credit hereunder shall have been suspended or terminated in accordance with this Agreement, each such Revolving Credit Bank shall make available the amount of its Percentage of each Advance in immediately available funds to Agent, as follows:

(i) for Domestic Advances, at the office of Agent located at One Detroit Center, Detroit, Michigan 48226, not later than 3:00 p.m. (Detroit time) on the date of such Advance; and

(ii) for Eurocurrency-based Advances, at the Agent's Correspondent for the account of the Eurocurrency Lending Office of the Agent, not later than 12 noon (the time of the Agent's Correspondent) on the date of such Advance.

(b) Subject to submission of an executed Request for Revolving Credit Advance by the Company without exceptions noted in the compliance certification therein, Agent shall make available to the Company, the aggregate of the amounts so received by it from the Revolving Credit Banks in like funds and currencies:

(i) for Domestic Advances, not later than 4:00 p.m. (Detroit time) on the date of such Advance by credit to an account of Company maintained with Agent or to such other account or third party as Company may reasonably direct; and

(ii) for Eurocurrency-based Advances, not later than 4:00 p.m. (the time of the Agent's Correspondent) on the date of such Advance, by credit to an account of the Company maintained with Agent's Correspondent or to such other account or third party as the Company may reasonably direct.

(c) Agent shall deliver the documents and papers received by it for the account of each Revolving Credit Bank to such Revolving Credit Bank or upon its order. Unless Agent shall have been notified by any Revolving Credit Bank prior to the date of any proposed Revolving Credit Advance that such Revolving Credit Bank does not intend to make available to Agent such Revolving Credit Bank's Percentage of such Advance, Agent may assume that such Revolving Credit Bank has made such amount available to Agent on such date, as aforesaid and may, in reliance upon such assumption, make available to the Company a corresponding amount. If such amount is not in fact made available to Agent by such Revolving Credit Bank, as aforesaid, Agent

shall be entitled to recover such amount on demand from such Revolving Credit Bank. If such Revolving Credit Bank does not pay such amount forthwith upon Agent's demand therefor and the Agent has in fact made a corresponding amount available to the Company, the Agent shall promptly notify the Company and the Company shall pay such amount to Agent, if such notice is delivered to the Company prior to 1:00 p.m. (Detroit time) on a Business Day, on the day such notice is received, and otherwise on the next Business Day. Agent shall also be entitled to recover from such Revolving Credit Bank or the Company, as the case may be, but without duplication, interest on such amount in respect of each day from the date such amount was made available by Agent to the Company, to the date such amount is recovered by Agent, at a rate per annum equal to:

(i) in the case of such Revolving Credit Bank, for the first two (2) Business Days such amount remains unpaid, with respect to Domestic Advances, the Federal Funds Effective Rate, and with respect to Eurocurrency-based Advances, Agent's aggregate marginal cost (including the cost of maintaining any required reserves or deposit insurance and of any fees, penalties, overdraft charges or other costs or expenses incurred by Agent as a result of such failure to deliver funds hereunder) of carrying such amount and thereafter, at the rate of interest then applicable to such Revolving Credit Advances; and

(ii) in the case of Company, the rate of interest then applicable to such Advance of the Revolving Credit.

The obligation of any Revolving Credit Bank to make any Advance of the Revolving Credit hereunder shall not be affected by the failure of any other Revolving Credit Bank to make any Advance hereunder, and no Revolving Credit Bank shall have any liability to the Company or any of its Subsidiaries, the Agent, any other Revolving Credit Bank, or any other party for another Revolving Credit Bank's failure to make any loan or Advance hereunder. In the event any Bank shall fail to advance any amounts required to be advanced in accordance with the terms of this Article 2 (a "Defaulting Bank"), the Agent shall promptly provide written notice thereof to the Company and to each other Bank (each such other Bank being referred to in this Section as a "Non-Defaulting Bank"). Each Non-Defaulting Bank shall have ten (10) Business Days from receipt of said notice to exercise its option to agree to enter into an agreement pursuant to which the Non-Defaulting Bank shall assume the Defaulting Bank's rights and obligations under this Agreement, its Notes and the other Loan Documents. The Non-Defaulting Bank shall exercise such option by providing written notice of same to the Defaulting Bank (and if there is more than one Non-Defaulting Bank, the assignment agreement shall be entered into with the Non-Defaulting Bank who first notifies the Defaulting Bank of its decision to exercise said option) and to the Company. If no Non-Defaulting Bank shall exercise the above-described option within the said ten (10) Business Day period and if the Company shall, subject to Section 12.8(c) hereof, within sixty (60) days of delivering the notice described above, advise such Defaulting Bank of another bank or financial institution to which assignments are permitted pursuant to Section 12.8(c) hereof and which is willing to assume such Defaulting Bank's rights and obligations under this Agreement, its Notes and the other Loan Documents (each such bank or financial institution being hereinafter referred to as a "Potential Financial Institution"), such Defaulting Bank shall, subject to Section 12.8(c), assign its said rights and obligations to the Potential Financial Institution; provided however that any such assignment shall not alter the Company's remedies vis a vis the Defaulting Bank.

2.5 *Swing Line Advances.* (a) The Swing Line Bank shall, on the terms and subject to the conditions hereinafter set forth (including without limitation Section 2.5(c) hereof), make one or more advances (each such advance being a "Swing Line Advance") to the Company, from time to time on any Business Day during the period from the date hereof to (but excluding) the Revolving Credit Maturity Date in an amount not to exceed in the aggregate at any time outstanding the Swing Line

Maximum Amount. Swing Line Bank shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Company to Swing Line Bank resulting from each Swing Line Advance of such Bank from time to time, including the amounts of principal and interest payable thereon and paid to such Bank from time to time. The entries made in such account or accounts of Swing Line Bank shall, to the extent permitted by applicable law, be conclusive evidence, absent manifest error, of the existence and amounts of the obligations of the Company therein recorded; provided, however, that the failure of Swing Line Bank to maintain such account, as applicable, or any error therein, shall not in any manner affect the obligation of the Company to repay the Swing Line Advances (and all other amounts owing with respect thereto) made to Company by Swing Line Bank in accordance with the terms of this Agreement. Advances, repayments and readvances under the Swing Line may be made, subject to the terms and conditions of this Agreement. Each Swing Line Advance shall mature and the principal amount thereof shall be due and payable by the Company in the case of any Quoted Rate Advance, on the last day of the Interest Period applicable thereto (if any) and, in the case of any Prime-based Advance, on the Revolving Credit Maturity Date.

The Company agrees that, upon the written request of Swing Line Bank, the Company will execute and deliver to Swing Line Bank a Swing Line Note; provided, that the delivery of such Swing Line Note shall not be a condition precedent to the Effective Date.

(b) *Accrual of Interest.* Each Swing Line Advance shall, from time to time after the date of such Advance, bear interest at its Applicable Interest Rate. The amount and date of each Swing Line Advance, its Applicable Interest Rate, its Interest Period, if any, and the amount and date of any repayment shall be noted on Swing Line Bank's account maintained pursuant to Section 2.5(a), which records will be conclusive evidence thereof, absent manifest error; provided, however, that any failure by the Swing Line Bank to record any such information shall not relieve the Company of its obligation to repay the outstanding principal amount of such Advance, all interest accrued thereon and any amount payable with respect thereto in accordance with the terms of this Agreement and the other Loan Documents.

(c) *Requests for Swing Line Advances.* The Company may request a Swing Line Advance only after the delivery to Swing Line Bank of a Request for Swing Line Advance executed by a person authorized (in a writing a copy of which has been previously delivered to the Agent) by the Company to make such requests, subject to the following:

(i) each such Request for Swing Line Advance shall set forth the information required on the Request for Advance form annexed hereto as Exhibit D, including without limitation:

(A) the proposed date of such Swing Line Advance, which must be a Business Day;

(B) whether such Swing Line Advance is to be a Prime-based Advance or a Quoted Rate Advance; and

(C) in the case of a Quoted Rate Advance, the duration of the Interest Period applicable thereto.

(ii) on the proposed date of such Swing Line Advance, the aggregate principal amount of all Swing Line Advances outstanding on such date (including without duplication all Swing Line Advances requested by Company on or as of such date but not yet funded as of such date) shall not exceed the Swing Line Maximum Amount.

(iii) on the proposed date of such Swing Line Advance, the sum of (x) the aggregate principal amount of all Advances of the Revolving Credit and of the Swing Line requested or outstanding on such date (including without duplication all Advances and Letters of Credit requested by the Company on or as of such date and all deemed Advances made under Section 3.6(a) hereof in respect of the Company's or an applicable Account Party's Reimbursement Obligation hereunder) plus (y) the Letter of Credit Obligations on such date, shall not exceed the Revolving Credit Aggregate Commitment;

(iv) in the case of a Swing Line Advance that is a Prime-based Advance, the principal amount of the initial funding of such Advance, as opposed to any refunding or conversion thereof, shall be at least Two Hundred Fifty Thousand Dollars ($250,000) or such lesser amount as agreed to by Agent from time to time.

(v) in the case of a Swing Line Advance that is a Quoted Rate Advance, the principal amount of such Advance plus any other outstanding Advances of the Swing Line to be then combined therewith having the same Applicable Interest Rate and Interest Period, if any, shall be at least Two Hundred Fifty Thousand Dollars ($250,000) (or a larger integral multiple of ($10,000) or such lesser amount as agreed to by Agent from time to time, and at any one time there shall not be in effect more than five (5) Applicable Interest Rates and Interest Periods;

(vi) each such Request for Swing Line Advance shall be delivered to the Swing Line Bank by 3:00 p.m. (Detroit time) on the proposed date of the Advance;

(vii) each Request for Swing Line Advance, once delivered to Swing Line Bank, shall be irrevocable by the Company, and shall constitute and include a certification by the Company as of the date thereof that:

(A) both before and after making such Swing Line Advance, the obligations of the Loan Parties set forth in this Agreement and the other Loan Documents, are valid, binding and enforceable obligations of such Loan Parties (subject to the limitations set forth in Section 5.7 of this Agreement);

(B) all conditions to the making of Swing Line Advances have been satisfied (both before and after giving effect to such Advance);

(C) both before and after giving effect to such Swing Line Advance, there is no Default or Event of Default in existence; and

(D) both before and after giving effect to such Swing Line Advance, the representations and warranties contained in this Agreement and the other Loan Documents are true and correct in all material respects, other than any representation or warranty that expressly speaks only as of a different date.

At the option of the Swing Line Bank, subject to revocation by Swing Line Bank at any time and from time to time, the Company may utilize the Swing Line Bank's "Sweep to Loan" automated system for obtaining Swing Line Advances. Each time a Swing Line Advance is made using the "Sweep to Loan" system, the Company shall be deemed to have certified to the Swing Line Bank and the Banks each of the matters set forth in clause (vii) of this Section 2.5(b). Swing Line Bank may revoke the Company's privilege to use the "Sweep to Loan" system at any time and from time to time for any reason and, immediately upon any such revocation, the "Sweep to Loan" system shall no longer be available to the Company for the funding of Swing Line Advances hereunder (or otherwise) and the regular procedures set forth for the making of Swing Line Advances shall be deemed immediately to apply. Swing Line Bank may, at its option, also elect to make Swing Line Advances upon Company's telephone requests on the basis set forth in the succeeding paragraph, provided that the Company comply with the provisions set forth in Section 2.3.

Swing Line Bank, may, at its option, lend under this Section 2.5(c) upon the telephone request of an authorized officer of Company and, in the event Swing Line Bank makes any such Advance upon a telephone request, the requesting officer shall, if so requested by Swing Line Bank, fax to Swing Line Bank, on the same day as such telephone request, a Request for Swing Line Advance. Company hereby authorizes Swing Line Bank to disburse Advances under this Section 2.5(c) pursuant to the telephone instructions of any person purporting to be a person identified by name on a written list of persons authorized by the Company to make Requests for Advance on behalf of the Company. Notwithstanding the foregoing, the Company acknowledges that Company shall bear all risk of loss resulting from disbursements made upon any telephone request. Each telephone request for an Advance shall

constitute a certification of the matters set forth in the Request for Swing Line Advance form as of the date of such requested Advance. Swing Line Bank shall promptly deliver to Agent by telecopy a copy of any Request for Advance received hereunder.

(d) *Disbursement of Swing Line Advances.* Unless the "Sweep to Loan" is in effect under Section 2.5 herein, and otherwise subject to submission of an executed Request for Swing Line Advance by the Company without exceptions noted in the compliance certification therein, Swing Line Bank shall make available to the Company the amount so requested, in like funds and currencies, not later than 4:00 p.m. (Detroit time) on the date of such Advance by credit to an account of the Company maintained with Agent or to such other account or third party as the Company may reasonably direct in writing. Swing Line Bank shall promptly notify Agent of any Swing Line Advance by telephone, telex or telecopier.

(e) *Refunding of or Participation Interest in Swing Line Advances.*

(i) The Agent, at any time in its sole and absolute discretion, may, in each case on behalf of the Company (which hereby irrevocably directs the Agent to act on its behalf) request each of the Revolving Credit Banks (including the Swing Line Bank in its capacity as a Revolving Credit Bank) to make an Advance of the Revolving Credit to the Company, in an amount equal to such Revolving Credit Bank's Percentage of the principal amount of the aggregate Swing Line Advances outstanding on the date such notice is given (the "Refunded Swing Line Advances"); provided however that Swing Line Advances which are carried at the Quoted Rate which are converted to Revolving Credit Advances at the request of the Agent at a time when no Default or Event of Default has occurred and is continuing, shall not be subject to Section 10.1 and no losses, costs or expenses may be assessed by the Swing Line Bank against the Company or the Revolving Credit Banks as a consequence of such conversion. In the case of each Refunded Swing Line Advance that is carried at the Quoted Rate, the applicable Advance of the Revolving Credit used to refund such Swing Line Advance shall be a Eurocurrency-based Advance with an interest period of one month, and in the case of each Refunded Swing Line Advance that is carried at the Prime-based Rate, the applicable Advance of the Revolving Credit used to refund such Swing Line Advance shall be a Prime-based Advance, provided, however that if, at the time of such conversion, a Default or Event of Default shall have occurred and be continuing, or any of the funding conditions with respect to Revolving Credit Advances have not been satisfied, all Refunded Swing Line Advances shall be refunded under the Revolving Credit as Prime-based Advances. In connection with the making of any such Refunded Swing Line Advances or the purchase of a participation interest in Swing Line Advances under Section 2.5(e)(ii) hereof, the Swing Line Bank shall retain its claim against the Company for any unpaid interest or fees in respect thereof accrued to the date of such refunding. Unless any of the events described in Section 8.1(j) hereof shall have occurred (in which event the procedures of subparagraph (ii) of this Section 2.5(e) shall apply) and regardless of whether the conditions precedent set forth in this Agreement to the making of an Advance of the Revolving Credit are then satisfied but subject to Section 2.5(e)(iii), each Revolving Credit Bank shall make the proceeds of its Advance of the Revolving Credit available to the Agent in immediately available funds for the benefit of the Swing Line Bank at the office of the Agent specified in Section 2.4(a) hereof (i) prior to 11:00 a.m. Detroit time (for Domestic Advances) on the Business Day next succeeding the date such notice is given and (ii) prior to 11:00 a.m. Detroit time (for Eurocurrency-based Advances) on the third Business Day after the date such notice is given. The proceeds of such Advances of the Revolving Credit shall be immediately applied to repay the Refunded Swing Line Advances in accordance with the provisions of Section 10.1 hereof.

(ii) If, prior to the making of an Advance of the Revolving Credit pursuant to subparagraph (i) of this Section 2.5(e), one of the events described in Section 8.1(j) hereof

shall have occurred, each Revolving Credit Bank will, on the date such Advance of the Revolving Credit was to have been made, purchase from the Swing Line Bank an undivided participating interest in each Swing Line Advance that was to have been refunded in an amount equal to its Percentage of such Swing Line Advance. Each Revolving Credit Bank within the time periods specified in Section 2.5(e)(i) hereof, as applicable, shall immediately transfer to the Agent, in immediately available funds, the amount of its participation and upon receipt thereof the Agent will deliver to such Revolving Credit Bank a Swing Line Participation Certificate in the form of Exhibit E evidencing such participation.

(iii) Each Revolving Credit Bank's obligation to make Advances of the Revolving Credit and to purchase participation interests in accordance with clauses (i) and (ii) of this Section 2.5(e) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right which such Revolving Credit Bank may have against Swing Line Bank, the Company or any other Person for any reason whatsoever; (ii) the occurrence or continuance of any Default or Event of Default; (iii) any adverse change in the condition (financial or otherwise) of the Company or any other Person; (iv) any breach of this Agreement by the Company or any other Person; (v) any inability of the Company to satisfy the conditions precedent to borrowing set forth in this

Agreement on the date upon which such Advance is to be made or such participating interest is to be purchased; (vi) the termination of the Revolving Credit Aggregate Commitment hereunder; or (vii) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. If any Revolving Credit Bank does not make available to the Agent the amount required pursuant to clause (i) or (ii) above, as the case may be, the Agent shall be entitled to recover such amount on demand from such Revolving Credit Bank, together with interest thereon for each day from the date of non-payment until such amount is paid in full (x) for the first two (2) Business Days such amount remains unpaid, at the Federal Funds Effective Rate and (y) thereafter, at the rate of interest then applicable to such Swing Line Advances. The obligation of any Revolving Credit Bank to make available its pro rata portion of the amounts required pursuant to clause (i) or (ii) above shall not be affected by the failure of any other Revolving Credit Bank to make such amounts available, and no Revolving Credit Bank shall have any liability to the Company and its Subsidiaries, the Agent, the Swing Line Bank, or any other Revolving Credit Bank or any other party for another Revolving Credit Bank's failure to make the amounts required under clause (i) or (ii) available.

(iv) Notwithstanding the foregoing, however, no Revolving Credit Bank shall be required to purchase a participation in a Swing Line Advance if, prior to the making of the applicable Swing Line Advance by the Swing Line Bank, the Agent or the Swing Line Bank had obtained actual knowledge that an Event of Default had occurred and was continuing; provided, however that the Revolving Credit Banks shall be deemed to have acquired such a participation upon the date of which such Event of Default has been waived by the requisite Revolving Credit Banks, as applicable.

2.6 *Prime-based Interest Payments.* Interest on the unpaid balance of all Prime-based Advances of the Revolving Credit and all Swing Line Advances carried at the Prime-based Rate from time to time outstanding shall accrue from the date of such Advance to the date repaid, at a per annum interest rate equal to the Prime-based Rate, and shall be payable in immediately available funds commencing on the first day of the fiscal quarter next succeeding the fiscal quarter during which the initial Advance of the Revolving Credit or Swing Line Advance, as the case may be, is made and on the first day of each fiscal quarter thereafter. Interest accruing at the Prime-based Rate shall be computed on the basis of a 360 day year and assessed for the actual number of days elapsed, and in such computation effect shall be given to any change in the interest rate resulting from a change in the Prime-based Rate on the date of such change in the Prime-based Rate.

2.7 *Eurocurrency-based Interest Payments and Quoted Rate Interest Payments.*

(a) Interest on each Eurocurrency-based Advance of the Revolving Credit shall accrue at its Eurocurrency-based Rate and shall be payable in immediately available funds on the last day of the Interest Period applicable thereto (and, if any Interest Period shall exceed three months, then on the last Business Day of the third month of such Interest Period, and at three month intervals thereafter). Interest accruing at the Eurocurrency-based Rate shall be computed on the basis of a 360 day year and assessed for the actual number of days elapsed from the first day of the Interest Period applicable thereto to but not including the last day thereof.

(b) Interest on each Quoted Rate Advance of the Swing Line shall accrue at its Quoted Rate and shall be payable in immediately available funds on the last day of the Interest Period applicable thereto. Interest accruing at the Quoted Rate shall be computed on the basis of a 360 day year and assessed for the actual number of days elapsed from the first day of the Interest Period applicable thereto to, but not including the last day thereof.

2.8 *Interest Payments on Conversions.* Notwithstanding anything to the contrary in the preceding sections, all accrued and unpaid interest on any Advance refunded or converted pursuant to Section 2.3 or 2.5(e) hereof (except for refundings or conversions of Prime-based Advances) shall be due and payable in full on the date such Advance is refunded or converted.

2.9 *Interest on Default.* In the event and so long as any Event of Default shall exist, in the case of any Event of Default under Sections 8.1(a) or 8.1(j), immediately upon the occurrence thereof, and in the case of all other Events of Default, upon notice from the Majority Banks, interest shall be payable on demand on all Eurocurrency-based Advances of the Revolving Credit and Quoted Rate Advances from time to time outstanding (and, to the extent delinquent, on all other monetary obligations of Company hereunder and under the other Loan Documents) at a per annum rate equal to the Applicable Interest Rate in respect of each such Advance plus, in the case of Eurocurrency-based Advances, two percent (2%) for the remainder of the then existing Interest Period, if any, and at all other such times and for all Prime-based Advances from time to time outstanding, at a per annum rate equal to the Prime-based Rate plus two percent (2%).

2.10 *Optional Prepayments.* (a) Except as provided in Section 2.10(b) hereof, the Company may prepay all or part of the outstanding principal of any Prime-based Advance(s) of the Revolving Credit at any time, provided that unless the "Sweep to Loan" shall be in effect under Section 2.5(b) hereof, the amount of any partial prepayment shall be at least One Hundred Thousand Dollars ($100,000) and, after giving effect to any such partial prepayment, the aggregate balance of Prime-based Advance(s) of the Revolving Credit remaining outstanding, if any, shall be at least Five Hundred Thousand Dollars ($500,000). Subject to Section 10.1 hereof and to the other terms and conditions of this Agreement, the Company may prepay all or part of any Eurocurrency-based Advance of the Revolving Credit (subject to not less than one (1) Business Day's notice to Agent) provided that the amount of any such partial prepayment shall be at least Two Hundred Fifty Thousand Dollars ($250,000), and after giving effect to any such partial prepayment, the unpaid portion of such Advance which is refunded or converted under Section 2.3 hereof shall be at least One Million Dollars ($1,000,000).

(b) The Company may prepay all or part of the outstanding principal of any Swing Line Advance carried at the Prime-based Rate at any time.

(c) The Company may prepay at any time all or part of the outstanding principal of any Swing Line Advance carried at the Quoted Rate (subject to not less than one (1) Business Day's notice to Swing Line Bank unless such notice is received by 1:00 p.m. (Detroit time) on a Business Day, in which case such payment may be made on the day such notice is received) provided that the amount of such prepayment shall be at least Ten Thousand Dollars ($10,000) and, after giving

effect to any such partial prepayment, the aggregate unpaid portion of such Swing Line Advance shall be at least Fifty Thousand Dollars ($50,000).

(d) Any prepayment of a Prime-based Advance made in accordance with this Section shall be without premium or penalty and any prepayment of any other type of Advance shall be subject to the provisions of Section 10.1, but otherwise without premium or penalty.

2.11 *Prime-based Advance in Absence of Election or Upon Default.* If, (a) as to any outstanding Eurocurrency-based Advance of the Revolving Credit, Agent has not received payment of all outstanding principal and accrued interest on the last day of the Interest Period applicable thereto, or does not receive a timely Request for Advance meeting the requirements of Section 2.3 or 2.5(c) hereof with respect to the refunding or conversion of such Advance, or (b) subject to Section 2.9 hereof, if on the last day of the applicable Interest Period a Default or an Event of Default shall have occurred and be continuing, then, on the last day of the applicable Interest Period the principal amount of any Eurocurrency-based Advance which has not been prepaid shall, absent a contrary election of the Majority Banks, be converted automatically to a Prime-based Advance and the Agent shall thereafter promptly notify the Company of said action.

2.12 *Revolving Credit Facility Fee.* From the Effective Date to the Revolving Credit Maturity Date, the Company shall pay to the Agent for distribution to the Revolving Credit Banks pro-rata in accordance with their respective Percentages, a Revolving Credit Facility Fee quarterly in arrears commencing February 1, 2003 (in respect of the prior fiscal quarter or portion thereof), and on the first day of each fiscal quarter thereafter. The Revolving Credit Facility Fee payable to each Revolving Credit Bank shall be determined by multiplying the Applicable Fee Percentage times the Revolving Credit Aggregate Commitment then in effect (whether used or unused). The Revolving Credit Facility Fee shall be computed on the basis of a year of three hundred sixty (360) days and assessed for the actual number of days elapsed. Whenever any payment of the Revolving Credit Facility Fee shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next Business Day. Upon receipt of such payment, Agent shall make prompt payment to each Revolving Credit Bank of its share of the Revolving Credit Facility Fee based upon its respective Percentage. It is expressly understood that the Revolving Credit Facility Fees described in this Section are not refundable under any circumstances.

2.13 *Mandatory Repayment of Revolving Credit Advances.*

(a) If at any time and for any reason the aggregate outstanding principal amount of Revolving Credit Advances plus Swing Line Advances hereunder to the Company, plus the outstanding Letter of Credit Obligations, shall exceed the Revolving Credit Aggregate Commitment, the Company shall immediately reduce any pending request for a Revolving Credit Advance on such day by the amount of such excess and, to the extent any excess remains thereafter, immediately repay an amount of the Indebtedness equal to such excess and, to the extent such Indebtedness consists of Letter of Credit Obligations, provide cash collateral on the basis set forth in Section 8.2 hereof. The Company acknowledges that, in connection with any repayment required hereunder, it shall also be responsible for the reimbursement of any prepayment or other costs required under Section 10.1 hereof; provided, however, that the Company shall, in order to reduce any such prepayment costs and expenses, first prepay such portion of the Indebtedness then carried as a Prime-based Advance, if any;

(b) To the extent that, on the date any mandatory repayment of the Revolving Credit Advances under this Section 2.13 or payment pursuant to the terms of any of the Collateral Documents is due, the Indebtedness under the Revolving Credit or any other Indebtedness to be prepaid is being carried, in whole or in part, at the Eurocurrency-based Rate and no Default or Event of Default has occurred and is continuing, the Company may deposit the amount of such mandatory prepayment in a cash collateral account to be held by the Agent, for and on behalf of

the Revolving Credit Banks (which shall be an interest-bearing account), on such terms and conditions as are reasonably acceptable to Agent and upon such deposit the obligation of the Company to make such mandatory prepayment shall be deemed satisfied. Subject to the terms and conditions of said cash collateral account, sums on deposit in said cash collateral account shall be applied (until exhausted) to reduce the principal balance of the Revolving Credit on the last day of each Interest Period attributable to the Eurocurrency-based Advances of such Revolving Advance, thereby avoiding breakage costs under Section 10.1 hereof.

2.14 *Optional Reduction or Termination of Revolving Credit Aggregate Commitment.* The Company may upon at least five (5) Business Days' prior written notice to the Agent, permanently reduce the Revolving Credit Aggregate Commitment in whole at any time, or in part from time to time, without premium or penalty, provided that: (i) each partial reduction of the Revolving Credit Aggregate Commitment shall be in an aggregate amount equal to Ten Million Dollars ($10,000,000) or a larger integral multiple of One Million Dollars ($1,000,000); (ii) each reduction shall be accompanied by the payment of the Revolving Credit Facility Fee, if any, accrued and unpaid to the date of such reduction; (iii) the Company shall prepay in accordance with the terms hereof the amount, if any, by which the aggregate unpaid principal amount of Advances (including, without duplication, any deemed Advances made under Section 3.6 hereof) outstanding hereunder, plus the aggregate undrawn amount of outstanding Letter of Credit Obligations, exceeds the amount of the then applicable Revolving Credit Aggregate Commitment as so reduced, together with interest thereon to the date of prepayment; (iv) no reduction shall reduce the Revolving Credit Aggregate Commitment to an amount which is less than the aggregate undrawn amount of any Letters of Credit outstanding at such time unless, and only to the extent that, the Company has provided cash collateral in an amount equal to the undrawn amount of such Letters of Credit on the basis set forth in Section 8.2 hereof; and (v) no such reduction shall reduce the Swing Line Commitment unless the Company so elects; provided, however that if the termination or reduction of the Revolving Credit Aggregate Commitment requires the prepayment of a Eurocurrency-based Advance or a Quoted Rate Advance and such termination or reduction is made on a day other than the last Business Day of the then current Interest Period applicable to such Eurocurrency-based Advance or such Quoted Rate Advance, then, pursuant to Section 10.1, the Company shall compensate the Revolving Credit Banks for any losses or, the Company may deposit the amount of such prepayment in a collateral account as provided in Section 2.13(b). Reductions of the Revolving Credit Aggregate Commitment and any accompanying prepayments of Advances of the Revolving Credit shall be distributed by Agent to each Revolving Credit Bank in accordance with such Revolving Credit Bank's Percentage thereof, and will not be available for reinstatement by or readvance to the Company, and any accompanying prepayments of Advances of the Swing Line shall be distributed by Agent to the Swing Line Bank and will not be available for reinstatement by or readvance to the Company. Any reductions of the Revolving Credit Aggregate Commitment hereunder shall reduce each Revolving Credit Bank's portion thereof proportionately (based on the applicable Percentages), and shall be permanent and irrevocable. Any payments made pursuant to this Section shall be applied first to outstanding Prime-based Advances under the Revolving Credit, next to Swing Line Advances carried at the Prime-based Rate, next to Eurocurrency-based Advances of the Revolving Credit and then to Swing Line Advances carried at the Quoted Rate.

2.15 *Extensions of Revolving Credit Maturity Date.* (a) Provided that no Default or Event of Default has occurred and is continuing, Company may, by written notice to Agent and each Bank (which notice shall be irrevocable and which shall not be deemed effective unless actually received by Agent and each Bank): (i) prior to March 31, 2004, but not before March 1, 2004, request that the Banks extend the then applicable Revolving Credit Maturity Date to February 28, 2007 (such request, the "Initial Request"); and (ii) (a) prior to March 31, but not before March 1, of each year beginning in 2006 (if the Initial Request is made and approved by the Banks) or (b) prior to November 30 but not before November 1, of each year beginning in 2004 (if the Initial Request is not made by the Company or approved by the Banks) request that the Banks extend the then applicable Revolving

Credit Maturity Date to a date that is one year later than the Revolving Credit Maturity Date then in effect.

(b) Each Bank shall, within 30 days of receipt of the applicable request, notify the Agent in writing whether such Bank consents to the extension of the Revolving Credit Maturity Date, such consent to be in the sole discretion of such Bank. If any Bank does not so notify the Agent of its decision within such 30 day period, such Bank shall be deemed to have not consented to such request of the Company.

(c) The Agent shall promptly notify the Company whether all of the Banks have consented to such request. If the Agent does not so notify the Company within 30 days of the Agent's receipt such Request, the Agent shall be deemed to have notified the Company that all of the Banks have not consented to the Company's request.

(d) Each Bank which elects not to extend the Revolving Credit Maturity Date or fails to so notify the Agent of such consent (a "Non-Consenting Bank") hereby agrees that if any other Bank or financial institution acceptable to the Company and the Agent offers to purchase such Non-Consenting Bank's Percentage of the Revolving Credit Aggregate Commitment within 180 days after receipt of the related Request for a purchase price equal to the sum of all amounts then owing with respect to the outstanding Advances (and participations in any Swing Line Advances or any Letters of Credit) and all other amounts accrued for the account of such Non-Consenting Bank, such Non-Consenting Bank will promptly assign, sell and transfer all of its right, title, interest and obligations with respect to the foregoing to such other Bank or financial institution pursuant to and on the terms specified in the form of Assignment Agreement attached hereto as Exhibit I. Before assigning to a financial institution other than a Bank pursuant to this clause (d), each Bank that has elected to extend the Revolving Credit Maturity Date (a "Consenting Bank") shall have the right, but not any obligation, pro rata with all other Consenting Banks which elect to purchase a pro rata share of such non-consenting Bank's Percentage of the Revolving Credit Aggregate Commitment (and participations in Swing Line Advances and Letters of Credit) to purchase each such Non-Consenting Bank's Percentage thereof pursuant to this clause (d). The Consenting Banks which elect to exercise their purchase options hereunder shall by mutual agreement determine the amount of each Non-Consenting Bank's Percentage of the Revolving Credit Aggregate Commitment being purchased by each Consenting Bank, provided that if there is any dispute among the Consenting Banks such purchase shall be based upon a pro rata sharing of each Non-Consenting Bank's Percentage thereof. Only if the Consenting Banks have determined not to purchase all of the Non-Consenting Bank's Revolving Credit Aggregate Commitment may financial institutions other than a Consenting Bank then purchase such Non-Consenting Bank's Revolving Credit Aggregate Commitment.

(e) Except as set forth in subparagraph (f) hereof, notwithstanding anything herein to the contrary, the Revolving Credit Maturity Date will not be extended unless all Banks have consented to the extension or if another Bank or financial institution has purchased each such Non-Consenting Bank's Revolving Credit Aggregate Commitment pursuant to the terms of clause (d) above.

(f) In the event, after giving effect to any assignments to Consenting Banks under Section 2.15(d) hereof or otherwise, Banks holding eighty percent (80%) or more of the Percentages (the "Approving Percentages") have consented to an extension of the Revolving Credit Maturity Date hereunder, such extension shall become effective, notwithstanding that all of the Banks have failed to approve such extension in accordance with this Section 2.15, so long as Company, within forty five (45) days, reduces the Revolving Credit Aggregate Commitment to an amount not greater than the product of the Approving Percentages times the Revolving Credit Aggregate Commitment then in effect and repays the Indebtedness then outstanding hereunder

(and, if necessary causes any outstanding Letters of Credit to be terminated or discharged) to the extent such Indebtedness exceeds the Revolving Credit Aggregate Commitment as so reduced, such that the entire Indebtedness outstanding to the Non-Consenting Banks shall have been paid and discharged in full. Reductions of the Revolving Credit Aggregate Commitment made under this Section 2.15(f) may be made without regard to the notice provisions set forth in Section 2.14 hereof, but shall otherwise comply with said Section 2.14, except that any amounts repaid by the Company against the Indebtedness pursuant to this subparagraph (f) shall be first applied to the Indebtedness outstanding to the Non-Consenting Banks still holding Indebtedness hereunder at such time, with any remaining amounts applied in accordance with Section 2.14 hereof and the Percentages held by such Non-Consenting Banks shall be reallocated to the Consenting Banks (giving effect to any assignments, as aforesaid), pro rata, based on the Percentages then in effect and Agent shall distribute to the remaining Banks a revised Schedule 1.1 reflecting such reallocated Percentages.

2.16 *Use of Proceeds of Advances.*

Advances of the Revolving Credit (including Swing Line Advances) shall be available for general corporate purposes and working capital needs of Company and its Subsidiaries.

3. LETTERS OF CREDIT

3.1 *Letters of Credit.* Subject to the terms and conditions of this Agreement, Issuing Bank may through the Issuing Office (in its sole discretion), at any time and from time to time from and after the date hereof until thirty (30) days prior to the Revolving Credit Maturity Date, upon the written request of an Account Party(ies) accompanied by a duly executed Letter of Credit Agreement and such other documentation related to the requested Letter of Credit as the Issuing Bank may require, issue Letters of Credit in Dollars for the account of such Account Party(ies), in an aggregate amount for all Letters of Credit issued hereunder at any one time outstanding not to exceed the Letter of Credit Maximum Amount. Each Letter of Credit shall be in a minimum face amount of Fifty Thousand Dollars ($50,000) (or such lesser amount as may be agreed to by Issuing Bank) and each Letter of Credit (including any renewal thereof) shall expire not later than the first to occur of: (i) one year after the date of issuance thereof and (ii) ten (10) Business Days prior to the Revolving Credit Maturity Date in effect on the date of issuance thereof. The submission of all applications in respect of and the issuance of each Letter of Credit hereunder shall be subject in all respects to the International Standby Practices 98, and any successor documentation thereto and to the extent not inconsistent therewith, the laws of the State of Michigan. In the event of any conflict between this Agreement and any Letter of Credit Document other than any Letter of Credit, this Agreement shall control.

3.2 *Conditions to Issuance.* No Letter of Credit shall be issued at the request and for the account of any Account Party(ies) unless, as of the date of issuance of such Letter of Credit:

(a) in the case of any Account Party:

(i) after giving effect to the Letter of Credit requested, the outstanding Letter of Credit Obligations does not exceed the Letter of Credit Maximum Amount; and

(ii) after giving effect to the Letter of Credit requested, the outstanding Letter of Credit Obligations on such date plus the aggregate amount of all Revolving Credit Advances and Swing Line Advances (including, without duplication, all Advances and Letters of Credit requested by Company on or as of such date but not yet funded or issued and all deemed Advances funded by Agent under Section 3.6(a) hereof in respect of the Company's or an applicable Account Party's Reimbursement Obligation hereunder) requested or outstanding on such date does not exceed the Revolving Credit Aggregate Commitment;

(b) the obligations of the Loan Parties set forth in this Agreement and the other Loan Documents are valid, binding and enforceable obligations of such Loan Parties and the valid, binding and enforceable nature of this Agreement and the other Loan Documents has not been disputed by the Company;

(c) the representations and warranties contained in this Agreement and the other Loan Documents are true in all material respects as if made on such date (other than any representation or warranty that expressly speaks only as of a different date), and both immediately before and immediately after issuance of the Letter of Credit requested, no Default or Event of Default exists;

(d) the execution of the Letter of Credit Agreement with respect to the Letter of Credit requested will not violate the terms and conditions of any contract, agreement or other borrowing of the relevant Account Party;

(e) the Account Party requesting the Letter of Credit shall have delivered to Issuing Bank at its Issuing Office, not less than three (3) Business Days prior to the requested date for issuance (or such shorter time as the Issuing Bank, in its sole discretion, may permit), the Letter of Credit Agreement related thereto, together with such other documents and materials as may be required pursuant to the terms thereof, and the terms of the proposed Letter of Credit shall be reasonably satisfactory to Issuing Bank;

(f) no order, judgment or decree of any court, arbitrator or governmental authority shall purport by its terms to enjoin or restrain Issuing Bank from issuing the Letter of Credit requested, or any Revolving Credit Bank from taking an assignment of its Percentage thereof pursuant to Section 3.6 hereof, and no law, rule, regulation, request or directive (whether or not having the force of law) shall prohibit or request that Issuing Bank refrain from issuing, or any Revolving Credit Bank refrain from taking an assignment of its Percentage of, the Letter of Credit requested or letters of credit generally;

(g) there shall have been no introduction of or change in the interpretation of any law or regulation that would make it unlawful or unduly burdensome for the Issuing Bank to issue or any Revolving Credit Bank to take an assignment of its Percentage of the requested Letter of Credit, no declaration of a general banking moratorium by banking authorities in the United States, Michigan or the respective jurisdictions in which the Revolving Credit Banks, the applicable Account Party and the beneficiary of the requested Letter of Credit are located, and no establishment of any new restrictions by any central bank or other governmental agency or authority on transactions involving letters of credit or on banks materially affecting the extension of credit by banks; and

(h) Issuing Bank shall have received the issuance fees required in connection with the issuance of such Letter of Credit pursuant to Section 3.4 hereof.

Each Letter of Credit Agreement submitted to Issuing Bank pursuant hereto shall constitute the certification by the Company and the Account Party of the matters set forth in Section 3.2 (a) through (d) hereof. The Agent shall be entitled to rely on such certification without any duty of inquiry.

3.3 *Notice.* The Issuing Bank will deliver to the Agent, concurrently with or promptly following its delivery of any Letter of Credit, a true and complete copy of each Letter of Credit. Promptly upon its receipt thereof, Agent shall give notice, substantially in the form attached as Exhibit F, to each Revolving Credit Bank of the issuance of each Letter of Credit, specifying the amount thereof and the amount of such Revolving Credit Bank's Percentage thereof.

3.4 *Letter of Credit Fees.* The Company shall pay to the Agent for distribution to the Revolving Credit Banks in accordance with their Percentages, Letter of Credit Fees, as follows:

(a) A per annum letter of credit fee with respect to the undrawn amount of each Letter of Credit issued pursuant hereto (based on the amount of each Letter of Credit) in the amount of the Applicable Fee Percentage (determined with reference to Schedule 1.1 to this Agreement).

(b) A letter of credit facing fee in the amount equal to the greater of (i) $250 or (ii) one quarter of one percent (.25%) on the face amount of each Letter of Credit to be retained by Issuing Bank for its own account.

(c) All payments by the Company to the Agent for distribution to the Issuing Bank or the Revolving Credit Banks under this Section 3.4 shall be made in Dollars in immediately available funds at the Issuing Office or such other office of the Agent as may be designated from time to time by written notice to the Company by the Agent. The fees described in clauses (a) and (b) above (i) shall be nonrefundable under all circumstances and (ii) shall be payable upon the issuance of such Letter of Credit and thereafter semi-annually in advance on May 1 and November 1 of each year. The fees due under clause (a) above shall be determined by multiplying the Applicable Fee Percentage times the undrawn amount of the face amount of each such Letter of Credit on the date of determination, and shall be calculated on the basis of a 360 day year and assessed for the actual number of days from the date of the issuance thereof to the stated expiration thereof. The parties hereto acknowledge that any amendment or extension to a Letter of Credit issued hereunder shall be treated as a new Letter of Credit for the purposes of the letter of credit facing fee.

(d) If any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof, shall either (i) impose, modify or cause to be deemed applicable any reserve, special deposit, limitation or similar requirement against letters of credit issued or participated in by, or assets held by, or deposits in or for the account of, Issuing Bank or any Revolving Credit Bank or (ii) impose on Issuing Bank or any Revolving Credit Bank any other condition regarding this Agreement, the Letters of Credit or any participations in

such Letters of Credit, and the result of any event referred to in clause (i) or (ii) above shall be to increase the cost or expense to Issuing Bank or such Revolving Credit Bank of issuing or maintaining or participating in any of the Letters of Credit (which increase in cost or expense shall be determined by the Issuing Bank's or such Revolving Credit Bank's reasonable allocation of the aggregate of such cost increases and expenses resulting from such events), then, upon demand by the Issuing Bank or such Revolving Credit Bank, as the case may be, the applicable Account Party shall, within thirty (30) days following demand for payment, pay to Issuing Bank or such Revolving Credit Bank, as the case may be, from time to time as specified by the Issuing Bank or such Revolving Credit Bank, additional amounts which shall be sufficient to compensate the Issuing Bank or such Revolving Credit Bank for such increased cost and expense, together with interest on each such amount from ten days after the date such payment is due until payment in full thereof at the Prime-based Rate. Each demand for payment under this Section 3.4(d), shall be accompanied by a certificate of Issuing Bank or the applicable Revolving Credit Bank (as applicable) setting forth the amount of such increased cost or expense incurred by the Issuing Bank or such Revolving Credit Bank, as the case may be, as a result of any event mentioned in clause (i) or (ii) above, and in reasonable detail, the methodology for calculating and the calculation of such amount, which certificate shall be prepared in good faith and shall be conclusive evidence, absent manifest error, as to the amount thereof.

3.5 *Other Fees.* In connection with the Letters of Credit, and in addition to the Letter of Credit Fees, the Company and the applicable Account Party(ies) shall pay, for the sole account of the Issuing Bank, standard documentation, administration, payment and cancellation charges assessed by Issuing

Bank or the Issuing Office, at the times, in the amounts and on the terms set forth or to be set forth from time to time in the standard fee schedule of the Issuing Office in effect from time to time and delivered to the relevant Account Party(ies).

3.6 *Drawings and Demands for Payment Under Letters of Credit.*

(a) If the Issuing Bank shall honor a draft or other demand for payment presented or made under any Letter of Credit, the Company and each applicable Account Party agree to pay to the Issuing Bank an amount equal to the amount paid by the Issuing Bank in respect of such draft or other demand under such Letter of Credit and all expenses paid or incurred by the Agent relative thereto not later than 1:00 p.m. (Detroit time), on (i) the Business Day that the Company receives notice of such presentment and honor, if such notice is received prior to 11:00 a.m. (Detroit time) or (ii) the Business Day immediately following the day that Company receives such notice, if such notice is not received prior to such time. Unless the Company or the applicable Account Party shall have made such payment to the Agent for the account of the Issuing Bank on such day, upon each such payment by the Issuing Bank, the Agent shall be deemed to have disbursed to the Company, and the Company shall be deemed to have elected to substitute for the reimbursement obligation, with respect to the applicable Letters of Credit denominated in Dollars, a Prime-based Advance of the Revolving Credit for the account of the Revolving Credit Banks in an amount equal to the amount so paid by the Issuing Bank in respect of such draft or other demand under such Letter of Credit. Such Prime-based Advance shall be deemed disbursed notwithstanding any failure to satisfy any conditions for disbursement of any Advance set forth in Section 2 hereof and, to the extent of the Advances so disbursed, the reimbursement obligation of the Company or the applicable Account Party under this Section 3.6 shall be deemed satisfied.

(b) If the Issuing Bank shall honor a draft or other demand for payment presented or made under any Letter of Credit, the Issuing Bank shall provide notice thereof to the Company and the applicable Account Party on the date such draft or demand is honored, and to each Revolving Credit Bank on such date unless the Company or applicable Account Party shall have satisfied its reimbursement obligation under Section 3.6(a) hereof by payment to the Agent on such date. The Issuing Bank shall further use reasonable efforts to provide notice to the Company or applicable Account Party prior to honoring any such draft or other demand for payment, but such notice, or the failure to provide such notice, shall not, subject to Section 3.6(a), affect the rights or obligations of the Issuing Bank with respect to any Letter of Credit or the rights and obligations of the parties hereto, including without limitation the obligations of the Company or applicable Account Party under Section 3.6(a) hereof.

(c) Upon issuance by the Issuing Bank of each Letter of Credit hereunder, each Revolving Credit Bank shall automatically acquire a pro rata participation interest in such Letter of Credit and each related Letter of Credit Payment based on its respective Revolving Credit Percentage. Each Revolving Credit Bank, on the date a draft or demand under any Letter of Credit is honored (or the next succeeding Business Day if the notice required to be given by Agent to the Revolving Credit Banks under Section 3.6(b) hereof is not given to the Revolving Credit Banks prior to 2:00 p.m. (Detroit time) on such date of draft or demand), shall make its Percentage of the amount paid by the Issuing Bank, and not reimbursed by the Company or applicable Account Party on such day, in immediately available funds at the principal office of the Agent for the account of Issuing Bank. If and to the extent such Revolving Credit Bank shall not have made such pro rata portion available to the Agent, such Revolving Credit Bank, the Company and the applicable Account Party severally agree to pay to the Issuing Bank forthwith on demand such amount together with interest thereon, for each day from the date such amount was paid by the Issuing Bank until such amount is so made available to the Agent at a per annum rate equal to the interest rate applicable during such period to the related Advance deemed to have been disbursed under Section 3.6(a) in respect of the reimbursement obligation of the Company and the

applicable Account Party, as set forth in Section 2.4(c)(i) or 2.4(c)(ii) hereof, as the case may be. If such Revolving Credit Bank shall pay such amount to the Agent for the account of Issuing Bank together with such interest, if any, such amount so paid shall be deemed to constitute an Advance by such Revolving Credit Bank disbursed in respect of the reimbursement obligation of the Company or applicable Account Party under Section 3.6(a) hereof for purposes of this Agreement, effective as of the dates applicable under said Section 3.6(a). The failure of any Revolving Credit Bank to make its pro rata portion of any such amount paid by the Issuing Bank available to the Agent for the account of Issuing Bank shall not relieve any other Revolving Credit Bank of its obligation to make available its pro rata portion of such amount, but no Revolving Credit Bank shall be responsible for failure of any other Revolving Credit Bank to make such pro rata portion available to the Agent for the account of Issuing Bank.

Notwithstanding the foregoing however no Revolving Credit Bank shall be deemed to have acquired a participation in a Letter of Credit if, prior to the issuing of the Letter of Credit by the Issuing Bank, the Agent or the Issuing Bank had obtained actual knowledge that an Event of Default had occurred and was continuing; provided, however that the Revolving Credit Banks shall be deemed to have acquired such a participation upon the date of which such Event of Default has been waived by the requisite Revolving Credit Banks, as applicable.

(d) Nothing in this Agreement shall be construed to require or authorize any Revolving Credit Bank to issue any Letter of Credit, it being recognized that the Issuing Bank shall be the sole issuer of Letters of Credit under this Agreement;

3.7 *Obligations Irrevocable.* The obligations of the Company and any Account Party to make payments to Agent for the account of Issuing Bank or the Revolving Credit Banks with respect to Letter of Credit Obligations under Section 3.6 hereof, shall be unconditional and irrevocable and not subject to any qualification or exception whatsoever, including, without limitation:

(a) Any lack of validity or enforceability of any Letter of Credit or any documentation relating to any Letter of Credit or to any transaction related in any way to any Letter of Credit (the "Letter of Credit Documents");

(b) Any amendment, modification, waiver, consent, or any substitution, exchange or release of or failure to perfect any interest in collateral or security, with

(c) The existence of any claim, setoff, defense or other right which the Company or any Account Party may have at any time against any beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), the Agent, the Issuing Bank or any Revolving Credit Bank or any other person or entity, whether in connection with any of the Letter of Credit Documents, the transactions contemplated herein or therein or any unrelated transactions;

(d) Any draft or other statement or document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(e) Payment by the Issuing Bank to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the terms of such Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit;

(f) Any failure, omission, delay or lack on the part of the Agent, Issuing Bank or any Revolving Credit Bank or any party to any of the Letter of Credit Documents to enforce, assert or exercise any right, power or remedy conferred upon the Agent, Issuing Bank, any Revolving Credit Bank or any such party under this Agreement, any of the other Loan Documents or any of the

Letter of Credit Documents, or any other acts or omissions on the part of the Agent, Issuing Bank, any Revolving Credit Bank or any such party; or

(g) Any other event or circumstance that would, in the absence of this Section 3.7, result in the release or discharge by operation of law or otherwise of the Company or any Account Party from the performance or observance of any obligation, covenant or agreement contained in Section 3.6 hereof.

No setoff, counterclaim, reduction or diminution of any obligation or any defense of any kind or nature which the Company or any Account Party has or may have against the beneficiary of any Letter of Credit shall be available hereunder to the Company or any Account Party against the Agent, Issuing Bank or any Revolving Credit Bank. Nothing contained in this Section 3.7 shall be deemed to prevent the Company or the Account Parties, after satisfaction in full of the absolute and unconditional obligations of the Company and the Account Parties hereunder, from asserting in a separate action any claim, defense, set off or other right which they (or any of them) may have against Agent, Issuing Bank or any Revolving Credit Bank.

3.8 *Risk Under Letters of Credit.* (a) In the administration and handling of Letters of Credit and any security therefor, or any documents or instruments given in connection therewith, Issuing Bank shall have the sole right to take or refrain from taking any and all actions under or upon the Letters of Credit.

(b) Subject to other terms and conditions of this Agreement, Issuing Bank shall issue the Letters of Credit and shall hold the documents related thereto in its own name and shall make all collections thereunder and otherwise administer the Letters of Credit in accordance with Issuing Bank's regularly established practices and procedures and will have no further obligation with respect thereto. In the administration of Letters of Credit, Issuing Bank shall not be liable for any action taken or omitted on the advice of counsel, accountants, appraisers or other experts selected by Issuing Bank with due care and Issuing Bank may rely upon any notice, communication, certificate or other statement from the Company, any Account Party, beneficiaries of Letters of Credit, or any other Person which Issuing Bank believes to be authentic. Issuing Bank will, upon request, furnish the Revolving Credit Banks with copies of Letter of Credit Documents related thereto.

(c) In connection with the issuance and administration of Letters of Credit and the assignments hereunder, Issuing Bank makes no representation and shall have no responsibility with respect to (i) the obligations of the Company or any Account Party or the validity, sufficiency or enforceability of any document or instrument given in connection therewith, or the taking of any action with respect to same, (ii) the financial condition of, any representations made by, or any act or omission of, the Company, the applicable Account Party or any other Person, or (iii) any failure or delay in exercising any rights or powers possessed by Issuing Bank in its capacity as issuer of Letters of Credit in the absence of its gross negligence or willful misconduct. Each of the Revolving Credit Banks expressly acknowledges that it has made and will continue to make its own evaluations of the Company's and the Account Parties' creditworthiness without reliance on any representation of Issuing Bank or Issuing Bank's officers, agents and employees.

(d) If at any time Issuing Bank shall recover any part of any unreimbursed amount for any draw or other demand for payment under a Letter of Credit, or any interest thereon, Agent or Issuing Bank, as the case may be, shall receive same for the *pro rata* benefit of the Revolving Credit Banks in accordance with their respective Percentages and shall promptly deliver to each Revolving Credit Bank its share thereof, less such Revolving Credit Bank's pro rata share of the costs of such recovery, including court costs and attorney's fees. If at any time any Revolving Credit Bank shall receive from any source whatsoever any payment on any such unreimbursed amount or interest thereon in excess of such Revolving Credit Bank's Percentage of such payment,

such Revolving Credit Bank will promptly pay over such excess to Agent, for redistribution in accordance with this Agreement.

3.9 *Indemnification.* The Company and each Account Party hereby indemnifies and agrees to hold harmless the Revolving Credit Banks, the Issuing Bank and the Agent, and their respective officers, directors, employees and agents (each an "L/C Indemnified Person"), from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever which the Revolving Credit Banks, the Issuing Bank or the Agent or any such Person may incur or which may be claimed against any of them by reason of or in connection with any Letter of Credit (collectively, the "L/C Indemnified Amounts"), and none of the Issuing Bank, any Revolving Credit Bank or the Agent or any of their respective officers, directors, employees or agents shall be liable or responsible for:

(a) the use which may be made of any Letter of Credit or for any acts or omissions of any beneficiary in connection therewith;

(b) the validity, sufficiency or genuineness of documents or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged;

(c) payment by the Issuing Bank to the beneficiary under any Letter of Credit against presentation of documents which do not strictly comply with the terms of any Letter of Credit (unless such payment resulted from the gross negligence or willful misconduct of the Issuing Bank), including failure of any documents to bear any reference or adequate reference to such Letter of Credit;

(d) any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit; or

(e) any other event or circumstance whatsoever arising in connection with any Letter of Credit;

provided, however, that with respect to subparagraphs (a) through (e) hereof, (i) neither the Company nor any of the Account Parties shall be required to indemnify any L/C Indemnified Person for any L/C Indemnified Amounts to the extent such amounts result from such L/C Indemnified Person's gross negligence or willful misconduct and (ii) the Agent and the Issuing Bank shall be liable to the Company and the Account Parties to the extent, but only to the extent, of any direct, as opposed to consequential or incidental, damages suffered by the Company and the Account Parties which were caused by the Issuing Bank's gross negligence, or willful misconduct or by the Issuing Bank's wrongful dishonor of any Letter of Credit after the presentation to it by the beneficiary thereunder of a draft or other demand for payment and other documentation strictly complying with the terms and conditions of such Letter of Credit.

(f) It is understood that in making any payment under a Letter of Credit the Issuing Bank will rely on documents presented to it under such Letter of Credit as to any and all matters set forth therein without further investigation and regardless of any notice or information to the contrary.

3.10 *Right of Reimbursement.* Each Revolving Credit Bank agrees to reimburse the Issuing Bank on demand, pro rata in accordance with its respective Revolving Credit Percentage, for (i) the reasonable out-of-pocket costs and expenses of the Issuing Bank to be reimbursed by the Company or any Account Party pursuant to any Letter of Credit Agreement or any Letter of Credit, to the extent not reimbursed by the Company or any Account Party and (ii) any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, fees, reasonable out-of-pocket expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against Issuing Bank in any way relating to or arising out of this Agreement (including Section 3.6(c)

hereof), any Letter of Credit, any documentation or any transaction relating thereto, or any Letter of Credit Agreement, to the extent not reimbursed by the Company or any Account Party, except to the extent that such liabilities, losses, costs or expenses were incurred by Issuing Bank as a result of Issuing Bank's gross negligence or willful misconduct or by the Issuing Bank's wrongful dishonor of any Letter of Credit after the presentation to it by the beneficiary thereunder of a draft or other demand for payment and other documentation strictly complying with the terms and conditions of such Letter of Credit.

3.11 *Existing Letters of Credit.* Each Existing Letter of Credit shall be deemed for all purposes of this Agreement to be a Letter of Credit, and each application submitted in connection with each Existing Letter of Credit shall be deemed for all purposes of this Agreement to be a Letter of Credit Agreement. On the date of execution of this Agreement, the Agent shall be deemed automatically to have sold and transferred, and each other Bank shall be deemed automatically, irrevocably, and unconditionally to have purchased and received from the Agent, without recourse or warranty, an undivided interest and participation (on the terms set forth herein), to the extent of such other Bank's Percentage, in each Existing Letter of Credit and the applicable reimbursement obligations with respect thereto and any security therefor or guaranty pertaining thereto. Letter of Credit Fees paid under the Prior Credit Agreement shall not be recalculated, redistributed or reallocated by Agent to the Banks; provided that the Company shall pay to any new Banks becoming parties hereto on the Effective Date (or any existing Bank increasing its Percentage on such date) a special letter of credit fee on the Existing Letters of Credit, calculated on the basis of the Letter of Credit Fees which would be applicable to such Existing Letters of Credit if issued on the date hereof (but in the case of any existing Bank, computed only to the extent of the applicable increase in its Percentage) for the period from the Effective Date to the expiration date of such Existing Letters of Credit.

4. CONDITIONS

The obligations of the Banks to make Advances or loans pursuant to this Agreement and the obligation of the Issuing Bank to issue Letters of Credit are subject to the following conditions:

4.1 *Execution of Notes and this Agreement.* Each of the Loan Parties shall have executed and delivered to Agent for the account of each Bank requesting Notes, the Revolving Credit Notes and/or the Swing Line Note as applicable, and this Agreement and the other Loan Documents to which that Loan Party is a party (including all schedules, exhibits, certificates, opinions, financial statements and other documents to be delivered pursuant hereto), and such Notes, and this Agreement and the other Loan Documents shall be in full force and effect.

4.2 *Corporate Authority.* Agent shall have received, with a counterpart thereof for each Bank:

(a) For each Loan Party, a certificate of its Secretary or Assistant Secretary as to:

(i) resolutions of the board of directors of such Loan Party evidencing approval of the transactions contemplated by this Agreement, approval of this Agreement and the other Loan Documents to which such Loan Party is party and authorizing the execution and delivery thereof and in the case of the Company, the borrowing of Advances and the requesting of Letters of Credit hereunder,

(ii) the incumbency and signature of the officers of such Loan Party executing any Loan Document,

(iii) a certificate of good standing or continued existence (or the equivalent thereof) from the state of its incorporation, and from every state or other jurisdiction listed on Schedule 4.2 hereof if issued by such jurisdiction, subject to the limitations (as to qualification and authorization to do business) contained in Section 5.1, and

(iv) copies of such Loan Party's articles of incorporation and bylaws or other constitutional documents, as in effect on the Effective Date.

4.3 *Collateral Documents, Guaranties and other Loan Documents.* As security for all Indebtedness, the Agent shall have received the following documents:

(a) The following Collateral Documents:

(i) the Security Agreement, executed and delivered by the Company and each Guarantor; and

(ii) the Guaranty, executed and delivered by each of the Guarantors.

(b) If requested by the Agent, in the case of each leased property listed on Schedule 4.3(b) hereto, lessor's acknowledgments and consents in form and substance reasonably acceptable to the Agent and the Banks.

(c) Certified copies of uniform commercial code requests for information, or a similar search report certified by a party acceptable to the Agent, dated a date reasonably near to the Effective Date, listing all effective financing statements which name the Company or any Subsidiary (under their present names or under any previous names used within five (5) years prior to the date hereof, which are set forth on Schedule 5.20 hereto) as debtors and which are filed in the jurisdictions in which filings are to be made pursuant to the Collateral Documents, together with (i) copies of such financing statements, and (ii) executed Uniform Commercial Code (Form UCC-3) Termination Statements, if any, necessary to release all Liens and other rights of any Person in any Collateral described in the Collateral Documents previously granted by any Person (other than Liens permitted by Section 7.2).

(d) Any documents (including, without limitation, financing statements, amendments to financing statements and assignments of financing statements, stock powers executed in blank and any endorsements) reasonably required to be provided in connection with the Collateral Documents to create, in favor of the Agent (for and on behalf of the Banks), a perfected security interest in the Collateral thereunder shall have been delivered to the Agent in a proper form for filing in each office in each jurisdiction listed in Schedule 4.3(d), or other office, as the case may be.

4.4 *Existing Credit Facilities.* All existing Funded Debt, other than Funded Debt expressly permitted hereunder, or Funded Debt to be refinanced with the proceeds of an Advance of the Revolving Credit hereunder, together with all interest, all prepayment premiums and other amounts due and payable with respect thereto, shall have been paid in full and the related commitments terminated and all Liens securing payment of any such Funded Debt shall have been released and the Agent shall have received all Uniform Commercial Code Form UCC-3 termination statements or other instruments as may be suitable or appropriate in connection therewith, or undertakings from the applicable secured parties as to the termination and discharge thereof satisfactory in form and substance to Agent.

4.5 *Insurance.* The Agent shall have received evidence satisfactory to it that the Loan Parties have obtained the insurance policies required by Section 6.5 hereof and that such insurance policies are in full force and effect.

4.6 *Compliance with Certain Documents and Agreements.* The Loan Parties shall have each performed and complied in all material respects with all agreements and conditions contained in this Agreement and the other Loan Documents and required to be performed or complied with by each of them (as of the applicable date) and none of such parties shall be in material default in the performance or compliance with any of the terms or provisions hereof or thereof.

4.7 *Opinion of Counsel.* The Loan Parties shall furnish Agent prior to the initial Advance under this Agreement, with signed copies for each Bank, opinions of counsel to the Loan Parties, dated the Effective Date and covering such matters as reasonably required by and otherwise reasonably satisfactory in form and substance to the Agent and each of the Banks.

4.8 *Company's Certificate.* The Agent shall have received, with a signed counterpart for each Bank, a certificate of a Responsible Officer of the Company dated the date of the initial Advance hereunder, stating that to the best of his or her knowledge after due inquiry, (a) except to the extent set forth in any post closing letter between the Company and the Agent, the conditions set forth in this Section 4 have been satisfied; (b) the representations and warranties made by the Loan Parties in this Agreement or any of the other Loan Documents, are true and correct in all material respects; (c) no Default or Event of Default shall have occurred and be continuing; (d) since July 31, 2002, nothing shall have occurred which has had, or could reasonably be expected to have, a Material Adverse Effect; and (e) there shall have been no material changes to the pro forma opening balance sheet of the Company previously delivered to the Agent.

4.9 *Payment of Fees.* Concurrently with the initial Advance hereunder, Company shall have paid to Comerica, in its individual capacity and as Agent (for its sole account), any commitment fee and agency fee due under the terms of the applicable Fee Letter.

4.10 *Financial Statements.* The Company shall have delivered to the Agent and each Bank (i) audited financial statements of the Company and its Subsidiaries for the fiscal year ending on October 31, 2001, prepared and presented in accordance with GAAP, (ii) company prepared unaudited financial statements of the Company and the Subsidiaries, for the quarter ending July 31, 2002 and (iii) a pro-forma opening balance sheet as of the Effective Date and financial projections in form and substance reasonably satisfactory to the Agent and the Banks.

4.11 *Continuing Conditions.* The obligations of the Banks to make Advances (including the initial Advance and Swing Line Advances) under this Agreement and the obligation of the Issuing Bank to issue any Letters of Credit shall be subject to the continuing conditions that:

(a) No Default or Event of Default shall exist as of the date of the Advance or the request for the Letter of Credit; and

(b) Each of the representations and warranties contained in this Agreement and in each of the other Loan Documents shall be true and correct in all material respects as of the date of the Advance or Letter of Credit as if made on and as of such date (other than any representation or warranty that expressly speaks only as of a different date).

5. REPRESENTATIONS AND WARRANTIES

The Company represents and warrants and such representations and warranties shall survive until the Revolving Credit Maturity Date and thereafter until the expiration of all Letters of Credit and the final payment in full of the Indebtedness and the performance by the Company of all other obligations under this Agreement:

5.1 *Corporate Authority.* Each Loan Party is a corporation (or other business entity) duly organized and existing in good standing under the laws of the state or jurisdiction of its incorporation, each other Subsidiary is a corporation or other business entity duly organized and existing in good standing under the laws of the jurisdiction of its incorporation, and, other than as set forth on Schedule 5.1 hereto, each Loan Party and each Subsidiary is duly qualified and authorized to do business as a foreign corporation in each jurisdiction where the character of its assets or the nature of its activities makes such qualification and authorization necessary and where failure to be so qualified could reasonably be expected to have a Material Adverse Effect.

5.2 *Due Authorization—Company.* Execution, delivery and performance of this Agreement, the other Loan Documents to which the Company is a party and the issuance of the Notes by the Company (if requested) are within the Company's corporate powers, have been duly authorized, are not in contravention of any law applicable to the Company or the terms of the Company's organizational documents and, except as have been previously obtained or as referred to in Section 5.13, below, do not require the consent or approval, material to the transactions contemplated by this Agreement and the other Loan Documents, of any governmental body, agency or authority.

5.3 *Due Authorization—Guarantors.* Execution, delivery and performance of the Guaranty, and the other Loan Documents to which such Guarantor is a party, are within the corporate powers of each such Guarantor, have been duly authorized, are not in contravention of any law applicable to such Guarantor or the terms of such Guarantor's organizational documents, and, except as have been previously obtained (or as referred to in Section 5.13 below), do not require the consent or approval, material to the transactions contemplated by this Agreement and the other Loan Documents, of any governmental body, agency or authority not previously obtained.

5.4 *Good Title, No Liens.* As of the Effective Date, the property described in Schedules 5.4 and 4.3(b) hereof constitutes all of the real property owned or leased, respectively, by the Company and Subsidiaries on the Effective Date. The Company and its Subsidiaries have good title to or a valid leasehold interest in (or, in the case of any fee interest in real property, good and marketable title to) all of their respective material assets, subject to the exceptions stated in the next sentence. There are no security interests in, liens, mortgages, or other encumbrances on and no financing statements on file with respect to any of the assets owned by Company or its Subsidiaries, except for (i) any defects that, individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect and (ii) other Liens permitted pursuant to Section 7.2.

5.5 *Taxes.* Each of the Loan Parties, and each of its Subsidiaries has filed on or before their respective due dates or within the applicable grace periods, all federal, state and foreign tax returns which are required to be filed or has obtained extensions for filing such tax returns and is not delinquent in filing such returns in accordance with such extensions and has paid all material taxes which have become due pursuant to those returns or pursuant to any assessments received by any such party, as the case may be, to the extent such taxes have become due, except to the extent such tax payments are being actively contested in good faith by appropriate proceedings and with respect to which adequate provision has been made on the books of such Loan Party or such other Subsidiary as may be required by GAAP.

5.6 *No Defaults.* There exists no material default under the provisions of any instrument evidencing any outstanding indebtedness for borrowed money of any Loan Party or any of their respective Subsidiaries or of any agreement relating thereto.

5.7 *Enforceability of Agreement and Loan Documents—Company.* This Agreement and each of the other Loan Documents to which the Company is a party, have each been duly executed and delivered by its duly authorized officers and constitute the valid and binding obligations of the Company, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium or similar laws affecting the enforcement of creditor's rights, generally and by general principles of equity (regardless of whether enforcement is considered in a proceeding in law or equity).

5.8 *Enforceability of Loan Documents—Guarantors.* The Loan Documents to which each of the Guarantors is a party, have each been duly executed and delivered by the duly authorized officers or members or managers, as the case may be, of each such Guarantor and constitute the valid and binding obligations of each such Guarantor, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by applicable bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium or similar laws affecting the enforcement of creditor's rights, generally and by

general principles of equity (regardless of whether enforcement is considered in a proceeding in law or equity).

5.9 *Compliance with Laws.* Except as disclosed on Schedule 5.9, each of the Loan Parties, and each of their respective Subsidiaries, is in compliance with all applicable federal, state and local laws, ordinances, codes, rules, regulations and guidelines (including consent decrees and administrative orders) including but not limited to Hazardous Material Laws, except to the extent that failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

5.10 *Non-contravention—Company.* The execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party by the Company are not in contravention of the terms of any indenture, agreement or undertaking to which the Company or any of its Subsidiaries is a party or by which its or their properties are bound or affected where such violation could reasonably be expected to have a Material Adverse Effect.

5.11 *Non-contravention—Guarantors.* The execution, delivery and performance of those Loan Documents signed by the Guarantors are not in contravention of the terms of any indenture, agreement or undertaking to which any such Guarantor is a party or by which it or its properties are bound or affected where such violation could reasonably be expected to have a Material Adverse Effect.

5.12 *No Litigation.* As of the Effective Date, except as set forth on Schedule 5.12 hereof, there is no suit, action, proceeding, including, without limitation, any bankruptcy proceeding, or governmental investigation pending against or to the knowledge of the Company, threatened against any Loan Party or any of their respective Subsidiaries (other than any suit, action or proceeding in which such Loan Party or such Subsidiary is the plaintiff and in which no counterclaim or cross-claim against such Loan Party or such Subsidiary has been filed) which such matters could, individually or in the aggregate reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 5.12, there is not outstanding against any Loan Party or any Subsidiary any judgment, decree, injunction, rule, or order of any court, government, department, commission, agency, instrumentality or arbitrator nor is any Loan Party or any other Subsidiary in violation of any applicable law, regulation, ordinance, order, injunction, decree or requirement of any governmental body or court where such matters could reasonably be expected to have a Material Adverse Effect.

5.13 *Consents, Approvals and Filings, Etc.* No authorization, consent, approval, license, qualification or formal exemption from, nor any filing, declaration or registration with, any court, governmental agency or regulatory authority or any securities exchange or any other person or party (whether or not governmental) is required in connection with the execution, delivery and performance: (a) by any of the Loan Parties, of this Agreement, any of the other Loan Documents to which they are a party, or any other documents or instruments to be executed and or delivered by any such Loan Parties in connection therewith or herewith; or (b) by any Loan Party, of the liens, pledges, security interests or other encumbrances granted, conveyed or otherwise established (or to be granted, conveyed or otherwise established) by or under this Agreement or the other Loan Documents, except for (i) such matters which have been previously obtained, (ii) the consents of landlords with respect to properties leased by Company and its Subsidiaries, (iii) such filings to be made concurrently herewith as are required by the Collateral Documents to perfect liens in favor of the Agent and (iv) such consents, approvals or filings the failure of which to obtain could not reasonably be expected to have a Material Adverse Effect. All such material authorizations, consents, approvals, licenses, qualifications, exemptions, filings, declarations and registrations which have previously been obtained or made, as the case may be, are in full force and effect and are not the subject of any attack, or to the knowledge of the Company threatened attack (in any material respect) by appeal or direct proceeding or otherwise.

5.14 *No Investment Company or Margin Stock.* None of the Loan Parties nor any of their respective Subsidiaries is an "investment company" within the meaning of the Investment Company Act

of 1940, as amended. None of the Loan Parties nor any of their respective Subsidiaries is engaged principally, or as one of its important activities, directly or indirectly, in the business of extending credit for the purpose of purchasing or carrying margin stock. None of the proceeds of any of the Advances will be used by any Loan Party nor any of their respective Subsidiaries to purchase or carry margin stock or will be made available by any Loan Party or any of their respective Subsidiaries in any manner to any other Person to enable or assist such Person in purchasing or carrying margin stock. Terms for which meanings are provided in Regulation U of the Board of Governors of the Federal Reserve System or any regulations substituted therefor, as from time to time in effect, are used in this paragraph with such meanings.

5.15 *ERISA.* As of the Effective Date, the Loan Parties nor any of their respective Subsidiaries maintains or contributes to any Pension Plan subject to Title IV of ERISA, except as set forth on Schedule 5.15 hereto; and there is no accumulated funding deficiency within the meaning of ERISA, or any outstanding liability with respect to any of the Pension Plans owed to the PBGC or any successor thereto other than future premiums due and owing pursuant to Section 4006 of ERISA, and no "reportable event" as defined in ERISA has occurred with respect to any Pension Plan other than an event for which the notice requirement has been waived by the PBGC. Neither the Loan Parties nor any of their respective Subsidiaries have engaged in a transaction with respect to any Pension Plan, other than a transaction for which an exemption is available and has been obtained, which could subject the Company or the Subsidiaries to a tax or penalty imposed by Section 4975 of the Code or Section 502(i) of ERISA in an amount that would be material. All Pension Plans are in material compliance with the requirements of the Internal Revenue Code and ERISA.

5.16 *Conditions Affecting Business or Properties.* As of the Effective Date, neither the respective businesses nor the properties of any Loan Party nor any of their respective Subsidiaries is affected by any fire, explosion, accident, strike, lockout or other dispute, drought, storm, hail, earthquake, embargo, Act of God, or other casualty (not covered by insurance) which could reasonably be expected to have a Material Adverse Effect, or if such event or condition were to continue for more than ten (10) additional days could reasonably be expected to have a Material Adverse Effect.

5.17 *Environmental and Safety Matters.* As of the Effective Date, except as set forth in Schedules 5.17 and 5.12 and except for such matters as could not reasonably be expected to have a Material Adverse Effect:

(a) all facilities and property owned or leased by the Loan Parties or any of their respective Subsidiaries, are operated, used and maintained in material compliance with all Hazardous Material Laws;

(b) to the knowledge of the Company, there are no unresolved, pending or threatened

(i) written claims, complaints, notices or requests for information received by any Loan Party or any of their respective Subsidiaries with respect to any alleged violation of any Hazardous Material Law, or

(ii) written complaints, notices or inquiries to any Loan Party or any of their respective Subsidiaries regarding potential liability of the Loan Parties or any of their respective subsidiaries under any Hazardous Material Law; and

(c) to the knowledge of the Company, no conditions exist at, on or under any property now or previously owned or leased by the Loan Parties or any of their respective Subsidiaries which, with the passage of time, or the giving of notice or both, are reasonably likely to give rise to liability under any Hazardous Material Law.

5.18 *Subsidiaries.* Except as disclosed on Schedule 5.18 hereto as of the Effective Date, and thereafter, except as disclosed to the Agent in writing from time to time, Company has no Subsidiaries.

5.19 *Franchises, Patents, Copyrights, Trade Names, etc.* The Company and each of its Subsidiaries possesses all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others. Schedule 5.19 contains a true and accurate list of all registered trademarks and registered trade names used by any Loan Party as of the Effective Date, and any and all assumed names used by any Loan Party as of the Effective Date.

5.20 *Accuracy of Information.* (a) Each of the Company's historical financial statements furnished to Agent and the Banks prior to the Effective Date, fairly presents in all material respects (subject to year-end adjustments and the omission of notes thereto in the case of interim statements) the financial condition of the Company and its Subsidiaries and the results of their operations for the periods covered thereby, and has been prepared in accordance with GAAP. The projections and financial information furnished to Agent and the Banks prior to the Effective Date are based upon good faith estimates and assumptions believed by management of the Company to be accurate and reasonable at the time made, it being recognized by the Banks that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein.

(b) From July 31, 2002 to the Effective Date, there has been no material adverse change in the financial condition of Company and its Subsidiaries taken as a whole; and to the best knowledge of the Company, as of the Effective Date, (i) neither Company nor any of its Subsidiaries has any material contingent obligations (including any liability for taxes) not disclosed by or reserved against in the opening balance sheet to be delivered hereunder, except as set forth on Schedule 5.20 hereof; and (ii) there are no unrealized or anticipated losses from any present commitment of Company or any of its Subsidiaries, which contingent obligations and losses in the aggregate could reasonably be expected to have a Material Adverse Effect.

5.21 *Solvency.* After giving effect to the consummation of the transactions contemplated by this Agreement, the Company and its Subsidiaries will each be solvent, able to pay its indebtedness as it matures and will have capital sufficient to carry on its business and all business in which it is about to engage. This Agreement is being executed and delivered by the Company to Agent and the Banks in good faith and in exchange for fair, equivalent consideration. Neither the Company nor any Subsidiary intends to nor does management of the Company or any Subsidiary believe it will incur debts beyond its ability to pay as they mature. Neither the Company nor any Subsidiary contemplates filing a petition in bankruptcy or for an arrangement or reorganization under the Bankruptcy Code or any similar law of any jurisdiction now or hereafter in effect relating to the Company or any Subsidiary, nor does the Company or any Subsidiary have any knowledge of any threatened bankruptcy or insolvency proceedings against the Company or any Subsidiary.

6. AFFIRMATIVE COVENANTS

The Company covenants and agrees that it will, and, as applicable, it will cause each of its Subsidiaries, until the Revolving Credit Maturity Date and thereafter until expiration of all Letters of Credit and final irrevocable payment in full of the Indebtedness and the performance by the Company of all other obligations under this Agreement and the other Loan Documents, to:

6.1 *Financial Statements.* Furnish to the Agent with sufficient copies for each Bank:

(a) as soon as available, but in any event on the earlier to occur of (i) ninety (90) days after the end of each fiscal year of the Company or (ii) the date on which the Company shall be required to file its 10-K under the applicable SEC reporting regulations in effect at such time, a copy of the audited Consolidated and unaudited Consolidating financial statements of the Company and the Subsidiaries as at the end of such year and the related audited statements of income, stockholders equity, and cash flows for such year and underlying assumptions, setting forth

in each case in comparative form the figures for the previous year, certified as being fairly stated in all material respects by an independent, nationally recognized certified public accounting firm reasonably satisfactory to the Agent and the Banks; and

(b) as soon as available, (x) but in any event on the earlier to occur of (i) forty five (45) days after the end of each fiscal quarter of the Company or (ii) the date on which the Company shall be required to file its 10-Q under the applicable SEC reporting regulations in effect at such time, or, (y) with respect to the last quarter of each fiscal year only, concurrently with the delivery of the financial statements in 6.1(a) as required therein, Company prepared unaudited Consolidated and Consolidating balance sheets of the Company and the Subsidiaries as at the end of such fiscal quarter and the related unaudited statements of income, stockholders equity and cash flows for the portion of the fiscal year through the end of such fiscal quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous year, and certified by a Responsible Officer as being fairly stated in all material respects;

all such financial statements to be complete and correct in all material respects and to be prepared in reasonable detail and in accordance with GAAP throughout the periods reflected therein and with prior periods (except as approved by such officer and disclosed therein), provided however that the financial statements delivered pursuant to clause (b) hereof will not be required to include footnotes and will be subject to year-end adjustments.

6.2 *Certificates; Other Information.* Furnish to the Agent with sufficient copies for each Bank:

(a) Concurrently with the delivery of the items set forth in Section 6.1(b) for the first three quarters of each fiscal year, and concurrently with the delivery of the items set forth in Section 6.1(a) for the last fiscal quarter of each fiscal year, a Covenant Compliance Report;

(b) As soon as available but in any event no later than March 31 of each fiscal year beginning with the current fiscal year, the Company shall prepare and deliver to the Agent and the Banks projections of the Company and the Subsidiaries for such fiscal year, on a quarter by quarter basis, including a balance sheet as at the end of each relevant period and income statements and statements of cash flows for each relevant period and for the period commencing at the beginning of the fiscal year and ending on the last day of such relevant period;

(c) Promptly upon receipt thereof, the Company shall deliver copies of all significant reports submitted by the Company's firm of certified public accountants in connection with each annual, interim or special audit or review of any type of the financial statements or related internal control systems of the Company and the Subsidiaries made by such accountants, including any comment letter submitted by such accountants to managements in connection with their services;

(d) As soon as available (and with copies for each of the Banks), the Company's 8-K, 10-Q and 10-K reports filed with the federal Securities and Exchange Commission, and in any event, (x) with respect to the 10-Q report for the first three fiscal quarters of each of the Company's fiscal year, on the

earlier to occur of (i) forty five (45) days after the end of each fiscal quarter of the Company or (ii) the date on which the Company shall be required to file its 10-Q under the applicable SEC reporting regulations in effect at such time, and (y) with respect to the 10-K report, on the earlier to occur of (i) ninety (90) days after the end of each fiscal quarter of the Company or (ii) the date on which the Company shall be required to file its 10-K under the applicable SEC reporting regulations in effect at such time; and as soon as available, copies of all material filings, reports or other documents filed by the Company or any of its Subsidiaries with the federal Securities and Exchange Commission or other federal regulator or taxing agencies or authorities in the United States, or comparable agencies or authorities in foreign jurisdictions, or any stock exchanges in such jurisdiction;

(e) Promptly as issued, all press releases, notices to shareholders and all other material communications transmitted by the Company or any of its subsidiaries to shareholders;

(f) Promptly and in form to be reasonably satisfactory to the requesting Bank, such additional financial and/or other information, or other reports as any Bank may from time to time reasonably request.

6.3 *Payment of Obligations.* Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes and other governmental charges and all of its material obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Company.

6.4 *Conduct of Business and Maintenance of Existence; Compliance with Contractual Obligations and Laws.* (a) Continue to engage in businesses of the same general types as now conducted by the Company or its Subsidiaries and businesses related thereto and preserve, renew and keep in full force and effect its existence, except as otherwise permitted pursuant to Sections 7.4 and 7.5;

(b) Take all reasonable action it deems necessary in its reasonable business judgment to maintain all rights, privileges and franchises necessary in the normal conduct of its business except as otherwise permitted pursuant to Section 7.5 or where the failure to so maintain could not reasonably be expected to have a Material Adverse Effect; and

(c) Comply with all Contractual Obligations and Requirements of Law, except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.5 *Maintenance of Property; Insurance.* (a) Keep all material property it deems, in its reasonable business judgment, useful and necessary in its business in working order (ordinary wear and excepted), except where the failure to maintain such property could not reasonably be expected to have a Material Adverse Effect; and (b) maintain insurance coverage on its physical assets and against other business risks in such amounts and of such types as are customarily carried by companies similar in size and nature (including without limitation casualty and public liability and property damage insurance), and in the event of acquisition of additional property, real or personal, or of incurrence of additional risks of any nature, increase such insurance coverage in such manner and to such extent as prudent business judgment and present practice or any applicable Requirements of Law would dictate, and in the case of all policies covering any Collateral, all such insurance policies shall provide that the loss payable thereunder shall be payable to Company or such Subsidiary, and to the Agent for the benefit of the Banks (Agent as mortgagee, or, in the case of personal property interests, lender loss payee) as their respective interests may appear, and certificates evidencing such policies, including all endorsements thereto, to be deposited with Agent upon its request.

6.6 *Inspection of Property; Books and Records, Discussions.* Permit Agent and each Bank, through their authorized attorneys, accountants and representatives (a) at all reasonable times during normal business hours, upon the request of Agent or such Bank, to examine Company's and each Subsidiary's books, accounts, records, ledgers and assets and properties of every kind and description wherever located; (b) at any time and from time to time, upon the request of the Majority Banks, to conduct full or partial collateral audits of Company and the Subsidiaries to be completed by an auditing firm as may be selected by Agent and the Majority Banks and consented to by Company (such consent not to be unreasonably withheld), with all reasonable costs and expenses of such audits to be reimbursed by Company, provided that, so long as no Default or Event of Default has occurred and is continuing, the Company shall not be obligated to reimburse Agent and the Banks for more than one such audit in any calendar year and provided further that Company shall be obligated to reimburse Agent and the Banks for all collateral audits performed after the occurrence and during the continuance of a Default or

Event of Default; and (c) permit Agent and each Bank or their authorized representatives, at reasonable times and intervals, to visit all of their respective offices, discuss their respective financial matters with their respective officers and independent certified or chartered public accountants, as applicable, and, by this provision, Company authorizes such accountants to discuss the finances and affairs of Company and the Subsidiaries and examine any of its or their books and other corporate records. Notwithstanding the foregoing, all information furnished to the Agent or the Banks hereunder shall be subject to the undertaking of the Banks set forth in Section 12.11 hereof.

6.7 *Notices.* Promptly give notice to the Agent of:

(a) as soon as possible, but in any event with in three (3) Business Days after becoming aware of the occurrence thereof, the occurrence of any Default or Event of Default of which the Company or any Subsidiary has knowledge;

(b) as soon as possible, but in any event within three (3) Business Days after becoming aware of the occurrence thereof, any (i) litigation, investigation or proceeding which may exist at any time between the Company or any Subsidiary and any Governmental Authority or other third party, which in either case, if not cured or if it is reasonably likely to be adversely determined, as the case may be, could reasonably be expected to have a Material Adverse Effect or (ii) any change in the financial condition of the Company or any of the Subsidiaries since the date of the last audited financial statements delivered pursuant to Section 6.1(a) hereof which could reasonably be expected to have a Material Adverse Effect;

(c) any event which the Company reasonably believes is reasonably likely to have a Material Adverse Effect;

(d) promptly after becoming aware of the taking by the Internal Revenue Service or any foreign taxing jurisdiction of a written tax position (or any such tax position taken by the Company or any Subsidiary) which could reasonably be expected to have a Material Adverse Effect upon the Company or

any Subsidiary setting forth the details of such position and the financial impact thereof;

(e) not less than ten days prior to the proposed effective date thereof, copies of any proposed material amendments, restatements or other modification to the Subordinated Debt Documents;

(f) provide prompt written notice to the Agent of (i) all jurisdictions in which the Company or any of the Subsidiaries becomes qualified after the Effective Date to transact business, (ii) the acquisition or creation of any new Subsidiaries and (iii) any material change after the Effective Date in the authorized and issued capital stock or other equity interests of the Company or any of the Subsidiaries or any other material amendment to their charter, by-laws or other organizational documents, such notice, in each case, to identify the applicable jurisdictions, capital structures or amendments as applicable; and

(g) concurrently with the delivery thereof, any notices to any holder of Subordinated Debt pursuant to the Subordinated Debt Documents other than notices required hereunder.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company has taken or proposes to take with respect thereto.

6.8 *Hazardous Material Laws.*

(a) Use and operate all of its facilities and properties in material compliance with all applicable Hazardous Material Laws, keep all required material permits, approvals, certificates, licenses and other authorizations required under such Hazardous Material Laws in effect and remain in material compliance therewith, and handle all Hazardous Materials in material

compliance with all applicable Hazardous Material Laws, except in each case where the failure to do so could not reasonably be expected to have a Material Adverse Effect;

(b) Promptly notify Agent and provide copies upon receipt of all written claims, complaints, notices or inquiries received by the Company or any of the Subsidiaries of a material nature relating to compliance with Hazardous Material Laws;

(c) To the extent necessary to materially comply with Hazardous Material Laws, remediate or monitor contamination arising from a release or disposal of Hazardous Material; and

(d) Provide such information which any Bank may reasonably request from time to time to evidence compliance with this Section 6.8.

6.9 *Consolidated Fixed Charge Coverage Ratio.* Maintain as of the end of each fiscal quarter of Company, for the four fiscal quarters then ending (commencing with the quarter ending October 31, 2002), a Consolidated Fixed Coverage Ratio of not less than 1.25 to 1.00.

6.10 *Maintain Consolidated Tangible Net Worth.* Maintain as of the end of each fiscal quarter of Company (commencing with the quarter ending October 31, 2002), Consolidated Tangible Net Worth of not less than the following amounts during the periods specified below, plus in each case the sum of the Equity Offering Adjustment and the Subordinated Debt Adjustment:

Period	Amount
October 31, 2002 through October 30, 2003	$ 300,000,000
October 31, 2003 through October 30, 2004	$ 320,000,000
October 31, 2004 through October 30, 2005	$ 340,000,000
October 31, 2005 through October 30, 2006	$ 360,000,000
October 31, 2006 and thereafter	$ 380,000,000

6.11 *Maintain Consolidated Leverage Ratio.* Maintain as of the last day of any period of four consecutive fiscal quarters ending during any period set forth below (commencing with the quarter ending October 31, 2002), a Consolidated Leverage Ratio of not more than 2.50 to 1.00.

6.12 *Governmental and Other Approvals.* Apply for, obtain and/or maintain in effect, as applicable, all authorizations, consents, approvals, licenses, qualifications, exemptions, filings, declarations and registrations (whether with any court, governmental agency, regulatory authority, securities exchange or otherwise) which are necessary in connection with the execution, delivery and performance by such Loan Parties, of this Agreement, the other Loan Documents, or any other documents or instruments to be executed and/or delivered by such Loan Parties in connection therewith or herewith, except where the failure to so apply for, obtain or maintain could not reasonably be expected to have a Material Adverse Effect.

6.13 *Compliance with ERISA; ERISA Notices.* (a) Comply in all material respects with all applicable requirements imposed by ERISA as presently in effect or hereafter promulgated or the Internal Revenue Code, including, but not limited to, the minimum funding requirements of any Pension Plan, except where the failure to comply could not reasonably be expected to have a Material Adverse Effect.

(b) Promptly notify Agent upon the occurrence of any of the following events if such event could be reasonably expected to have a Material Adverse Effect:

(i) the termination, other than a standard termination, as defined in ERISA, of any Pension Plan subject to Subtitle C of Title IV of ERISA;

(ii) the Company's or any Subsidiary's receipt of notice of the appointment of a trustee by a United States District Court to administer any Pension Plan subject to Title IV of ERISA;

(iii) the Company's or any Subsidiary's receipt of notice of the commencement by the Pension Benefit Guaranty Corporation, or any successor thereto, of any proceeding to terminate any Pension Plan subject to Title IV of ERISA;

(iv) the failure of the Company or any Subsidiary to make any payment in respect of any Pension Plan required under Section 412 of the Internal Revenue Code;

(v) the withdrawal of the Company or any Subsidiary from any Multiemployer Plan if the Company reasonably believes that such withdrawal would give rise to the imposition of withdrawal liability with respect thereto; or

(vi) the occurrence of a "reportable event" which is required to be reported by the Company under Section 4043 of ERISA as defined in ERISA other than any event for which the reporting requirement has been waived by the PBGC or a "prohibited transaction" as defined in Section 406 of ERISA or Section 4975 of the Internal Revenue Code other than a transaction for which a statutory exemption is available or an administrative exemption has been obtained which in either case could reasonably be expected to have a Material Adverse Effect.

6.14 *Security; Defense of Collateral.* Take such actions as the Agent or the Majority Banks may from time to time reasonably request to establish and maintain first perfected security interests in and Liens on all of its Collateral, subject only to Permitted Liens and other liens permitted under Section 7.2 hereof; and defend the Collateral from any Liens other than Liens permitted by Section 7.2.

6.15 *Use of Proceeds.* Use all Advances of the Revolving Credit as set forth in Section 2.16 hereof; and not use any portion of the proceeds of any such advances for the purpose of purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) in any manner which violates the provisions of Regulation T, U or X of said Board of Governors or for any other purpose in violation of any applicable statute or regulation.

6.16 *Future Subsidiaries; Additional Collateral.*

(a) (i) With respect to each Person which becomes a Significant Domestic Subsidiary of Company (directly or indirectly) subsequent to the Effective Date, within sixty (60) days of the date such Person is created, acquired or otherwise becomes a Significant Domestic Subsidiary (whichever first occurs), cause such new Subsidiary to execute and deliver to the Agent (x) a Joinder Agreement (attached to the Guaranty as Exhibit A) whereby such Subsidiary becomes obligated as a Guarantor under the Guaranty and (y) a Joinder Agreement to the Security Agreement (attached to the Security Agreement as Exhibit B); and (ii) with respect to each Subsidiary of the Company (direct or indirect) which acquires another Person or the assets of another Person in connection with a Permitted Acquisition hereunder, within sixty (60) days of the consummation date of such Permitted Acquisition, cause such Subsidiary to execute and deliver to the Agent (x) a Joinder Agreement (attached to the Guaranty as Exhibit A) whereby such Subsidiary becomes obligated as a Guarantor under the Guaranty and (y) a Joinder Agreement to the Security Agreement (attached to the Security Agreement as Exhibit B);

(b) With respect to real property located in the United States that is subject to a lease entered into by the Company or any Domestic Subsidiary after the Effective Date, not later than sixty (60) days after the execution of the applicable lease for such property, the Company shall execute or cause to be executed a lessor's acknowledgment and consent in form and substance

reasonably acceptable to the Agent and the Majority Banks (unless waived by Agent and Majority Banks);

in each case in form reasonably satisfactory to the Agent and the Majority Banks, in their reasonable discretion, together with such supporting documentation, including without limitation corporate authority items, certificates and opinions of counsel, as reasonably required by the Agent and the Majority Banks and the Company shall take, or cause to be taken, such steps as are necessary or advisable under applicable law to perfect the liens granted under this Section 6.16.

6.17 *Operating Accounts.* Maintain the primary operating account of Company with the Agent.

6.18 *Further Assurances.* Execute and deliver or cause to be executed and delivered to Agent within a reasonable time following Agent's request, and at the Company's expense, such other documents or instruments as Agent may reasonably require to effectuate more fully the purposes of this Agreement or the other Loan Documents.

7. NEGATIVE COVENANTS

Company covenants and agrees that, until the Revolving Credit Maturity Date and thereafter until expiration of all Letters of Credit and final irrevocable payment in full of the Indebtedness and the performance by Company and its Subsidiaries of all other obligations under this Agreement and the other Loan Documents, it will not, and will not permit any of the Subsidiaries, to:

7.1 *Limitation on Funded Debt.* Create, incur, assume or suffer to exist any Funded Debt, except as follows, provided, in each case, that no Default or Event of Default shall have occurred and be continuing:

(a) Indebtedness under this Agreement and the other Loan Documents;

(b) any Funded Debt existing on the Effective Date and set forth in Schedule 7.1(b) attached hereto and any renewals or refinancing of such Debt in amounts not exceeding the scheduled amounts (less any required amortization according to the terms thereof), on substantially the same terms as in effect on the Effective Date and otherwise in compliance with this Agreement;

(c) Funded Debt of the Company or a Subsidiary, excluding Debt otherwise permitted under this Section 7.1, incurred to finance the acquisition of fixed or capital assets (whether pursuant to a loan or a Capitalized Lease), provided that the aggregate amount of all such Debt shall not exceed Fifty Million Dollars ($50,000,000) at any one time outstanding;

(d) Subordinated Debt;

(e) Guarantee Obligations permitted under Section 7.3 or any other Loan Document;

(f) Hedging Transactions;

(g) Intercompany Loans permitted under Section 7.8;

(h) Funded Debt incurred to fund the purchase price of any Permitted Acquisition, provided that the aggregate amount of all such Debt shall not exceed $25,000,000 in aggregate principal amount at any one time outstanding;

(i) Funded Debt incurred in connection with any Industrial Revenue Bonds or other similar tax-exempt financing provided that the aggregate amount of all such Debt shall not exceed $25,000,000 in aggregate principal amount at any one time outstanding; and

(j) any Funded Debt assumed pursuant to a Permitted Acquisition conducted in compliance with this Agreement, provided that such Debt was not entered into, extended or renewed in

contemplation of such acquisition and provided further that the aggregate amount of all such Debt at any time outstanding shall not exceed $25,000,000;

(k) Additional unsecured Funded Debt provided that both at the time of and immediately after giving effect to the incurrence thereof (i) no Default or Event of Default shall have occurred and be continuing and (ii) the aggregate amount of all such Debt shall not exceed $75,000,000 in aggregate principal amount at any one time outstanding.

7.2 *Limitation on Liens.* Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for:

(a) Permitted Liens;

(b) Liens securing Debt permitted by Section 7.1(c), provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such fixed or capital asset, (ii) such Liens do not at any time encumber any property other than the property, equipment or improvements financed by such Debt, and (iii) the principal amount of Debt secured by any such Lien shall at no time exceed 100% of the original purchase price of such property, equipment or improvements;

(c) Liens securing Debt permitted by Section 7.1(i);

(d) Liens in favor of Agent, as security for the Indebtedness (including Indebtedness under any Bank Hedging Agreements);

(e) attachments, judgments and other similar Liens (other than any judgment that is described in clause (h) of Section 8.1 and constitutes an Event of Default thereunder), arising in connection with court proceedings, provided that the execution or other enforcement of such Liens is effectively stayed within 30 days and claims secured thereby are being actively contested in good faith by appropriate proceedings;

(f) other Liens, existing on the Effective Date, set forth on Schedule 7.2 attached hereto and any renewals or refinancing of the Debt secured thereby in amounts not exceeding the scheduled amounts (less any required amortization according to the terms thereof), on substantially the same terms as in effect on the Effective Date and otherwise in compliance with this Agreement;

(g) Liens granted to banks or other financial institutions in the ordinary course of business in connection with deposit, disbursement or concentration accounts (other than in connection with borrowed money) maintained with such banks or financial institutions on funds and other items in such accounts;

(h) other Liens securing Debt in an aggregate amount at any time outstanding not to exceed $5,000,000, provided that at the time such Lien was granted (both before and after giving effect thereto), no Default or Event of Default has occurred and is continuing.

7.3 *Limitation on Guarantee Obligations.* Create, incur, assume or suffer to exist any Guarantee Obligation except (a) the Guaranty, (b) Guarantee Obligations by Company or any Guarantor in respect of Debt incurred by Company or any other Guarantor or any Foreign Subsidiary subject to Section 7.7(e) of this Agreement, as the case may be, in compliance with this Agreement, (c) Guarantee Obligations not otherwise permitted under this Section 7.3 in respect of Debt incurred by any Person, provided that the aggregate principal amount of such Debt at any time outstanding does not exceed $5,000,000, (d) Guarantee Obligations existing on the Effective Date and set forth on Schedule 7.3 hereof, (e) Guarantee Obligations arising with respect to customary indemnification and purchase price adjustment obligations incurred in connection with any sale or disposition of assets and (f) Guarantee Obligations incurred in the ordinary course of business with respect to surety and appeal bonds, performance and return-of-money bonds and similar obligations not exceeding at any time outstanding $1,000,000 in aggregate liability.

7.4 *Acquisitions.* Except for Permitted Acquisitions, purchase or otherwise acquire or become obligated for the purchase of all or substantially all or any material portion of the assets or business interests of any Person, or any shares of stock (or other ownership interests) of any Person, or in any other manner effectuate an expansion of present business in any material respect by acquisition.

7.5 *Limitation on Mergers, other Fundamental Changes or Sale of Assets.* Enter into any merger or consolidation or convey, sell, lease, assign, transfer or otherwise dispose of any material portion of its property, business or assets (including, without limitation, receivables, leasehold interests and sale-leaseback transactions), whether now owned or hereafter acquired or make any material change in its capital structure or present method of conducting business, except:

(a) inventory leased or sold in the ordinary course of business;

(b) obsolete or worn out property or equipment, or property or equipment no longer useful in the conduct of Company's or any Subsidiary's business;

(c) (i) mergers or consolidations of any Subsidiary with or into Company (so long as Company shall be the continuing or surviving entity); (ii) mergers or consolidations of any Foreign Subsidiary with or into any other Foreign Subsidiary; and (iii) mergers or consolidations of any Subsidiary (excluding Company) with or into any Guarantor so long as such Guarantor shall be the continuing or surviving entity; provided, however, that at the time of each such merger or consolidation under sub-clauses (i) through (iii) of this clause (c), both before and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing;

(d) any Subsidiary (other than a Significant Subsidiary) may liquidate or dissolve into the Company or any Guarantor and any Foreign Subsidiary may liquidate or dissolve into any other Foreign Subsidiary if the Company determines in good faith that such liquidation or dissolution is in the best interests of the Company;

(e) sales or transfers, including upon voluntary liquidation (i) between Company and any Guarantor; or (ii) from any Subsidiary of the Company to the Company or any Guarantor; or (iii) between any Foreign Subsidiaries; or (iv) from the Company or any Domestic Subsidiary to any Foreign Subsidiary in an aggregate amount for all such transfers described under this clause (iv) during the life of this Agreement not to exceed $2,000,000, subject to Section 7.7(e) of this Agreement;

(f) provided that no Default or Event of Default has occurred and is continuing at the time of each such sale (both before and after giving effect to such Asset Sale), (i) Asset Sales in which the sales price is at least the fair market value of the assets sold and the aggregate amount of such Asset Sales (as determined on the basis of the gross sales price of such Asset Sales) is less than $20,000,000 in any fiscal year and the consideration received is cash or cash equivalents and (ii) other Asset Sales approved by the Majority Banks; and

(g) the sale or disposition of Permitted Investments and other cash equivalents in the ordinary course of business.

7.6 *Restricted Payments.* Upon the occurrence and during the continuance of an Event of Default, declare or make, or permit any Subsidiary to, declare or make any distributions, dividend, payment or other distribution of assets, properties, cash, rights, obligations or securities (collectively, "Distributions") on account of any of its Capital Stock or purchase, redeem or otherwise acquire for value any of its Capital Stock or any warrants, rights or options to acquire such Capital Stock, now or hereafter outstanding.

7.7 *Limitation on Investments, Loans and Advances.* Make or allow to remain outstanding any Investment (whether such investment shall be of the character of investment in shares of stock,

evidences of indebtedness or other securities or otherwise) in, or any loans or advances to, any Person, firm, corporation or other entity or association, other than:

(a) Permitted Investments;

(b) Investments existing on the Effective Date and listed on Schedule 7.7 hereof;

(c) extensions of trade credit in the ordinary course of business;

(d) Intercompany Loans, Advances or Investments made on or after the Effective Date by the Company to any Guarantor or by any Guarantor to the Company (provided that any Intercompany Loan hereunder shall be evidenced by and funded under an Intercompany Note encumbered pursuant to the appropriate Collateral Document), provided that at the time any such loan, advance or investment is made (before and after giving effect thereto) no Default or Event of Default has occurred and is continuing;

(e) Intercompany Loans, Advances or Investments made on or after the Effective Date by the Company or any Guarantor to a Foreign Subsidiary in an aggregate amount, at any time outstanding, not to exceed $10,000,000, provided that any Intercompany Loan hereunder shall be evidenced by and funded under an Intercompany Note encumbered pursuant to the appropriate Collateral Document), and provided further that at the time any such loan, advance or investment is made (before and after giving effect thereto), no Default or Event of Default has occurred and is continuing;

(f) Investments in respect of Hedging Transactions;

(g) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(h) loans and advances to employees, officers and directors of the Company or any of the Subsidiaries in connection with equity incentive arrangements in an aggregate amount not to exceed $2,000,000; *provided* that the proceeds of such loans and advances are paid to the Company or any of the Subsidiaries, as applicable, in connection with such equity incentive arrangements;

(i) Permitted Acquisitions permitted pursuant to Section 7.4;

(j) Investments constituting deposits made in connection with the purchase of goods or services in the ordinary course of business in an aggregate amount for such deposits not to exceed $100,000 at any one time;

(k) other Investments not described above in an amount not to exceed $10,000,000 over the term of this Agreement, provided that at the time of any such Investment, no Default or Event of Default has occurred and is continuing.

In valuing any Investments for the purpose of applying the limitations set forth in this Section 7.8 (except as otherwise expressly provided herein), such Investment shall be taken at the original cost thereof, without allowance for any subsequent write-offs or appreciation or depreciation, but less any amount repaid or recovered on account of capital or principal.

7.8 *Transactions with Affiliates.* Except as set forth in Schedule 7.8 (which transactions described on Schedule 7.8 are on terms that are fair and reasonable to the Company and its Subsidiaries), enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the

rendering of any service, or providing for the payment of any management or other fee, with any Affiliate of a Company or any Subsidiary except (a) transactions otherwise permitted under this Agreement; (b) transactions in the ordinary course of Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than it would

obtain in a comparable arms length transaction from unrelated third parties; and (c) transactions between or among Company, the Guarantors and any other wholly-owned Subsidiaries, and not involving any other Affiliates.

7.9 *Limitation on Negative Pledge Clauses.* After the Effective Date, except for such agreements, documents or instruments which are in effect on the Effective Date and which are set forth on Schedule 7.9 hereto, enter into any agreement, document or instrument which would (i) restrict or prevent the Company and its Subsidiaries from granting Agent on behalf of Banks Liens upon, security interests in and pledges of their respective assets which are senior in priority to all other Liens, except for Permitted Liens and any other agreements, documents or instruments pursuant to which Liens not prohibited by the terms of this Agreement are created, entered into, or allowed to exist (but limited to the property encumbered by such Lien) and customary anti-assignment provisions contained in leases entered into by any such Person (as lessee) in the ordinary course of business, or (ii) enter into any agreement, contract or arrangement (excluding this Agreement and the other Loan Documents) restricting the ability of any Subsidiary of Company to pay or make dividends or distributions in cash or kind to Company or any other Loan Party, to make loans, advances or other payments of whatever nature to Company, or to make transfers or distributions of all or any part of its assets to Company or any other Loan Party.

7.10 *Prepayment of Debts.* Prepay, purchase, redeem, defease or make any payment on any Debt for money borrowed (including without limitation any Subordinated Debt) or any capital leases, excluding refinancings or renewals of such Debt or leases in the same or lesser amounts (and giving effect to any required amortization) on substantially the same terms or on terms more favorable to the obligor thereunder, and otherwise in compliance with this Agreement.

7.11 *Amendment of Subordinated Debt Documents.* Amend, modify or otherwise alter (or suffer to be amended, modified or altered) any of the terms and conditions of those documents or instruments evidencing or otherwise related to any Debt set forth on Schedule 7.1, including any Subordinated Debt, any provision thereof which in any case could reasonably be expected to be adverse to the Banks, in any case without the prior written approval of Agent and the Majority Banks; for purposes of those documents or instruments evidencing or otherwise related to such Debt, any shortening of the put exercise date or increase in the amount of or change in the formula for determining the put price under any rights agreement, any increase in the original interest rate or principal amount, any shortening of the original amortization, any change in financial covenants which make such covenants more restrictive or adds new covenants, any change in any default, remedial or other repayment term making such term more onerous or restrictive, shall, without reducing the scope of this Section 7.11, be deemed to be adverse to the Banks.

7.12 *Modification of Certain Agreements.* Make, permit or consent to any amendment or other modification to the constitutional documents of any of the Loan Parties (including the Company's certificate of incorporation), or any documents delivered in connection with any Permitted Acquisition, except to the extent that any such amendment (i) does not violate the terms and conditions of this Agreement or any of the other Loan Documents, (ii) does not materially adversely affect the interest of the Banks as creditor under this Agreement, the other Loan Documents or any other document or instrument in any respect, or (iii) could not reasonably be expected to have a Material Adverse Effect.

7.13 *Fiscal Year.* Permit the fiscal year of the Company to end on a day other than October 31.

8. DEFAULTS

8.1 *Events of Default.* The occurrence of any of the following events shall constitute an Event of Default hereunder:

(a) non-payment when due of (i) the principal or interest on the Indebtedness under the Revolving Credit (including the Swing Line), (ii) any Reimbursement Obligation, or (iii) any Fees, and in the case of Fees, continuance thereof for three (3) Business Days;

(b) non-payment of any money by the Company under this Agreement or by Company or any Subsidiary under any of the other Loan Documents to which it is a party, other than as set forth in subsection (a) above, within five (5) Business Days after notice from Agent that the same is due and payable;

(c) default in the observance or performance of any of the conditions, covenants or agreements of Company set forth in Sections 6.1, 6.2, 6.4(a), 6.5(b), 6.6, 6.7, 6.9 through 6.11, 6.15, 6.16 or 7; provided that an Event of Default arising from a breach of Sections 6.1 or 6.2 or 6.7(b) through (g) shall be deemed to have been cured upon delivery of the required item or notice; and provided further that any Event of Default arising solely due to a breach of Section 6.7(a) shall be deemed cured upon the earlier of (i) the giving of the notice required by Section 6.7(a) and (ii) the date upon which the Default or Event of Default giving rise to the notice obligation is cured or waived;

(d) default in the observance or performance of any of the other conditions, covenants or agreements set forth in this Agreement by Company and continuance thereof for a period of thirty (30) consecutive days after written notice from Agent; provided that any Event of Default arising solely due to a breach of Section 6.14(b) shall be deemed cured upon the giving of the notice required by such Section;

(e) any representation or warranty made by Company or any Subsidiary herein or in any instrument submitted pursuant hereto proves untrue or misleading in any material adverse respect when made;

(f) default in the observance or performance of or failure to comply with any of the conditions, covenants or agreements of Company or any Subsidiary set forth in any of the other Loan Documents, and the continuance thereof beyond any period of grace or cure specified in any such document or, in the case of the Collateral Documents, continuance thereof for a period of thirty (30) days after written notice from Agent; provided that any such default or failure to comply arising solely due to a breach of any notice requirement of such Loan Documents shall be deemed cured upon the earlier of (i) the giving of the notice required by the applicable Loan Document and (ii) the date upon which the default or other event giving rise to the notice obligation is cured or waived;

(g) (i) default in the payment of any indebtedness for borrowed money (other than Indebtedness hereunder, but including without limitation any Subordinated Debt) of the Company or any Subsidiary in excess of One Million Dollars ($1,000,000) (or the equivalent thereof in any currency other than Dollars) individually or in the aggregate when due (whether by acceleration or otherwise) and continuance thereof beyond any applicable period of cure or (ii) failure to comply with the terms of any other obligation of the Company or any Subsidiary with respect to any indebtedness for borrowed money (other than Indebtedness hereunder) in excess of One Million Dollars ($1,000,000) (or the equivalent thereof in any currency other than Dollars) individually or in the aggregate, which continues beyond any applicable period of cure and which would permit the holder or holders thereto to accelerate such other indebtedness for borrowed money or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage

of time on the right of the holder of Debt to convert such indebtedness for borrowed money into Capital Stock), (x) the Company or any Subsidiary has become obligated to purchase or repay such Debt for borrowed money before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least $1,000,000 or (y) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Debt for borrowed money;

(h) the rendering of any judgment(s) for the payment of money in excess of the sum of One Million Dollars ($1,000,000) (or the equivalent thereof in any currency other than Dollars) individually or in the aggregate against the Company or any Subsidiary, and such judgments shall remain unpaid, unvacated, unbonded or unstayed by appeal or otherwise for a period of thirty (30) consecutive days, except as covered by adequate insurance with a reputable carrier as to which the relevant insurance company has acknowledged coverage;

(i) the occurrence of (i) a "reportable event", as defined in ERISA, which is determined to constitute grounds for a distress termination by the PBGC of any Pension Plan subject to Title IV of ERISA maintained or contributed to by or on behalf of the Company or any of the Subsidiaries for the benefit of any of its employees or for the appointment by the appropriate United States District Court of a trustee to administer such Pension Plan and such reportable event is not corrected and such determination is not revoked within thirty (30) days after notice thereof has been given to the plan administrator of such Pension Plan (without limiting any of Agent's or any Bank's other rights or remedies hereunder), or (ii) the institution of proceedings by the Pension Benefit Guaranty Corporation to terminate any such Pension Plan or (iii) the appointment of a trustee by the appropriate United States District Court to administer any such Pension Plan, which in either case of (i), (ii) or (iii) could reasonably be expected to have a Material Adverse Effect;

(j) the Company or any Guarantor shall be dissolved or liquidated (or any judgment, order or decree therefor shall be entered) or; if a creditors' committee shall have been appointed for the business of the Company or any Guarantor; or if the Company or any Guarantor shall have made a general assignment for the benefit of creditors or shall have been adjudicated bankrupt and if not an adjudication based on a filing by Company it shall not have been dismissed within sixty (60) days, or shall have filed a voluntary petition in bankruptcy or for reorganization or to effect a plan or arrangement with creditors or shall fail to pay its debts generally as such debts become due in the ordinary course of business (except as contested in good faith and for which adequate reserves are made in such party's financial statements); or shall file an answer to a creditor's petition or other petition filed against it, admitting the material allegations thereof for an adjudication in bankruptcy or for reorganization; or shall have applied for or permitted the appointment of a receiver or trustee or custodian for any of its property or assets; or such receiver, trustee or custodian shall have been appointed for any of its property or assets (otherwise than upon application or consent of Company or any Guarantor) and shall not have been removed within sixty (60) days; or if an order shall be entered approving any petition for reorganization of Company or any Guarantor and shall not have been reversed or dismissed within sixty (60) days; or Company or any Guarantor shall take any action (corporate or other) authorizing or in furtherance any of the actions described above in this subsection;

(k) default in the observance or performance of or any failure to comply with any of the conditions, covenants or agreements of any Subordinated Debt Holder under the terms of any Subordination Agreement;

(l) any material provision of any Collateral Document or the Guaranty shall at any time for any reason cease to be valid, binding and enforceable against the Company or any Subsidiary (other than in accordance with the terms thereof), as applicable, or the validity, binding effect or enforceability thereof shall be contested by the Company or any Subsidiary, or the Company or

any Subsidiary shall deny that it has any or further liability or obligation under any Collateral Document or the Guaranty, any such Loan Document, or any Subordination Agreement shall be terminated (other than in accordance with the terms thereof), invalidated, revoked or set aside or in any way cease to give or provide to the Banks and the Agent the benefits purported to be created thereby; or

(m) (i) if there shall occur a Change of Control (or comparable term or event) under any of the Subordinated Debt Documents; or (ii) if an event or series of events by which any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act), directly or indirectly, of thirty percent (30%) or more of the outstanding shares of Capital Stock of the Company entitled to vote; or, during any period of twelve consecutive calendar months, individuals who were directors of the Company on the first day of such period shall cease to constitute a majority of the board of directors of the Company; or (iii) if there shall occur any change in the management of the Company which, in the judgment of the Majority Banks, could reasonably be expected to have a Material Adverse Effect, and such change in management has not been corrected to the satisfaction of the Majority Banks within thirty (30) days after notice from Agent to such effect.

8.2 *Exercise of Remedies.* If an Event of Default has occurred and is continuing hereunder: (a) the Agent may, and shall, upon being directed to do so by the Majority Banks, declare the Commitments terminated; (b) the Agent may, and shall, upon being directed to do so by the Majority Banks, declare the entire unpaid principal Indebtedness, including the Notes, immediately due and payable, without presentment, notice or demand, all of which are hereby expressly waived by Company; (c) upon the occurrence of any Event of Default specified in Section 8.1(j) and notwithstanding the lack of any declaration by Agent under preceding clauses (a) or (b), the entire unpaid principal Indebtedness shall become automatically and immediately due and payable, and the Commitments shall be automatically and immediately terminated; (d) the Agent shall, upon being directed to do so by the Majority Banks, demand immediate delivery of cash collateral, and Company and each Account Party agrees to deliver such cash collateral upon demand, in an amount equal to the maximum amount that may be available to

be drawn at any time prior to the stated expiry of all outstanding Letters of Credit; and (e) the Agent may, and shall, if directed to do so by the Majority Banks or the Banks, as applicable (subject to the terms hereof), exercise any remedy permitted by this Agreement, the other Loan Documents or law.

8.3 *Rights Cumulative.* No delay or failure of Agent and/or Banks in exercising any right, power or privilege hereunder shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof, or the exercise of any other power, right or privilege. The rights of Agent and Banks under this Agreement are cumulative and not exclusive of any right or remedies which Banks would otherwise have.

8.4 *Waiver by Company of Certain Laws.* To the extent permitted by applicable law, the Company hereby agrees to waive, and does hereby absolutely and irrevocably waive and relinquish the benefit and advantage of any valuation, stay, appraisement, extension or redemption laws now existing or which may hereafter exist, which, but for this provision, might be applicable to any sale made under the judgment, order or decree of any court, on any claim for interest on the Notes, or any security interest or mortgage contemplated by or granted under or in connection with this Agreement. These waivers have been voluntarily given, with full knowledge of the consequences thereof.

8.5 *Waiver of Defaults.* No Event of Default shall be waived by the Banks except in a writing signed by an officer of the Agent in accordance with Section 12.10 hereof. No single or partial exercise of any right, power or privilege hereunder, nor any delay in the exercise thereof, shall preclude other or further exercise of their rights by Agent or the Banks. No waiver of any Event of Default shall

extend to any other or further Event of Default. No forbearance on the part of the Agent or the Banks in enforcing any of their rights shall constitute a waiver of any of their rights. Company expressly agrees that this Section may be waived or modified only in accordance with Section 12.10 and may not be waived or modified by the Banks or Agent by course of performance, estoppel or otherwise.

8.6 *Set Off.* Upon the occurrence and during the continuance of any Event of Default, each Bank may at any time and from time to time, without notice to the Company but subject to the provisions of Section 9.3 hereof (any requirement for such notice being expressly waived by the Company), setoff and apply against any and all of the obligations of the Company now or hereafter existing under this Agreement, whether owing to such Bank, any Affiliate of such Bank or any other Bank or the Agent, any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of Company and any property of Company from time to time in possession of such Bank, irrespective of whether or not such deposits held or indebtedness owing by such Bank may be contingent and unmatured and regardless of whether any Collateral then held by Agent or any Bank is adequate to cover the Indebtedness. Promptly following any such setoff, such Bank shall give written notice to Agent and to Company of the occurrence thereof. The Company hereby grants to the Banks and the Agent a lien on and security interest in all such deposits, indebtedness and property as collateral security for the payment and performance of all of the obligations of the Company under this Agreement. The rights of each Bank under this Section 8.6 are in addition to the other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

9. PAYMENTS, RECOVERIES AND COLLECTIONS; MARGIN ADJUSTMENTS

9.1 *Payment Procedure.*

(a) Except as otherwise provided herein, all payments by the Company in respect of principal of, or interest on, any Advance in Dollars under the Revolving Credit or in respect of any Letter of Credit Obligations under the Revolving Credit or Fees hereunder which are payable in Dollars shall be made without setoff or counterclaim on the date specified for payment under this Agreement not later than 1:00 p.m. (Detroit time) in Dollars in immediately available funds to Agent, for the ratable account of the Revolving Credit Banks, at Agent's office located at One Detroit Center, Detroit, Michigan 48226-3289. Upon receipt of each such payment, the Agent shall make prompt payment to each applicable Bank, or, in respect of Eurocurrency-based Advances, such Bank's Eurocurrency Lending Office, in like funds and currencies, of all amounts received by it for the account of such Bank.

(b) Unless the Agent shall have been notified by Company prior to the date on which any payment to be made by Company is due that Company does not intend to remit such payment, the Agent may, in its sole discretion and without obligation to do so, assume that the Company has remitted such payment when so due and the Agent may, in reliance upon such assumption, make available to each Revolving Credit Bank on such payment date an amount equal to such Bank's share of such assumed payment. If Company has not in fact remitted such payment to the Agent each Revolving Credit Bank shall forthwith on demand repay to the Agent the amount of such assumed payment made available or transferred to such Bank, together with the interest thereon, in respect of each day from and including the date such amount was made available by the Agent to such Bank to the date such amount is repaid to the Agent at a rate per annum equal to (i) for Prime-based Advances, the Federal Funds Effective Rate (daily average), as the same may vary from time to time, and (ii) with respect to Eurocurrency-based Advances or Quoted Rate Advances, Agent's aggregate marginal cost (including the cost of maintaining any required reserves or deposit insurance and of any fees, penalties, overdraft charges or other costs or expenses incurred by Agent) of carrying such amount.

(c) Subject to the definition of Interest Period, whenever any payment to be made hereunder shall otherwise be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest, if any, in connection with such payment.

(d) All payments to be made by Company under this Agreement or any of the Notes (including without limitation payments under the Swing Line) shall be made without setoff or counterclaim, as aforesaid, and, subject to full compliance by each Bank (and each assignee and participant pursuant to Section 12.8) with Section 12.12, without deduction for or on account of any present or future withholding or other taxes of any nature imposed by any governmental authority or of any political subdivision thereof or any federation or organization of which such governmental authority may at the time of payment be a member (other than any net income, net profits or franchise taxes imposed on the Agent or any Bank as a result of a present or former connection between the Agent or such Bank and the governmental authority, political subdivision, federation or organization imposing such taxes), unless Company is compelled by law to make payment subject to such tax. In such event, Company shall:

(i) pay to the Agent for Agent's own account and/or, as the case may be, for the account of the Banks (and, in the case of Advances of the Swing Line, pay to the Swing Line Bank which funded such Advances) such additional amounts as may be necessary to ensure that the Agent

and/or such Bank or Banks receive a net amount equal to the full amount which would have been receivable had payment not been made subject to such tax; and

(ii) remit such tax to the relevant taxing authorities according to applicable law, and send to the Agent or the applicable Bank (including the Swing Line Bank) or Banks, as the case may be, such certificates or certified copy receipts as the Agent or such Bank or Banks shall reasonably require as proof of the payment by the Company, of any such taxes payable by the Company.

As used herein, the terms "tax", "taxes" and "taxation" include all taxes (other than taxes on or measured by the overall income of a Person), levies, imposts, duties, charges, fees, deductions and withholdings and any restrictions or conditions resulting in a charge together with interest (and any taxes payable upon the amounts paid or payable pursuant to this Section 9.1) thereon, or the payment or delivery of funds into or out of any jurisdiction other than the United States (whether assessed against any of the Company, Agent or any of the Banks). Company shall be reimbursed by the applicable Bank for any payment made by Company under this Section 9.1 if the applicable Bank is not in compliance with its obligations under Section 12.12.

9.2 *Application of Proceeds of Collateral.* Notwithstanding anything to the contrary in this Agreement, after an Event of Default and the exercise of remedies pursuant to Article 8 of this Agreement or the other Loan Documents, the proceeds of any Collateral, together with any offsets, voluntary payments by Company or any Subsidiary of the Company or others, and any other sums received or collected in respect of the Indebtedness, shall be applied (net of any fees, expenses or collection costs, including without limitation, reasonable attorney fees, incurred by the Agent in connection with this agreement), first, to the Indebtedness under the Revolving Credit (including the Swing Line), any Reimbursement Obligations, any Bank Hedging Agreement and any Indebtedness arising in connection with account overdrafts or other cash management services related to this Agreement on a pro rata basis (or in such order and manner as determined by the Majority Banks; subject, however, to the applicable Percentages of the loans held by each of the Banks), next, to any other Indebtedness on a pro rata basis, and then, if there is any excess, to Company and the Subsidiaries, as the case may be. Subject to the terms of this Section 9.2, the application of such proceeds and other sums to the Advances of the Revolving Credit and the Reimbursement Obligations shall be based on each Bank's Percentage of the aggregate of the loans.

9.3 *Pro-rata Recovery.* If any Bank shall obtain any payment or other recovery (whether voluntary, involuntary, by application of setoff or otherwise) on account of principal of, or interest on, or any other sums owing in connection with any of the Indebtedness in excess of its pro rata share of payments then or thereafter obtained by all Banks upon all Indebtedness, such Bank shall purchase from the other Banks such participations in the Revolving Credit and/or Reimbursement Obligations held by them as shall be necessary to cause such purchasing Bank to share the excess payment or other recovery ratably with the Percentage with each of them in accordance with the applicable Percentages of the Banks; provided, however, that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing holder, the purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

9.4 *Margin Adjustments.* Adjustments to the Applicable Margins and the Applicable Fee Percentages, based on Schedule 1.1, shall be implemented on a quarterly basis as follows:

(a) Such adjustments shall be given prospective effect only, effective as to all Advances outstanding hereunder and the Applicable Fee Percentage, upon the date of delivery of the financial statements under Sections 6.1(a) and 6.1(b) hereunder and the Covenant Compliance Report under Section 6.2(a) hereof, in each case establishing applicability of the appropriate adjustment, in each case with no retroactivity or claw-back. In the event the Company fails timely to deliver such financial statements or the Covenant Compliance Report and such failure continues for three (3) days, then (but without affecting the Event of Default resulting therefrom) from the date delivery of such financial statements and report was required until such financial statements and report are delivered, the margins and fee percentages shall be at the next higher level (if any) on the Pricing Matrix attached to this Agreement as Schedule 1.1.

(b) From the Effective Date until the required date of delivery (or, if earlier, delivery) under Section 6.1 of the Company's financial statements for the fiscal quarter ending October 31, 2002, the margins and fee percentages shall be those set forth under the Level II column of the Pricing Matrix attached to this Agreement as Schedule 1.1. Thereafter, all margins and fee percentages shall be based upon the Company's quarterly financial statements and Covenant Compliance Reports, subject to recalculation as provided in Section 9.4(a) above.

10. CHANGES IN LAW OR CIRCUMSTANCES; INCREASED COSTS

10.1 *Reimbursement of Prepayment Costs.* If the Company makes any payment of principal with respect to any Eurocurrency-based Advance or Quoted Rate Advance on any day other than the last day of the Interest Period applicable thereto (whether voluntarily, by acceleration, or otherwise), or if the Company converts or refunds (or attempts to convert or refund) any such Advance on any day other than the last day of the Interest Period applicable thereto; or if the Company fails to borrow, refund or convert into any Eurocurrency-based Advance or Quoted Rate Advance after notice has been given by the Company to Agent in accordance with the terms hereof requesting such Advance, or if the Company fails to make any payment of principal or interest in respect of a Eurocurrency-based Advance or Quoted Rate Advance when due, the Company shall reimburse Agent for itself and/or on behalf of any Bank, as the case may be, within ten (10) Business Days of written demand therefor for any resulting loss, cost or expense incurred (excluding the loss of any Applicable Margin) by Agent and Banks, as the case may be as a result thereof, including, without limitation, any such loss, cost or expense incurred in obtaining, liquidating, employing or redeploying deposits from third parties, whether or not Agent and Banks, as the case may be, shall have funded or committed to fund such Advance. Such amount payable by the Company to Agent for itself and/or on behalf of any Bank, as the case may be, shall be deemed to equal an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, refunded or converted, for the period from the date of such prepayment or of such failure to borrow, refund or

convert, through the last day of the relevant Interest Period, at the applicable rate of interest for said Advance(s) provided under this Agreement, over (b) the amount of interest (as reasonably determined by Agent and Banks, as the case may be) which would have accrued to Agent and Banks, as the case may be, on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurocurrency market. Calculation of any amounts payable to any Bank under this paragraph shall be made as though such Bank shall have actually funded or committed to fund the relevant Advance through the purchase of an underlying deposit in an amount equal to the amount of such Advance and having a maturity comparable to the relevant Interest Period; provided, however, that any Bank may fund any Eurocurrency-based Advance or Quoted Rate Advance, as the case may be, in any manner it deems fit and the foregoing

assumptions shall be utilized only for the purpose of the calculation of amounts payable under this paragraph. Upon the written request of Company, Agent and Banks shall deliver to Company a certificate setting forth the basis for determining such losses, costs and expenses, which certificate shall be conclusively presumed correct, absent manifest error.

10.2 *Eurocurrency Lending Office.* For any Advance to which the Eurocurrency-based Rate is applicable, if Agent or a Bank, as applicable, shall designate a Eurocurrency Lending Office which maintains books separate from those of the rest of Agent or such Bank, Agent or such Bank, as the case may be, shall have the option of maintaining and carrying the relevant Advance on the books of such Eurocurrency Lending Office.

10.3 *Circumstances Affecting Eurocurrency-based Rate Availability.* If with respect to any Interest Period, Agent or the Majority Banks (after consultation with Agent) shall determine that, by reason of circumstances affecting the foreign exchange and interbank markets generally, deposits in eurodollars, in the applicable amounts are not being offered to the Agent or such Banks for such Interest Period, then Agent shall forthwith give notice thereof to the Company. Thereafter, until Agent notifies the Company that such circumstances no longer exist, (i) the obligation of Banks to make Eurocurrency-based Advances, and the right of the Company to convert an Advance to or refund an Advance as a Eurocurrency-based Advance, as the case may be, shall be suspended, and (ii) the Company shall repay in full (or cause to be repaid in full) the then outstanding principal amount of each such Eurocurrency-based Advance covered hereby, together with accrued interest thereon, any amounts payable under Section 10.1 hereof, and all other amounts payable hereunder on the last day of the then current Euro-currency Interest Period applicable to such Advance. Upon the date for repayment as aforesaid and unless the Company notifies Agent to the contrary within two (2) Business Days after receiving a notice from Agent pursuant to this Section, such outstanding principal amount shall be converted to a Prime-based Advance as of the last day of such Interest Period.

10.4 *Laws Affecting Eurocurrency-based Advance Availability.* If, after the date of this Agreement, the introduction of, or any change in, any applicable law, rule or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any of the Banks (or any of their respective Eurocurrency Lending Offices) with any request or directive (whether or not having the force of law) of any such authority, shall make it unlawful or impossible for any of the Banks (or any of their respective Eurocurrency Lending Offices) to honor its obligations hereunder to make or maintain any Advance with interest at the Eurocurrency-based Rate, such Bank shall forthwith give notice thereof to the Company and to Agent. Thereafter, (a) the obligations of the applicable Banks to make Eurocurrency-based Advances and the right of the Company to convert an Advance into or refund an Advance as a Eurocurrency-based Advance shall be suspended and thereafter the Company may select as Applicable Interest Rates only those which remain available and which are permitted to be selected hereunder, and (b) if any of the Banks may not lawfully continue to maintain an Advance to the end of the then current Interest Period applicable thereto as a Eurocurrency-based Advance, the applicable Advance shall immediately be converted to a Prime-based Advance and the Prime-based Rate shall be applicable thereto for the remainder of such Interest Period. For purposes of this Section, a change in law, rule, regulation,

interpretation or administration shall include, without limitation, any change made or which becomes effective on the basis of a law, rule, regulation, interpretation or administration presently in force, the effective date of which change is delayed by the terms of such law, rule, regulation, interpretation or administration.

10.5 *Increased Cost of Eurocurrency-based Advances.* If the adoption after the date of this Agreement of, or any change after the date of this Agreement in, any applicable law, rule or regulation of or in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any of the Banks (or any of their respective Eurocurrency Lending Offices) with any request or directive (whether or not having the force of law) made by any such authority, central bank or comparable agency after the date hereof:

(a) shall subject any of the Banks (or any of their respective Eurocurrency Lending Offices) to any tax, duty or other charge with respect to any Advance or shall change the basis of taxation of payments to any of the Banks (or any of their respective Eurocurrency Lending Offices) of the principal of or interest on any Advance or any other amounts due under this Agreement in respect thereof (except for changes in the rate of tax on the overall net income of any of the Banks or any of their respective Eurocurrency Lending Offices); or

(b) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any of the Banks (or any of their respective Eurocurrency Lending Offices) or shall impose on any of the Banks (or any of their respective Eurocurrency Lending Offices) or the foreign exchange and interbank markets any other condition affecting any Advance;

and the result of any of the foregoing is to increase the costs to any of the Banks of maintaining any part of the Indebtedness hereunder as a Eurocurrency-based Advance or to reduce the amount of any sum received or receivable by any of the Banks under this Agreement in respect of a Eurocurrency-based Advance, with respect to Advances to the Company, then such Bank shall promptly notify Agent, and Agent (or such Bank, as aforesaid) shall promptly notify the Company of such fact and demand compensation therefor and, within fifteen (15) days after such notice, the Company agrees to pay to such Bank such additional amount or amounts as will compensate such Revolving Credit Bank or Banks for such increased cost or reduction. Agent will promptly notify the Company of any event of which it has knowledge which will entitle Revolving Credit Banks to compensation pursuant to this Section, or which will cause the Company to incur additional liability under Article 10 hereof, provided that Agent shall incur no liability whatsoever to the Banks or the Company in the event it fails to do so. A certificate of Agent (or such Bank, if applicable) setting forth the basis for determining such additional amount or amounts necessary to compensate such Bank or Banks shall accompany such demand shall be conclusively presumed to be correct save for manifest error.

10.6 *Capital Adequacy and Other Increased Costs.* In the event that after the Effective Date the adoption of or any change in any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Bank or Agent, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Bank or Agent with any guideline, request or directive of any such authority (whether or not having the force of law), including any risk based capital guidelines, affects or would affect the amount of capital required to be maintained by such Bank or Agent (or any corporation controlling such Bank or Agent) and such Bank or Agent, as the case may be, determines that the amount of such capital is increased by or based upon the existence of such Bank's or Agent's obligations or Advances hereunder and such increase has the effect of reducing the rate of return on such Bank's or Agent's (or such controlling corporation's) capital as a

consequence of such obligations or Advances hereunder to a level below that which such Bank or Agent (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank or Agent to be material

(collectively, "Increased Costs"), then Agent or such Bank shall notify the Company and thereafter the Company shall pay to such Bank or Agent, as the case may be, within ten (10) days of demand therefor from such Bank or Agent, additional amounts sufficient to compensate such Bank or Agent (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which such Bank or Agent reasonably determines to be allocable to the existence of such Bank's or Agent's obligations or Advances hereunder; notwithstanding the forgoing, however, the Company shall not be required to pay any increased costs under this Section 10.6 or under Sections 10.3, 10.5 or 3.4(c) for any period ending prior to the date that is 180 days prior to the making of a Bank's initial request for such additional amounts unless the applicable change in law or other event resulting in such increased costs is effective retroactively to a date more than 180 days prior to the date of such request, in which case a Bank's request for such additional amounts relating to the period more than 180 days prior to the making of the request must be given not more than 180 days after such Bank becomes aware of the applicable change in law or other event resulting in such increased costs. A statement setting forth the amount of such compensation, the methodology for the calculation and the calculation thereof which shall also be prepared in good faith and in reasonable detail by such Bank or Agent, as the case may be, shall be submitted by such Bank or by Agent to the Company, reasonably promptly after becoming aware of any event described in this Section 10.6 and shall be conclusive, absent manifest error in computation.

10.7 *Substitution of Banks.* If (a) the obligation of any Bank to make Eurocurrency-based Advances has been suspended pursuant to Section 10.3 or 10.4 or (b) any Bank has demanded compensation under Section 3.4(c), 10.1 or 10.5, (in each case, an "Affected Bank"), then the Company shall have the right (subject to Section 12.8 hereof), with the assistance of the Agent, to seek a substitute Bank or Banks (which may be one or more of the Banks (the "Purchasing Bank" or "Purchasing Banks") to purchase the Advances of the Revolving Credit and/or Swing Line, as the case may be and assume the commitments (including without limitation its participations in Swing Line Advances and Letters of Credit) under this Agreement of such Affected Bank. The Affected Bank shall be obligated to sell its Advances of the Revolving Credit and/or Swing Line, as the case may be, and assign its commitments to such Purchasing Bank or Purchasing Banks within fifteen (15) days after receiving notice from Company requiring it to do so, at an aggregate price equal to the outstanding principal amount thereof, plus unpaid interest accrued thereon up to but excluding the date of the sale. In connection with any such sale, and as a condition thereof, Company shall pay to the Affected Bank all fees accrued for its account hereunder to but excluding the date of such sale, plus, if demanded by the Affected Bank within ten (10) Business Days after such sale, (i) the amount of any compensation which would be due to the Affected Bank under Section 10.1 if the Company had prepaid the outstanding Eurocurrency-based Advances of the Affected Bank on the date of such sale and (ii) any additional compensation accrued for its account under Sections 3.4(c) and 10.5 to but excluding said date. Upon such sale, the Purchasing Bank or Purchasing Banks shall assume the Affected Bank's commitment, and the Affected Bank shall be released from its obligations hereunder to a corresponding extent. If any Purchasing Bank is not already one of the Banks, the Affected Bank, as assignor, such Purchasing Bank, as assignee, Company and the Agent, shall enter into an Assignment Agreement pursuant to Section 12.8 hereof, whereupon such Purchasing Bank shall be a Bank party to this Agreement, shall be deemed to be an assignee hereunder and shall have all the rights and obligations of a Bank with a Percentage equal to its ratable share of the then applicable Revolving Credit Aggregate Commitment. In connection with any assignment pursuant to this Section 10.7, the Company or the Purchasing Bank shall pay to the Agent the administrative fee for processing such assignment referred to in Section 12.8.

10.8 *Right of Banks to Fund through Branches and Affiliates.* Each Bank (including without limitation the Swing Line Bank) may, if it so elects, fulfill its commitment as to any Advance hereunder by designating a branch or Affiliate of such Bank to make such Advance; provided that (a) such Bank shall remain solely responsible for the performances of its obligations hereunder and (b) no such designation shall result in any material increased costs to the Company.

11. AGENT

11.1 *Appointment of Agent.* Each Bank and the holder of each Note (if issued) irrevocably appoints and authorizes the Agent to act on behalf of such Bank or holder under this Agreement and the other Loan Documents and to exercise such powers hereunder and thereunder as are specifically delegated to Agent by the terms hereof and thereof, together with such powers as may be reasonably incidental thereto, including without limitation the power to execute or authorize the execution of financing or similar statements or notices, and other documents. In performing its functions and duties under this Agreement, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for Company. Each Bank agrees (which agreement shall survive any termination of this Agreement) to reimburse Agent for all reasonable out-of-pocket expenses (including house and outside attorneys' fees and disbursements) incurred by Agent hereunder or in connection herewith or with an Event of Default or in enforcing the obligations of Company under this Agreement or the other Loan Documents or any other instrument executed pursuant hereto, or the obligations of any party to any Subordination Agreement, and for which Agent is not reimbursed by Company, pro rata according to such Bank's Percentage, but excluding any such expense resulting from Agent's gross negligence or wilful misconduct. Any such amounts so paid by the Banks shall constitute additional Indebtedness hereunder. Agent shall not be required to take any action under the Loan Documents or any Subordination Agreement, or to prosecute or defend any suit in respect of the Loan Documents or any Subordination Agreement, unless indemnified to its satisfaction by the Banks against loss, costs, liability and expense (excluding liability resulting from its gross negligence or willful misconduct). If any indemnity furnished to Agent shall become impaired, it may call for additional indemnity and cease to do the acts indemnified against until such additional indemnity is given.

11.2 *Deposit Account with Agent.* Company hereby authorizes Agent, in Agent's sole discretion, upon notice to Company to charge its general deposit account(s), if any, maintained with Agent for the amount of any principal, interest, or other amounts or costs due under this Agreement when the same become due and payable under the terms of this Agreement or the Notes.

11.3 *Scope of Agent's Duties.* The Agent shall have no duties or responsibilities except those expressly set forth herein, and shall not, by reason of this Agreement or otherwise, have a fiduciary relationship with any Bank (and no implied covenants or other obligations shall be read into this Agreement against the Agent). None of Agent, its Affiliates nor any of their respective directors, officers, employees or agents shall be liable to any Bank for any action taken or omitted to be taken by it or them under this Agreement or any document executed pursuant hereto, or in connection herewith or therewith with the consent or at the request of the Majority Banks (or all of the Banks for those acts requiring consent of all of the Banks) (except for its or their own wilful misconduct or gross negligence), nor be responsible for or have any duties to ascertain, inquire into or verify (a) any recitals or warranties made by the Company, or any Subsidiary or Affiliate of the Company, or any officer thereof contained herein or therein, (b) the effectiveness, enforceability, validity or due execution of this Agreement or any document executed pursuant hereto or any security thereunder, (c) the performance by Company of their respective obligations hereunder or thereunder, or (d) the satisfaction of any condition hereunder or thereunder, including without limitation in connection with the making of any Advance or the issuance of any Letter of Credit. Agent and its Affiliates shall be entitled to rely upon any certificate, notice, document or other communication (including any cable,

telegraph, telex, facsimile transmission or oral communication) believed by it to be genuine and correct and to have been sent or given by or on behalf of a proper person. Agent may treat the payee of any Note as the holder thereof. Agent may employ agents and may consult with legal counsel (who may be counsel for the

Company), independent public accountants and other experts selected by it and shall not be liable to the Banks (except as to money or property received by them or their authorized agents), for the negligence or misconduct of any such agent selected by it with reasonable care or for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

11.4 *Successor Agent.* Agent may resign as such at any time upon at least thirty (30) days prior notice to Company and all Banks. If Agent at any time shall resign or if the office of Agent shall become vacant for any other reason, Majority Banks shall, by written instrument, appoint successor agent(s) satisfactory to such Majority Banks, and, so long as no Default or Event of Default has occurred and is continuing, to Company. Such successor agent shall thereupon become the Agent hereunder, as applicable, and shall be entitled to receive from the prior Agent such documents of transfer and assignment as such successor Agent may reasonably request. Any such successor Agent shall be a commercial bank organized under the laws of the United States or any state thereof and shall have a combined capital and surplus of at least $500,000,000. If a successor is not so appointed or does not accept such appointment before the resigning Agent's resignation becomes effective, the resigning Agent may appoint a temporary successor to act until such appointment by the Majority Banks and, if applicable, the Company is made and accepted or if no such temporary successor is appointed as provided above by the resigning Agent, the Majority Banks shall thereafter perform all of the duties of the resigning Agent hereunder until such appointment by the Majority Banks and, if applicable, the Company is made and accepted. Such successor Agent shall succeed to all of the rights and obligations of the resigning Agent as if originally named. The resigning Agent shall duly assign, transfer and deliver to such successor Agent all moneys at the time held by the resigning Agent hereunder after deducting therefrom its expenses for which it is entitled to be reimbursed. Upon such succession of any such successor Agent, the resigning Agent shall be discharged from its duties and obligations, in its capacity as Agent, hereunder, except for its gross negligence or wilful misconduct arising prior to its resignation hereunder, and the provisions of this Article 11 shall continue in effect for the benefit of the resigning Agent in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

11.5 *Credit Decisions.* Each Bank acknowledges that it has, independently of Agent and each other Bank and based on the financial statements of Company and such other documents, information and investigations as it has deemed appropriate, made its own credit decision to extend credit hereunder from time to time. Each Bank also acknowledges that it will, independently of Agent and each other Bank and based on such other documents, information and investigations as it shall deem appropriate at any time, continue to make its own credit decisions as to exercising or not exercising from time to time any rights and privileges available to it under this Agreement or any document executed pursuant hereto.

11.6 *Authority of Agent to Enforce This Agreement.* Each Bank, subject to the terms and conditions of this Agreement, authorizes the Agent with full power and authority as attorney-in-fact to institute and maintain actions, suits or proceedings for the collection and enforcement of any Indebtedness outstanding under this Agreement or any other Loan Document and to file such proofs of debt or other documents as may be necessary to have the claims of the Banks allowed in any proceeding relative to Company, or any of its Subsidiaries, or their respective creditors or affecting their respective properties, and to take such other actions which Agent considers to be necessary or desirable for the protection, collection and enforcement of the Notes, this Agreement or the other Loan Documents.

11.7 *Indemnification of Agent.* The Banks agree to indemnify the Agent and its Affiliates (to the extent not reimbursed by Company, but without limiting any obligation of Company to make such reimbursement), ratably according to their respective Percentages, from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever (including, without limitation, reasonable fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against the Agent and its Affiliates in any way relating to or arising out of this Agreement, any of the other Loan Documents, any Subordination Agreement or the transactions contemplated hereby or any action taken or omitted by the Agent and its Affiliates under this Agreement, any of the Loan Documents or any Subordination Agreement; provided, however, that no Bank shall be liable for any portion of such claims, damages, losses, liabilities, costs or expenses resulting from the Agent's or its Affiliate's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse the Agent and its Affiliates promptly upon demand for its ratable share of any reasonable out-of-pocket expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by the Agent and its Affiliates in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any of the other Loan Documents or any Subordination Agreement, to the extent that the Agent and its Affiliates is not reimbursed for such expenses by Company, but without limiting the obligation of Company to make such reimbursement. Each Bank agrees to reimburse the Agent and its Affiliates promptly upon demand for its ratable share of any amounts owing to the Agent and its Affiliates by the Banks pursuant to this Section, provided that, if the Agent or its Affiliates is subsequently reimbursed by the Company for such amounts, it shall refund to the Banks on a pro rata basis the amount of any excess reimbursement. If the indemnity furnished to the Agent and its Affiliates under this Section shall, in the judgment of the Agent, be insufficient or become impaired, the Agent may call for additional indemnity from the Banks and cease, or not commence, to take any action until such additional indemnity is furnished. Any amounts paid by the Banks hereunder to the Agent or its Affiliates shall be deemed to constitute part of the Indebtedness hereunder.

11.8 *Knowledge of Default.* It is expressly understood and agreed that the Agent shall be entitled to assume that no Event of Default has occurred and is continuing, unless the officers of the Agent immediately responsible for matters concerning this Agreement shall have been notified in a writing specifying such Event of Default and stating that such notice is a "notice of default" by a Bank or by Company. Upon receiving such a notice, the Agent shall promptly notify each Bank of such Event of Default and provide each Bank with a copy of such notice and, shall endeavor to provide such notice to the Banks within three (3) Business Days (but without any liability whatsoever in the event of its failure to do so). Agent shall also furnish the Banks, promptly upon receipt, with copies of all other notices or other information required to be provided by Company hereunder.

11.9 *Agent's Authorization; Action by Banks.* Except as otherwise expressly provided herein, whenever the Agent is authorized and empowered hereunder on behalf of the Banks to give any approval or consent, or to make any request, or to take any other action on behalf of the Banks (including without limitation the exercise of any right or remedy hereunder or under the other Loan Documents), the Agent shall be required to give such approval or consent, or to make such request or to take such other action only when so requested in writing by the Majority Banks or the Banks, as applicable hereunder. Action that may be taken by Majority Banks or all of the Banks, as the case may be (as provided for hereunder) may be taken (i) pursuant to a vote at a meeting (which may be held by telephone conference call) as to which all of the Banks have been given reasonable advance notice, or (ii) pursuant to the written consent of the requisite percentages of the Banks as required hereunder, provided that all of the Banks are given reasonable advance notice of the requests for such consent.

11.10 *Enforcement Actions by the Agent.* Except as otherwise expressly provided under this Agreement or in any of the other Loan Documents or any Subordination Agreement and subject to the

terms hereof, Agent will take such action, assert such rights and pursue such remedies under this Agreement and the other Loan Documents or any Subordination Agreement as the Majority Banks or all of the Banks, as the case may be (as provided for hereunder), shall direct; provided, however, that the Agent shall not be

required to act or omit to act if, in the judgment of the Agent, such action or omission may expose the Agent to personal liability or is contrary to this Agreement, any of the Loan Documents, any Subordination Agreement or applicable law. Except as expressly provided above or elsewhere in this Agreement or the other Loan Documents, no Bank (other than the Agent, acting in its capacity as agent) shall be entitled to take any enforcement action of any kind under any of the Loan Documents.

11.11 *Collateral Matters.*

(a) The Agent is authorized on behalf of all the Banks, without the necessity of any notice to or further consent from the Banks, from time to time to take any action with respect to any Collateral or the Collateral Documents which may be necessary to perfect and maintain a perfected security interest in and Liens upon the Collateral granted pursuant to the Loan Documents.

(b) The Banks irrevocably authorize the Agent, at its option and in its discretion, to release any Lien granted to or held by the Agent upon any Collateral (i) upon termination of the Revolving Credit Aggregate Commitment and payment in full of all Indebtedness payable under this Agreement and under any other Loan Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition expressly permitted hereunder; (iii) constituting property in which a Loan Party owned no interest at the time the Lien was granted or at any time thereafter; or (iv) if approved, authorized or ratified in writing by the Majority Banks, or all the Banks, as the case may be, as provided in Section 12.10. Upon request by the Agent at any time, the Banks will confirm in writing the Agent's authority to release particular types or items of Collateral pursuant to this Section 11.11(b).

11.12 *Agent in its Individual Capacities.* Comerica Bank and its Affiliates and its successors and assigns, shall have the same rights and powers hereunder as any other Bank and may exercise or refrain from exercising the same as though such Bank were not the Agent. Comerica Bank and its Affiliates and their respective successors and assigns may (without having to account therefor to any Bank) accept deposits from, lend money to, and generally engage in any kind of banking, trust, financial advisory or other business with Company (or its Subsidiaries) as if such Bank were not acting as Agent hereunder, and may accept fees and other consideration therefor without having to account for the same to the Banks.

11.13 *Co-Agent or Other Titles.* The Banks identified on the facing page or signature pages of this Agreement as Co-Agents, Co-Syndication Agents, Co-Documentation Agents or any similar titles, if any, shall not have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Banks as such. Without limiting the foregoing, the Banks so identified as Co-Agents, Co-Syndication Agents or Co-Documentation Agents (or having any similar title) shall not have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on the Bank so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

11.14 *Agent's Fees.* Until the Indebtedness has been repaid and discharged in full and no commitment to fund any loan hereunder is outstanding, the Company shall pay to the Agent, as applicable, an agency fee(s) set forth (or to be set forth from time to time) in the applicable Fee Letter on the terms set forth therein. The Agent's Fees described in this Section 11.14 shall not be refundable under any circumstances.

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12. MISCELLANEOUS

12.1 *Accounting Principles.* Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done, unless otherwise specified herein, in accordance with GAAP. Furthermore, all financial statements required to be delivered hereunder, subject to year-end audit adjustments thereto and the omission of footnote disclosure in the case of unaudited statements, shall be prepared in accordance with GAAP.

12.2 *Consent to Jurisdiction.* Company, Agent and Banks hereby irrevocably submit to the non-exclusive jurisdiction of any United States Federal Court or Michigan state court sitting in Detroit, or Grand Rapids, Michigan in any action or proceeding arising out of or relating to this Agreement or any of the Loan Documents and Company, Agent and Banks hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in any such United States Federal Court or Michigan state court. Company irrevocably consents to the service of any and all process in any such action or proceeding brought in any court in or of the State of Michigan by the delivery of copies of such process to Company at its address specified on the signature page hereto or by certified mail directed to such address or such other address as may be designated by Company in a notice to the other parties that complies as to delivery with the terms of Section 12.6. Nothing in this Section shall affect the right of the Banks and the Agent to serve process in any other manner permitted by law or limit the right of the Banks or the Agent (or any of them) to bring any such action or proceeding against Company or any Subsidiary or any of its or their property in the courts with subject matter jurisdiction of any other jurisdiction. Company hereby irrevocably waives any objection to the laying of venue of any such suit or proceeding in the above described courts.

12.3 *Law of Michigan.* This Agreement and the Notes shall be governed by and construed and enforced in accordance with the laws of the State of Michigan (without regard to its conflict of laws provisions). Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12.4 *Interest.* In the event the obligation of Company to pay interest on the principal balance of the Notes is or becomes in excess of the maximum interest rate which Company is permitted by law to contract or agree to pay, giving due consideration to the execution date of this Agreement, then, in that event, the rate of interest applicable with respect to the affected Bank's applicable Percentages shall be deemed to be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not of interest.

12.5 *Closing Costs and Other Costs; Indemnification.* (a) Company agrees to pay, or reimburse the payment of, within five (5) Business Days of demand therefor (except for closing costs which shall be payable on the Effective Date) (i) all reasonable closing costs and expenses, including, by way of description and not limitation, house and outside attorney fees (without duplication of fees and expenses for the same services) and advances, appraisal and accounting fees, and lien search fees incurred by Agent in connection with the commitment, consummation and closing of the loans contemplated hereby or in connection with the administration of this Agreement or any amendment, refinancing or restructuring of the credit arrangements provided under this Agreement, (ii) all stamp and other taxes (excluding income, franchise and other similar taxes) and fees payable or determined to be payable in connection with the execution, delivery, filing, recording or amendment of this Agreement and the Loan Documents and/or the consummation of the transactions contemplated hereby by Agent or any Bank, and any and all liabilities with respect to or resulting from any delay by

any Loan Party in paying or omitting to pay such taxes or fees, and (iii) all reasonable costs and expenses of the Agent or any of the Banks (including reasonable fees and expenses of outside counsel (but without duplication of fees and expenses for the same services)) in connection with any action or proceeding relating to a court order, injunction or other process or decree restraining or seeking to restrain the Agent or any of the Banks from paying any amount under, or otherwise relating in any way to, any Letter of Credit and any and all reasonable costs and expenses which any of them may incur relative to any payment under any Letter of Credit. At Agent's option, all of said amounts required to be paid by Company, if not paid when due, may be charged by Agent as a Prime-based Advance against the Indebtedness, and the Agent shall thereafter endeavor to promptly notify the Company of said action. Notwithstanding the foregoing, nothing contained in this Section 12.5 shall affect or reduce the rights of any Bank or the Agent under Section 10.5 hereof.

(b) Company agrees to indemnify and hold Agent and each of the Banks harmless from all loss, cost, damage, liability or expenses, including reasonable house and outside attorneys' fees and disbursements (but without duplication of fees and expenses for the same services), incurred by Agent and the Banks by reason of an Event of Default, or enforcing the obligations of Company or any Subsidiary under this Agreement or any of the other Loan Documents or in the prosecution or defense of any action or proceeding concerning any matter growing out of or connected with this Agreement or any of the Loan Documents or any Subordination Agreement, excluding, however, any loss, cost, damage, liability or expenses arising solely as a result of the gross negligence or willful misconduct of the party seeking to be indemnified under this Section 12.5(b).

(c) Company agrees to defend, indemnify and hold harmless Agent and each of the Banks, and their respective employees, agents, officers and directors from and against any and all claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses of whatever kind or nature (including without limitation, reasonable attorneys and consultants fees, investigation and laboratory fees, environmental studies required by Agent or any Bank in connection with the violation of Hazardous Material Laws, court costs and litigation expenses, excluding however, those arising solely as a result of the gross negligence or willful misconduct of the Agent or of the Person seeking indemnification, as the case may be) arising out of or related to (i) the presence, use, disposal, release or threatened release of any Hazardous Materials on, from or affecting any premises owned or occupied by Company or any of their respective Subsidiaries in violation of or non-compliance with applicable Hazardous Material Laws, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit or other proceeding brought or threatened, settlement reached or governmental order or decree relating to such Hazardous Materials, (iv) the cost of remediation or monitoring of all Hazardous Materials in violation of or non-compliance with applicable Hazardous Material Laws from all or any portion of any premises owned by Company or their respective Subsidiaries, (v) complying or coming into compliance with all Hazardous Material Laws and/or (vi) any violation of Hazardous Material Laws. The obligations of Company under this Section 13.5(c) shall be in addition to any and all other obligations and liabilities the Company may have to Agent or any of the Banks at common law or pursuant to any other agreement.

12.6 *Notices.* Except as expressly provided otherwise in this Agreement, all notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing and shall be given by personal delivery, by mail, by reputable overnight courier, by telex or by facsimile and addressed or delivered to it at its address set forth on Schedule 12.6 or at such other address as may be designated by such party in a notice to the other parties that complies as to delivery with the terms of this Section 12.6. Any notice, if personally delivered or if mailed and properly addressed with postage prepaid and sent by registered or certified mail, shall be deemed given when received or when delivery is refused; any notice, if given to a reputable overnight courier and properly addressed, shall be deemed given two (2) Business Days after the date on which it was sent,

unless it is actually received sooner by the named addressee; and any notice, if transmitted by telex or facsimile, shall be deemed given when received (answer back confirmed in the case of telexes and receipt confirmed in the case of telecopies). Agent may, but, except as specifically provided herein, shall not be required to, take any action on the basis of any notice given to it by telephone, but the giver of any such notice shall promptly confirm such notice in writing or by telex or facsimile, and such notice will not be deemed to have been received until such confirmation is deemed received in accordance with the provisions of this Section set forth above. If such telephonic notice conflicts with any such confirmation, the terms of such telephonic notice shall control.

12.7 *Further Action.* Company, from time to time, upon written request of Agent will make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered, all such further and additional instruments, and take all such further action as may reasonably be required to carry out the intent and purpose of this Agreement or the Loan Documents, and to provide for Advances under and payment of the Notes, according to the intent and purpose herein and therein expressed.

12.8 *Successors and Assigns; Participations; Assignments.*

(a) This Agreement shall be binding upon and shall inure to the benefit of Company and the Banks and their respective successors and assigns.

(b) The foregoing shall not authorize any assignment by Company of its rights or duties hereunder, and, except as otherwise provided herein, no such assignment shall be made (or effective) without the prior written approval of the Banks.

(c) The Company and Agent acknowledge that each of the Banks may at any time and from time to time, subject to the terms and conditions hereof, assign or grant participations in such Bank's rights and obligations hereunder (on a pro rata basis only) and under the other Loan Documents to any commercial bank, savings and loan association, insurance company, pension fund, mutual fund, commercial finance company or other similar institution, the identity of which institution is approved by Company and Agent, such approval not to be unreasonably withheld or delayed; provided, however, that (i) the approval of Company shall not be required upon the occurrence and during the continuance of an Event of Default, (ii) the approval of Company and Agent shall not be required for any such sale, transfer, assignment or participation to the Affiliate of an assigning Bank, any other Bank or any Federal Reserve Bank and (iii) no assignment shall be made or participation granted to an entity which is a competitor of Company and their Subsidiaries without the consent of the Company, which consent may be withheld in the sole discretion of Company. The Company authorizes each Bank to disclose to any prospective assignee or participant, once approved by Company and Agent, any and all financial information in such Bank's possession concerning the Company which has been delivered to such Bank pursuant to this Agreement; provided that each such prospective participant shall execute a confidentiality agreement consistent with the terms of Section 12.11 hereof.

(d) Each assignment by a Bank of all or any portion of its rights and obligations hereunder and under the other Loan Documents, which assignments shall be on a pro rata basis, shall be made pursuant to an Assignment Agreement substantially (as determined by Agent) in the form attached hereto as Exhibit I (with appropriate insertions acceptable to Agent) (provided however that such Bank need not deliver an Assignment Agreement in connection

with assignments to such Bank's Affiliates or to a Federal Reserve Bank) and shall be subject to the terms and conditions hereof, and to the following restrictions:

(i) each assignment shall be in a minimum amount of the lesser of (x) Five Million Dollars ($5,000,000) or such lesser amount as the Agent shall agree and (y) the entire remaining amount of assigning Bank's aggregate interest in the Revolving Credit (and

participations in any outstanding Letters of Credit); provided however that, after giving effect to such assignment, in no event shall the entire remaining amount (if any) of assigning Bank's aggregate interest in the Revolving Credit (and participations in any outstanding Letters of Credit) be less than $5,000,000; and

(ii) no assignment shall be effective unless Agent has received from the assignee (or from the assigning Bank) an assignment fee of $3,500 for each such assignment and such assignment is accompanied by the relevant tax forms required under Section 12.12 hereof.

In connection with any assignment, Company and Agent shall be entitled to continue to deal solely and directly with the assigning Bank in connection with the interest so assigned until (x) the Agent shall have received a notice of assignment duly executed by the assigning Bank and an Assignment Agreement (with respect thereto) duly executed by the assigning Bank and each assignee; and (y) the assigning Bank shall have delivered to the Agent the original of each Note held by the assigning Bank under this Agreement. From and after the date on which the Agent shall notify Company and the assigning Bank that the foregoing conditions shall have been satisfied and all consents (if any) required shall have been given, the assignee thereunder shall be deemed to be a party to this Agreement. To the extent that rights and obligations hereunder shall have been assigned to such assignee as provided in such notice of assignment (and Assignment Agreement), such assignee shall have the rights and obligations of a Bank under this Agreement and the other Loan Documents (including without limitation the right to receive fees payable hereunder in respect of the period following such assignment). In addition, the assigning Bank, to the extent that rights and obligations hereunder shall have been assigned by it as provided in such notice of assignment (and Assignment Agreement), but not otherwise, shall relinquish its rights and be released from its obligations under this Agreement and the other Loan Documents.

Within five (5) Business Days following Company's receipt of notice from the Agent that Agent has accepted and executed a notice of assignment and the duly executed Assignment Agreement and assuming the Company has consented to such assignment (if their consent is required), Company shall, to the extent applicable, and if requested by the assignee Bank, execute and deliver to the Agent in exchange for any surrendered Note, new Note(s) payable to the order of the assignee in an amount equal to the amount assigned to it pursuant to such notice of assignment (and Assignment Agreement), and with respect to the portion of the Indebtedness retained by the assigning Bank, to the extent applicable, new Note(s) payable to the order of the assigning Bank in an amount equal to the amount retained by such Bank hereunder. Agent, the Banks and the Company acknowledge and agree that any such new Note(s) shall be given in renewal and replacement of the surrendered Notes and shall not effect or constitute a novation or discharge of the Indebtedness evidenced by any surrendered Note, and each such new Note may contain a provision confirming such agreement. In addition, promptly following receipt of such Notes, Agent shall prepare and distribute to Company and the assigning Bank and the assignee Bank a revised Schedule 1.2 to this Agreement setting forth the applicable new Percentages of the Banks (including the assignee Bank), taking into account such assignment.

(e) Each Bank agrees that any participation agreement permitted hereunder shall comply with all applicable laws and shall be subject to the following restrictions (which shall be set forth in the applicable Participation Agreement):

(i) such Bank shall remain the holder of its Notes hereunder (if such Notes are issued), notwithstanding any such participation;

(ii) a participant shall not reassign or transfer, or grant any sub-participations in its participation interest hereunder or any part thereof; and

(iii) such Bank shall retain the sole right and responsibility to enforce the obligations of the Company relating to the Notes and the other Loan Documents, including, without limitation, the right to proceed against any Guarantors, or cause Agent to do so (subject to the terms and conditions hereof), and the right to approve any amendment, modification or waiver of any provision of this Agreement without the consent of the participant (other than a participant which is an Affiliate of such Bank), except for those matters covered by Section 12.10(a) through (e) and (h) hereof (provided that a participant may exercise approval rights over such matters only on an indirect basis, acting through such Bank, and Company, Agent and the other Banks may continue to deal directly with such Bank in connection with such Bank's rights and duties hereunder). Notwithstanding the foregoing, however, in the case of any participation granted by any Bank hereunder, the participant shall not have any rights under this Agreement or any of the other Loan Documents (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating thereto) and all amounts payable by the Company hereunder shall be determined as if such Bank had not sold such participation, *provided*, *however*, that such participant shall be entitled to the benefits of this Section 12.8(e) with respect to rights of setoff under Section 8.6 and the benefit of Section 10 hereof, and *provided further*, however, that no participant shall be entitled to receive any greater amount pursuant to such Sections than the issuing Bank would have been entitled to receive in respect of the amount of the participation transferred by such issuing Bank to such participant had no such transfer occurred.

(f) The Agent shall maintain at its principal office a copy of each Assignment Agreement delivered to it and a register (the "Register") for the recordation of the names and addresses of the Banks, the Percentages of such Banks and the principal amount of each type of Advance owing to each such Bank from time to time. The entries in the Register shall be conclusive evidence, absent manifest error, and the Company, the Agent, and the Banks may treat each Person whose name is recorded in the Register as the owner of the Advances recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the any of the Company or any Bank upon reasonable notice to the Agent and a copy of such information shall be provided to any such party on their prior written request. The Agent shall give prompt written notice to the Company of the making of any entry in the Register or any change in such entry.

(g) Nothing in this Agreement, the Notes or the other Loan Documents, expressed or implied, is intended to or shall confer on any Person other than the respective parties hereto and thereto and their successors and assignees and participants permitted hereunder and thereunder any benefit or any legal or equitable right, remedy or other claim under this Agreement, the Notes or the other Loan Documents.

12.9 *Counterparts.* This Agreement may be executed in several counterparts, and each executed copy shall constitute an original instrument, but such counterparts shall together constitute but one and the same instrument.

12.10 *Amendment and Waiver.* No amendment or waiver of any provision of this Agreement, any other Loan Document or any Subordination Agreement, nor consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks (or by the Agent at the written request of the Majority Banks) or, if this Agreement expressly so requires with respect to the subject matter thereof, by all Banks (and, with respect to any amendments to this Agreement or the other Loan Documents, by Company or any Guarantors which are signatories thereto), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Banks, do any of the following: (a) increase any Bank's commitments hereunder, (b) reduce the principal of, or interest on, any outstanding Indebtedness or

any Fees or other amounts payable hereunder, (c) postpone any date fixed for any payment of principal of, or interest on, any outstanding Indebtedness or any Fees or other amounts payable hereunder, (d) waive any Event of Default specified in Section 8.1(a) arising solely from the non-payment of interest or Fees or Section 8.1(b) hereof, (e) except as expressly permitted hereunder or under the Collateral Documents, release or defer the granting or perfecting of a lien or security interest in any Collateral or release any guaranty or similar undertaking provided by any Person, provided however that Agent shall be entitled to release any Collateral which Company or any Subsidiary is permitted to sell or transfer under the terms of this Agreement or the other Loan Documents without notice to or any further action or consent of the Banks, (f) terminate or modify any indemnity provided to the Banks hereunder or under the other Loan Documents, except as shall be otherwise expressly provided in this Agreement or any other Loan Document, (g) take any action which requires the approval or consent of all Banks pursuant to the terms of this Agreement or any other Loan Document, or (h) change the definitions of "Percentage", "Interest Periods", "Majority Banks", or this Section 12.10; provided, further, that notwithstanding the foregoing, the Revolving Credit Maturity Date may be extended only with the consent of all of the Revolving Credit Banks (subject only to Section 2.16 hereof); and provided further, that no amendment, waiver or consent shall, unless in writing signed by the Swing Line Bank, do any of the following: (x) reduce the principal of, or interest on, the Swing Line Note or (y) postpone any date fixed for any payment of principal of, or interest on, the Swing Line Note; and provided further, however, that no amendment, waiver, or consent shall, unless in writing and signed by the Agent in addition to all the Banks, affect the rights or duties of the Agent under this Agreement or any other Loan Document. All references in this Agreement to "Banks" or "the Banks" shall refer to all Banks, unless expressly stated to refer to Majority Banks (or the like).

12.11 *Confidentiality.* Each Bank agrees that it will not disclose without the prior consent of Company (other than to its employees, its Subsidiaries, another Bank, an Affiliate of a Bank or to its auditors or counsel) any information with respect to Company, which is furnished pursuant to this Agreement or any of the other Loan Documents; provided that any Bank may disclose any such information (a) as has become generally available to the public or has been lawfully obtained by such Bank from any third party under no duty of confidentiality to Company, (b) as may be required or appropriate in any report, statement or testimony submitted to, or in respect to any inquiry, by, any municipal, state or federal regulatory body having or claiming to have jurisdiction over such Bank, including the Board of Governors of the Federal Reserve System of the United States, the Office of the Comptroller of the Currency or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or appropriate in respect to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Bank, and (e) to any permitted transferee or assignee or to any approved participant of, or with respect to, the Notes, pursuant to Section 12.8; provided that each such Person executed a confidentiality agreement consistent with the terms of this Section 12.11. If a Bank becomes legally compelled to disclose information with respect to the Company pursuant to clause (b), (c) or (d) of this Section 12.11, it will endeavor to, unless otherwise restricted from doing so by any governmental authority, provide the Agent and Company with prompt written notice (but without any liability for failing to do so, except if such Bank acted in bad faith in failing to so notify) and with respect to clause (c) only, shall furnish only such information that may be required or appropriate.

12.12 *Withholding Taxes.* If any Bank is not a united states person within the meaning of Section 7701(a) (30) of the Internal Revenue Code such Bank shall promptly (but in any event prior to the initial payment of interest hereunder) deliver to the Agent two executed copies of (i) Internal Revenue Service Form W-8BEN or any successor form specifying the applicable tax treaty between the United States and the jurisdiction of such Bank's domicile which provides for the exemption from withholding on interest payments to such Bank, (ii) Internal Revenue Service Form W-8ECI or any successor form evidencing that the income to be received by such Bank hereunder is effectively

connected with the conduct of a trade or business in the United States or (iii) other evidence satisfactory to the Agent that such Bank is exempt from United States income tax withholding with respect to such income; provided, however, that such Bank shall not be required to deliver to Agent the aforesaid forms or other evidence with respect to Advances to the Company, if such Bank has assigned its entire interest in the Revolving Credit (including any outstanding Advances thereunder and participations in Letters of Credit issued hereunder), Swing Line and any Notes issued to it by the Company, to an Affiliate which is incorporated under the laws of the United States or a state thereof, and so notifies the Agent. Such Bank shall amend or supplement any such form or evidence as required to insure that it is accurate, complete and non-misleading at all times. Promptly upon notice from the Agent of any determination by the Internal Revenue Service that any payments previously made to such Bank hereunder were subject to United States income tax withholding when made, such Bank shall pay to the Agent the excess of the aggregate amount required to be withheld from such payments over the aggregate amount actually withheld by the Agent. In addition, from time to time upon the reasonable request and at the sole expense of the Company, each Bank and the Agent shall (to the extent it is able to do so based upon applicable facts and circumstances), complete and provide the Company with such forms, certificates or other documents as may be reasonably necessary to allow the Company, as applicable, to make any payment under this Agreement or the other Loan Documents without any withholding for or on the account of any tax under Section 9.1(d) hereof (or with such withholding at a reduced rate), provided that the execution and delivery of such forms, certificates or other documents does not adversely affect or otherwise restrict the right and benefits (including without limitation economic benefits) available to such of the Bank or the Agent, as the case may be, under this Agreement or any of the other Loan Documents, or under or in connection with any transactions not related to the transactions contemplated hereby.

12.13 *WAIVER OF JURY TRIAL.* THE BANKS, THE AGENT AND THE COMPANY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY RELATED INSTRUMENT OR AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTION OF ANY OF THEM. NEITHER THE BANKS, THE AGENT, NOR COMPANY SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE BANKS AND THE AGENT OR COMPANY EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

12.14 *Complete Agreement; Conflicts.* This Agreement, the Notes (if issued), any Requests for Revolving Credit Advance and Requests for Swing Line Advance hereunder, and the Loan Documents contain the entire agreement of the parties hereto, superseding all prior agreements, discussions and understandings relating to the subject matter hereof, and none of the parties shall be bound by anything not expressed in writing. In the event of any conflict between the terms of this Agreement and the other Loan Documents, this Agreement shall govern.

12.15 *Severability.* In case any one or more of the obligations of Company under this Agreement, the Notes or any of the other Loan Documents shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of Company shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of Company under this Agreement, the Notes or any of the other Loan Documents in any other jurisdiction.

12.16 *Table of Contents and Headings.* The table of contents and the headings of the various subdivisions hereof are for convenience of reference only and shall in no way modify or affect any of the terms or provisions hereof.

12.17 *Construction of Certain Provisions.* If any provision of this Agreement or any of the Loan Documents refers to any action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, whether or not expressly specified in such provision.

12.18 *Independence of Covenants.* Each covenant hereunder shall be given independent effect (subject to any exceptions stated in such covenant) so that if a particular action or condition is not permitted by any such covenant (taking into account any such stated exception), the fact that it would be permitted by an exception to, or would be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default.

12.19 *Reliance on and Survival of Various Provisions.* All terms, covenants, agreements, representations and warranties of Company or any party to any of the Loan Documents made herein or in any of the Loan Documents or in any certificate, report, financial statement or other document furnished by or on behalf of Company or any Subsidiary in connection with this Agreement or any of the Loan Documents shall be deemed to have been relied upon by the Banks, notwithstanding any investigation heretofore or hereafter made by any Bank or on such Bank's behalf, and those covenants and agreements of Company set forth in Section 12.5 hereof (together with any other indemnities of Company or any Subsidiary contained elsewhere in this Agreement or in any of the other Loan Documents) and of Banks set forth in Section 11.7 hereof shall survive the repayment in full of the Indebtedness and the termination of the Revolving Credit Aggregate Commitment.

* * *

[Signatures Follow On Succeeding Page]

WITNESS the due execution hereof as of the day and year first above written.

COMERICA BANK,
as Agent

By: _____

Its: _____

QUANEX CORPORATION

By: _____

Its: _____

SWING LINE BANK AND ISSUING BANK:

COMERICA BANK

By: _____

Its: _____

BANKS:

COMERICA BANK

By: _____

Its: _____

HARRIS TRUST & SAVINGS BANK

By: _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION

By: _____

Its: _____

BANK OF AMERICA, N.A.

By: _____

Its: _____

WELLS FARGO BANK TEXAS, N.A.

By: _____

Its: _____

BNP PARIBAS

By: _____

Its: _____

UNION BANK OF CALIFORNIA, N.A.

By: _____

Its: _____

THE NORTHERN TRUST COMPANY

By: _____

Its: _____

SOUTHWEST BANK OF TEXAS, N.A.

By: _____

Its: _____

Schedule 1.1

Applicable Margin Grid
Quanex Corporation
Revolving Credit Facility Agreement
(basis points per annum)

BASIS FOR PRICING	LEVEL I	LEVEL II***	LEVEL III

Consolidated Leverage Ratio**	< 0.75 TO 1.0	≥ 0.75 TO 1.00 but < 1.75 to 1.00	≥ 1.75 to 1.00
Revolving Credit Eurodollar Margin	75.00	90.00	110.00
Revolving Credit Base Rate Margin	0	0	0
Revolving Credit Facility Fee	25.00	35.00	40.00
Letter of Credit Fees (exclusive of facing fees)	75.00	90.00	110.00
All in Spread	100.00	125.00	150.00

** As defined in Revolving Credit Agreement.

*** Level II pricing shall be in effect until the delivery of the financial statements for the quarter ending October 31, 2002 required to be delivered under Section 6.1 hereof, after which time the pricing grid shall govern.

Schedule 1.2

(Percentages and Allocations)

BANKS	PERCENTAGES	ALLOCATIONS
Comerica Bank	15.0%	$ 30,000,000
Harris Bank	12.5%	$ 25,000,000
U.S. Bank	12.5%	$ 25,000,000
Bank of America	12.5%	$ 25,000,000
Wells Fargo	12.5%	$ 25,000,000
BNP	10.0%	$ 20,000,000
Union Bank of California	10.0%	$ 20,000,000
Northern Trust	7.5%	$ 15,000,000
SW Bank of Texas	7.5%	$ 15,000,000
TOTALS	**100%**	**$ 200,000,000**

EXHIBIT A

REQUEST FOR REVOLVING CREDIT ADVANCE

No. _____ Dated: _____

TO: Comerica Bank ("Agent")

RE: Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 by and among Quanex Corporation ("Company"), the Banks signatories thereto and Comerica Bank, as Agent (as amended or otherwise modified from time to time, the "Credit Agreement")

Company, pursuant to the Credit Agreement, requests an Advance of the Revolving Credit from the Revolving Credit Banks, as follows:

A. Date of Advance:

B. o (check if applicable)

This Advance is or includes a whole or partial refunding/conversion of:

[Describe Advance to be refunded or converted by reference to principal amount, current interest rate and current interest period]

Advance No(s).

C. Type of Advance (check only one);

o Prime-based Advance
o Eurocurrency-based Advance

D. Amount of Advance:

_____

E. Interest Period (not applicable to Prime-based Advances)

_____ months (insert 1, 2, 3 or 6)

F. Disbursement Instructions

o Comerica Bank Account No.
o Other:

Company certifies to the matters specified in Section 2.3(g) of the Credit Agreement.

Capitalized terms used herein, except as defined to the contrary, have the meanings given them in the Credit Agreement.

QUANEX CORPORATION

By: _____

Its: _____

Agent Approval:

EXHIBIT B

REVOLVING CREDIT NOTE

[$] November 26, 2002

On or before the Revolving Credit Maturity Date, FOR VALUE RECEIVED, Quanex Corporation., a Delaware corporation ("Company"), promises to pay to the order of [*insert Bank*] ("Bank") at Detroit, Michigan, care of the Agent (for the account of Bank's Eurocurrency Lending Office with respect to any Eurocurrency-based Advances hereunder and for the account of the Bank with respect to any Prime-based Advances hereunder) in lawful money of the United States of America so much of the sum of [*insert amount derived from Percentages*] Dollars ($), as may from time to time have been advanced by Bank to the Company and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 made by and among the Company and certain banks signatory thereto, including the Bank, and Comerica Bank as Agent for such banks, as the same may be amended or otherwise modified from time to time ("Credit Agreement"), together with interest thereon as hereinafter set forth.

Each of the Advances made hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Credit Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Credit Agreement.

This Note is a Revolving Credit Note under which Advances of the Revolving Credit (including refundings and conversions), repayments and readvances may be made from time to time, by Bank, but only in accordance with the terms and conditions of the Credit Agreement. This Note evidences borrowings under, is subject to, is secured in accordance with, and may be accelerated or prepaid under, the terms of the Credit Agreement to which reference is hereby made. Capitalized terms used herein, except as defined to the contrary, shall have the meanings given them in the Credit Agreement.

This Note shall be interpreted and the rights of the parties hereunder shall be determined under the laws of, and enforceable in, the State of Michigan.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: _____

Its: _____

EXHIBIT C

SWING LINE NOTE

$15,000,000 November 26, 2002

On the Revolving Credit Maturity Date, FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation ("Company"), promises to pay to the order of Comerica Bank ("Swing Line Bank") at Detroit, Michigan, in lawful money of the United States of America, so much of the sum of Fifteen Million Dollars ($15,000,000), as may from time to time have been advanced by Swing Line Bank to Company and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 made by and among Company and certain banks signatory thereto, including the Swing Line Bank, in its individual capacity and as Agent for such banks, as the same may be amended or otherwise modified from time to time (the "Credit Agreement"), together with interest thereon as hereinafter set forth.

Each of the Advances made hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Credit Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Credit Agreement.

This Note is a Swing Line Note under which Advances of the Swing Line (including refundings and conversions), repayments and readvances may be made from time to time by Swing Line Bank, but only in accordance with the terms and conditions of the Credit Agreement. This Note evidences borrowings under, is

subject to, is secured in accordance with, and may be accelerated or prepaid under, the terms of the Credit Agreement, to which reference is hereby made. Capitalized terms used herein, except as defined to the contrary, shall have the meanings given them in the Credit Agreement.

This Note shall be interpreted and the rights of the parties shall be determined under the laws of, and enforceable in, the State of Michigan.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note.

Nothing herein shall limit any right granted Swing Line Bank by any other instrument or by law.

QUANEX CORPORATION

By: _____

Its: _____

EXHIBIT D

REQUEST FOR SWING LINE ADVANCE

No. _____ Dated: _____

TO: Comerica Bank ("Swing Line Bank")

RE: Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 by and among Quanex Corporation ("Company"), the Banks signatories thereto and Comerica Bank, as Agent (as amended or otherwise modified from time to time, the "Credit Agreement")

Company, pursuant to the Credit Agreement, requests an Advance from the Swing Line Bank as follows:

A. Date of Advance:

B. o (check if applicable)

This Advance is or includes a whole or partial refund/conversion of:

Advance No(s).

[Describe Advance to be refunded or converted by reference to principal amount, current interest rate and current interest period]

C. Type of Advance (check only one);

o Prime-based Advance
o Quoted Rate Advance

D. Amount of Advance:

_____

E. Interest Period (applicable only to Quoted Rate Advances)

Quoted Rate Advances
o One month
o Other

F. Disbursement Instructions

o Comerica Bank Account No.
o Other:

Company certifies to the matters specified in Section 2.5(b)(vii) of the Credit Agreement.

Capitalized terms used herein, except as defined to the contrary, have the meanings given them in the Credit Agreement.

QUANEX CORPORATION

By: _____

Its:

EXHIBIT E

FORM OF SWING LINE BANK PARTICIPATION CERTIFICATE

_____, ____

[Name of Bank]

Ladies and Gentlemen:

Pursuant to Section 2.5(d) of the Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, "Credit Agreement") among Quanex Corporation, the Banks named therein and Comerica Bank, as Agent, the undersigned hereby acknowledges receipt from you of as payment for a participating interest in the following Swing Line Loan:

Date of Swing Line Loan: _____

Principal Amount of Swing Line Loan: _____

The participation evidenced by this certificate shall be subject to the terms and conditions of the Credit Agreement including without limitation Section 2.5(d) thereof.

Very truly yours,

COMERICA BANK, as Agent

By:

Its:

EXHIBIT F

LETTER OF CREDIT NOTICE

TO: Banks

RE: Issuance of Letter of Credit pursuant to Article 3 of the Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement") among Quanex Corporation, certain Banks signatory thereto and Comerica Bank, as Agent for the Banks.

On , ,(1) Issuing Bank, in accordance with Article 3 of the Credit Agreement, issued its Letter of Credit number , in favor of (2) for the account of [ ].(3) The face amount of such Letter of Credit is $. The amount of each Bank's participation in such Letter of Credit is as follows:(4)

This notification is delivered this day of , , pursuant to Section 3.3 of the Credit Agreement. Except as otherwise defined, capitalized terms used herein have the meanings given them in the Credit Agreement.

Signed:

COMERICA BANK, as Agent

By:

Its:

(1) Date of Issuance

(2) Beneficiary

(3) Account Party

(4) Amounts based on Percentages

[This form of Letter of Credit Notice (including footnotes) is subject in all respects to the terms and conditions of the Credit Agreement which shall govern in the event of any inconsistencies or omissions.]

EXHIBIT I

FORM OF
ASSIGNMENT AGREEMENT

Date: _____

To: **QUANEX CORPORATION**

and

COMERICA BANK ("Agent")

RE: Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement"), among Quanex Corporation ("Company"), Comerica Bank in its capacity as agent for the Banks ("Agent") and certain Banks from time to time party thereto

Ladies and Gentlemen:

Reference is made to Sections 12.8(c) and (d) of the Credit Agreement. Unless otherwise defined herein or the context otherwise requires, all initially capitalized terms used herein without definition shall have the meanings specified in the Credit Agreement.

This Assignment Agreement constitutes notice to each of you of the proposed assignment and delegation by [*insert assignor Bank*] (the "Assignor") to [*insert proposed assignee*] (the "Assignee"), and, subject to the terms and conditions of the Credit Agreement, the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, effective on the "Effective Date" (as hereafter defined) that undivided interest in each of Assignor's rights and obligations under the Credit Agreement and the other Loan Documents equal to % of the Revolving Credit (and participations in any outstanding Letters of Credit and Swing Line Advances) such that, after giving effect to the foregoing assignment and assumption, [and the other assignments by Assignor to on the date hereof,] the Assignee's interest and the Assignor's remaining interest in the Revolving Credit (and participations in any outstanding Letters of Credit and Swing Line Advances) shall be as set forth on the attached schedule.

The Assignor hereby instructs the Agent to make all payments from and including the Effective Date hereof in respect of the interest assigned hereby, directly to the Assignee. The Assignor and the Assignee agree that all interest and fees accrued up to, but not including, the Effective Date of the assignment and delegation being made hereby are the property of the Assignor, and not the Assignee. The Assignee agrees that, upon receipt of any such interest or fees accrued up to the Effective Date, the Assignee will promptly remit the same to the Assignor.

The Assignee hereby confirms that it has received a copy of the Credit Agreement and the exhibits and schedules referred to therein, and all other Loan Documents which it considers necessary, together with copies of the other documents which were required to be delivered under the Credit Agreement as a condition to the making of the loans thereunder. The Assignee acknowledges and agrees that it: (a) is legally authorized to enter into this Assignment Agreement; (b) has made and will continue to make such inquiries and has taken and will take such care on its own behalf as would have been the case had its Percentages been granted and its loans been made directly by such Assignee to the Company without the intervention of the Agent, the Assignor or any other Bank; and (c) has made and will continue to make, independently and without reliance upon the Agent, the Assignor or any other Bank, and based on such documents and information as it has deemed appropriate, its own credit analysis and decisions relating to the Credit Agreement. The Assignee further acknowledges and agrees that neither the Agent nor the Assignor has made any representations or warranties about the creditworthiness of the Company or any other party to the Credit Agreement or any other of the Loan Documents, or with respect to the legality, validity, sufficiency or enforceability of the Credit Agreement, or any other of the Loan Documents. This assignment shall be made without recourse to or warranty by the Assignor, except as set forth herein.

Assignee represents and warrants that it is a Person to which assignments are permitted pursuant to Section 12.8(c) of the Credit Agreement.

Assignor represents and warrants, as of the Effective Date, that it is the legal and beneficial owner of the interest being assigned and delegated by it hereunder and that such interest is free and clear of any pledge, encumbrance or other adverse claim or interest created by Assignor.

Except as otherwise provided in the Credit Agreement, effective as of the Effective Date:

(a) the Assignee: (i) shall be deemed automatically to have become a party to the Credit Agreement and the other Loan Documents, to have assumed all of the Assignor's obligations thereunder to the extent of the Assignee's Percentage referred to in the second paragraph of this Assignment Agreement, and to have all the rights and obligations of a "Bank" to the Credit Agreement and the other Loan Documents, as if it were an original signatory thereto to the extent specified in the second paragraph hereof; and (ii) agrees to be bound by the terms and conditions set forth in the Credit Agreement and the other Loan Documents as if it were an original signatory thereto; and

(b) the Assignor's obligations under the Credit Agreement and the other Loan Documents shall be reduced by the percentage assigned to Assignee referred to in the second paragraph of this Assignment Agreement.

As used herein, the term "Effective Date" means the date on which all of the following have occurred or have been completed, as reasonably determined by the Agent:

(1)

the delivery to the Agent of an original of this Assignment Agreement executed by the Assignor and the Assignee;

(2) the payment to the Agent of the $3,500 processing fee referred to in Section 12.8(d) (ii) of the Credit Agreement; and

(3) all other restrictions and items noted in Sections 12.8(c) and (d) of the Credit Agreement have been completed.

Following the execution and delivery of this Assignment Agreement by the Assignor and Assignee to the Agent, Agent shall record the assignment in the Register pursuant to Section 12.8(f) of the Credit Agreement and the Agent shall notify the Assignor and the Assignee, along with the Company of the Effective Date.

On the Effective Date the Assignee shall pay to the Assignor the amount agreed upon with respect to the outstanding principal amount of the outstanding Advances owed to Assignor by Company under the Credit Agreement in respect of the interest being assigned hereby.

The Assignee has delivered to the Agent (or is delivering to the Agent concurrently herewith) the tax forms referred to in Section 12.12 of the Credit Agreement, and other forms reasonably requested by the Agent, if required. The Assignor has delivered to the Agent (or is delivering to Agent concurrently herewith), the original of each Note (if any issued) held by the Assignor under the Credit Agreement.

Please evidence your consent to and acceptance of the proposed assignment and delegation set forth herein by signing and returning counterparts hereof to the Assignor and the Assignee.

[ASSIGNOR]

By: _____

Its: _____

[ASSIGNEE]

By: _____

Its: _____

ACCEPTED AND CONSENTED TO
this day of ,

COMERICA BANK, Agent

By: _____

Its: _____

QUANEX CORPORATION

By: _____

Its: _____

[This form of Assignment Agreement (including footnotes) is subject in all respects to the terms and conditions of the Credit Agreement which shall govern in the event of any inconsistencies or omissions.]

SCHEDULE TO ASSIGNMENT AGREEMENT
ASSIGNEE'S/ASSIGNOR'S PERCENTAGES AND ALLOCATIONS

	Percentages after Assignment Revolving Credit
Assignor [Name]	
Assignee [Name]	

EXHIBIT J

GUARANTY

This GUARANTY is made as of this day of December, 2002, by the undersigned guarantors (each a "Guarantor" and any and all collectively, the "Guarantors") to Comerica Bank, as the Agent ("Agent") for and on behalf of the Banks (as defined below).

RECITALS

A. Pursuant to that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement") by and among Quanex Corporation, a Delaware corporation ("Company"), the Agent, and the financial institutions which are parties thereto ("Banks"), the Banks have agreed to extend credit to the Company on the terms set forth in the Credit Agreement, with such credit consisting of (i) the Revolving Credit in an aggregate amount, subject to the terms of the Credit Agreement, not to exceed Two Hundred Million Dollars ($200,000,000) at any one time outstanding, (ii) as part of the Revolving Credit, a facility for the issuance of letter(s) of credit ("Letter(s) of Credit") for the account of the Account Parties pursuant to Section 3.1 of the Credit Agreement, and (iii) as part of the Revolving Credit, a Swing Line facility pursuant to Section 2.5 of the Credit Agreement.

B. As a condition to entering into and performing their respective obligations under the Credit Agreement, the Banks and the Agent have required that each of the Guarantors provide to the Agent, for and on behalf of the Banks, this Guaranty.

C. Each of the Guarantors desires to see the success of the Company and furthermore, each of the Guarantors shall receive direct and/or indirect benefits from extensions of credit made or to be made pursuant to the Credit Agreement to the Company.

D. The business operations of the Company and the Guarantors are interrelated and complement one another, and such entities have a common business purpose, with intercompany bookkeeping and accounting adjustments used to separate their respective properties, liabilities, and transactions; and (i) to permit their uninterrupted and continuous operations, such entities now require and will from time to time hereafter require funds and credit accommodations for general business purposes and (ii) the proceeds of advances under the Revolving Credit, the Swing Line and other credit facilities extended under the Credit Agreement will directly or indirectly benefit the Company and the Guarantors hereunder, severally and jointly.

E. The Agent is acting as agent for the Banks pursuant to Section 12 of the Credit Agreement.

NOW, THEREFORE, to induce each of the Banks to enter into and perform its obligations under the Credit Agreement, each of the Guarantors has executed and delivered this guaranty (as amended and otherwise modified from time to time, this "Guaranty").

1. *Definitions.* Unless otherwise provided herein, all capitalized terms in this Guaranty shall have the meanings specified in the Credit Agreement. The term "Banks" as used herein shall include any successors or assigns of the Banks in accordance with the Credit Agreement.

2. *Guaranty.* Each of the Guarantors, hereby, jointly and severally, guarantees to the Banks the due and punctual payment to the Banks when due, whether by acceleration or otherwise, of all amounts, including, without limitation, principal, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding by or against the Company, whether or not a claim for post-filing or post-petition interest is allowed in such a proceeding), and all other liabilities and obligations, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may arise under, out of, or in connection with all Indebtedness under or in connection with the Credit Agreement or the other

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Loan Documents, whether such Indebtedness is now existing or hereafter arising including but not limited to:

(a) the aggregate principal amount of all outstanding Advances under the Credit Agreement together with all interest accrued thereon from time to time pursuant to the terms and conditions of the Credit Agreement;

(b) any and all Letter of Credit Agreements executed or to be executed by the Company, from time to time pursuant to the Credit Agreement, and any Letters of Credit issued or to be issued thereunder;

(c) all extensions, renewals and amendments of or to the Credit Agreement, any Notes (if issued thereunder), or such other Indebtedness, or any replacements or substitutions therefor; and

(d) all obligations of the Company or any Guarantor under any Bank Hedging Agreement;

whether on account of principal, interest, reimbursement obligations, fees, indemnities, and reasonable costs and expenses (including without limitation, all reasonable fees and disbursements of counsel to the Agent or any Bank) or otherwise, and each of the Guarantors hereby jointly and severally agrees that if the Company shall fail to pay any of such amounts when and as the same shall be due and payable, or shall fail to perform and discharge any covenant, representation or warranty in accordance with the terms of the Credit Agreement, the Notes, the Letter of Credit Agreements or any of the other Loan Documents (subject, in each case, to any applicable periods of grace or cure), each of such Guarantors, will forthwith pay to the Agent, on behalf of the Banks, an amount equal to any such amount or cause the Company to do so, and will pay any and all damages that may be incurred or suffered in consequence thereof by the Agent or any of the Banks and all reasonable expenses, including reasonable attorneys' fees, that may be incurred by the Agent in enforcing such covenant, representation or warranty of the Company, and in enforcing the covenants and agreements of this Guaranty.

3. *Unconditional Character of Guaranty.* The obligations of each of the Guarantors under this Guaranty shall be absolute and unconditional, and shall be a guaranty of payment and not of collection, irrespective of the validity, regularity or enforceability of the Credit Agreement, the Letter of Credit Agreements, the Letters of Credit, or any of the other Loan Documents, or any provision thereof, the absence of any action to enforce the same, any waiver or consent with respect to or any amendment of any provision thereof (provided that any amendment of this Guaranty shall be in accordance with the terms hereof), the recovery of any judgment against any Person or action to enforce the same, any failure or delay in the enforcement of the obligations of the Company under the Credit Agreement, the Notes, the Letter of Credit Agreements, or any of the other Loan Documents, or any setoff, counterclaim, recoupment, limitation, defense or termination whether with or without notice to the Guarantors. Each of the Guarantors hereby waives diligence, demand for payment, filing of claims with any court, any proceeding to enforce any provision of the Credit Agreement, the Letter of Credit Agreements, the Letters of Credit or any of the other Loan

Documents, any right to require a proceeding first against the Company, or against any other guarantor or other party providing collateral, or to exhaust any security for the performance of the obligations of the Company, any protest, presentment, notice or demand whatsoever, and each Guarantor hereby covenants that this Guaranty shall not be terminated, discharged or released except, subject to Section 5.8 hereof, upon final irrevocable payment in full of all Indebtedness due and to become due from the Company as and to the extent described above, and only to the extent of any such payment, performance and discharge. Each Guarantor hereby further covenants that no security now or subsequently held by the Agent or the Banks for the payment of the Indebtedness of the Company to the Agent or to the Banks under the Credit Agreement, the Letter of Credit Agreements, the Letters of Credit or the other Loan Documents (including, without limitation, any security for any of the foregoing), whether in the nature of a security interest, pledge, lien, assignment, setoff, suretyship, guaranty, indemnity, insurance or

otherwise, and no act, omission or other conduct of the Agent or the Banks in respect of such security, shall affect in any manner whatsoever the unconditional obligations of this Guaranty, and that the Agent and each of the Banks in their respective sole discretion and without notice to any of the Guarantors, may release, exchange, enforce, apply the proceeds of and otherwise deal with any such security without affecting in any manner the unconditional obligations of this Guaranty.

Without limiting the generality of the foregoing, the obligations of the Guarantors under this Guaranty, and the rights of the Agent to enforce the same, on behalf of the Banks by proceedings, whether by action at law, suit in equity or otherwise, shall not be in any way affected to the extent permitted by applicable law, by (i) any insolvency, bankruptcy, liquidation, reorganization, readjustment, composition, dissolution, winding up or other proceeding involving or affecting the Company, any or all of the Guarantors or any other person including any discharge of, or bar or stay against collecting, all or any of the Indebtedness in or as a result of any such proceeding; (ii) any change in the ownership of any of the capital stock (or other ownership interests) of the Company or any or all of the Guarantors, or any other party providing collateral for any Indebtedness of the Company covered by this Guaranty, or any of their respective Affiliates; (iii) the election by the Agent or any Bank, in any bankruptcy proceeding of any person, to apply or not apply Section 1111(b)(2) of the Bankruptcy Code; (iv) any extension of credit or the grant of any security interest or lien under Section 363 of the Bankruptcy Code; (v) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any person; (vi) the avoidance of any security interest or lien in favor of the Agent or any Bank for any reason; (vii) any action taken by the Agent or any Bank that is authorized by this paragraph or any other provision of this Guaranty; or (viii) any other principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms hereof.

Each Guarantor assumes the risk of keeping itself informed concerning the financial condition of the Company and all other circumstances bearing upon the risk of nonpayment of the Indebtedness of the Company in favor of the Agent and Banks arising under the Loan Documents.

Each of the Guarantors hereby waives to the fullest extent possible under applicable law:

(a) any defense based upon the doctrine of marshaling of assets or upon an election of remedies by Agent or the Banks, including, without limitation, an election to proceed by non-judicial rather than judicial foreclosure;

(b) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(c) any duty on the part of Agent or any of the Banks to disclose to such Guarantor any facts Agent or the Banks may now or hereafter know about the Company, regardless of whether Agent or any Bank has reason to believe that any such facts materially increase the risk beyond that which such Guarantor intends to assume or has reason to believe that such facts are unknown to such Guarantor or has a reasonable opportunity to communicate such facts to such Guarantor, since such Guarantor acknowledges that it is fully responsible for being and keeping informed of the financial condition of Company and of all circumstances bearing on the risk of non-payment of any Indebtedness hereby guaranteed;

(d) any claim for reimbursement, contribution, exoneration, indemnity or subrogation, or any other similar claim, which such Guarantor may have or obtain against the Company, by reason of the existence of this Guaranty, or by reason of the payment by such Guarantor of any Indebtedness or the performance of this Guaranty or of any other Loan Documents, and any amounts paid to such Guarantor on account of any such claim at any time when the obligations of such Guarantor under this Guaranty shall not have been fully and finally paid shall be held by such Guarantor in trust for Agent and the Banks, segregated from other funds of such Guarantor,

and forthwith upon receipt by such Guarantor shall be turned over to Agent in the exact form received by such Guarantor (duly endorsed to Agent by such Guarantor, if required), to be applied to such Guarantor's obligations under this Guaranty, whether matured or unmatured, in such order and manner as Agent may determine; and

(e) any other event or action (excluding compliance by such Guarantor with the provisions hereof) that would result in the discharge by operation of law or otherwise of such Guarantor from the performance or observance of any obligation, covenant or agreement contained in this Guaranty.

Each Guarantor also makes the following waivers with full knowledge and understanding that such waivers, if not so made, might otherwise result in a Guarantor being able to avoid or limit such Guarantor's liability hereunder either in whole or in part.

(a) *Notice.* Each Guarantor absolutely, unconditionally, knowingly, and expressly waives: (i) notice of the acceptance by Agent of this Agreement; (i) notice of any loans or other financial accommodations constituting guaranteed Indebtedness; (iii) notice of the amount of the guaranteed Indebtedness, subject, however, to Guarantor's right to make inquiry, at any reasonable time, of Agent to ascertain the amount of the guaranteed Indebtedness owing to Agent; (iv) notice of any adverse change in the financial condition of the Company, of any change in value, or the release, of any collateral, or of any other fact that might increase Guarantor's risk hereunder; (v) notice of presentment for payment, demand, protest, and notice thereof as to any instrument; (vi) notice of any default; and (vii) all other notices (except if such notice is expressly required to be given to Guarantor under this Agreement or any of the other documents to which Guarantor is a party) and demands to which Guarantor might otherwise be entitled.

(b) *Revocation.*

i. Each Guarantor absolutely, unconditionally, knowingly, and expressly waives any right to revoke Guarantor's guaranty obligation hereunder as to future guaranteed Indebtedness. Each Guarantor fully realizes and understands that, upon execution of this Agreement, each Guarantor will not have any right to revoke this guaranty as to any future Indebtedness and, thus, may have no control over Guarantor's ultimate responsibility for the guaranteed Indebtedness.

ii. if, contrary to the express intent of this agreement, any such revocation is effective notwithstanding the foregoing waiver, each Guarantor acknowledges and agrees that: (i) no such revocation shall be effective until written notice thereof has been received by Agent; (ii) no such revocation shall apply to any guaranteed Indebtedness in existence on such date (including any subsequent continuation, extension, or renewal thereof, or change in the interest rate, payment terms, or other terms and conditions thereof); (iii) no such revocation shall apply to any guaranteed Indebtedness made or created after such date to the extent made or created pursuant to a legally binding commitment of Agent which is, or is believed in good faith by Agent to be, in existence on the date of such revocation; (iv) no payment by any other guarantor or the Company, or from any other source, prior to the date of such revocation shall reduce the obligations of Guarantor hereunder; and (v) any payment by the Company or from any source other than Guarantor, subsequent to the date of such revocation, shall first be applied to that portion of the guaranteed Indebtedness, if any, as to which the revocation by Guarantor is effective (and which are not, therefore, guarantied by Guarantor hereunder), and, to the extent so applied, shall not reduce the obligations of Guarantor hereunder.

(c) *Defenses of Company.* Each Guarantor absolutely, unconditionally, knowingly, and expressly waives any defense arising by reason of any disability or other defense (other than the

defense that the guaranteed Indebtedness shall have been fully and finally performed and indefeasibly paid) of Company or by reason of the cessation from any cause whatsoever (including any act or failure to act by Company or Agent) of the liability of the Company in respect thereof, including any such defense or cessation of liability arising from or as a result of: (i) any statute of limitations; (ii) any lack of power or authority of the Company or any person acting or purporting to act on the Company's behalf; or (iii) any claim of fraudulent transfer or preference.

(d) *Suretyship and Certain Other Rights and Defenses of Guarantor.* Each Guarantor absolutely, unconditionally, knowingly, and expressly waives:

i. any right to assert against Agent any defense (legal or equitable), set-off, counterclaim, or claim which Guarantor may now or at any time hereafter have against the Company or any other person liable to Agent;

ii. any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of any of the guaranteed Indebtedness or any security therefor or from any failure of Agent to act in a commercially reasonable manner;

iii. the benefit of any statute of limitations affecting Guarantor's liability hereunder (or the enforcement thereof) and any act which shall defer or delay the operation of any statute of limitations applicable to the guaranteed Indebtedness shall similarly operate to defer or delay the operation of such statute of limitations applicable to Guarantor's liability hereunder;

iv. any defense based on any alteration, impairment, or release of the guaranteed Indebtedness or any security therefor, irrespective of whether resulting from any act or failure to act by Agent; and

v. any right to require Agent: (i) to institute suit or otherwise proceed against the Company or any other person; or (ii) to exhaust any rights and remedies which Agent has or may have against the Company, any other person, or any collateral securing Guarantor's obligations hereunder or the guaranteed Indebtedness.

Each of the Guarantors acknowledges and agrees that this is a knowing and informed waiver of the undersigned's rights as discussed above and that the Agent and the Banks are relying on this waiver in extending credit to the Company.

The Agent and each of the Banks may deal with the Company and any security held by them for the obligations of the Company in the same manner and as freely as if this Guaranty did not exist and the Agent shall be entitled, on behalf of the Banks, without notice to any of the Guarantors, among other things, to grant to the Company such extension or extensions of time to perform any act or acts as may seem advisable to the Agent (on behalf of the Banks) at any time and from time to time, and to permit the Company to incur additional indebtedness to the Agent, the Banks, or any of them, without terminating, affecting or impairing the validity or enforceability of this Guaranty or the obligations of the Guarantors hereunder. Each Guarantor waives all rights to participate in any security now or hereafter held by the Agent or any Bank.

The Agent may proceed, either in its own name (on behalf of the Banks) or in the name of each or any of the Guarantors, or otherwise, to protect and enforce any or all of its rights under this Guaranty by suit in equity, action at law or by other appropriate proceedings, or to take any action authorized or permitted under applicable law, and shall be entitled to require and enforce the performance of all acts and things required to be performed hereunder by the Guarantors. Each and every remedy of the Agent and of the Banks shall, to the extent permitted by law, be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity.

No waiver or release shall be deemed to have been made by the Agent or any of the Banks of any of their respective rights hereunder unless the same shall be in writing and signed by or on behalf of the requisite Banks as determined pursuant to the Credit Agreement, and any such waiver shall be a waiver or release only with respect to the specific matter and Guarantor or Guarantors involved, and shall in no way impair the rights of the Agent or any of the Banks or the obligations of the Guarantors under this Guaranty in any other respect at any other time.

At the option of the Agent, any or all of the Guarantors may be joined in any action or proceeding commenced by the Agent against the Company or any of the other parties providing Collateral for any Indebtedness covered by this Guaranty in connection with or based upon the Credit Agreement, the Letter of Credit Agreements, the Letters of Credit or any of the other Loan Documents or other Indebtedness, or any provision thereof, and recovery may be had against any or all of the Guarantors in such action or proceeding or in any independent action or proceeding against any of them, without any requirement that the Agent or the

Banks first assert, prosecute or exhaust any remedy or claim against the Company and/or any of the other parties providing Collateral for any Indebtedness covered by this Guaranty.

4. *Representations and Warranties.* Each Guarantor (i) ratifies, confirms and, by reference thereto (as fully as though such matters were expressly set forth herein), represents and warrants with respect to itself those matters set forth in Sections 5.1 through 5.22 of the Credit Agreement to the extent applicable to such Guarantor and those matters set forth in the recitals, and such representations and warranties shall be deemed to be continuing representations and warranties true and correct in all material respects so long as this Guaranty shall be in effect; and (ii) agrees not to engage in any action or inaction, the result of which would cause a violation of any term or condition of the Credit Agreement.

5. *Miscellaneous.*

5.1 *Governing Law.* This Guaranty has been delivered in Michigan and shall be interpreted and the rights of the parties hereunder shall be determined under the laws of, and be enforceable in, the State of Michigan.

5.2 *Severability.* If any term or provision of this Guaranty or the application thereof to any circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Guaranty, or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

5.3 *Notice.* All notices or other communications to be made or given pursuant to this Guaranty shall be sufficient if made or given as provided in Section 12.6 of the Credit Agreement; or at such other addresses as directed by any of such parties to the others, as applicable, in compliance with this paragraph.

5.4 *Right of Offset.* Each of the Guarantors acknowledges the rights of the Agent and of each of the Banks, subject to the applicable terms and conditions of the Credit Agreement, to offset against the Indebtedness of any Guarantor to the Banks under this Guaranty, any amount owing by the Agent or the Banks, or either or any of them to such Guarantors, whether represented by any deposit of such Guarantors (or any of them) with the Agent or any of the Banks or otherwise.

5.5 *Right to Cure.* Each of the Guarantors shall have the right to cure any Event of Default under the Credit Agreement or the other Loan Documents with respect to obligations of the other Guarantors thereunder; provided that such cure is effected within the applicable grace period or period for cure thereunder, if any; and provided further that such cure can be effected in compliance with the Credit Agreement. Except to the extent of payments of principal, interest and/or other sums actually

received by the Agent or the Banks pursuant to such cure, the exercise of such right to cure by any Guarantor shall not reduce or otherwise affect the liability of any other Guarantor under this Guaranty.

5.6 *Amendments.* The terms of this Guaranty may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except as provided herein and in accordance with the Credit Agreement. In accordance with Section 6.16 of the Credit Agreement, future Significant Domestic Subsidiaries shall become obligated as Guarantors hereunder (each as fully as though an original signatory hereto) by executing and delivering to the Agent and the Banks that certain joinder agreement in the form attached to this Guaranty as Exhibit A.

5.7 *Joint and Several Obligation, etc.* The obligation of each of the Guarantors under this Guaranty shall be several and also joint, each with all and also each with any one or more of the others, and may be enforced against each severally, any two or more jointly, or some severally and some jointly. Any one or more of the Guarantors may be released from its obligations hereunder with or without consideration for such release and the obligations of the other Guarantors hereunder shall be in no way affected thereby. The Agent, on behalf of Banks, may fail or elect not to prove a claim against any bankrupt or insolvent Guarantor and thereafter, the Agent and the Banks may, without notice to any Guarantors, extend or renew any part or all of any Indebtedness of the Company under the Credit Agreement or otherwise, and may permit any such Person to incur additional Indebtedness, without affecting in any manner the unconditional obligation of each of the Guarantors hereunder. Such action shall not affect any right of contribution among the Guarantors.

5.8 *Release.* Upon the satisfaction of the obligations of the Guarantors hereunder, and when none of the Guarantors is subject to any obligation hereunder or under the Credit Agreement or any of the other Loan Documents, the Agent shall deliver to such Guarantors, upon written request therefor, (i) a written release of this Guaranty and (ii) appropriate discharges of any Collateral provided by the Guarantors for this Guaranty; provided however that, the effectiveness of this Guaranty shall continue or be reinstated, as the case may be, in the event: (x) that any payment received or credit given by the Agent or the Banks, or any of them, is returned, disgorged, rescinded or required to be recontributed to any party as an avoidable preference, impermissible setoff, fraudulent conveyance, restoration of capital or otherwise under any applicable state, federal or law of any jurisdiction, including laws pertaining to bankruptcy or insolvency, and this Guaranty shall thereafter be enforceable against the Guarantors as if such returned, disgorged, recontributed or rescinded payment or credit has not been received or given by the Agent or the Banks, and whether or not the Agent or any Bank relied upon such payment or credit or changed its position as a consequence thereof or (y) that any liability is imposed, or sought to be imposed against the Agent or the Banks, or any of them, relating to the environmental condition of any of property mortgaged or pledged to the Agent on behalf of the Banks by any Guarantor, the Company, or any other party as collateral (in whole or part) for any indebtedness or obligation evidenced or secured by this Guaranty, whether such condition is known or unknown, now exists or subsequently arises (excluding only conditions which arise after acquisition by the Agent or any Bank of any such property, in lieu of foreclosure or otherwise, due to the wrongful act or omission of the Agent or such Banks, or any person other than the Company, the Subsidiaries, the Guarantors, or Affiliates of the Company or the Subsidiaries or Guarantors), and this Guaranty shall thereafter be enforceable against the Guarantors to the extent of all such liabilities, costs and expenses (including reasonable attorneys' fees) incurred by the Agent or Banks as the direct or indirect result of any such environmental condition but only for which the Company is obligated to the Agent and the Banks pursuant to the Credit Agreement. For purposes of this Guaranty "environmental condition" includes, without limitation, conditions existing with respect to the surface or ground water, drinking water supply, land surface or subsurface strata and the ambient air.

5.9 *Consent to Jurisdiction.* Each of the Guarantors hereby irrevocably submits to the non-exclusive jurisdiction of any United States federal court or Michigan state court sitting in Detroit in any action or proceeding arising out of or relating to this Guaranty or any of the other Loan

Documents and Guarantors hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in any such United States federal court or Michigan state court. Each of the Guarantors irrevocably consents to the service of any and all process in any such action or proceeding

brought in any court in or of the State of Michigan (and to the receipt of any and all notices hereunder) by the delivery of copies of such process to Guarantors at their respective addresses specified in Section 5.3 hereof in the manner set forth therein.

5.10 *JURY TRIAL WAIVER.* EACH OF THE GUARANTORS (AND THE AGENT AND EACH OF THE BANKS BY ACCEPTING THE BENEFITS HEREOF) HEREBY IRREVOCABLY AGREES TO WAIVE THE RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY AND ALL ACTIONS OR PROCEEDINGS IN WHICH THE AGENT OR THE BANKS (OR ANY OF THEM), ON ONE HAND, AND ANY OF THE COMPANY OR ANY OF THE GUARANTORS, ON THE OTHER HAND, ARE PARTIES, WHETHER OR NOT SUCH ACTIONS OR PROCEEDINGS ARISE OUT OF THIS GUARANTY OR THE OTHER LOAN DOCUMENTS OR OTHERWISE.

5.11 *Limitation under Applicable Insolvency Laws.* Notwithstanding anything to the contrary contained herein, it is the intention of the Guarantors, the Agent and the Banks that the amount of the respective Guarantor's obligations hereunder shall be in, but not in excess of, the maximum amount thereof not subject to avoidance or recovery by operation of applicable law governing bankruptcy, reorganization, arrangement, adjustment of debts, relief of debtors, dissolution, insolvency, fraudulent transfers or conveyances or other similar laws (collectively, "Applicable Insolvency Laws"). To that end, but only in the event and to the extent that the Guarantor's respective obligations hereunder or any payment made pursuant thereto would, but for the operation of the foregoing proviso, be subject to avoidance or recovery under Applicable Insolvency Laws, the amount of the Guarantor's respective obligations hereunder shall be limited to the largest amount which, after giving effect thereto, would not, under Applicable Insolvency Laws, render the Guarantor's respective obligations hereunder unenforceable or avoidable or subject to recovery under Applicable Insolvency Laws. To the extent any payment actually made hereunder exceeds the limitation contained in this Section 5.11, then the amount of such excess shall, from and after the time of payment by the Guarantors (or any of them), be reimbursed by the Banks upon demand by such Guarantors. The foregoing proviso is intended solely to preserve the rights of the Agent and the Banks hereunder against the Guarantors to the maximum extent permitted by Applicable Insolvency Laws and neither the Company nor any Guarantor nor any other Person shall have any right or claim under this Section 5.11 that would not otherwise be available under Applicable Insolvency Laws.

[SIGNATURES FOLLOW ON SUCCEEDING PAGES]

IN WITNESS WHEREOF, each of the undersigned Guarantors has executed this Guaranty as of the date first above written.

NICHOLS ALUMINUM ALABAMA, INC.

By: _____

Its: _____

NICHOLS ALUMINUM-GOLDEN, INC.

By: _____

Its: _____

IMPERIAL PRODUCTS, INC.

By: _____

Its: _____

TEMROC METALS, INC.

By: _____

Its: _____

COLONIAL CRAFT, INC.

By: _____

Its: _____

QUANEX BAR, INC.

By: _____

Its: _____

EXHIBIT A
to
Guaranty

Joinder Agreement

THIS JOINDER AGREEMENT is dated as of , by ("New Guarantor").

WHEREAS, pursuant to Section 6.16 of that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement") by and among Quanex Corporation, a Delaware corporation ("Company"), the Banks signatory thereto and Comerica Bank, as the Agent for the Banks (in such capacity, "Agent"), and pursuant to Section 5.6 of that certain Guaranty dated as of December , 2002 (as amended or otherwise modified from time to time, the "Guaranty") executed and delivered by the Guarantors named therein ("Guarantors") in favor of the Agent, for and on behalf of the Banks, the New Guarantor must execute and deliver a Joinder Agreement in accordance with the Credit Agreement and the Guaranty.

NOW THEREFORE, as a further inducement to the Banks to continue to provide credit accommodations to the Company, New Guarantor hereby covenants and agrees as follows:

1. All capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement unless expressly defined to the contrary.

2. New Guarantor hereby enters into this Joinder Agreement in order to comply with Section 6.16 of the Credit Agreement and Section 5.6 of the Guaranty and does so in consideration of the Advances made or to be made from time to time under the Credit Agreement (and the other Loan Documents, as defined in the Credit Agreement), from which New Guarantor shall derive direct and indirect benefit as with the other Guarantors (all as set forth and on the same basis as in the Guaranty).

3. New Guarantor shall be considered, and deemed to be, for all purposes of the Credit Agreement, the Guaranty and the other Loan Documents, a Guarantor under the Guaranty and hereby ratifies and confirms its obligations under the Guaranty, all in accordance with the terms thereof.

4. No Default or Event of Default (each such term being defined in the Credit Agreement) has occurred and is continuing under the Credit Agreement.

5. This Joinder Agreement shall be governed by the laws of the State of Michigan and shall be binding upon New Guarantor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned New Guarantor has executed and delivered this Joinder Agreement as of , .

[NEW GUARANTOR]

By: _____

Its: _____

EXHIBIT K

EXECUTION COPY

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "*Agreement*") dated as of November 26, 2002, is entered into by and between the Company (as defined below), each subsidiary of the Company listed on the signature pages hereof, and such other entities which from time to time become parties hereto (collectively, including the Company, the "*Debtors*" and individually each a "*Debtor*") and Comerica Bank, a Michigan Banking corporation ("*Comerica*"), as Agent for and on behalf of the Banks (as defined below) (in such capacity, the "*Agent*"). The addresses for the Debtors and the Agent are set forth on the signature pages.

R E C I T A L S:

A. Quanex Corporation, a Delaware corporation ("*Company*") have entered into that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended, supplemented, amended and restated or otherwise modified from time to time the "Credit Agreement") with each of the financial institutions party thereto (collectively, including their respective successors and assigns, the "Banks"), and with Comerica Bank in its capacity as Agent for the Banks (the "Agent"), pursuant to which the Banks have agreed, subject to the satisfaction of certain terms and conditions, to extend or to continue to extend financial accommodations to the Company, as provided therein.

B. Pursuant to the Credit Agreement, the Banks have required that each of the Debtors grant (or cause to be granted) certain liens and security interest to the Agent, as Agent for the benefit of the Banks, all to secure the obligations of the Company under the Credit Agreement.

C. The Debtors have directly and indirectly benefited and will directly and indirectly benefit from the transactions evidenced by and contemplated in the Credit Agreement and have consented to the execution and delivery of the Credit Agreement

D. The Agent is acting as Agent for the Banks pursuant to Section 12 of the Credit Agreement.

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

ARTICLE 1
Definitions

Section 1.1 ***Definitions.*** As used in this Agreement, capitalized terms not otherwise defined herein have the meaning provided for such terms in the Credit Agreement. References to "Sections," "subsections," "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. All references to statutes and regulations shall include any amendments of the same and any successor statutes and regulations. References to particular sections of the UCC should be read to refer also to parallel sections of the Uniform Commercial Code as enacted in each state or other jurisdiction where any portion of the Collateral is or may be located.

The following terms have the meanings indicated below, all such definitions to be equally applicable to the singular and plural forms of the terms defined:

"*Account*" means any "account," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all rights of

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the Debtor to payment for goods sold or leased or services rendered, whether or not earned by performance, (b) all accounts receivable of the Debtor, (c) all rights of the Debtor to receive any payment of money or other form of consideration, (d) all security pledged, assigned or granted to or held by the Debtor to secure any of the foregoing, (e) all guaranties of, or indemnifications with respect to, any of the foregoing, and (f) all rights of the Debtor as an unpaid seller of goods or services, including, but not limited to, all rights of stoppage in transit, replevin, reclamation and resale.

"*Banks*" has the meaning specified in the Credit Agreement.

"*Chattel Paper*" means any "chattel paper," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and shall include electronic chattel paper and tangible chattel paper.

"*Collateral*" has the meaning specified in Section 2.1 of this Agreement.

"*Computer Records*" has the meaning specified in Section 2.1(g) of this Agreement.

"*Default*" has the meaning specified in the Credit Agreement.

"*Deposit Account*" shall mean a demand, time, savings, passbook, or similar account maintained with a bank. The term does not include investment property or accounts evidenced by an instrument.

"*Document*" means any "document," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by the Debtor, including, without limitation, all documents of title and all receipts covering, evidencing or representing goods now owned or hereafter acquired by a Debtor.

"*Equipment*" means any "equipment," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, all machinery, equipment, furniture, trade fixtures, tractors, trailers, rolling stock, vessels, aircraft and vehicles now owned or hereafter acquired by such Debtor and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

"*Event of Default*" has the meaning specified in the Credit Agreement.

"*General Intangibles*" means any "general intangibles," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all of the Debtor's patents, copyrights, trademarks, service marks, trade names, trade secrets, registrations, goodwill, franchises, licenses, permits, proprietary information, customer lists, designs, inventions and all other intellectual property and proprietary rights, including without limitation those described on *Schedule D* attached hereto and incorporated herein by reference (collectively, the "Intellectual Property Collateral"); (b) all of the Debtor's books, records, data, plans, manuals, computer software, computer tapes, computer disks, computer programs, source codes, object codes and all rights of the Debtor to retrieve data and other information from third parties; (c) all of the Debtor's contract rights, commercial tort claims, partnership interests, membership interests, joint venture interests, securities, deposit accounts, investment accounts and certificates of deposit; (d) all rights of the Debtor to payment under chattel paper, documents, instruments and similar agreements; (e) letters of credit, letters of credit rights supporting obligations and rights to payment for money or funds advanced or sold of the Debtor; (f) all tax refunds and tax refund claims of the Debtor; (g) all choses in action and causes of action of the Debtor (whether arising in contract, tort or otherwise and whether or not currently in litigation) and all judgments in favor of the Debtor; (h) all rights and claims of the Debtor under warranties

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and indemnities; and (i) all rights of the Debtor under any insurance, surety or similar contract or arrangement.

"*Governmental Authority*" shall mean any nation or government, any state, province or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or

pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"*Indebtedness*" has the meaning specified in the Credit Agreement.

"*Instrument*" means any "instrument," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by the Debtor, and, in any event, shall include all promissory Notes (including without limitation, the Intercompany Notes of such Debtor), drafts, bills of exchange and trade acceptances, whether now owned or hereafter acquired.

"*Intellectual Property Collateral*" is defined in clause (a) of the definition of General Intangibles.

"*Intercompany Note*" means any promissory Note issued or to be issued by the Company or any Subsidiary of the Company to any other Debtor to evidence an intercompany loan.

"*Inventory*" means any "inventory," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all goods and other personal property of the Debtor that are held for sale or lease or to be furnished under any contract of service; (b) all raw materials, work-in-process, finished goods, supplies and materials of the Debtor; (c) all wrapping, packaging, advertising and shipping materials of the Debtor; (d) all goods that have been returned to, repossessed by or stopped in transit by the Debtor; and (e) all Documents evidencing any of the foregoing.

"*Loan Documents*" has the meaning specified in the Credit Agreement.

"*Permitted Liens*" shall mean any lien or encumbrance which is a Permitted Lien under the Credit Agreement.

"*Proceeds*" means any "proceeds," as such term is defined in Article or Chapter 9 of the UCC and, in any event, shall include, but not be limited to, (a) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to a Debtor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to a Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any Person acting, or purporting to act, for or on behalf of any governmental authority), and (c) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"*Records*" is defined in *Section 4.9* of this Agreement.

"*Software*" means all (i) computer programs and supporting information provided in connection with a transaction relating to the program, and (ii) computer programs embedded in goods and any supporting information provided in connection with a transaction relating to the program whether or not the program is associated with the goods in such a manner that it customarily is considered part of the goods, and whether or not, by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods, and whether or not the program is embedded in goods that consist solely of the medium in which the program is embedded.

"*Subsidiary*" has the meaning specified in the Credit Agreement.

"*UCC*" means the Uniform Commercial Code as in effect in the State of Michigan; *provided*, that if, by applicable law, the perfection or effect of perfection or non-perfection of the security interest created hereunder in any Collateral is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or the effect of perfection or non-perfection.

ARTICLE 2
Security Interest

Section 2.1 ***Security Interest.*** As collateral security for the prompt payment and performance in full when due of the Indebtedness (whether at stated maturity, by acceleration or otherwise), each Debtor hereby pledges and assigns (as collateral) to the Agent, and grants the Agent a continuing lien on and security interest in, all of such Debtor's right, title and interest in and to the following, whether now owned or hereafter arising or acquired and wherever located (collectively, the "*Collateral*"):

(a) all Accounts;

(b) all Chattel Paper;

(c) all General Intangibles;

(d) all Equipment;

(e) all Inventory;

(f) all Documents;

(g) all Instruments;

(h)

all Deposit Accounts;

(i) all computer records ("*Computer Records*") and Software, whether relating to the foregoing Collateral or otherwise, but in the case of such Software, subject to the rights of any non-affiliated licensee of software and any cash collateral, deposit account or investment account established or maintained hereunder, including without limitation under Section 6.3 hereof; and

(j) the Proceeds, in cash or otherwise, of any of the property described in the foregoing clauses (a) through (i) and all liens, security, rights, remedies and claims of such Debtor with respect thereto;

provided, however, that "Collateral" shall not include rights under or with respect to any General Intangible, license, permit or authorization to the extent any such General Intangible, license, permit or authorization, by its terms or by law, prohibits the assignment of, or the granting of a security interest in, the rights of a grantor thereunder or which would be invalid or unenforceable upon any such assignment or grant. The pledge and grant of a security interest in Proceeds shall not be deemed to give the applicable Debtor any right to dispose of any of the Collateral, except as may otherwise be permitted herein or in the Credit Agreement.

Section 2.2 ***Debtors Remain Liable.*** Notwithstanding anything to the contrary contained herein, (a) the Debtors shall remain liable under the contracts, agreements, documents and instruments included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Agent or any Bank of any of their respective rights or remedies hereunder shall not release the Debtors from any of their duties or obligations under the contracts, agreements, documents and

instruments included in the Collateral, and (c) neither the Agent nor any of the Banks shall have any indebtedness, liability or obligation (by assumption or otherwise) under any of the contracts, agreements, documents and instruments included in the Collateral by reason of this Agreement, and none of such parties shall be obligated to perform any of the obligations or duties of the Debtors thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

ARTICLE 3
Representations and Warranties

To induce the Agent and Banks to enter into this Agreement and the Credit Agreement, each Debtor represents and warrants to the Agent and to each Bank that as of the date hereof:

Section 3.1 ***Title.*** Such Debtor is, and with respect to Collateral acquired after the date hereof such Debtor will be, the legal and beneficial owner of the Collateral free and clear of any Lien or other encumbrance, except for the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement.

Section 3.2 ***Financing Statements.*** No financing statement, security agreement or other Lien instrument covering all or any part of the Collateral is on file in any public office with respect to any outstanding obligation of such Debtor except (i) as may have been filed in favor of the Agent pursuant to this Agreement and the other Loan Documents and (ii) financing statements filed to perfect Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement (including those liens set forth on Schedule 7.2 of the Credit Agreement). As of the date hereof, and to the best of Debtor's knowledge, except as otherwise disclosed on *Schedule E* hereto, the Debtor does not do business and has not done business under a trade name or any name other than its legal name set forth at the beginning of this Agreement.

Section 3.3 ***Principal Place of Business; Registered Organization.*** The principal place of business and chief executive office of the Debtor, and the office where the Debtor keeps its books and records, is located at the address of the Debtor shown on the signature page hereto. Each Debtor is duly organized and validly existing as a corporation (or other business organization) under the laws of its jurisdiction of organization, as set forth on *Schedule C*, and has the registration number set forth on such *Schedule C*.

Section 3.4 ***Location of Collateral.*** All Inventory (except Inventory in transit) and Equipment (other than vehicles) of the Debtor in the possession of the Debtor are located at the places specified on *Schedule A* hereto. If any such location is leased by the Debtor as of the date hereof, the name and address of the landlord leasing such location is identified on *Schedule A* hereto. None of the Inventory or Equipment of the Debtor (other than trailers, rolling stock, vessels, aircraft and vehicles) is evidenced by a Document (including, without limitation, a negotiable document of title).

Section 3.5 ***Perfection.*** Upon the filing of Uniform Commercial Code financing statements in the jurisdictions listed on *Schedule B* attached hereto, or upon the execution and delivery of control agreements or similar documentation (with respect to any cash collateral or deposit account established hereunder), the security interest in favor of the Agent created herein will constitute a valid and perfected Lien upon and security interest in the Collateral which may be created and perfected under the UCC by filing financing statements or obtaining possession thereof, subject to no equal or prior Liens with respect to all other Collateral except for those (if any) which constitute Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement.

Section 3.6 ***Intellectual Property.*** *Schedule D* is true, accurate and complete list of all registered patents, trademarks, copyrights and other intellectual property owned or licensed (pursuant to an exclusive or non-exclusive license) by the Debtors (as such *Schedule D* may from time to time be supplemented, amended or modified in accordance with the terms of this Agreement), and all such

intellectual property has been registered or filed with the U.S. Patent and Trademark Office or the U.S. Copyright Office, as applicable.

ARTICLE 4
Covenants

Each Debtor covenants and agrees with the Agent that until the Indebtedness is paid and performed in full and all commitments to lend or provide other credit accommodations under the Credit Agreement have been terminated:

Section 4.1 ***Encumbrances.*** The Debtor shall not create, permit or suffer to exist, and shall defend the Collateral against, any Lien (other than the Liens created by this Agreement, the Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement) or any restriction upon the pledge or other transfer thereof (other than as provided in the Credit Agreement), and shall, subject only to the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement, defend the Debtor's title to and other rights in the Collateral and the Agent's pledge and collateral assignment of and security interest in the Collateral against the claims and demands of all Persons. Except to the extent permitted by the Credit Agreement or in connection with any release of Collateral under Section 7.13 hereof (but only to the extent of any Collateral so released), the Debtor shall do nothing to materially impair the rights of the Agent in the Collateral.

Section 4.2 ***Collection of Accounts and Contracts.*** The Debtor shall, in accordance with its usual business practices, endeavor to collect or cause to be collected from each account debtor under its Accounts, as and when due, any and all amounts owing under such Accounts.

Section 4.3 ***Disposition of Collateral.*** To the extent prohibited by the terms of the Credit Agreement, the Debtor shall not enter into or consummate any transfer or other disposition of assets without the prior written consent of the Banks, according to the terms of the Credit Agreement.

Section 4.4 ***Further Assurances.*** At any time and from time to time, upon the request of the Agent, and at the sole expense of the Debtor, the Debtor shall promptly execute and deliver all such further agreements, documents and instruments and take such further action as the Agent may reasonably deem necessary or appropriate to preserve and perfect its security interest in and pledge and collateral assignment of the Collateral and carry out the provisions and purposes of this Agreement or to enable the Agent to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral. Except as otherwise expressly permitted by the terms of the Credit Agreement relating to disposition of assets except for Permitted Liens and other Liens permitted by Section 7.2 of the Credit Agreement, the Debtor agrees to maintain and preserve the Agent's security interest in and pledge and collateral assignment of the Collateral hereunder. Without limiting the generality of the foregoing, the Debtor shall (a) execute and deliver to the Agent such financing statements as the Agent may from time to time require; and (b) execute and deliver to the Agent such other agreements, documents and instruments, as the Agent may require to perfect and maintain the validity, effectiveness and priority of the Liens intended to be created by the Loan Documents. The Debtor authorizes the Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Debtor unless otherwise prohibited by law.

Section 4.5 ***Insurance.*** The Collateral pledged by such Debtor or the Debtors will be insured (to the extent such Collateral is insurable) with insurance coverage in such amounts and of such types as are customarily carried by companies similar in size and nature. In the case of all such insurance policies, each such Debtor shall designate the Agent, as mortgagee or Agent loss payee and such policies shall provide that any loss be payable to the Agent, as mortgagee or Agent loss payee, as its interests may appear as set forth below. Further, upon the request of the Agent, each such Debtor shall deliver certificates evidencing such policies, including all endorsements thereon and those required hereunder, to Agent; and each such Debtor assigns to Agent, as additional security hereunder, all its

rights to receive proceeds of insurance with respect to the Collateral. All such insurance shall, by its terms, provide that the applicable carrier shall, prior to any cancellation before the expiration date thereof, mail 30 days' prior written notice to the Agent of such cancellation. As of the Effective Date, the insurance coverage evidenced by the certificates attached hereto as Exhibit C shall be deemed to satisfy the foregoing requirements. Each Debtor further shall provide Agent upon request with evidence reasonably satisfactory to Agent that each such Debtor is at all times in compliance with this paragraph. Upon the occurrence and during the continuance of an Event of Default, Agent may act as each such Debtor's attorney-in-fact in obtaining, adjusting, settling and compromising such insurance and endorsing any drafts. Upon Debtor's failure to insure the Collateral as required in this covenant, Agent may procure such insurance and its costs therefor shall be charged to Debtor, payable on demand, with interest at the highest rate set forth in the Credit Agreement and added to the Indebtedness secured hereby. The disposition of proceeds payable to such Debtor of any insurance on the Collateral ("Insurance Proceeds") shall be governed by the following:

(i) provided that no Event of Default has occurred and is continuing hereunder, (a) if the amount of Insurance Proceeds in respect of any loss or casualty does not exceed Two Million Five Hundred Thousand Dollars ($2,500,000), such Debtor shall be entitled, in the event of such loss or casualty, to receive all such Insurance Proceeds and to apply the same toward the replacement of the Collateral affected thereby or to the purchase of other assets to be used in the Debtor's business (provided that such assets shall be subjected to a first lien in favor of Agent); and (b) if the amount of Insurance Proceeds in respect of any loss or casualty exceeds Two Million Five Hundred Thousand Dollars ($2,500,000), such Insurance Proceeds shall be paid to and received by Agent, for release to such Debtor for the replacement of the Collateral affected thereby or to the purchase of other assets to be used in the Debtor's business (provided that such assets shall be subjected to a first lien in favor of Agent); or, upon written request of such Debtor (accompanied by reasonable supporting documentation), for such other use or purpose as approved by the Majority Banks, in their reasonable discretion, in its reasonable discretion, it being understood and agreed in connection with any release of funds under this subparagraph (b), that the Agent and the Majority Banks may impose reasonable and customary conditions on the disbursement of such Insurance Proceeds; and]

(ii) if an Event of Default has occurred or is continuing and is not waived as provided in the Credit Agreement, all Insurance Proceeds in respect of any loss or casualty shall be paid to and received by the Agent, to be applied by the Agent against the Indebtedness and/or to be held by the Agent as cash collateral for the Indebtedness, as the Majority Banks may direct in their sole discretion.

Section 4.6 ***Bailees.*** If any of the Collateral is at any time in the possession or control of any warehouseman, bailee or any of the Debtor's Agents or processors, the Debtor shall notify the Agent (and revise *Schedule A* to this Agreement to this effect), and at the request of the Agent, notify such warehouseman, bailee, Agent or processor of the security interest created hereunder, shall instruct such Person to hold such Collateral for the Agent's account subject to the Agent's instructions and shall obtain for the Agent such Person's acknowledgment of the same.

Section 4.7 ***Furnishing of Information and Inspection Rights.*** The Debtor will, at any time and from time to time during regular business hours, upon reasonable advance notice (except if any Event of Default has occurred and is continuing, when no prior notice shall be required), permit the Agent, or its Agents or representatives, to examine all Records, to visit the offices and properties of the Debtor for the purpose of examining such Records, and to discuss matters relating to Debtor's performance hereunder and under the other Credit Agreement with any of the officers, directors, employees or independent public accountants of the Debtor having knowledge of such matters; *provided*, *however*, that the Agent acknowledges that, in exercising the rights and privileges conferred in

this Section 4.7, it or its Agents and representatives may, from time to time, obtain knowledge of information, practices, books, correspondence and records of a confidential nature and in which the Debtor has a proprietary interest. The Agent agrees that all such information, practices, books, correspondence and records are to be regarded as confidential information and agrees that it shall be subject to Section 12.11 of the Credit Agreement. Notwithstanding anything to the contrary in this Agreement or in Section 12.11 of the Credit Agreement, the Agent may reply to a request from any Person for information related to any Collateral referred to in any financing statement filed to perfect the security interest and liens established hereby, to the extent necessary to maintain the perfection or priority of such security interests or liens, or otherwise required under applicable law. Furthermore, the Debtor shall permit the Agent and its representatives to examine, inspect and audit the Collateral and to examine, inspect and audit the Debtor's books and Records to the extent provided under the Credit Agreement.

Section 4.8 ***Corporate Changes.*** The Debtor shall not change its name, identity, corporate structure or jurisdiction of organization in any manner that might make any financing statement filed in connection with this Agreement seriously misleading within the meaning of Section 9-506 of the UCC unless the Debtor shall have given the Agent thirty (30) days prior written notice with respect to any change in Debtor's name or identity, corporate structure or jurisdiction of organization and shall have taken all action deemed necessary by the Agent to protect its Liens and the perfection and priority thereof. The Debtor shall give prompt written notice of any change in its principal place of business, chief executive office or the place where it keeps its books and records.

Section 4.9 ***Books and Records.*** The Debtor shall keep accurate and complete books and records (the "Records") of the Collateral and the Debtor's business and financial condition in accordance with the Credit Agreement.

Section 4.10 ***Equipment and Inventory.***

(a) The Debtor shall keep the Equipment (other than vehicles) and Inventory (other than Inventory in transit) which is in Debtor's possession or in the possession of any bailee or warehouseman at any of the locations specified on Schedule A hereto or, upon prompt written notice to the Agent, at such other places within the United States of America where all action required to perfect the Agent's security interest in the Equipment and Inventory with the priority required by this Agreement shall have been taken.

(b) The Debtor shall maintain the Equipment and Inventory in accordance with the terms of the Credit Agreement.

Section 4.11 ***Notification.*** The Debtor shall promptly notify the Agent in writing of any Lien, encumbrance or claim (other than a Permitted Lien or other Liens permitted under Section 7.2 of the Credit Agreement, to the extent not otherwise subject to any notice requirements under the Credit Agreement) that has attached to or been made or asserted against any of the Collateral upon becoming aware of the existence of such Lien, encumbrance or claim.

Section 4.12 ***Collection of Accounts.*** So long as no Event of Default has occurred and is continuing and except as otherwise provided in this Section 4.12 and Section 6.3, the Debtor shall have the right to collect and receive payments on the Accounts, and to use and expend the same in its operations in each case in compliance with the terms of each of the Credit Agreement.

Section 4.13 ***Possession; Reasonable Care*** Following the occurrence and continuance of an Event of Default, the Agent shall be entitled to take possession of the Collateral in accordance with the UCC. The Agent may appoint one or more Agents (which in no case shall be the Debtor or an affiliate of the Debtor) to hold physical custody, for the account of the Agent, of any or all of the Collateral. The Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the

Agent accords its own property, it being understood that the Agent shall not have any responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Agent has or is deemed to have knowledge of such matters, or (b) taking any necessary steps to preserve rights against any parties with respect to any Collateral, except, subject to the terms hereof, upon the written instructions of the Banks.

Section 4.14 ***Future Subsidiaries / Additional Collateral.***

(a) With respect to each Person which becomes a Significant Domestic Subsidiary subsequent to the date hereof, within sixty (60) days of the date such Person becomes a domestic Subsidiary, Debtor will cause such Subsidiary to execute and deliver to the Agent, for the benefit of the Banks a security agreement, substantially in the form of this Agreement (or joinder agreement in the form attached hereto as Exhibit B satisfactory to Agent), granting to the Agent, for the benefit of the Banks, a first priority security interest, mortgage and lien encumbering all right, title and interest of such Person in property, rights and interests of the type included in the definition of the Collateral, subject only to the Permitted Liens and other Liens permitted under Section 7.2 of the Credit Agreement.

(b) With respect to any intellectual property owned, licensed or otherwise acquired by any Debtor after the date hereof, and with respect to any patent, trademark or copyright which is not registered or filed with the U.S. Patent and Trademark Office and/or the U.S. Copyright Office at the time such Collateral is pledged by a Debtor to the Agent pursuant to this Security Agreement, and which is subsequently registered or filed by such Debtor in the appropriate office, such Debtor shall execute or cause to be executed, not later than sixty (60) days after such property is acquired, obtained or registered (i) an amendment, duly executed by the Debtor, in substantially the form of *Exhibit A* hereto (an "*Amendment*"), in respect of such additional or newly registered collateral or (ii) a new security agreement, duly executed by the applicable Debtor, in substantially the form of this Agreement, in respect of such additional or newly registered collateral, granting to Agent, for the benefit of the Banks, a first priority security interest, pledge and lien thereon (subject only to the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement), together in each case with all certificates, Notes or other instruments representing or evidencing the same, and shall, upon Agent's request, execute or cause to be executed any financing statement or other document (including without limitation, filings required by the U.S. Patent and Trademark Office and/or the U.S. Copyright Office in connection with any such additional or newly registered collateral). The Debtor hereby (x) authorizes the Agent to attach each Amendment to this Agreement, (y) agrees that all such additional collateral listed in any Amendment delivered to the Agent shall for all purposes hereunder constitute Collateral, and (z) is deemed to have made, upon the delivery of each such Amendment, the representations and warranties contained in Sections 3.1, 3.2, 3.4, 3.5, 3.7 of this Agreement with respect to the Collateral covered thereby.

ARTICLE 5
Rights of the Agent

Section 5.1 ***Power of Attorney.*** Each Debtor hereby irrevocably constitutes and appoints the Agent and any officer or Agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the name of the Debtor or in its own name, to take, after the occurrence and during the continuance of an Event of Default, any and all actions, and to execute any and all documents and instruments which the Agent at any time and from time to time deems necessary, to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, the Debtor hereby gives the Agent the power and right on behalf of the

Debtor and in its own name to do any of the following after the occurrence and during the continuance of an Event of Default, without notice to or the consent of the Debtor:

(i) to demand, sue for, collect or receive, in the name of the Debtor or in its own name, any money or property at any time payable or receivable on account of or in exchange for any of the Collateral and, in connection therewith, endorse checks, Notes, drafts, acceptances, money orders, documents of title or any other instruments for the payment of money under the Collateral or any policy of insurance;

(ii) to pay or discharge taxes, Liens (other than Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement) or other encumbrances levied or placed on or threatened against the Collateral;

(iii) (A) to direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Agent or as the Agent shall direct; (B) to receive payment of and receipt for any and all monies, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, proxies, stock powers, verifications and notices in connection with accounts and other documents relating to the Collateral; (D) to commence and prosecute any suit, action or proceeding at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Debtor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Agent may deem appropriate; (G) to exchange any of the Collateral for other property upon any merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof and, in connection therewith, deposit any of the Collateral with any committee, depositary, transfer Agent, registrar or other designated agency upon such terms as the Agent may determine; (H) to add or release any guarantor, indorser, surety or other party to any of the Collateral; (I) to renew, extend or otherwise change the terms and conditions of any of the Collateral; (J) to make, settle, compromise or adjust any claim under or pertaining to any of the Collateral (including claims under any policy of insurance); and (K) to sell, transfer, pledge, convey, make any agreement with respect to, or otherwise deal with, any of the Collateral as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do, at the Agent's option and the Debtor's expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve, maintain, or realize upon the Collateral and the Agent's security interest therein.

This power of attorney is a power coupled with an interest and shall be irrevocable. The Agent shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to the Agent in this Agreement, and shall not be liable for any failure to do so or any delay in doing so. This power of attorney is conferred on the Agent solely to protect, preserve, maintain and realize upon its security interest in the Collateral. The Agent shall not be responsible for any decline in the value of the Collateral and shall not be required to take any steps to preserve rights against prior parties or to protect, preserve or maintain any Lien given to secure the Collateral.

Section 5.2 ***Setoff.*** In addition to and not in limitation of any rights of any Banks under applicable law, the Agent and each Bank shall, upon the occurrence and continuance of an Event of Default, without notice or demand of any kind, have the right to appropriate and apply to the payment of the Indebtedness owing to it (whether or not then due) any and all balances, credits, deposits,

accounts or moneys of Debtors then or thereafter on deposit with such Banks; provided, however, that any such amount so applied by any Bank on any of the Indebtedness owing to it shall be subject to the provisions of the Credit Agreement.

Section 5.3 ***Assignment by the Agent.*** The Agent may at any time assign or otherwise transfer all or any portion of its rights and obligations as Agent under this Agreement and the other Loan Documents (including, without limitation, the Indebtedness) to any other Person, to the extent permitted by, and upon the conditions contained in, the Credit Agreement and such Person shall thereupon become vested with all the benefits and obligations thereof granted to the Agent herein or otherwise.

Section 5.4 ***Performance by the Agent.*** If any Debtor shall fail to perform any covenant or agreement contained in this Agreement, the Agent may (but shall not be obligated to) perform or attempt to perform such covenant or agreement on behalf of the Debtors, in which case Agent shall exercise good faith and make diligent efforts to give Debtors prompt prior written notice of such performance or attempted performance. In such event, the Debtors shall, at the request of the Agent, promptly pay any reasonable amount expended by the Agent in connection with such performance or attempted performance to the Agent, together with interest thereon at the interest rate set forth in the Credit Agreement, from and including the date of such expenditure to but excluding the date such expenditure is paid in full. Notwithstanding the foregoing, it is expressly agreed that the Agent shall not have any liability or responsibility for the performance (or non-performance) of any obligation of the Debtors under this Agreement.

Section 5.5 ***Certain Costs and Expenses.*** The Debtors shall pay or reimburse the Agent within ten (10) Business Days after demand for all reasonable costs and expenses (including reasonable attorney's and paralegal fees) incurred by it in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of any of the Indebtedness (including in connection with any "workout" or restructuring regarding the Indebtedness, and including in any insolvency proceeding or appellate proceeding). The agreements in this Section 5.5 shall survive the payment in full of the Indebtedness. Notwithstanding the foregoing, the reimbursement of any fees and expenses incurred by the Banks shall be governed by the terms and conditions of the applicable Credit Agreement.

Section 5.6 ***Indemnification.*** The Debtors shall indemnify, defend and hold the Agent, and each Bank and each of their respective officers, directors, employees, counsel, Agents and attorneys-in-fact (each, an "*Indemnified Person*") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including reasonable attorneys' and paralegals' fees) of any kind or nature

whatsoever which may at any time (including at any time following repayment of the Indebtedness and the termination, resignation or replacement of the Agent or replacement of any Bank) be imposed on, incurred by or asserted against any such Indemnified Person in any way relating to or arising out of this Agreement or any other Loan Document or any document relating to or arising out of or referred to in this Agreement or any other Loan Document, or the transactions contemplated hereby, or any action taken or omitted by any such Indemnified Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any "Bankruptcy Proceeding" (as defined in the Credit Agreement) or appellate proceeding) related to or arising out of this Agreement or the Indebtedness or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "*Indemnified Liabilities*); *provided*, that the Debtors shall have no obligation under this Section 5.6 to any Indemnified Person with respect to Indemnified Liabilities to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section 5.6 shall survive payment of all other Indebtedness.

ARTICLE 6
Default

Section 6.1 ***Rights and Remedies.*** If an Event of Default shall have occurred and be continuing, the Agent shall have the following rights and remedies subject to the direction and/or consent of the Banks as required under the Credit Agreement:

(i) The Agent may exercise any of the rights and remedies set forth in the Credit Agreement (including, without limitation, in Section 5 of this Agreement) or by applicable law.

(ii) In addition to all other rights and remedies granted to the Agent in this Agreement, the Credit Agreement or by applicable law, the Agent shall have all of the rights and remedies of a secured party under the UCC (whether or not the UCC applies to the affected Collateral) and the Agent may also, without previous demand or notice except as specified below or in the Credit Agreement, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may, in its reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. Without limiting the generality of the foregoing, the Agent may (A) without demand or notice to the Debtors (except as required under the Credit Agreement or applicable law), collect, receive or take possession of the Collateral or any part thereof, and for that purpose the Agent (and/or its Agents, servicers or other independent contractors) may enter upon any premises on which the Collateral is located and remove the Collateral therefrom or render it inoperable, and/or (B) sell, lease or otherwise dispose of the Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at the Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may, in its reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. The Agent and, subject to the terms of the Credit Agreement, each of the Banks shall have the right at any public sale or sales, and, to the extent permitted by applicable law, at any private sale or sales, to bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) and become a purchaser of the Collateral or any part thereof free of any right of redemption on the part of the Debtors, which right of redemption is hereby expressly waived and released by the Debtors to the extent permitted by applicable law. The Agent may require the Debtors to assemble the Collateral and make it available to the Agent at any place designated by the Agent to allow Agent to take possession or dispose of such Collateral. The Debtors agree that the Agent shall not be obligated to give more than seven (7) days prior written notice of the time and place of any public sale or of the time after which any private sale may take place and that such notice shall constitute reasonable notice of such matters. The foregoing shall not require notice if none is required by applicable law. The Agent shall not be obligated to make any sale of Collateral if, in the exercise of its reasonable discretion, it shall determine not to do so, regardless of the fact that notice of sale of Collateral may have been given. The Agent may, without notice or publication (except as required by applicable law), adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. The Debtors shall be liable for all reasonable expenses of retaking, holding, preparing for sale or the like, and all reasonable attorneys' fees, legal expenses and other costs and expenses incurred by the Agent in connection with the collection of the Indebtedness and the enforcement of the Agent's rights under this Agreement and the Credit Agreement. The Debtors shall, to the extent permitted by applicable law, remain liable for any deficiency if the proceeds of any such sale or other disposition of the Collateral (conducted in

conformity with this clause (ii) and applicable law) applied to the Indebtedness are insufficient to pay the Indebtedness in full. The Agent shall apply the proceeds from the sale of the Collateral hereunder against the Indebtedness in such order and manner as provided in the Credit Agreement.

(iii) The Agent may cause any or all of the Collateral held by it to be transferred into the name of the Agent or the name or names of the Agent's nominee or nominees.

(iv) The Agent may exercise any and all rights and remedies of the Debtors under or in respect of the Collateral, including, without limitation, any and all rights of the Debtors to demand or otherwise require payment of any amount under, or performance of any provision of any of the Collateral and any and all voting rights and corporate powers in respect of the Collateral.

(v) On any sale of the Collateral, the Agent is hereby authorized to comply with any limitation or restriction with which compliance is necessary (based on a reasoned opinion of the Agent's counsel) in order to avoid any violation of applicable law or in order to obtain any required approval of the purchaser or purchasers by any applicable Governmental Authority.

(vi) The Agent may direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Agent or as the Agent shall direct.

(vii) For purposes of enabling the Agent to exercise its rights and remedies under this Section 6.1 and enabling the Agent and its successors and assigns to enjoy the full benefits of the Collateral, the Debtors hereby grant to the Agent an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Debtors) to use, assign, license or sublicense any of the Computer Records or Software

(including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and all computer programs used for the completion or printout thereof), exercisable upon the occurrence and during the continuance of an Event of Default (and thereafter if Agent succeeds to any of the Collateral pursuant to an enforcement proceeding or voluntary arrangement with Debtor), except as may be prohibited by any licensing agreement relating to such Computer Records or Software. This license shall also inure to the benefit of all successors, assigns, transferees of and purchasers from the Agent.

(viii) If and to the extent that any Debtor is permitted to license the Intellectual Property Collateral, Secured Party shall promptly enter into a non-disturbance agreement or other similar arrangement, at such Debtor's request and expense, with such Debtor and any licensee of any Intellectual Property Collateral permitted hereunder, such non-disturbance or similar agreement to be in form and substance reasonably satisfactory to Secured Party pursuant to which (i) Secured Party shall agree to assume the rights of Debtor under such non-exclusive license, and (ii) such licensee shall acknowledge and agree that the Intellectual Property Collateral licensed to it subject to the security interest created in favor of Secured Party and other terms of this Agreement.

Section 6.2 ***Private Sales.*** The Debtors further agree to do or cause to be done, to the extent that the Debtors may do so under applicable law, all such other reasonable acts and things as may be necessary to make such sales or resales of any portion or all of the Collateral valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Debtors' expense.

Section 6.3 ***Establishment of Cash Collateral Account; and Lock Box.***

(a) Immediately upon the occurrence and during the continuance of an Event of Default (without the necessity of any notice hereunder), there shall be established by each Debtor with Agent, for the benefit of the Banks in the name of the Agent, a segregated non-interest bearing cash collateral account ("Cash Collateral Account") bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Agent and the Banks; provided, however, that the Cash Collateral Account may be an interest-bearing account with a commercial bank (including Comerica or any other Bank which is a commercial bank) if determined by the Agent, in its reasonable discretion, to be practicable, invested by Agent in its sole discretion, but without any liability for losses or the failure to achieve any particular rate of return. Furthermore, in connection with the establishment of a Cash Collateral Account under the first sentence of this Section 6.3 (and on the terms and within the time periods provided thereunder), (i) each Debtor agrees to establish and maintain (and Agent, acting at the request of the Banks, may establish and maintain) at Debtor's sole expense a United States Post Office lock box (the "Lock Box"), to which Agent shall have exclusive access and control. Each Debtor expressly authorizes Agent, from time to time, to remove the contents from the Lock Box for disposition in accordance with this Agreement; and (ii) each Debtor shall notify all account debtors that all payments made to Debtor (a) other than by electronic funds transfer, shall be remitted, for the credit of Debtor, to the Lock Box, and Debtor shall include a like statement on all invoices, and (b) by electronic funds transfer, shall be remitted to the Cash Collateral Account, and Debtor shall include a like statement on all invoices. Each Debtor agrees to execute all documents and authorizations as reasonably required by the Agent to establish and maintain the Lock Box and the Cash Collateral Account. It is acknowledged by the parties hereto that any lockbox presently maintained or subsequently established by a Debtor with Agent may be used, subject to the terms hereof, to satisfy the requirements set forth in the first sentence of this Section 6.3.

(b) Immediately upon the occurrence and during the continuance of an Event of Default, any and all cash (including amounts received by electronic funds transfer), checks, drafts and other instruments for the payment of money received by each Debtor at any time, in full or partial payment of any of the Collateral consisting of Accounts or Inventory, shall forthwith upon receipt be transmitted and delivered to Agent, properly endorsed, where required, so that such items may be collected by Agent. Any such amounts and other items received by a Debtor shall not be commingled with any other of such Debtor's funds or property, but will be held separate and apart from such Debtor's own funds or property, and upon express trust for the benefit of Agent until delivery is made to Agent. All items or amounts which are remitted to a Lock Box or otherwise delivered by or for the benefit of a Debtor to Agent on account of partial or full payment of, or any other amount payable with respect to, any of the Collateral shall, at Agent's option, to any of the Indebtedness, whether then due or not, in the order and manner set forth in the Credit Agreement. No Debtor shall have any right whatsoever to withdraw any funds so deposited. Each Debtor further grants to Agent a first security interest in and lien on all funds on deposit in such account. Each Debtor hereby irrevocably authorizes and directs Agent to endorse all items received for deposit to the Cash Collateral Account, notwithstanding the inclusion on any such item of a restrictive notation, e.g., "paid in full", "balance of account", or other restriction.

Section 6.4 ***Default Under Credit Agreement.*** Subject to any applicable notice and cure provisions contained in the Credit Agreement, the occurrence of any Event of Default (as defined in the Credit Agreement), including without limit a breach of any of the provisions of this Agreement, shall be deemed to be an Event of Default under this Agreement. This Section 6.4 shall not limit the Events of Default set forth in the Credit Agreement.

ARTICLE 7
Miscellaneous

Section 7.1 ***No Waiver; Cumulative Remedies.*** No failure on the part of the Agent to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement are cumulative and not exclusive of any rights and remedies provided by law.

Section 7.2 ***Successors and Assigns.*** This Agreement shall be binding upon and inure to the benefit of the Debtor and the Agent and their respective heirs, successors and assigns, except that the Debtor may not assign any of its rights or obligations under this Agreement without the prior written consent of the Agent.

Section 7.3 ***AMENDMENT; ENTIRE AGREEMENT.*** THIS AGREEMENT AND THE CREDIT AGREEMENT REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR

DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES HERETO. The provisions of this Agreement may be amended or waived only by an instrument in writing signed by the parties hereto.

Section 7.4 ***Notices.*** All notices, requests, consents, approvals, waivers and other communications hereunder shall be in writing (including, by facsimile transmission) and mailed, faxed or delivered to the address or facsimile number specified for notices on signature pages hereto; or, as directed to the Debtor or the Agent, to such other address or number as shall be designated by such party in a written notice to the other. All such notices, requests and communications shall, when sent by overnight delivery, or faxed, be effective when delivered for overnight (next business day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day (as defined in the Credit Agreement) after the date deposited into the U.S. mail, or if otherwise delivered, upon delivery; except that notices to the Agent shall not be effective until actually received by the Agent.

Section 7.5 ***GOVERNING LAW; SUBMISSION TO JURISDICTION; SERVICE OF PROCESS.*** (a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF MICHIGAN.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF MICHIGAN OR OF THE UNITED STATES FOR THE EASTERN DISTRICT OF MICHIGAN, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE DEBTOR AND THE AGENT CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE DEBTOR AND THE AGENT IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF *FORUM NON CONVENIENS*, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY LOAN DOCUMENT.

Section 7.6 ***Headings.*** The headings, captions, and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 7.7 ***Survival of Representations and Warranties.*** All representations and warranties made in this Agreement or in any certificate delivered pursuant hereto shall survive the execution and delivery of this Agreement, and no investigation by the Agent shall affect the representations and warranties or the right of the Agent, the Banks or the Noteholders to rely upon them.

Section 7.8 ***Counterparts.*** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 7.9 ***Waiver of Bond.*** In the event the Agent seeks to take possession of any or all of the Collateral by judicial process, the Debtor hereby irrevocably waives any bonds and any surety or security relating thereto that may be required by applicable law as an incident to such possession, and waives any demand for possession prior to the commencement of any such suit or action.

Section 7.10 ***Severability.*** Any provision of this Agreement which is determined by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 7.11 ***Construction.*** The Debtor and the Agent acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement with its legal counsel and that this Agreement shall be construed as if jointly drafted by the Debtor and the Agent.

Section 7.12 ***Termination.*** If all of the Indebtedness (other than contingent liabilities pursuant to any indemnity, including without limitation *Sections 5.5 and 5.6* hereof, for claims which have not been asserted, or which have not yet accrued) shall have been fully paid and performed in full (in cash) and all commitments to extend credit or other credit accommodations under the Credit Agreement have been terminated, the Agent shall, upon the written request of the Debtor, execute and deliver to the Debtor a proper instrument or instruments acknowledging the release and termination of the security interests created by this Agreement, and shall duly assign and deliver to the Debtor (without recourse and without any representation or warranty) such of the Collateral as may be in the possession of the Agent and has not previously been sold or otherwise applied pursuant to this Agreement.

Section 7.13 ***Release of Collateral.*** The Agent shall, upon the written request of Debtor, execute and deliver to the Debtor a proper instrument or instruments acknowledging the release of the security interest and liens established hereby on any Collateral (other than the Pledged Shares): (a) if the sale or other disposition of such Collateral is permitted under the terms of the Credit Agreement and, at the time of such proposed release, both before and after giving effect thereto, no Default or Event of Default has occurred and is continuing, (b) if the sale or other disposition of such Collateral is not permitted under the terms of the Credit Agreement, provided that the requisite Banks under such Credit Agreement shall have consented to such sale or disposition in accordance with the terms thereof, or (c) if such release has been approved by the requisite Banks in accordance with Section 12.10 of the Credit Agreement.

Section 7.14 ***WAIVER OF JURY TRIAL.*** EACH DEBTOR AND THE AGENT WAIVES ITS RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY EITHER SUCH PARTY AGAINST THE OTHER, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH DEBTOR AND THE AGENT AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY.

WITHOUT LIMITING THE FOREGOING, EACH SUCH PARTY FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

Section 7.15 ***Consistent Application.*** The rights and duties created by this Agreement shall, in all cases, be interpreted consistently with, and shall be in addition to (and not in lieu of), the rights and duties created by the Credit Agreement. In the event that any provision of this Agreement shall be inconsistent with any provision of the Credit Agreement, such provision of the Credit Agreement shall govern.

Section 7.16 ***Continuing Lien.*** The security interest granted under this Security Agreement shall be a continuing security interest in every respect (whether or not the outstanding balance of the Indebtedness is from time to time temporarily reduced to zero) and Agent's security interest in the Collateral as granted herein shall continue in full force and effect for the entire duration that the Credit Agreement remains in effect and until all of the Indebtedness are repaid and discharged in full, and no commitment (whether optional or obligatory) to extend any credit under the Credit Agreement remain outstanding.

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

DEBTORS:

QUANEX CORPORATION

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

NICHOLS ALUMINUM-ALABAMA, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

NICHOLS ALUMINUM-GOLDEN, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

IMPERIAL PRODUCTS, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

TEMROC METALS, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

COLONIAL CRAFT, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

QUANEX BAR, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

Fax No.:
Telephone No.:
Attention:

QUANEX STEEL, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

PIPER IMPACT, INC.

By: _____

Name: _____

Title _____

Address for Notices:

_____

_____

Fax No.:
Telephone No.:
Attention:

AGENT:

COMERICA BANK, as Agent

By: _____

Name: _____

Title _____

Address for Notices:
One Detroit Center, 9th Floor
500 Woodward Avenue
Detroit, Michigan 48226
Telephone No.: 313/222/9434
Attention:

SCHEDULE A

TO

SECURITY AGREEMENT

Locations of Equipment and Inventory

(including leased locations) in the Possession of Debtor or Any Bailee/Warehouseman

SCHEDULE B

TO

SECURITY AGREEMENT

Jurisdictions for Filing

UCC-1 Financing Statements

SCHEDULE C

TO

SECURITY AGREEMENT

SCHEDULE D
TO
SECURITY AGREEMENT
Intellectual Property
[TO BE COMPLETED BY COMPANY]

ATTACHMENT 1
to
Agreement
(Trademark)

ITEM A. ***TRADEMARKS*** ***Registered Trademarks***

Country	Trademark	Registration No.	Debtor

Pending Trademark Applications

Country	Trademark	Registration No.	Debtor

Expired, Abandoned or Canceled Trademarks

Country	Trademark	Registration No.	Debtor

Trademark Applications in Preparation

Country	Trademark	Registration No.	Debtor

ITEM B. ***TRADEMARK LICENSES***

Country	Trademark	Registration No.	Debtor

[TO BE COMPLETED BY DEBTORS]

ATTACHMENT 1
to
Agreement
(Copyright)

ITEM A. ***COPYRIGHTS***

Country	Copyright	Registration No.	Debtor

ITEM B. ***PENDING COPYRIGHT APPLICATIONS***

Country	Copyright	Registration No.	Debtor

ITEM C. ***COPYRIGHT LICENSES***

Country	Copyright	Registration No.	Debtor	Issue Date	Debtor

[TO BE COMPLETED BY DEBTORS]

Attachment 1
to Agreement (Patent)

ITEM A. ***PATENTS*** (including letters patent and applications for letters patent):

Country	Patent	Patent No.	Issue Date	Debtor

ITEM B. ***PATENT LICENSES:***

Country	Patent	Patent No.	Issue Date	Debtor

EXHIBIT A
TO
SECURITY AGREEMENT

FORM OF AMENDMENT

This Amendment, dated , 20 , is delivered pursuant to Section 4.14 of the Security Agreement referred to below. The undersigned hereby agrees that this Amendment may be attached to the Security Agreement dated as of November 26, 2002, between the undersigned and Comerica Bank, as the Agent for the benefit of the Banks referred to therein (the "Security Agreement"), and that the intellectual property listed on Schedule D annexed hereto shall be and become part of the Collateral referred to in the Security Agreement and shall secure payment and performance of all Indebtedness as provided in the Security Agreement.

Capitalized terms used herein but not defined herein shall have the meanings therefor provided in the Security Agreement.

QUANEX CORPORATION

By: _____

Name: _____

Title _____

NICHOLS ALUMINUM-ALABAMA, INC.

By: _____

Name: _____

Title _____

NICHOLS ALUMINUM-GOLDEN, INC.

By: _____

Name: _____

Title _____

IMPERIAL PRODUCTS, INC.

By: _____

Name: _____

Title _____

TEMROC METALS, INC.

By: _____

Name: _____

Title _____

COLONIAL CRAFT, INC.

By: _____

Name: _____

Title _____

QUANEX BAR, INC.

By: _____

Name: _____

Title _____

QUANEX STEEL, INC.

By: _____

Name: _____

Title _____

PIPER IMPACT, INC.

By: _____

Name: _____

Title _____

EXHIBIT B

JOINDER AGREEMENT
(Security Agreement)

THIS JOINDER AGREEMENT is dated as of , by , a ("New Debtor").

WHEREAS, pursuant to Section 6.16 of that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement") by and among Quanex Corporation, a Delaware corporation ("Company"), the Banks signatory thereto and Comerica Bank, as Agent for the Banks (in such capacity, "Agent"), and pursuant to Section 4.16(a) of that certain Security Agreement dated as of November 26, 2002 (the "Security Agreement") executed and delivered by the Debtors named therein ("Debtors") in favor of Agent, for and on behalf of the Banks, the New Debtor executed and delivered that certain Joinder Agreement dated as of , , in accordance with the Credit Agreement and the Security Agreement.

WHEREAS, pursuant to Section 6.16 of the Credit Agreement, the New Debtor is also required to become a party to the Guaranty dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Guaranty").

WHEREAS, in order to comply with Section 6.16 of the Credit Agreement, New Debtor executes and delivers this Joinder Agreement in accordance with the Credit Agreement.

NOW THEREFORE, as a further inducement to Banks to continue to provide credit accommodations to Company and the Account Parties (as defined in the Credit Agreement), New Debtor hereby covenants and agrees as follows:

1. All capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement unless expressly defined to the contrary.

2. New Debtor hereby enters into this Joinder Agreement in order to comply with Section 6.16 of the Credit Agreement and does so in consideration of the Advances made or to be made from time to time under the Credit Agreement (and the other Loan Documents, as defined in the Credit Agreement).

3. Schedule [insert appropriate Schedule] attached to this Joinder Agreement is intended to *supplement* Schedule [insert appropriate Schedule] of the Security Agreement with the respective information applicable to New Debtor.

4. New Debtor shall be considered, and deemed to be, for all purposes of the Credit Agreement, the Security Agreement and the other Loan Documents, a Debtor under the Security Agreement as fully as though New Debtor had executed and delivered the Security Agreement at the time originally executed and delivered under the Credit Agreement and hereby ratifies and confirms its obligations under the Security Agreement, all in accordance with the terms thereof.

5. No Default or Event of Default (each such term being defined in the Credit Agreement) has occurred and is continuing under the Credit Agreement.

6. This Joinder Agreement shall be governed by the laws of the State of Michigan and shall be binding upon New Debtor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned New Debtor has executed and delivered this Joinder Agreement as of , .

[NEW DEBTOR]

By: _____

Its: _____

EXHIBIT L

FORM OF INTERCOMPANY NOTE

COMPANY OR GUARANTOR, AS MAKER

November 26, 2002

ON DEMAND, FOR VALUE RECEIVED, the undersigned ("Maker") promises to pay to the order of [the entity or entities appearing on Schedule 1 hereto] from which it has received advances of credit ("Holder") at such place as shall be designated from time to time by each such Holder to Maker, in lawful money of the United States of America or in such other currencies applicable to any particular advance made hereunder (each an "Advance" and, collectively, the "Advances") which may, from time to time, be outstanding hereunder, such sum as may from time to time have been advanced by Holder to Maker and then be outstanding hereunder, together with interest thereon as hereinafter set forth.

Each Advance may bear interest at Holder's average cost of borrowing as certified by Holder from time to time and in accordance with the Holder's customary penalties.

This Note is a note under which advances, repayments and readvances may be made from time to time.

This Note shall be fully subordinated in all respects to the Indebtedness (as defined in the Credit Agreement). Upon the occurrence and during the continuance of an Event of Default (as defined in the Credit Agreement), no payments may be made of the principal of or interest on this Note.

As used herein:

"Credit Agreement" means that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002, by and among Comerica Bank, as agent (in such capacity, the "Agent") for itself and the other Banks, and Quanex Corporation ("Company"), and the Banks party thereto from time to time, as the same may be amended or otherwise modified from time to time.

During the period when payments of interest hereon are not permitted by the second preceding paragraph, interest shall accrue and be added to principal on each interest payment date.

Maker agrees, and Holder by accepting this Note agrees, that: (A) the obligations evidenced by this Note are subordinated in right of payment, to the prior payment in full of all of the Indebtedness, the subordination is for the benefit of the Banks and each Bank (whether now outstanding or hereafter created, incurred, assumed or guaranteed) shall be deemed to have acquired the Indebtedness in reliance upon the covenants and provisions contained in this Note; (B) if Maker is prohibited by the terms of this Note from making any payment of principal, interest or any other sum under or in respect of this Note when due, and therefore the Maker shall fail to pay when due any such sum, such failure shall not constitute a default or event of default under and in respect of this Note (provided that interest shall continue to accrue as provided herein and be added to principal as herein set forth); and (C) no revision to any provision of this Note applicable or relevant to the subordination of this Note to the Indebtedness shall be made or become effective until approved in writing by the Agent.

Upon any distribution (whether cash, securities or other property, by setoff or otherwise) to creditors of Maker in a liquidation or dissolution of Maker or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to Maker or its property: (A) Banks shall be entitled to payment in full of all obligations with respect to the Indebtedness (including interest after the commencement of any such proceeding at the rates specified for the applicable indebtedness) to the date of payment of the applicable Indebtedness before Holder shall be entitled to receive any payment of any obligations with respect to this Note; and (B) until all obligations with respect to the Indebtedness are indefeasibly paid in full, any distribution to which Holder would be entitled shall be made to the Agent.

No right of any Bank to enforce the subordination of the indebtedness evidenced by this Note shall be impaired by any act or failure to act by the Maker or by its failure to comply with the terms and conditions of this Note.

This Note shall be interpreted and the rights of the parties hereunder shall be determined under the laws of, and enforceable in, the State of Michigan.

Maker hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note.

Terms not defined herein shall have the meanings set forth in the Credit Agreement.

Nothing herein shall limit any right granted Holder by any other instrument or by law.

By: _____

Its: _____

Dated: , 2002

Pay to the order of Comerica Bank, as Agent

By: _____

Its: _____

EXHIBIT M

COVENANT COMPLIANCE REPORT

To: Comerica Bank, as Agent

Re: Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement"), among Quanex Corporation ("Company"), the Banks party thereto and Comerica Bank, as Agent for the Banks.

This Covenant Compliance Report ("Report") is furnished pursuant to Section 6.2(a) of the Credit Agreement and sets forth various information as of (the "Computation Date").

1. *Consolidated Fixed Charge Coverage Ratio (Section 6.9).* On the Computation Date, the Consolidated Fixed Charge Coverage Ratio, which is required to be not less than 1.25 to 1, was to 1 as computed in the supporting documents attached hereto as Schedule A.

2. *Consolidated Tangible Net Worth (Section 6.10).* On the Computation Date, the Consolidated Tangible Net Worth, which is required to be not less than $ was $ as computed in the supporting documents attached hereto as Schedule B.

3. *Consolidated Leverage Ratio (Section 6.11).* On the Computation Date, the Consolidated Leverage Ratio, which is required to be not more than 2.50 to 1, was to 1 as computed in the supporting documents attached hereto as Schedule C.

The undersigned Responsible Officer of Company hereby certifies that to the best of his/her knowledge, after due inquiry:

A. All of the information set forth in this Report (and in any Schedules attached hereto) is true and correct in all material respects.

B. As of the Computation Date, Company has observed and performed, in all material respects, all of their covenants and other agreements contained in the Credit Agreement and in the Notes (if issued) and any other Loan Documents to be observed, performed and satisfied by them.

C. He/she has personally reviewed the Credit Agreement and this Report is based on an examination sufficient to assure that this Report is accurate.

D. Except as stated in Schedule D hereto (which shall describe any existing Event of Default or event which with the passage of time and/or the giving of notice, would constitute an Event of Default and the notice and period of existence thereof and any action taken with respect thereto or contemplated to be taken by Company), no Event of Default, or event which with the passage of time and/or the giving of notice would constitute an Event of Default, has occurred and is continuing on the date of this Report.

Capitalized terms used in this Report and in the schedules hereto, unless specifically defined to the contrary, have the meanings given to them in the Credit Agreement.

IN WITNESS WHEREOF, the undersigned has caused this Report to be executed and delivered by its duly authorized officer this day of .

QUANEX CORPORATION

By: _____

Its: _____

EXHIBIT N

SUBORDINATION TERMS

This Instrument shall be fully subordinated in right of payment and priority and in all other respects to the Indebtedness (as defined in the Credit Agreement). Upon the occurrence and during the continuance of an Event of Default and following receipt of notice from the Agent, no payments may be made on the principal of or interest on this Instrument. During the period when payments of interest hereon are not permitted, interest shall accrue and be added to principal on each interest payment date.

As used herein, "Credit Agreement" shall mean that certain Amended and Restated Quanex Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, certain financial institutions from time to time signatory thereto (the "Lenders") and Comerica Bank, a Michigan banking corporation, as Agent for the Banks (in such capacity the "Agent"), and any extensions, renewals, amendments, restatements or other modifications made from time to time thereto.

Maker agrees, and Holder by accepting this Instrument agrees, that: (A) the obligations evidenced by this Instrument are subordinated in right of payment, to the prior payment in full of all the Indebtedness; the subordination is for the benefit of the Banks, and each Bank shall be deemed to have acquired Indebtedness whether now outstanding or hereafter created, incurred, assumed or guaranteed in reliance upon the covenants and provisions contained in this Instrument; (B) if Maker is prohibited by the terms of this Instrument from making any payment of principal, interest or any other sum under or in respect of this Instrument when due, and therefore the Maker shall fail to pay when due any such sum, such failure shall not constitute a default or event of default under and in respect of this Instrument (provided that interest shall continue to accrue as provided herein and be added to principal as herein set forth); and (C) no revision to any provision of this Instrument applicable or relevant to, or otherwise affecting, the subordination of this Instrument to the Indebtedness shall be made or become effective until approved in writing by the Agent.

Upon any distribution (whether cash, securities or other property, by setoff or otherwise) to creditors of Maker in a liquidation or dissolution of Maker or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding (each, a "Proceeding") relating to Maker or its property: (A) the Banks shall be entitled to payment in full of all obligations with respect to the Indebtedness (including interest after the commencement of any such proceeding at the rates specified for the applicable Indebtedness to the date of payment of the Indebtedness, whether or not allowed in such proceeding) before Holder shall be entitled to receive any payment of any obligations with respect to this Instrument; and (B) until all obligations with respect to the Indebtedness are paid in full, any distribution to which Holder would be entitled shall be made to the Banks as their interests may appear, and Banks (acting through Agent) shall be entitled to vote (or direct Holder's vote) on any claim in such Proceeding.

No right of any Bank to enforce the subordination of the indebtedness evidenced by this Instrument shall be impaired by any act or failure to act by the Maker or by its failure to comply with the terms and conditions of this Instrument.

Terms not defined herein shall have the meanings set forth in the Credit Agreement.

Exhibit 10.40

FIRST AMENDMENT TO
QUANEX CORPORATION HOURLY BARGAINING UNIT SAVINGS PLAN

THIS AGREEMENT, by Quanex Corporation (the "Sponsor"),

WITNESSETH:

WHEREAS, the Sponsor maintains Quanex Corporation Hourly Bargaining Unit Savings Plan (the "Plan") and its related trust (the "Trust");

WHEREAS, the Sponsor retained the right to amend the Plan from time to time; and

WHEREAS, the Sponsor amended and restated the Plan effective as of January 1, 1998; and

WHEREAS, the Board of Directors of the Sponsor previously approved resolutions authorizing any amendments to the Plan as may be required by the Internal Revenue Service in order to make the Plan and Trust effective and to obtain a favorable determination letter that the Plan is a qualified plan under section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code") and the Trust is exempt from federal income taxes under section 501(a) of the Code; and

WHEREAS, the Internal Revenue Service is requiring certain amendments prior to approval of the Plan;

NOW, THEREFORE, effective December 12, 1994, the Sponsor agrees that the Plan is hereby amended as follows:

Section 13.7 of the Plan is hereby completely amended and restated to provide as set forth in the substitute pages attached hereto which shall be inserted into the Plan in place of the above-described original section.

IN WITNESS WHEREOF, the Sponsor has executed this Agreement this 30th day of October, 2002.

QUANEX CORPORATION

By: /s/ PAUL J. GIDDENS

Title: *Vice President Human Resources and Administration*

13.04 **Requirements Upon Merger or Consolidation of Plans.** The Plan shall not merge or consolidate with or transfer any assets or liabilities to any other plan unless each Participant and former Participant would receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

13.05 **Gender of Words Used.** If the context requires it, words of one gender when used in the Plan shall include the other gender, and words used in the singular or plural shall include the other.

13.06 **Severability.** Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

13.07 **Reemployed Veterans.** Effective December 12, 1994, the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 will be complied with in the operation of the Plan in the manner permitted under section 414(u) of the Code.

13.08 **Limitations on Legal Actions.** No person may bring an action pertaining to the Plan or Trust until he has exhausted his administrative claims and appeal remedies identified in Section 5.12. Further, no person may bring an action pertaining to a claim for benefits under the Plan or the Trust following 180 days after the committee's final denial of his claim for benefits.

13.09 **Governing Law.** The provisions of the Plan shall be construed, administered, and governed under the laws of the United States unless the specific matter in question is governed by state law in which event the laws of the State of Texas shall apply.

Use these links to rapidly review the document
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10/31/01 MTIN
CALWEST FORM 03/10/02

Exhibit 10.52

LEASE

CABOT INDUSTRIAL PROPERTIES, L.P.,

Landlord,

and

QUANEX CORPORATION,

Tenant

2270 Woodale Drive
Mounds View, MN

TABLE OF CONTENTS

MULTI-TENANT INDUSTRIAL NET LEASE

REFERENCE PAGES

BUILDING:	**2270 Woodale Drive, Mounds View, MN**
LANDLORD:	**Cabot Industrial Properties, L.P., a Delaware limited partnership**
LANDLORD'S ADDRESS:	**Two Center Plaza, Suite 430** **Boston, MA 02109** **Attn.: Asset Management**
WIRE INSTRUCTIONS AND/OR ADDRESS FOR RENT PAYMENT:	**75 Remittance Dr., Suite 1018** **Chicago, IL 60675-1018**
LEASE REFERENCE DATE:	**August 28, 2002**
TENANT:	**Quanex Corporation, a Delaware corporation**
TENANT'S NOTICE ADDRESS:	
(a) As of the Rent Commencement Date:	2270 Woodale Drive, Suite Number , Mounds View, MN
(b) Prior to the Rent Commencement Date:	**2772 Fairview Avenue North**

Roseville, MN 55113

PREMISES ADDRESS:	2270 Woodale Drive, Suite Number , Mounds View, MN
PREMISES RENTABLE AREA:	approximately 124,269 sq. ft. (for outline of Premises see *Exhibit A*)
USE:	Manufacturing, warehousing, distribution and general office and uses incidental thereto
SCHEDULED COMMENCEMENT DATE:	September 1, 2002
RENT COMMENCEMENT DATE:	February 15, 2003
TERM OF LEASE:	Approximately five (5) years and six (6) months beginning on the Commencement Date and ending on the Termination Date, with two renewal options of three years each.
TERMINATION DATE:	February 29, 2008

ANNUAL RENT and MONTHLY INSTALLMENT OF RENT (Article 3):

Period					
from	to	Rentable Square Footage	Rent Per Square Foot	Annual Rent	Monthly Installment of Rent
9/1/2002	2/14/2003	124,269	$ 0.00	$ 0.00	$ 0.00
2/15/2003	8/31/2005	124,269	$ 4.00	$ 497,076.00	$ 41,423.00
9/1/2005	2/29/2008	124,269	$ 4.32	$ 536,842.08	$ 44,736.84

INITIAL ESTIMATED MONTHLY INSTALLMENT OF RENT ADJUSTMENTS (Article 4) $

TENANT'S PROPORTIONATE SHARE:	85.7%
SECURITY DEPOSIT:	$20,000.00
ASSIGNMENT/SUBLETTING FEE	$1,000.00
REAL ESTATE BROKER DUE COMMISSION:	Northco Corporation; United Properties
TENANT'S SIC CODE:	321000

The Reference Pages information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Pages information and the Lease, the Lease shall control. This Lease includes Exhibits A through D, all of which are made a part of this Lease.

LANDLORD:

Cabot Industrial Properties, L.P., a Delaware limited partnership

By: Cabot Industrial Trust, a Maryland real estate investment trust and its General Partner

By: RREEF America, L.L.C., a Delaware limited liability company, its agent

By: /s/ STEPHEN P. VALLARELLI

Name: Stephen P. Vallarelli

Title: Vice President

Dated: August 30, 2002

TENANT:

Quanex Corporation, a Delaware corporation

By: /s/ JAMES W. GULLIFORD

Name: James W. Gulliford

Title: President E.P. Div/Quanex

Dated: August 28, 2002

LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises in the Building as set forth and described on the Reference Pages. The Premises are depicted on the floor plan attached hereto as *Exhibit A*, and the Building is depicted on the site plan attached hereto as *Exhibit A-1*. The Reference Pages, including all terms defined thereon, are incorporated as part of this Lease.

1. **USE AND RESTRICTIONS ON USE.**

1.1 The Premises are to be used solely for the purposes set forth on the Reference Pages. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them, or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, or commit any waste. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained. Tenant shall comply with all governmental laws, ordinances and regulations applicable to its use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in the Building or appurtenant land, caused or permitted by, or resulting from the specific use by, Tenant, or in or upon, or in connection with, the Premises, all at Tenant's sole expense. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will any any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to persons in or about the Building or any part thereof.

1.2 Hazardous Materials.

1.2.1 Tenant agrees that Tenant, its agents and contractors, licensees, or invitees shall not handle, use, manufacture, store or dispose of any flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives (collectively "Hazardous Materials") on, under, or about the Premises, without Landlord's prior written consent (which consent shall not be unreasonably withheld as long as Tenant demonstrates and documents to Landlord's reasonable satisfaction (i) that such Hazardous Materials (A) are necessary or useful to Tenant's business; and (B) will be used, kept, and stored in compliance with all laws relating to any Hazardous Materials so brought or used or kept in or about the Premises; and (ii) that Tenant will give all required notices concerning the presence in or on the Premises or the release of such Hazardous Materials from the Premises). Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials, which products are of a type customarily found in offices and households (such as aerosol cans containing insecticides, toner for copies, paints, paint remover, and the like), provided that Tenant shall handle, store, use and dispose of any such Hazardous Materials in a safe and lawful manner and shall not allow such Hazardous Materials to contaminate the Premises or the environment.

1.2.2 Tenant further agrees that Tenant will not permit any substance to come into contact with groundwater under the Premises. Any such substance coming into contact with groundwater shall, regardless of its inherent hazardous characteristics, be considered a Hazardous Material for purposes of this Paragraph 1.2.

1.2.3

1.2.3.1 Notwithstanding the provisions of Paragraph 1.2, Tenant may handle, store, and use Hazardous Materials, limited to the types, amounts, and use identified in the Hazardous Materials Exhibit attached hereto. If no Hazardous Materials Exhibit is attached to this Lease, then this Paragraph 1.2.3 shall be of no force and effect. Tenant hereby certifies to Landlord that the information provided by Tenant pursuant to this Paragraph is true, correct, and complete. Tenant covenants to comply with the use restrictions shown on the attached Hazardous Materials Exhibit. Tenant's business and operations, and more especially its

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handling, storage, use and disposal of Hazardous Materials shall at all times comply with all applicable laws pertaining to Hazardous Materials. Tenant shall secure and abide by all permits necessary for Tenant's operations on the Premises. Tenant shall give or post all notices required by all applicable laws pertaining to Hazardous Materials. If Tenant shall at any time fail to comply with this Paragraph, Tenant shall immediately notify Landlord in writing of such noncompliance.

1.2.3.2 Tenant shall provided Landlord with copies of any Material Safety Data Sheets (as required by the Occupational Safety and Health Act) relating to any Hazardous Materials to be used, kept, or stored at or on the Premises, at least 30 days prior to the first use, placement, or storage of such Hazardous Material on the Premises. Landlord shall have 10 days following delivery of such Material Safety Data Sheets to approve or forbid, in its sole discretion subject to the limitation contained in Paragraph 1.2 above, such use, placement, or storage of a Hazardous Material on the Premises.

1.2.3.3 Tenant shall not store hazardous wastes on the Premises for more than 90 days; "hazardous waste" has the meaning given it by the Resource Conservation and Recovery Act of 1976, as amended. Tenant shall not install any underground or above ground storage tanks on the Premises. Tenant shall not dispose of any Hazardous Material or solid waste on the Premises. In performing any alterations of the Premises permitted by the Lease, Tenant shall not install any Hazardous Material in the Premises without the specific consent of Landlord attached as an exhibit to this Lease.

1.2.3.4 Any increase in the premiums for necessary insurance on the Property which arises from Tenant's use and/or storage of Hazardous Materials shall be solely at Tenant's expense. Tenant shall procure and maintain at its sole expense such additional insurance as may be necessary to comply with any requirement of any Federal, State or local governmental agency with jurisdiction.

1.2.4 If Landlord, in its sole discretion, believes that the Premises or the environment have become contaminated with Hazardous Materials or similar materials that mush be removed under the laws of the state where the Premises are located, in breach of the provisions of this Lease, Landlord, in addition to its tother rights other this Lease, may enter upon the Premises and obtain samples from the Premises, including without limitation the soil and groundwater under the Premises, for the purposes of analyzing the same to determine whether and to what extent the Premises or the environment have become so contaminated. Tenant shall reimburse Landlord for the costs of any inspection, sampling and analysis that discloses contamination for which Tenant is labile under the terms of this Paragraph 1.2. Tenant may not perform any sampling, testing, or drilling to locate any Hazardous Materials on the Premises without Landlord's prior written consent.

1.2.5 Without limiting the above, Tenant shall reimburse, defend, indemnify and hold Landlord harmless from and against any and all claims, losses, liabilities, damages, costs and expenses, including without limitation, loss of rental income, loss due to business interruption, and attorneys fees and costs, arising out of or in any way connected with the use, manufacture, storage, or disposal of Hazardous Materials by Tenant, its agents or contractors on, under or about the Premises including, without limitation, the costs of any required or necessary investigation, repair, cleanup or

detoxification and the preparation of any closure or other required plans in connection herewith, whether voluntary or compelled by governmental authority. The indemnify obligations of Tenant under this clause shall survive any termination of the Lease. At Landlord's option, Tenant shall perform any required or necessary investigation, repair, cleanup, or detoxification of the Premises. In such case, Landlord shall have the right, in its sole discretion, to approve all plans, consultants, and cleanup standards. Tenant shall provided Landlord on a timely basis with (i) copies of all documents, reports, and communications with governmental authorities; and (ii) notice and an opportunity to attend all meetings with regulatory authorities. Tenant shall

comply with all notice requirements and Landlord and Tenant agree to cooperate with governmental authorities seeking access to the Premises for purposes of sampling or inspection. No disturbance of Tenant's use of the Premises resulting from activities conducted pursuant to this Paragraph shall constitute an actual or constructive eviction of Tenant from the Premises. In the event that such cleanup extends beyond the termination of the Lease, Tenant's obligation to pay rent (including additional rent and percentage rent, if any) shall continue until such cleanup is completed and any certificate of clearance or similar document has been delivered to Landlord. Rent during such holdover period shall be at the market rent. Landlord and Tenant shall equally share in the expense of this appraisal except that in the event the rent is found to be within fifteen percent of the original rate quoted by Landlord, then Tenant shall bear the full cost of all the appraisal process. In no event shall the rent be subject to determination or modification by any person, entity, court or authority other than as set forth expressly herein, and in no event shall the rent for any holdover period be less that the rent due in the proceeding period.

1.2.6 Notwithstanding anything set forth in this Lease, Tenant shall only be responsible for contamination of Hazardous Materials or any cleanup resulting directly therefrom, resulting directly from matters occurring or Hazardous Materials deposited by Tenant or its agents, contractors, employees or invitees during the Lease term, and any other period of time during which Tenant is in actual or constructive occupancy of the Premises. Tenant shall take reasonable precautions to prevent the contamination of the Premise with Hazardous Materials by third parties.

1.2.7 Any of Tenant's insurance insuring against claims of the type dealt with in this Paragraph 1.2 shall be considered primary coverage for claims against the Property arising out of or under this paragraph.

1.2.8 In the event of (i) any transfer of Tenant's interest under this Lease; or (ii) the termination of this Lease, by lapse of time or otherwise, Tenant shall be solely responsible for compliance with any and all then effective federal, state or local laws concerning (i) the physical condition of the Premises, Building or Property; or (ii) the presence of hazardous or toxic materials in or on the Premises, Building, or Property (for example, the New Jersey Environmental Cleanup Responsibility Act, or similar applicable state laws), including but not limited to any reporting or filing requirements imposed by such laws. Tenant's duty to pay rent, additional rent, and percentage rent shall continue until the obligations imposed by such laws are satisfied in full and any certificate of clearance or similar document has been delivered to Landlord.

1.2.9 All consents given by Landlord pursuant to this Paragraph 1.2 shall be in writing and shall be attached as amendments to this Lease. If such consents are not attached to this Lease, then such consents are not attached to this Lease, then such consents will not be deemed withheld.

1.3 Landlord hereby represents to Tenant that, to Landlord's actual knowledge, there are no Hazardous Materials located at the Premises as of the date of this Lease, except as set forth on the Phase I environmental report on the Building, which Landlord has given Tenant the opportunity to review. Landlord shall indemnify and hold Tenant harmless from and against any and all costs of any required or necessary investigation, repair, cleanup or detoxification and the preparation of any closure or other required plans in connection therewith, whether voluntary or compelled by governmental authority, to the extent that such costs are incurred due to Hazardous Materials which are located at the Premises prior to the execution of this Lease and have not been placed at the Premises by Tenant.

1.4 Tenant and the Tenant Entities will be entitled to the non-exclusive use of the common areas of the Building as they exist from time to time during the Term, including the sue of the loading dock facilities and not less than one hundred fifty (150) of the parking spaces which are part of the parking facilities, subject to Landlord's reasonable rules and regulations regarding such use. However, in no event will Tenant or the Tenant Entities park more than one hundred fifty (150) vehicles in the parking facilities available for common use. The foregoing shall not be deemed to provided Tenant with an exclusive right to any parking spaces or any guaranty of the availability of any particular parking spaces.

2. **TERM.**

2.1 The Term of this Lease shall being on the date ("Commencement Date") which shall be the later of the Scheduled Commencement Date as shown on the Reference Pages and the date that Landlord shall tender possession of the Premises to Tenant, and shall terminate on the date as shown on the Reference Pages ("Termination Date"), unless sooner terminated by the provisions of this Lease. Landlord shall deliver the Premises "as is", but shall be obligated to substantially complete the work set forth in *Exhibit B* by October 15, 2002, failing which, the Rent Commencement Date shall be extended by one day for every day after October 15, 2002 until Landlord substantial completes the required work. Tenant shall deliver a punch list of items not completed within thirty (30) days after Landlord notifies Tenant of the completion of the work and Landlord agrees to proceed with due diligence to perform its obligations regarding such items. If Landlord fails to correct and/or complete the punch list items within sixty (60) days after Landlord receives the punch list, Tenant may, at Tenant's option, elect to complete the punch list items. In such event, Landlord will reimburse Tenant for the actual, reasonable costs which Tenant incurs within twenty (20) days of Tenant's request, which includes copies of paid invoices for such work. Tenant shall, at Landlord's request, execute and deliver a memorandum agreement provided by Landlord in the form of *Exhibit C* attached hereto, setting forth the actual Commencement Date, Termination Date and, if necessary, as revised rent schedule. Should Tenant fail to do so within thirty (3) days after Landlord's request, the information set forth in such memorandum provided by Landlord shall be conclusively presumed to be agreed and correct.

2.2 Tenant agrees that in the event of the inability of Landlord to deliver possession of the Premises with all of Landlord's work substantially complete on the Scheduled Commencement Date for any reason, Landlord shall not be liable for any damage resulting from such inability, but Tenant shall not be liable for any rent until one hundred twenty-two (122) days after the date on which Landlord delivers possession of the Premises to Tenant in the condition required by Section 2.1. No such failure to give possession on the Scheduled Commencement Date shall affect the other obligations of Tenant under this Lease, except that if Landlord is unable to deliver possession of the Premises within one hundred twenty (120) days after the Scheduled Commencement Date, Tenant shall have the option to terminate this Lease unless said delay is as a result of: (a) Tenant's failure to agree to plans and specifications and/or construction costs estimates or bids; (b) Tenant's request for materials, finishes or installations other than Landlord's standard except those, if any, that Landlord shall have expressly agreed to furnish without extension of time agreed by Landlord; (c) Tenant's change in any plans or specifications; or, (d) performance or completion by a party employed by

Tenant (each of the foregoing, a "Tenant Delay"). If any delay is the result of a Tenant Delay, the Commencement Date and the payment of rent under this Lease shall be accelerated by the number of days of such Tenant Delay.

2.3 In the event Landlord permits Tenant, or any agent, employee or contractor of Tenant, to enter, use or occupy the Premises prior to the Commencement Date, such entry, use or occupancy shall be subject to all the provisions of this Lease other than the payment of rent, including, without limitation, Tenant's compliance with the insurance requirements of Article 11. Said early possession shall not advance the Termination Date.

2.4 Tenant acknowledge that a portion of the Premises, approximately 5,045 square feet, is currently leased to the General Services Administration (the "GSA Space"), who has agreed to relocate within the Building, but that the lease for such relocation has not yet been executed. Notwithstanding Landlord's obligations set forth in this Article, Tenant agrees that Landlord shall not be obligated to deliver the GSA Space to Tenant until the later of the date Landlord is required to deliver the Premises under Sections 2.1 and 2.2 or the date which is thirty (30) days after Landlord obtains possession of the GSA Space. If Landlord delivers the GSA Space after the Commencement Date, a prorated portion (based on the actual square footage of the GSA Space related to the square footage of the entire Premises) of the Annual Rent and Tenant's Proportionate Share of Expenses and Taxes shall be abated until the later of the Rent Commencement Date or one hundred twenty-two (122) days after Landlord delivers the GSA Space to Tenant.

2.5 Tenant shall, provided the Lease is in full force and effect and no Event of Default exists under the Lease at the time of notification or commencement, have two-successive options to renew this Lease for a term of three years each, for the portion of the Premises being leased by Tenant as of the date the renewal term is to commence, on the same terms and conditions set forth in the Lease, except as modified by the terms, covenants and conditions as set forth below:

2.5.1 If Tenant elects to exercise said option, then Tenant shall provide Landlord with written notice no earlier than the date which is eighteen (18) months prior to the expiration of the then current term of the Lease but no later than the date which is nine (9) months prior to the expiration of the then current term of this Lease. If Tenant fails to provide such notice, Tenant shall have no further or additional right to extend or renew the term of the Lease.

2.5.2 The Annual Rent and Monthly Installment in effect at the expiration of the then current term of the Lease shall be adjusted to reflect the current fair market rental for comparable space in the Building and in other similar buildings in the same rental market as of the date the renewal term is to commence, taking into account the specific provisions of the Lease which will remain constant and whether Landlord has agreed to any improvement allowance as provided below. Landlord shall advise Tenant of Landlord's estimate of the fair market rental rate for the Premises during the renewal term no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than thirty (30) days prior to the first date on which Tenant may exercise its option under this Paragraph. Said notification of the proposed new Annual Rent may include a provision for its escalation to provide for a change in fair market rental between the time of notification and the commencement of the renewal term. If Tenant and Landlord are unable to agree on a mutually acceptable rental rate not later than sixty (60) days after Tenant exercises a renewal option, then Landlord and Tenant shall each appoint a qualified MAI appraiser doing business in the area, in turn those two independent MAI appraisers shall appoint a third MAI appraiser and the majority shall decide upon the fair market rental for the Premises as of the expiration of the then current term. Landlord and Tenant shall equally share in the expense of this appraisal except that in the event the Annual Rent and Monthly Installment is found to be within ten percent (10%) of the original rate quoted by Landlord, then Tenant shall bear the full cost of all the appraisal process. Notwithstanding anything to the contrary in the foregoing, Tenant shall have the right, which must be exercised, if at all, within thirty (30) days after the decision of the appraisers is issued, to rescind Tenant's exercise of the renewal option by delivering written notice of such rescission (the "Rescission Notice") to Landlord; provided that if Tenant exercises such rescission right: (i) Tenant shall promptly pay all fees and costs of the appraisers; (ii) the Term of this Lease may, at Landlord's option, be extended by notice to Tenant within ten (10) days after Landlord receives the Rescission Notice so that it will expire on the date which is nine (9) months after the date on which Landlord receives the Rescission Notice; and (iii) Tenant shall pay the fair market rental rate as determined by the appraisers as the Annual Rent for the Premises from and after the date on which this Lease would otherwise have expired and during the period of any such lease extension.

2.5.3 The Premises shall be re-leased on an "as is, where is" basis, with no improvements; provided, however that Landlord shall negotiate with Tenant in good faith for an improvement allowance based on the market at that time. As each renewal option provided for above is exercised, the number of renewal options remaining to be exercised is reduced by one and upon exercise of the last remaining renewal option Tenant shall have no further right to extend the term of the Lease.

2.5.4 This option is not transferable, other than to a permitted assignee or sublessee as described in Section 9.7; the parties hereto acknowledge and agree that they intend that the aforesaid option to renew this Lease shall be "personal" to Tenant as set forth above and that in

no event will any assignee or sublessee (other than a permitted assignee or sublessee as described in Section 9.7) have any rights to exercise the aforesaid option to renew.

3. **RENT.**

3.1 Commencing on the Rent Commencement Date, Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term. The Monthly Installment of Rent in effect at any time shall be one-twelfth (1/12) of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon the number of days in such month. Said rent shall be paid to Landlord, without deduction or offset (except as otherwise specifically provided in this Lease) and without notice or demand, at the Rent Payment Address, as set forth on the Reference Pages, or to such other person or at such other place as Landlord may from time to time designate in writing. Unless specified in this Lease to the contrary, all amounts and sums payable by Tenant to Landlord pursuant to this Lease shall be deemed additional rent.

3.2 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid within five (5) days after notice of when due and payable pursuant to this Lease, a late charge shall be imposed in an amount equal to the greater of: (a) Fifty Dollars ($50.00), or (b) four percent (4%) of the unpaid rent or other payment. If any rent or other sum remains unpaid for a period in excess of thirty days, Tenant shall

pay Landlord interest on such amount at an annual rate equal to the prime rate of interest reported in the Wall Street Journal from time to time plus three percent (3%) until such time as such sums have been fully paid. The provisions of this Section 3.2 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Landlord's remedies pursuant to Article 19 of this Lease in the event said rent or other payment is unpaid after date due.

4. **RENT ADJUSTMENTS.**

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 **Lease Year:** Each fiscal year (as determined by Landlord from time to time) falling partly or wholly within the period from the Rent Commencement Date to the Termination Date.

4.1.2 **Expenses:** All reasonable costs of operation, maintenance, repair, replacement and management of the Building, as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; insurance charges of or relating to all insurance policies and endorsements deemed by Landlord to be reasonably necessary or desirable and relating in any manner to the protection, preservation, or operation of the Building or any part thereof; utility costs, including, but not limited to, the cost of heat, light, power, steam, gas; waste disposal; the cost of security and alarm services (including any central station signaling system); costs of cleaning, repairing, replacing and maintaining the common areas, including parking and landscaping, window cleaning costs; labor costs; costs and expenses of managing the Building including management and/or administrative fees (not to exceed 4% of gross rents received from tenants of the Property); material costs; equipment costs including the cost of maintenance, repair and service agreements and rental and leasing costs; purchase costs of equipment; current rental and leasing costs of items which would be capital items if purchased; tool costs; licenses, permits and inspection fees; wages and salaries; employee benefits and payroll taxes; accounting and legal fees; any sales, use or service taxes incurred in connection therewith. Notwithstanding the foregoing, no capital expenditures (as determined by generally accepted accounting principles) will be included in Expenses, except for

the following: (i) items which are reasonably calculated to reduce operating expenses; (ii) capital expenses which are required under any governmental laws, regulations or ordinances which were not applicable to the Building as of the Commencement Date (provided, however, that in no event shall Expenses included any portion, amortized or otherwise, of the cost of upgrading the sprinkler system or installing an elevator); and, (iii) parking and driveway area resurfacing; but the costs described in this sentence shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with generally accepted accounting principles, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time. Expenses shall not include: (a) depreciation or amortization of the Building or equipment in the Building except as provided herein; (b) loan principal payments; (c) expenses in connection with leasing space in the Building, including costs of alterations of tenants' premises, leasing commissions, advertising costs and legal fees; (d) interest expenses on long-term borrowings; (e) costs and expenses attributable to any personnel except to the extent the time and energies of such personnel are devoted to the Building; and (f) insurance costs to the extent that any insurance coverage, deductibles and/or premiums are not consistent with standards, prudent industry practice for similar projects in the region.

4.1.3 **Taxes:** Real estate taxes and any other taxes, charges and assessments which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements, fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of tax payments made by such lessor; and all fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in any way seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year. Taxes shall not include any corporate franchise, or estate, inheritance or net income tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building or any taxes to be paid by Tenant pursuant to Article 28.

4.2 Tenant shall pay as additional rent for each Lease Year Tenant's Proportionate Share of Expenses and Taxes incurred for such Lease Year. Notwithstanding the foregoing, the amount charged to Tenant for any Lease Year with respect to those Controllable Expenses (defined below) in excess of the Controllable Expenses paid or incurred in the first Lease Year (the latter the "Base Year Controllable Expenses") shall be limited to the amount by which the Base Year Controllable Expenses is exceeded by the Base Year Controllable Expenses as increased at the cumulative annual compound rate of five percent (5%). By way of illustration, if the Base Year Controllable Expenses are $1.00 per square foot, excess Controllable Expenses chargeable to Tenant for the second Lease Year pursuant to this Section 4.2 cannot exceed $0.05 per square foot, $0.11 per square foot for the third Lease Year, and so forth. "Controllable Expenses" means those Expenses which are within the reasonable control of Landlord, including, by way of example and not by way of limitation, landscaping and parking lot maintenance and management fees, and shall not include real estate taxes, insurance costs, unforeseen repairs costs, capital expenditures or other costs or expenses which are not within the reasonable control of Landlord, including, by way of example but not by way of limitation, costs which are established by public utilities, government regulation or multi-employer labor agreements or which are subject to variation due to weather conditions, such as snow removal.

4.3 The annual determination of Expenses shall be made by Landlord and shall be binding upon Landlord and Tenant, subject to the provisions of this Section 4.3. During the Term, Tenant may review, at Tenant's sole cost and expense, the books and records supporting such determination in an office of Landlord, or Landlord's agent, during normal business hours, upon giving Landlord five (5) days advance written notice within one hundred eighty (180) days after receipt of such determination, but in no event more often than once in any one (1) year period, subject to execution of a confidentiality

agreement acceptable to Landlord, and provided that if Tenant utilizes an independent accountant to perform such review it shall be one of regional or national standing which is reasonable acceptable to Landlord, is not compensated on a contingency basis and is also subject to such confidentiality agreement. If Tenant fails to object to Landlord's determination of Expenses within one hundred eighty (180) days after receipt, or if any such objection fails to state with specificity the reason for the objection, Tenant shall be deemed to have approved such determination and shall have no further right to object to or contest such determination.

4.4 Prior to the actual determination thereof for a Lease Year, Landlord may from time to time estimate Tenant's liability for Expenses and/or Taxes under Section 4.2, Article 6 and Article 28 for the Lease Year or portion thereof. Landlord will give Tenant written notification of the amount of such estimate and Tenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Tenant pursuant hereto.

4.5 When the above mentioned actual determination of Tenant's liability for Expenses and/or Taxes is made for any Lease Year and when Tenant is so notified in writing, then:

4.5.1 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is less than Tenant's liability for Expenses and/or Taxes, then Tenant shall pay such deficiency to Landlord as additional rent in one lump sum within thirty (30) days of receipt of Landlord's bill therefor; and

4.5.2 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses and/or Taxes for the Lease Year is more than Tenant's liability for Expenses and/or Taxes, then Landlord shall credit the difference against the then next due payments to be made by Tenant under this Lease, or, if the Lease has terminated, refund the difference in cash.

4.6 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Expenses and Taxes for the Lease Year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

5. **SECURITY DEPOSIT.** Tenant shall deposit the Security Deposit with Landlord upon the execution of this Lease. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If an Event of Default occurs, Landlord may use any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any third party expenses which Landlord pays or becomes obligated to pay by reason of Tenant's default. If any portion is so used, Tenant shall within five (5) days after written demand therefor, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Except to such extent, if any, as shall be required by law, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant within thirty (30) days of the termination of this Lease and, if applicable, Landlord shall deliver to Tenant a written explanation of the reason(s) that any portion of the Security Deposit has been retained by Landlord.

6. **ALTERATIONS.**

6.1 Except for those, if any, specifically provided for in *Exhibit B* to this Lease, Tenant shall not make or suffer to be made any alterations, additions or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on or to the Premises or any part thereof or the making of

any improvements as required by Article 7, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements. Landlord shall have a period of twenty (20) days after its receipt of such plans and specifications to notify Tenant of (a) Landlord's approval, or (b) the basis for Landlord's withholding of approval. If Landlord fails to so notify Tenant within such twenty (20) day period, then Landlord shall be deemed to have approved such plans and specifications. Landlord's consent shall not be required with respect to alterations which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building's electrical, mechanical, plumbing, HVAC or other systems, and (iv) in aggregate do not cost more than $5.00 per rentable square foot of that portion of the Premises affected by the alterations in question.

6.2 In the event Landlord consents to the making of any such alteration, addition or improvement by Tenant, the same shall be made by using either Landlord's contractor or a contractor reasonably approved by Landlord, in either event at Tenant's sole cost and expense. If Tenant shall employ any contractor other than Landlord's contractor and such other contractor or any subcontractor of such other contractor shall employ any non-union labor or supplier, Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor unions concerning the wage, hours, terms or conditions of the employment of any such labor. In any event Tenant shall reimburse Landlord for all third-party costs actually incurred by Landlord in connection with the proposed work and the design thereof, with all such amounts being due five (5) days after Landlord's demand.

6.3 All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations, using Building standard materials where applicable, and Tenant shall, prior to construction, provide the additional insurance required under Article 11 in such case, and also all such assurances to Landlord as Landlord shall reasonably require to assure payment of the costs thereof and to protect Landlord and the Building and appurtenant land against any loss from any mechanic's, materialmen's or other liens. Tenant shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Landlord's election said sums shall be paid in the same way as sums due under Article 4. Landlord may, as a condition to its consent to any particular alterations or improvements, require Tenant to deposit with Landlord the amount reasonably estimated by Landlord as sufficient to cover the cost of removing such alterations or improvements and restoring the Premises, to the extent required under Section 26.2

7. **REPAIR.**

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in *Exhibit B* if attached to this Lease and except that Landlord shall repair and maintain in good condition and repair: (i) the utility lines serving the Premises from their point of connection to the Premises to the point at which the utility service provider is obligated to maintain the same; (ii) the exterior walls of the Building and the structural portions of the roof, foundation and walls of the Building; and (iii) the common areas serving the Building including, without limitation, the parking facilities, sidewalks and landscaping. The cost of any roof replacement shall be paid by Landlord and not passed through to Tenant as an Expense under Article 4 or otherwise. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, except for latent defects in Landlord's work and as set forth in the punch list to be delivered pursuant to Section 2.1. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for

an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

7.2 Except as otherwise provided in this Lease, Tenant shall at its own cost and expense keep and maintain all parts of the Premises and such portion of the Building and improvements as are within the exclusive control of Tenant in good condition, promptly making all necessary repairs and replacements, whether ordinary or extraordinary, with materials and workmanship of the same character, kind and quality as the original (including, but not limited to, repair and replacement of all fixtures installed by Tenant, water heaters serving the Premises, windows, glass and plate glass, doors, exterior stairs, skylights, any special office entries, interior walls and finish work, floors and floor coverings, heating and air conditioning systems serving the Premises, electrical systems and fixtures, sprinkler systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, and performance of regular removal of trash and debris). In the event that, pursuant to the foregoing, Tenant makes repairs (as opposed to routine maintenance as required by Section 7.4) to the heating, ventilating and air conditioning system which cost in excess of $1,000 at one time, upon any termination of the Lease (other than by reason of Tenant's default), Landlord shall reimburse Tenant for the unamortized cost of such repairs, based on a twenty year straight-line amortization. Tenant as part of its obligations hereunder shall keep the Premises in a clean and sanitary condition. Tenant will, as far as possible keep all such parts of the Premises from deterioration due to ordinary wear and from falling temporarily out of repair, and upon termination or this Lease in any way Tenant will yield up the Premises to Landlord in good condition and repair, loss by fire or other casualty excepted (but not excepting any damage to glass). Subject to the provisions of Articles 12 and 22, Tenant shall, at its own cost and expense, repair any damage to the Premises or the Building resulting from and/or caused in whole or in part by the negligence or misconduct of Tenant, its agents, employees, contractors, invitees, or any other person entering upon the Premises as a result of Tenant's business activities or caused by Tenant's default hereunder.

7.3 Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Except to the extent, if any, prohibited by law, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect.

7.4 Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor approved by Landlord for servicing all heating and air conditioning systems and equipment serving the Premises (and a copy thereof shall be furnished to Landlord). The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual and must become effective within thirty (30) days of the date Tenant takes possession of the Premises. Should Tenant fail to do so, Landlord may, upon notice to Tenant, enter into such a maintenance/ service contract on behalf of Tenant or perform the work and in either case, charge Tenant the cost thereof along with a reasonable amount for Landlord's overhead.

7.5 Landlord shall coordinate any repairs and other maintenance of any railroad tracks serving the Building and, if Tenant uses such rail tracks, Tenant shall reimburse Landlord or the railroad company from time to time upon demand, as additional rent, for its share of the costs of such repair and maintenance and for any other sums specified in any agreement to which Landlord or Tenant is a party respecting such tracks, such costs to be borne proportionately by all tenants in the Building using such rail tracks, based upon the actual number of rail cars shipped and received by such tenant during each calendar year during the Term.

8. **LIENS.** Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant fails, within sixty (60) days following the imposition of any such lien, to either cause the same to be released of record or provide Landlord with insurance against the same issued by a major title insurance company or such other protection against the same as Landlord shall accept (such failure to constitute an Event of Default), Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be payable to it by Tenant within five (5) days Landlord's demand.

9. **ASSIGNMENT AND SUBLETTING.**

9.1 Except as otherwise provided in Section 9.7, Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than the Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed, and said restrictions shall be binding upon any and all assignees of the Lease and subtenants of the Premises. In the event Tenant desires to sublet, or permit such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least thirty (30) days but not more than one hundred twenty (120) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment and copies of financial reports and other relevant financial information of the proposed subtenant or assignee.

9.2 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

9.3 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting or assignment, to terminate this Lease, or in the case of a proposed subletting of less than the entire Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting or assignment is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice given by Landlord to Tenant within twenty (20) days following Landlord's receipt of Tenant's written notice as required above. However, if Tenant notifies Landlord, within ten (10) days after receipt of Landlord's termination notice, that Tenant is rescinding its proposed assignment or sublease, the termination notice shall be void and the Lease shall continue in full force and effect. If this Lease shall be terminated with respect to the entire Premises pursuant to this Section, the Term of this Lease shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. If Landlord recaptures under this Section only a portion of the Premises, the rent to be paid from time to time during the unexpired

Term shall abate proportionately based on the proportion by which the approximate square footage of the remaining portion of the Premises shall be less than that of the Premises as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation which may be due and owing to any broker employed by Tenant

for such proposed assignment or subletting, whether or not the Premises are recaptured pursuant to this Section 9.3 and rented by Landlord to the proposed tenant or any other tenant.

9.4 In the event that Tenant sells, sublets, assigns or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to fifty percent (50%) of any Increased Rent (as defined below), less the Costs Component (as defined below), when and as such Increased Rent is received by Tenant. As used in this Section, "Increased Rent" shall mean the excess of (i) all rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. The "Costs Component" is that amount which, if paid monthly, would fully amortize on a straight-line basis, over the entire period for which Tenant is to receive Increased Rent, the reasonable costs incurred by Tenant for leasing commissions and tenant improvements in connection with such sublease, assignment or other transfer.

9.5 Notwithstanding any other provision hereof, it shall be considered reasonable for Landlord to withhold its consent to any assignment of this Lease or sublease of any portion of the Premises if at the time of either Tenant's notice of the proposed assignment or sublease or the proposed commencement date thereof, there shall exist any uncured Event of Default of Tenant or matter which will become an Event of Default of Tenant with passage of time unless cured, or if the proposed assignee or sublessee is an entity: (a) with which Landlord is already in negotiation; (b) is already an occupant of the Building unless Landlord is unable to provide the amount of space required by such occupant; (c) is a governmental agency; (d) whose character is incompatible with other tenants of the Building; (e) with which the payment for the sublease or assignment is determined in whole or in part based upon its net income or profits; or (f) would subject the Premises to a use which would: (i) involve increased personnel or wear upon the Building; (ii) violate any exclusive right granted to another tenant of the Building; (iii) require any addition to or modification of the Premises or the Building in order to comply with building code or other governmental requirements; or, (iv) involve a violation of Section 1.2. Tenant expressly agrees that for the purposes of any statutory or other requirements of reasonableness on the part of Landlord, Landlord's refusal to consent to any assignment or sublease for any of the reasons described in this Section 9.5, shall be conclusively deemed to be reasonable.

9.6 Upon any request to assign or sublet, Tenant will pay to Landlord the Assignment/Subletting Fee plus, on demand, a sum equal to all of Landlord's reasonable attorney's fees, incurred in considering any proposed or purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article 9 shall be void.

9.7 Notwithstanding the foregoing provisions of this Article to the contrary, Tenant shall be permitted to assign this Lease, or sublet all or a portion of the Premises, to: (i) an Affiliate (as hereinafter defined) of Tenant; or (ii) any entity resulting from the merger or consolidation with Tenant; or (iii) any entity that acquires all or substantially all of Tenant's assets without the prior consent of Landlord and without the operation of Sections 9.3, 9.4 or 9.6, if all of the following conditions are first satisfied:

9.7.1 There shall not be an Event of Default existing under the Lease;

9.7.2 a fully executed copy of such assignment or sublease, the assumption of this Lease by the assignee or acceptance of the sublease by the sublessee, and such other information regarding the assignment or sublease as Landlord may reasonably request, shall have been delivered to Landlord;

9.7.3 in the case of a merger or consolidation, the successor corporation shall have a net worth greater or equal to the net worth of Tenant, either at the time of the execution of this Lease or at the time of the assignment, which is greater.

9.7.4 Tenant acknowledges (and, at Landlord's request, at the time of such assignment or subletting shall confirm) that in each instance Tenant shall remain liable for the performance of the terms and conditions of the Lease despite such assignment or subletting.

9.7.5 As used herein the term "Affiliate" shall mean an entity which (i) directly or indirectly controls Tenant or (ii) is under the direct or indirect control of Tenant or (iii) is under common direct or indirect control with Tenant. Control shall mean ownership of fifty percent (50%) or more of the voting securities or rights of the controlled entity, or the power to direct the decisions of the controlled entity.

10. **INDEMNIFICATION.** None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Subject to the provisions of Article 12 which shall override the provisions of this sentence, Tenant shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and reasonable attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant or any Tenant Entity to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. Subject to the provisions of Article 12 which shall override the provisions of this sentence, Landlord shall protect, indemnify and hold the Landlord Entities harmless from any and all loss, claims, liability or costs (including court costs and reasonable attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any negligence or willful misconduct by or of Landlord or any Landlord Entity; (b) any breach or default on the part of Landlord in the performance of any covenant or agreement on the part of the Landlord to be performed pursuant to this Lease. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

11. **INSURANCE.**

11.1 Tenant shall keep in force throughout the Term: (a) a Commercial General Liability insurance policy or policies to protect the Landlord Entities against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than $1,000,000 per occurrence and not less than $2,000,000 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury and property damage liability and $1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than $1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute; (d) Employers Liability with limits of

$1,000,000 each accident, $1,000,000 disease policy limit, $1,000,000 disease—each employee; (e) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations, additions, improvements, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement value of the property so insured, (f) Business Interruption Insurance for 100% of the 12 months actual loss sustained, and (g) Excess Liability in the amount of $5,000,000.

11.2 The aforesaid policies shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds (General Liability) (Property—Special Form); (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be canceled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; a certificate of Liability insurance on Accord Form 25 and a certificate of Property insurance on Accord Form 27 shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work, without limitation including liability under any applicable structural work act, and such other insurance as Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

11.4 Landlord shall keep in force throughout the Term Commercial General Liability Insurance and All Risk or Special Form coverage insuring the Landlord and the Building, in such amounts and with such deductibles as Landlord determines from time to time in accordance with sound and reasonable risk management principles. The cost of all such insurance is included in Expenses.

12. **WAIVER OF SUBROGATION.** Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured (or required to be insured pursuant to Article 11) by fire, extended coverage, All Risks or other insurance now or hereafter existing for the benefit of the respective party but only to the extent of the net insurance proceeds payable under such policies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. **SERVICES AND UTILITIES.** Commencing on the Rent Commencement Date, Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler system charges and other utilities and services used on or from the Premises, together with any taxes, penalties, and surcharges or the like pertaining thereto and any maintenance charges for utilities. Tenant shall furnish all electric light bulbs, tubes and ballasts, battery packs for emergency lighting and fire extinguishers. If any such services are not separately metered to Tenant, Tenant shall pay such proportion of all charges jointly metered with other premises as determined by Landlord, in its sole discretion, to be reasonable. Any such charges paid by Landlord and assessed against Tenant shall be immediately payable to Landlord on demand and shall be additional rent hereunder. Tenant will not, without the written consent of Landlord, contract with a utility provider to service the Premises with any utility, including, but not limited to, telecommunications, electricity, water, sewer or gas, which is not previously providing such service to other tenants in the Building. Landlord shall in no event be liable for any interruption or failure of utility services on or to the Premises.

14. **HOLDING OVER.** Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("Holdover Rate") which shall be One Hundred Twenty-Five Percent (125%) of the greater of (a) the amount of the Annual Rent for the last period prior to the date of such termination plus all Rent Adjustments under Article 4; and (b) the then market rental value of the Premises as determined by Landlord assuming a new lease of the Premises of the then usual duration and other terms, in either case, prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such

retention. If Landlord gives notice to Tenant of Landlord's election to such effect, and such holding over shall constitute renewal of this Lease for a period from month to month at the Holdover Rate, but if the Landlord does not so elect, no such renewal shall result notwithstanding acceptance by Landlord of any sums due hereunder after such termination; and instead, a tenancy at sufferance at the Holdover Rate shall be deemed to have been created. In any event, no provision of this Article 14 shall be deemed to waive Landlord's right of reentry or any other right under this Lease or at law.

15. **SUBORDINATION.** Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument; provided, further, that no such subordination of this Lease shall be effective until such time as the mortgagee delivers a commercially reasonable non-disturbance agreement to Tenant. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver within ten (10) days of Landlord's request such further instruments evidencing such subordination or superiority of this Lease as may be required by Landlord.

16. **RULES AND REGULATIONS.** Tenant shall faithfully observe and comply with all the rules and regulations as set forth in *Exhibit D* to this Lease and all reasonable and non-discriminatory modifications of and additions to them from time to time put into effect by Landlord. Landlord shall not be responsible to Tenant for the non- performance by any other tenant or occupant of the Building of any such rules and regulations. These rules and regulations are in addition to, and shall not be construed in any way to modify, alter or amend, in whole or in part, the terms, covenants, agreements and conditions of this Lease. If there is any irreconcilable conflict between the terms of the Lease and the rules and regulations, the terms of the Lease shall control.

17. **REENTRY BY LANDLORD.**

17.1 Landlord reserves and shall at all times have the right, upon reasonable notice and at reasonable times, to re-enter the Premises to inspect the same, to show said Premises to prospective purchasers, mortgagees or tenants, and to alter, improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonably. Landlord shall have the right at any time to change the name, number or designation by which the Building is commonly known. In the event that Landlord damages any portion of any wall or wall covering, ceiling, or floor or floor covering within the Premises, Landlord shall repair or replace the damaged portion to match the original as nearly as commercially reasonable but shall not be required to repair or replace more than the portion actually damaged. Tenant hereby waives any clam for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned by any action of Landlord authorized by this Article 17.

17.2 For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain entry to any portion of the Premises. As to any portion to which access cannot be had by means of a key or keys in Landlord's possession, Landlord is authorized to gain access by such means as Landlord shall elect and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord within five (5) days of Landlord's demand.

18. **DEFAULT.**

18.1 Except as otherwise provided in Article 20, the following events shall be deemed to be Events of Default under this Lease:

18.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of five (5) days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve (12) month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord under this Lease during such period shall be an Event of Default, without notice.

18.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant provided, however, that such failure shall not be an event of default if such failure could not reasonably be cured during such twenty (20) day period, Tenant has commenced the cure within such twenty (20) day period and thereafter is diligently pursuing such cure to completion, but the total aggregate cure period shall not exceed ninety (90) days.

18.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

18.1.4 Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

19. **REMEDIES.**

19.1 Except as otherwise provided in Article 20, upon the occurrence of any of the Events of Default described or referred to in Article 18, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, concurrently or consecutively and not alternatively:

19.1.1 Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only, without terminating the Lease.

19.1.2 Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any termination of Tenant's right to possession without termination of Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free license to enter into and upon the Premises in such event and to repossess Landlord of the Premises as of Landlord's former estate

and to expel or remove Tenant and any others who may be occupying or be within the Premises and to remove Tenant's signs and other evidence of tenancy and all other property of Tenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Tenant waiving any right to claim damages for such re-entry and expulsion, and without relinquishing Landlord's right to rent or any other right given to Landlord under this Lease or by operation of law.

19.1.3 Upon any termination of this Lease, whether by lapse of time or otherwise, Landlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Lease, and other sums due and payable by Tenant on the date of termination, plus as liquidated damages and not as a penalty, an amount equal to the sum of: (a) an amount equal to the then present value of the rent reserved in this Lease for the residue of the stated Term of this Lease including any amounts treated as additional rent under this Lease and all other sums provided in this Lease to be

paid by Tenant, minus the fair value of the Premises for such residue; and (b) the expenses described in Section 19.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself.

19.1.4 Upon any termination of Tenant's right to possession only without termination of the Lease:

19.1.4.1 Neither such termination of Tenant's right to possession nor Landlord's taking and holding possession thereof as provided in Section 19.1.2 shall terminate the Lease or release Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent, under this Lease for the full Term, and if Landlord so elects Tenant shall continue to pay to Landlord the entire amount of the rent as and when it becomes due, including any amounts treated as additional rent under this Lease, for the remainder of the Term plus any other sums provided in this Lease to be paid by Tenant for the remainder of the Term.

19.1.4.2 Landlord shall use commercially reasonable efforts to relet the Premises or portions thereof. Landlord and Tenant agree that nevertheless Landlord shall at most be required to use only the same efforts Landlord then uses to lease premises in the Building generally and that in any case that Landlord shall not be required to give any preference or priority to the showing or leasing of the Premises or portions thereof over any other space that Landlord may be leasing or have available and may place a suitable prospective tenant in any such other space regardless of when such other space becomes available and that Landlord shall have the right to relet the Premises for a greater or lesser term than that remaining under this Lease, the right to relet only a portion of the Premises, or a portion of the Premises or the entire Premises as a part of a larger area, and the right to change the character or use of the Premises. In connection with or in preparation for any reletting, Landlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and redecorate the same to the extent Landlord deems necessary or desirable, and Tenant shall pay the cost thereof together with Landlord's reasonable expenses of reletting, including, without limitation, any commission incurred by Landlord, within five (5) days of Landlord's demand. Landlord shall not be required to observe any instruction given by Tenant about any reletting or accept any tenant offered by Tenant unless such offered tenant has a credit-worthiness acceptable to Landlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Landlord for tenant improvements, broker's commissions and other leasing costs) all no less favorable to Landlord than as called for in this Lease, nor shall Landlord be required to make or permit any assignment or sublease for more than the current term or which Landlord would not be required to permit under the provisions of Article 9.

19.1.4.3 Until such time as Landlord shall elect to terminate the Lease and shall thereupon be entitled to recover the amounts specified in such case in Section 19.1.3, Tenant shall pay to Landlord upon demand the full amount of all rent, including any amounts treated as additional rent under this Lease and other sums reserved in this Lease for the remaining Term, together with the costs of repairs, alterations, additions, redecorating and Landlord's expenses of reletting and the collection of the rent accruing therefrom (including reasonable attorney's fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Landlord may have received from any reletting of the Premises; and Tenant agrees that Landlord may file suits from time to time to recover any sums falling due under this Article 19 as they become due. Any proceeds of reletting by Landlord in excess of the amount then owed by Tenant to Landlord from time to time shall be credited against Tenant's future obligations under this Lease but shall not otherwise be refunded to Tenant or inure to Tenant's benefit.

19.2 Upon the occurrence of an Event of Default, Landlord may (but shall not be obligated to) cure such default at Tenant's sole expense. Without limiting the generality of the foregoing, Landlord may, at Landlord's option, enter into and upon the Premises if Landlord determines in its sole discretion that Tenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Tenant is responsible under this Lease or to otherwise effect compliance with its obligations under this Lease and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom and Tenant agrees to reimburse Landlord within five (5) days of Landlord's demand as additional rent, for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, plus interest from the date for expenditure by Landlord at the Wall Street Journal prime rate.

19.3 If, on account of any breach or default by either party in its obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for the other party to employ or consult with an attorney or collection agency concerning or to enforce or defend any of its rights or remedies arising under this Lease or to collect any sums due, the defaulting party agrees to pay all costs and fees so incurred by the non-defaulting party, including, without limitation, reasonable attorneys' fees and costs. **TENANT EXPRESSLY WAIVES ANY RIGHT TO: (A) TRIAL BY JURY; AND (B) SERVICE OF ANY NOTICE REQUIRED BY ANY PRESENT OR FUTURE LAW OR ORDINANCE APPLICABLE TO LANDLORDS OR TENANTS BUT NOT REQUIRED BY THE TERMS OF THIS LEASE.**

19.4 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or waiver of any rent due to Landlord under this Lease or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

19.5 No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid, unless in writing signed by Landlord. No waiver by Landlord or Tenant of any violation or breach of any of the terms, provisions and covenants contained in this Lease shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord or Tenant in enforcing one or more of the remedies provided in this Lease shall not be deemed or construed to constitute a waiver of such right to enforce any such remedies with respect to such default or any subsequent default.

19.6 Any and all property which may be removed from the Premises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of Landlord but at the risk, cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in Landlord's possession or under Landlord's control. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant.

19.7 If more than two (2) Events of Default occur during the last year of the Term or any renewal thereof, Tenant's renewal options shall be null and void.

20. **TENANT'S BANKRUPTCY OR INSOLVENCY.**

20.1 If at any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "Debtor's Law"):

20.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant's assets (each a "Tenant's Representative") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the generality of the foregoing, any right of any Tenant's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

20.1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant under this Lease.

20.1.1.2 Tenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three (3) months' rent and other monetary charges accruing under this Lease; and (b) any sum specified in Article 5; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation, such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfill the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenant's obligations under this Lease.

20.1.1.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound.

20.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

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21. **QUIET ENJOYMENT.** Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation, subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

22. **CASUALTY**

22.1 In the event the Premises or the Building are damaged by fire or other cause and in Landlord's reasonable estimation such damage can be materially restored within one hundred eighty (180) days, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord shall notify Tenant, in writing, of Landlord's reasonable estimation of the length of time within which material restoration can be made, and Landlord's determination shall be binding on Tenant. For purposes of this Lease, the Building or Premises shall be deemed "materially restored" if they are in such condition as would not prevent or materially interfere with Tenant's use of the Premises for the purpose for which it was being used immediately before such damage.

22.2 If such repairs cannot, in Landlord's reasonable estimation, be made within one hundred eighty (180) days, Landlord and Tenant shall each have the option of giving the other, at any time within ninety (90) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 22.1.

22.3 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises by, or belonging to, Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

22.4 In the event that Landlord should fail to complete such repairs and material restoration within sixty (60) days after the date estimated by Landlord therefor as extended by this Section 22.4, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, within thirty (30) days after the expiration of said period of time, whereupon the Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed.

22.5 Notwithstanding anything to the contrary contained in this Article: (a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article 22, occur during the last twelve (12) months of the Term or any extension thereof, but if Landlord determines not to repair such damages Landlord shall notify Tenant and if such damages shall render any material portion of the

Premises untenantable Tenant shall have the right to terminate this Lease by notice to Landlord within fifteen (15) days after receipt of Landlord's notice; and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the Term.

22.6 In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article 22, it shall be the Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith, at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

23. **EMINENT DOMAIN.** If all or any substantial part of the Premises or the parking or loading dock facilities shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice terminating this Lease, except that Tenant may only terminate this Lease by reason of taking or appropriation, if such taking or appropriation shall be so substantial as to materially interfere with Tenant's use and occupancy of the Premises. If neither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. In addition to the rights of Landlord above, if any substantial part of the Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord shall be entitled to any and all income, rent, award, or any interest whatsoever in or upon any such sum, which may be paid or made in connection with any such public or quasi-public use or purpose, and Tenant hereby assigns to Landlord any interest it may have in or claim to all or any part of such sums, other than any separate award which may be made with respect to Tenant's trade fixtures and moving expenses; Tenant shall make no claim for the value of any unexpired Term.

24. **SALE BY LANDLORD.** In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in this Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 24, this Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

25. **ESTOPPEL CERTIFICATES.** Within ten (10) days following any written request which either party may make from time to time, the other party shall execute and deliver to the requesting party or its mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) the fact that the certifying party has no knowledge of any current defaults under this Lease by either Landlord or Tenant except as specified in the statement; and (e) such other matters as may be reasonably requested. Landlord and Tenant intend that any statement delivered pursuant to this Article 25 may be relied upon by any mortgagee, beneficiary or purchaser, and the certifying party shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate.

26. **SURRENDER OF PREMISES.**

26.1 Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than forty-eight (48) hours after Tenant has vacated the Premises. In the event of Tenant's failure to arrange such joint inspections and/or participate in either such inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

26.2 All alterations, additions, and improvements in, on, or to the Premises made or installed by or for Tenant, including carpeting (collectively, "Alterations"), shall be and remain the property of Tenant during the Term. Upon the expiration or sooner termination of the Term, all Alterations shall become a part of the realty and shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at the time Landlord approves such Alterations or, if Landlord's approval was not required, at least sixty (60) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove Tenant's sole cost, remove upon termination of this Lease, any and all of Tenant's furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures and personal property (collectively, "Personalty"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damaged caused by such removal.

26.3 All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as estimated by Landlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any otherwise unused Security Deposit shall be credited against the amount payable by Tenant under this Lease.

27. **NOTICES.** Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, by fully prepaid registered or certified United States Mail return receipt requested, or by reputable independent contract delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Pages, or at such other address as it has then last specified by written notice delivered in accordance with this Article 27, or if to Tenant at either its aforesaid address or its last known registered office or home of a general partner or individual owner, whether or not actually accepted or received by the addressee. Any such notice or document may also be personally delivered if a receipt is signed by and received from, the individual, if any, named in Tenant's Notice Address.

28. **TAXES PAYABLE BY TENANT.** In addition to rent and other charges to be paid by Tenant under this Lease, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than net income taxes) whether or not now customary or within the contemplation of the parties to this Lease: (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any gross income tax or excise tax levied by the State,

any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

29. **EXPANSION OPTION.** Provided Tenant is not then in default under the terms, convenants and conditions of the Lease, Tenant shall have the right to lease any leaseable portion of the Building outside the Premises (the "Expansion Premises") at such time as the Expansion Premises is vacated by the prior tenant and its lease terminates. In such event, Landlord shall give written notice to Tenant of the availability of the Expansion Space and the terms and conditions on which Landlord intends to offer it to the public and Tenant shall have a period of twenty (20) days in which to exercise Tenant's right to lease the Expansion Premises pursuant to the terms and conditions contained in Landlord's notice, failing which Landlord may lease the Expansion Premises to any third party on whatever basis Landlord desires, and Tenant shall have no further rights with respect to the Expansion Premises. If Tenant exercises an expansion option hereunder, effective as of the date Landlord delivers the Expansion Premises (the "Delivery Date"), the Expansion Premises shall automatically be included within the Premises and subject to all the terms and conditions of the Lease, except as set forth in Landlord's notice and as follows: (i) Tenant's Proportionate Share shall be recalculated, using the total square footage of the Premises, as increased by the Expansion Premises; and (ii) the Expansion Premises shall be leased on an "as is" basis and Landlord shall have no obligation to improve the Expansion Premises or grant Tenant any improvement allowance thereon.

30. **DEFINED TERMS AND HEADINGS.** The Article headings shown in this Lease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "Landlord Entities", being Landlord, Landlord's investment manager, and the trustees, boards of directors, officers, general partners, beneficiaries, stockholders, employees and agents or each of them. Any option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The terms "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. The term "rentable area" shall mean the rentable area of the Premises or the Building as calculated by the Landlord on the basis of the plans and specifications of the Building including a proportionate share of any common areas. Landlord and Tenant hereby accept and agree to be bound by the figures for the rentable space footage of the Premises and Tenant's Proportionate Share shown on the Reference Pages. The term "Building" refers to the structure in which the Premises are located and the common areas (parking lots, sidewalks, landscaping, etc.) appurtenant thereto. If the Building is part of a larger complex of structures, the term "Building" may include the entire complex, where appropriate (such as shared Expenses or Taxes) and subject to Landlord's reasonable discretion.

31. **TENANT'S AUTHORITY.** If Tenant signs as a corporation, partnership, trust or other legal entity each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in which the Building is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were

authorized to do so by appropriate actions. Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

32. **FINANCIAL STATEMENTS AND CREDIT REPORTS.** At Landlord's request, Tenant shall deliver to Landlord a copy, certified by an officer of Tenant as being a true and correct copy, of Tenant's most recent audited financial statement, or, if unaudited, certified by Tenant's chief financial officer as being true, complete and correct in all material respects. Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

33. **COMMISSIONS.** Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Pages.

34. **TIME AND APPLICABLE LAW.** Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located.

35. **SUCCESSORS AND ASSIGNS.** Subject to the provisions of Article 9, the terms, convenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

36. **ENTIRE AGREEMENT.** This Lease, together with its exhibits, contains all agreements of the parties to this Lease and supersedes any previous negotiations. There have been no representations made by the Landlord or any of its representatives or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties to this Lease.

37. **EXAMINATION NOT OPTION.** Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord, and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord the Security Deposit and any sum owed pursuant to this Lease.

38. **RECORDATION.** Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident such recording or registration.

39. **LIMITATION OF LANDLORD'S LIABILITY.** Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Building and any proceeds of insurance arising therefrom. The obligations of Landlord under this Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its or its investment manager's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequential damages. The provision contained in the foregoing sentence is not intended to, and shall

not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successors in interest.

LANDLORD:		**TENANT:**	
Cabot Industrial Properties, L.P., a Delaware limited partnership		**Quanex Corporation,** a Delaware corporation	
By:	Cabot Industrial Trust, a Maryland real estate investment trust and its General Partner		
By:	RREEF America, L.L.C., a Delaware limited liability company, its agent		
By:	/s/ STEPHEN P. VALLARELLI	By:	/s/ JAMES W. GULLIFORD
Name:	Stephen P. Vallarelli	Name:	James W. Gulliford
Title:	Vice President	Title:	President E.P. Div/Quanex
Dated:	August 30, 2002	Dated:	,2002

EXHIBIT A—FLOOR PLAN DEPICTING THE PREMISES

attached to and made a part of Lease bearing the Lease Reference Date of August 28, 2002 between Cabot Industrial Properties, L.P., as Landlord and Quanex Corporation, as Tenant

Exhibit A is intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord's rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled, any measurements or distances shown should be taken as approximate.

[GRAPHIC]

[FLOOR PLAN]

EXHIBIT A-1—SITE PLAN

attached to and made a part of Lease bearing the Lease Reference Date of August 28, 2002 between Cabot Industrial Properties, L.P., as Landlord and Quanex Corporation, as Tenant

[GRAPHIC]

[FLOOR PLAN]

EXHIBIT B—INITIAL ALTERATIONS

attached to and made a part of Lease bearing the Lease Reference Date of August 28, 2002 between Cabot Industrial Properties, L.P., as Landlord and Quanex Corporation, as Tenant

1. *Landlord's Work.* Landlord shall deliver the Premises to Tenant "as is, where is" with no improvements, repairs or alterations, except for the following, which will be completed at Landlord's sole cost and expense ("Landlord's Work"): (i) if required by applicable governmental authority or Tenant's insurance carrier, Landlord shall upgrade the sprinkler system in the Premises to meet such standards; (ii) Landlord shall make any alterations necessary so that the Premises comply with the Americans with Disabilities Act as of the delivery of the Premises to Tenant; (iii) Landlord shall promptly repair or replace any mechanical or plumbing systems which are not in good working order as of the Commencement Date (as determined by a contractor selected by Landlord and approved by Tenant); (iv) Landlord shall demolish the existing improvements in the GSA Space to make such space comparable to the condition of the remainder of the Premises in accordance with Schedule I attached hereto; and (v) Landlord shall remove all of the equipment which is currently being stored in the Premises. Landlord shall deliver the Premises to Tenant in a condition which is in compliance with all applicable fire and safety codes, including the replacement, if necessary, of windows between the office portion and the warehouse portion (as opposed to removing the windows entirely). Tenant acknowledges that it has inspected the Premises and agrees to accept the Premises in its existing condition and that, with the exception of Landlord's Work, Landlord shall have no obligation to construct any improvements therein.

2. *Plans and Specifications.*

2.1 Tenant has furnished Landlord with architectural and design plans and specifications (the "Tenant's Plans") pertaining to the construction work which Tenant intends to perform in the Premises in connection with Tenant's initial occupancy (the "Work") prepared by Jafvert Mueller Architects and dated , 2002, which Landlord has approved.

2.2 Tenant shall not in any way modify, revise or change such Plans without the prior written consent of Landlord, which shall not be unreasonably withheld or conditioned. If Landlord approves such request, the entire cost of such change, including the cost of revising Tenant's Plans or preparing new plans, shall be borne by Tenant and any delay occasioned thereby shall not delay the Commencement Date.

2.3 Except for such matters, if any, as shall have been required by Landlord and not requested by Tenant, it shall be Tenant's responsibility that the Plans comply with all applicable governmental and municipal codes and regulations and to procure and deliver to Landlord upon request all such licenses, permits and approvals from all governmental authorities as are necessary to permit the Work to be commenced and continued to completion and the so constructed Premises to be occupied.

3. *Cost Estimates.* Prior to commencing any of the Work, Tenant shall submit to Landlord a written estimate of the costs of the Work, based upon competitive bids or a fixed-price contract.

4. *Contracts and Contractors for the Work.* Tenant shall make all such contracts and arrangements as shall be necessary or desirable for the construction and installation of the Work. Tenant agrees to retain contractors, subcontractors and materialmen who are of good reputation and experienced in and favorably known for the construction of space comparable to the Premises in the metropolitan area where the Building is located and that are properly licensed for the work they are to perform. Tenant shall provide Landlord with a list of all contractors, subcontractors and materialmen to be utilized by or for Tenant with respect to the Work and provide true, correct and complete copies of all contracts relating to the Work. Such contractors, subcontractors, materialmen and contracts must be satisfactory to Landlord in Landlord's reasonable discretion, and shall not be employed or executed, as the case may be, without Landlord's written approval first obtained. Tenant and Tenant's contractors shall use qualified craftsmen and laborers who are compatible with the trade unions operating in the Building (if any) and Tenant shall take promptly upon Landlord's demand all measures necessary to avoid labor unrest in the Premises and in the Building which is caused by Tenant or Tenant's

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contractors. Tenant shall cause all contractors to procure performance bonds and shall provide Landlord with evidence thereof.

5. *Construction.* Promptly upon Landlord's approval of the Plans, Tenant shall apply for, and supply to Landlord upon issuance, a building permit and any other required governmental permits, licenses or approvals. Upon issuance of such approvals, Tenant shall commence the Work and shall diligently prosecute the Work to completion. Tenant agrees to complete the Work on or before the Rent Commencement Date. Tenant agrees to cause the Work to be constructed in a good and workmanlike manner using first-class quality materials, at its sole cost and expense in accordance with the provisions of the Lease. Upon completion of the Work, Tenant shall provide to Landlord: (i) an architect's certificate of final completion; (ii) copies of all necessary governmental permits, including, but not limited to, a certificate of occupancy; (iii) the sworn statement of the general contractor; (iv) final lien waivers from all contractors, subcontractors and materialmen; and (v) any other information or documentation reasonably requested by Landlord to evidence lien-free completion of construction and payment of all of the cost thereof. Landlord shall have the right to observe the performance of the Work and Tenant shall take all such actions with respect thereto as Landlord may, in its good faith determination, deem advisable from time to time to assure that the Work and the manner of performance thereof shall not be injurious to the engineering and construction of the Building or the electrical, plumbing, heating, mechanical, ventilating or air-conditioning systems of the Building and shall be in accordance with the Plans and the provisions of this Lease.

6. *Tenant Allowance.* Provided the Lease is in full force and effect and Tenant is not in default thereunder, Landlord hereby agrees to pay to Tenant toward the cost of the Work an amount equal to the lesser of: (i) the actual cost of the Work; or (ii) Two Hundred Sixty-Five Thousand Three Hundred Eleven Dollars ($265,311.00) (the "Allowance"). At Tenant's request, Landlord shall pay the Allowance in monthly draws, contingent upon the satisfaction of each of the following conditions as of the time of such disbursement: (a) Landlord's reasonable satisfaction that the Work completed as of the date of such disbursement has an aggregate value at least equal to the aggregate amount of proceeds then to be disbursed plus the total amount thereof previously disbursed; and (b) receipt by Landlord and the title insurer of sworn statements, waivers of lien and other documents and assurances pertaining to the Work sufficient to protect Landlord against mechanics' and other liens (except that Landlord agrees that on interim draws no current lien waiver will be required from subcontractors as long as such subcontractors have provided lien waivers for all prior draws). Notwithstanding the foregoing, Landlord shall be entitled to withhold up to 10% of any draw request to be disbursed upon completion of the Work as assurance that the Work will be properly completed. Any final disbursement of the Allowance will also be conditioned upon Tenant's satisfaction of its obligations under Paragraph 5. If Landlord fails to disburse the Allowance or any part thereof within thirty (30) days of Tenant's fulfilling the requirements set forth above, and such failure continues for at least fifteen (15) days after a subsequent notice from Tenant requesting the Allowance, Tenant may offset the unpaid portion of the Allowance against any and all subsequent Rent payments due hereunder, until Tenant has offset a total amount equal to the amount owed to it.

7. *Miscellaneous*

7.1 All rights and remedies of Landlord herein created or otherwise existing at law or equity are cumulative, and the exercise of one or more such rights or remedies shall not be deemed to exclude or waive the right to the exercise of any other rights or remedies. All such rights and remedies may be exercised and enforced concurrently and whenever and as often as deemed desirable.

7.2 This Exhibit B shall not be deemed applicable to any additional space added to the original Premises at any time or from time to time, whether by any options under the Lease or otherwise, or to any portion of the original Premises or any additions thereto in the event of a renewal or extension of the original term of the Lease, whether by any options under the Lease or otherwise.

7.3 Tenant shall, before commencing any of the Work, and for so long as any Work shall continue, comply with the insurance requirements in *Schedule II*. In the event Tenant fails to so comply, Landlord shall have the option, but not the obligation to procure the required insurance and charge Tenant the cost of such compliance as additional rent.

SCHEDULE I

DESCRIPTION OF LANDLORD'S WORK

[GRAPHIC]

[PRODUCTION FLOOR PLAN]

SCHEDULE II

INSURANCE REQUIREMENTS

1. Tenant shall cause to be maintained for Landlord's benefit in an insurance company or companies which are "A" rated, Class VII or better in Best's Key Rating Guide or such lesser standard as shall be acceptable to Landlord and authorized to transact business in the state in which the Building is located, protecting Landlord against liabilities arising out of the operations of subcontractors and sub-subcontractors as well as Tenant's contractor ("Contractor") with respect to all the Work, including at least and in amounts not less than:

(a) Worker's Compensation & Employers Liability: Statutory limits required by applicable Worker's Compensation Law and $500,000 per occurrence for Employers Liability, without limitation including all liability arising under any applicable structural work act and any other statute for the protection of employees.

(b) Commercial or Comprehensive Liability including Landlord's and Contractor's Protective, products, and completed operations coverage, contractual liability including Contractor's indemnity agreements contained in the Contract Documents, personal injury (employees' exclusion deleted) $5,000,000 per occurrence Bodily Injury and Property Damage, $5,000,000 combined single limit. Landlord may require deletion of the 'x, c, u' exclusion, if applicable.

(c) Comprehensive Auto Liability including owned, non-owned, or hired vehicles coverage: $1,000,0000 per occurrence Bodily Injury and Property Damage Liability (Combined Single Limit).

(d) Builder's Risk in an "all risk" form covering the Tenant Work against loss by fire and other casualty in an amount equal to the full insurable value of the Tenant Work.

Notwithstanding the foregoing, upon Tenant's request Landlord shall provide the coverages set forth in subparagraph (d) above and Tenant shall reimburse Landlord for the actual cost thereof.

2. Contractor shall either have the Landlord added as an additional named insured to the preceding Commercial or Comprehensive General Liability insurance policy or shall supply a separate Landlord's Protective policy, with limits as specified, naming the Landlord as named insured, and said General Liability or Landlord's Protective policy shall be maintained in force until the completion of the Work.

3. Each insurance policy shall be written to cover all claims arising out of occurrences taking place within the period of coverage; insurance written to cover only claims made within the policy period is not acceptable without the express advance written consent of Landlord. To the extent the policy is not a Landlord's Protective policy, it shall be endorsed to indicate that it is primary as respects Landlord, not contributory with any other insurance available to the Landlord and not subject to reduction of coverage as to Landlord by reason of any claim asserted against Contractor other than in connection with the Work or by reason of any misstatement, act or omission of any party other than Landlord applying for or insured by such insurance.

4. Each insurance policy and any certificate furnished in lieu of a policy shall state that it will not be cancelled, reduced or materially changed without twenty (20) days' prior written notice to Landlord. In the event Tenant fails to provide replacement coverage at least fifteen (15) days prior to the expiration of any policy of insurance, Landlord may at its option secure such insurance and Tenant shall reimburse Landlord for the cost thereof as additional rent; but Landlord shall not have any obligation to secure any such insurance.

5. If and so long as any monies shall be or be about to be owed to any lender upon the security of an interest in the Premises or the Building, at Landlord's request any insurance required hereunder for Landlord's protection shall also protect Landlord's mortgagee and whenever Landlord is to be an additional insured, Landlord's mortgagee shall also be so insured.

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6. Each of the aforesaid insurance coverages shall be placed into effect before any of the Work is commenced and shall be maintained in force at all times while and for at least so long as any of the Work is carried on, including without limitation, any and all activities performed in fulfillment of any obligation of Contractor or any Subcontractor to correct defects in the Work or under any other warranty. Before commencing any of the Work, and as often thereafter as reasonably request by Landlord, Tenant shall supply Landlord with either the policies themselves or certificates of insurance satisfactory to Landlord, evidencing compliance with all the foregoing requirements.

7. No insurance policy purporting to insure Landlord or Landlord's lender, as the case may be, shall without the prior written consent of said party be so written as to limit or condition any of the insurer's obligations to said party with respect to any insured loss or liability by any condition or requirement that said party bear, assume or pay any portion of such loss or liability before the insurer's obligation to said party shall come into effect.

EXHIBIT C—COMMENCEMENT DATE MEMORANDUM

**attached to and made a part of Lease bearing the
Lease Reference Date of August 28, 2002 between
Cabot Industrial Properties, L.P., as Landlord and
Quanex Corporation, as Tenant**

COMMENCEMENT DATE MEMORANDUM

THIS MEMORANDUM, made as of _____, 20____, by and between _____ ("Landlord") and _____ ("Tenant").

A. Landlord and Tenant are parties to that certain Lease, dated for reference _____, 20____ (the "Lease") for certain premises (the "Premises") consisting of approximately _____ square feet at the building commonly known as _____.

B. Tenant is in possession of the Premises and the Term of the Lease has commenced.

C. Landlord and Tenant desire to enter into this Memorandum confirming the Commencement Date, the Termination Date and other matters under the Lease.

NOW, THEREFORE, Landlord and Tenant agree as follows:

1. The actual Commencement Date is _____.

2. The actual Termination Date is _____.

3. The schedule of the Annual Rent and the Monthly Installment of Rent set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

[insert rent schedule]

4. Capitalized terms not defined herein shall have the same meaning as set forth in the Lease.

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

LANDLORD:		**TENANT:**	
Cabot Industrial Properties, L.P.		Quanex Corporation	
By:	RREEF Management Company, a Delaware corporation		
By:	_____	By:	_____
Name:	_____	Name:	_____
Title:	_____	Title:	_____
Dated:	_____, 20____	Dated:	_____, 20____

EXHIBIT D — RULES AND REGULATIONS

**attached to and made a part of Lease bearing the
Lease Reference Date of August 28, 2002 between
Cabot Industrial Properties, L.P., as Landlord and
Quanex Corporation, as Tenant**

1. No sign, placard, picture, advertisement, name or notice (collectively referred to as "Signs") shall be installed or displayed on any part of the outside of the Building without the prior written consent of the Landlord which consent shall be in Landlord's sole discretion; provided that Tenant shall have the right to install signage identifying Tenant's business which is consistent with other signs at the Building. All approved Signs shall be printed, painted, affixed or inscribed at Tenant's expense by a person or vendor reasonably approved by Landlord and shall be removed by Tenant at Tenant's expense upon vacating the Premises. Landlord shall have the right to remove any Sign installed or displayed in violation of this rule at Tenant's expense and without notice.

2. If Landlord objects in writing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises or Building, Tenant shall immediately discontinue such use. No awning shall be permitted on any part of the Premises. Tenants shall not place anything or allow anything to be placed against or near any glass partitions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.

3. Tenant shall not alter any lock or other access device or install a new or additional lock or access device or bolt on any door of its Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys or other means of access to all doors.

4. If Tenant requires telephone, data, burglar alarm or similar service, the cost of purchasing, installing and maintaining such service shall be borne solely by Tenant. No boring or cutting for wires will be allowed without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Landlord shall direct electricians as to where and how telephone, data, and electrical wires are to be introduced or installed. The location of burglar alarms, telephones, call boxes or other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

5. Tenant shall not place a load upon any floor of its Premises, including mezzanine area, if any, which exceeds the load per square foot that such floor was designed to carry and that is allowed by law. Heavy objects shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

6. Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior walls of the Building without Landlord's prior written consent which consent shall be in Landlord's sole discretion. Landlord will permit Tenant to install a satellite dish on the roof for reception of Musak transmissions, pursuant to Landlord's standard license agreement.

7. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork, plaster or drywall (except for pictures and general office uses) or in any way deface the Premises or any part thereof. Tenant shall not affix any floor covering to the floor of the Premises or paint or seal any floors in any manner except as approved by Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall repair any damage resulting from noncompliance with this rule.

8. No cooking shall be done or permitted on the Premises, except that Underwriters' Laboratory approved microwave ovens or equipment for brewing coffee, tea, hot chocolate and similar beverages

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shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.

9. Forklifts which operate on asphalt areas shall only use tires that do not damage the asphalt.

10. Tenant shall not use the name of the Building or any photograph or other likeness of the Building in connection with or in promoting or advertising Tenant's business except that Tenant may include the Building name in Tenant's address. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.

11. All trash and refuse shall be contained in suitable receptacles at locations approved by Landlord. Tenant shall not place in the trash receptacles any personal trash or material that cannot be disposed of in the ordinary and customary manner of removing such trash without violation of any law or ordinance governing such disposal.

12. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governing authority.

13. Tenant assumes all responsibility for securing and protecting its Premises and its contents including keeping doors locked and other means of entry to the Premises closed.

14. No person shall go on the roof without Landlord's permission.

15. Tenant shall not permit any animals, other than seeing-eye dogs, to be brought or kept in or about the Premises or any common area of the property.

16. Tenant shall not permit any motor vehicles to be washed or mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or parking lot.

17. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building. Landlord may waive any one or more of these Rules and Regulations for the benefit of any tenant or tenants, and any such waiver by Landlord shall not be construed as a waiver of such Rules and Regulations for any or all tenants.

18. Landlord reserves the right to make such other and reasonable rules and regulations of general applicability to all tenants of the Building as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building and for the preservation of good order in and about the Building. Tenant agrees to abide by all such rules and regulations herein stated and any additional rules and regulations which are adopted. Tenant use reasonable efforts to cause the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

19. Any toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown into them. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.

20. Tenant shall not permit smoking or carrying of lighted cigarettes or cigars in areas reasonably designated by Landlord or any applicable governmental agencies as non-smoking areas.

21. Any directory of the Building or project of which the Building is a part ("Project Area"), if provided, will be exclusively for the display of the name and location of tenants only and Landlord reserves the right to charge for the use thereof and to exclude any other names.

22. Canvassing, soliciting, distribution of handbills or any other written material in the Building is prohibited and each tenant shall cooperate to prevent the same. No tenant shall solicit business from

other tenants or permit the sale of any goods or merchandise in the Building or Project Area without the written consent of Landlord.

23. Any equipment belonging to Tenant which causes noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to unreasonably interfere with any other tenants of the Building shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate the noise or vibration.

24. Driveways, sidewalks, halls, passages, exits, entrances and stairways ("Access Areas") shall not be obstructed by tenants or used by tenants for any purpose other than for ingress to and egress from their respective premises. Access areas are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgement of Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants.

25. Subject to Landlord's obligations under Section 1.4 of the Lease, Landlord reserves the right to reasonably designate the use of parking areas and spaces. Tenant shall not park in visitor, reserved, or unauthorized parking areas. Tenant and Tenant's guests shall park between designated parking lines only and shall not park motor vehicles in those areas designated by Landlord for loading and unloading. Vehicles in violation of the above shall be subject to being towed at the vehicle owner's expense. Vehicles parked overnight without prior written consent of the Landlord shall be deemed abandoned and shall be subject to being towed at vehicle owner's expense. Tenant will from time to time, upon the request of Landlord, supply Landlord with a list of license plate numbers of vehicles owned or operated by its employees or agents.

26. No trucks, tractors or similar vehicles can be parked anywhere other than in Tenant's own truck dock area. Tractor-trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the parking areas or on streets adjacent thereto.

27. During such periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow and loading and unloading areas of other tenants. All products, materials or goods must be stored within the Tenant's Premises and not in any exterior areas, including, but not limited to, exterior dock platforms, against the exterior of the Building, parking areas and driveway areas. Tenant agrees to keep the exterior of the Premises clean and free of nails, wood, pallets, packing materials, barrels and any other debris produced from their operation.

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EXHIBIT 21

SUBSIDIARIES OF QUANEX CORPORATION	JURISDICTION OF INCORPORATION
Piper Impact, 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 Technologies, Inc.	Delaware
Nichols Aluminum-Alabama, Inc.	Delaware
Colonial Craft, Inc.	Delaware
Quanex Two, Inc.	Delaware
Nichols Aluminum-Golden, Inc.	Delaware
Quanex Four, Inc.	Delaware
Quanex Six, Inc.	Delaware
Imperial Products, Inc.	Delaware
Temroc Metals, Inc.	Minnesota

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EXHIBIT 21

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EXHIBIT NO. 23

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, No. 333-89853, No. 333-66777 and No. 333-45624 of Quanex Corporation of our report dated November 22, 2002 appearing in this Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 2002.

/s/ Deloitte & Touche LLP

Houston, Texas
December 20, 2002

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INDEPENDENT AUDITORS' CONSENT

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Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Quanex Corporation (the "Company") on Form 10-K for the period ended October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry M. Murphy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TERRY M. MURPHY

Terry M. Murphy
Chief Financial Officer
December 20, 2002

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

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Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Annual Report of Quanex Corporation (the "Company") on Form 10-K for the period ended October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond A. Jean, Chief Executive Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RAYMOND A. JEAN

Raymond A. Jean
Chief Executive Officer
December 20, 2002

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934