

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**IMO INDUSTRIES INC**

CIK: **804151** | IRS No.: **210733751** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-09294** | Film No.: **98618069**  
SIC: **3560** General industrial machinery & equipment

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UNITED STATES

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the quarterly period ended April 3, 1998

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9294

Imo Industries Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

21-0733751  
(I.R.S. Employer  
Identification No.)

1009 Lenox Drive, Building Four West  
Lawrenceville, New Jersey  
(Address of principal executive offices)

08648  
(Zip code)

Registrant's telephone number, including area code 609-896-7600

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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$1.00 Par Value-- 17,127,859 shares as of April 30, 1998.

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### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements.

Imo Industries Inc. and Subsidiaries  
Consolidated Condensed Statements of Income  
(Dollars in thousands except per share amounts)

Quarter Ended

(Unaudited)		
Net Sales	\$83,031	\$ 78,927
Cost of products sold	56,286	54,299
-----		
Gross Profit	26,745	24,628
Selling, general and administrative expenses	15,199	17,365
Research and development expenses	1,456	1,340
Unusual item	---	12,900
-----		
Income (Loss) From Operations	10,090	(6,977)
Interest and other expense, net	5,937	6,779
-----		
Income (Loss) From Continuing Operations Before Income Taxes, Discontinued Operations and Extraordinary Item	4,153	(13,756)
Income tax expense	829	572
-----		
Income (Loss) From Continuing Operations	3,324	(14,328)
Income from Discontinued Operations	---	1,486
Extraordinary Item - Loss on Extinguishment of Debt	(5,603)	---
-----		
Net Income (Loss)	\$ (2,279)	\$ (12,842)
=====		
Earnings (Loss) per share, basic and diluted:		
Continuing operations	\$ 0.20	\$ (0.84)
Discontinued operations	---	0.09
Extraordinary item	(0.33)	---
-----		
Net income (loss)	\$ (0.13)	\$ (0.75)
=====		
Weighted average number of shares outstanding	17,127,859	17,125,047
=====		

The accompanying notes are an integral part of these consolidated

condensed financial statements.

\* Reclassified to conform to 1998 presentation. See Note C.

Imo Industries Inc. and Subsidiaries  
Consolidated Condensed Balance Sheets  
(Dollars in thousands except par value amounts)

	April 3, 1998	December 31, 1997
----- (Unaudited)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,158	\$ 3,528
Trade accounts and notes receivable, less allowance of \$1,408 in 1998 and \$1,435 in 1997	54,204	53,732
Inventories-net	65,302	64,888
Prepaid expenses and other current assets	12,938	17,656
-----		
Total Current Assets	134,602	139,804
Property, plant and equipment, net of accumulated depreciation of \$4,571 and \$3,202, respectively	61,684	61,409
Intangible assets, principally goodwill	223,034	233,054
Net assets of discontinued operations	35	14,927
Other assets	14,611	14,106
-----		
Total Assets	\$433,966	\$463,300
-----		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable and current portion of long-term debt	\$ 43,504	\$ 34,320
Trade accounts payable	21,348	22,750
Accrued expenses and other liabilities	65,758	64,065
-----		
Total Current Liabilities	130,610	121,135
Long-term debt	150,159	192,319
Other liabilities	65,572	59,599
-----		
Total Liabilities	346,341	373,053

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 SHAREHOLDERS' EQUITY

Preferred stock: \$1.00 par value; 5,000,000 shares authorized and unissued	---	---
Common stock: \$1.00 par value; 25,000,000 shares authorized; issued 17,127,859	17,128	17,128
Additional paid-in capital	106,805	106,805
Retained earnings (deficit)	(35,295)	(33,016)
Cumulative foreign currency translation adjustments	(1,013)	(670)
-----		
Total Shareholders' Equity	87,625	90,247
=====		
Total Liabilities and Shareholders' Equity	\$433,966	\$463,300
=====		

The accompanying notes are an integral part of these consolidated condensed financial statements.

Imo Industries Inc. and Subsidiaries  
 Consolidated Condensed Statements of Cash Flows  
 (Dollars in thousands)

Quarter Ended  
 April 3, 1998 March 31, 1997\*

-----		
(Unaudited)		
OPERATING ACTIVITIES		
Net income (loss)	\$ (2,279)	\$ (12,842)
Adjustments to reconcile net income (loss) to net cash provided by (used by) continuing operations:		
Discontinued operations	---	(1,486)
Depreciation and amortization	3,020	3,324
Extraordinary item	5,603	---
Unusual item	---	12,900
Other	16	271
Other changes in operating assets and liabilities:		
Increase in accounts and notes receivable	(504)	(5,129)
Increase in inventories	(414)	(1,756)
(Decrease) increase in accounts payable and accrued expenses	(2,862)	3,715
Other operating assets and liabilities	6,232	(3,578)

Net cash provided by (used by) continuing operations	8,812	(4,581)
Net cash (used by) provided by discontinued operations	(920)	1,080

Net Cash Provided by (Used by) Operating Activities	7,892	(3,501)
---	-------	---------

INVESTING ACTIVITIES

Purchases of property, plant and equipment	(2,058)	(1,912)
Proceeds from sale of business and property, plant and equipment	30,735	264
Net cash used by discontinued operations	(1,164)	(1,029)
Other	80	528

Net Cash Provided by (Used by) Investing Activities	27,593	(2,149)
---	--------	---------

FINANCING ACTIVITIES

Increase in notes payable	7,533	9,185
Principal payments on long-term debt	(40,089)	(3,065)
Payment of premium on notes repurchase and debt financing costs	(4,199)	(384)
Other	(37)	(480)

Net Cash (Used by) Provided by Financing Activities	(36,792)	5,256
---	----------	-------

Effect of exchange rate changes on cash	(63)	(459)
---	------	-------

Decrease in Cash and Cash Equivalents	(1,370)	(853)
Cash and cash equivalents at beginning of period	3,528	1,419

Cash and Cash Equivalents at End of Period	\$ 2,158	\$ 566
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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 3,532	\$ 3,196
----------	----------	----------

Income taxes	\$ 442	\$ 1,171
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The accompanying notes are an integral part of these consolidated condensed financial statements.

\* Reclassified to conform to 1998 presentation. See Note C.

Imo Industries Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements (Unaudited with respect to April 3, 1998 and March 31, 1997 and the periods then ended.)

#### NOTE A--SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the first quarter of 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998.

**Basis of Accounting:** Effective January 1, 1998, the Company adopted a "4-4-5" accounting calendar.

**Change in Accounting Policies:** The Company adopted Financial Accounting Standards Board ("FASB") Statement No. 130, "Reporting Comprehensive Income," on January 1, 1998. For the first quarter of 1998, total comprehensive loss was \$2.6 million, compared to a reported net loss of \$2.3 million. For the first quarter of 1997, total comprehensive loss was \$14.8 million, compared to a reported net loss of \$12.8 million.

#### NOTE B - ACQUISITION BY II ACQUISITION CORP.

On August 28, 1997, II Acquisition Corp. acquired approximately 93% of the Company's outstanding shares of common stock. The unaudited pro forma information for the quarter ended March 31, 1997 set forth below gives effect to the acquisition, and the refinancing of the Company's domestic senior debt, in connection with the acquisition, as if they had occurred on January 1, 1997. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had these transactions been consummated at the beginning of the periods presented.

Quarter Ended

March 31, 1997  
-----



Net Sales	\$78,927
Net Income (Loss)	(11,057)
Earnings (Loss) Per Share, basic and diluted	(.65)

NOTE C--DISCONTINUED OPERATIONS

On February 27, 1998, the Company completed the sale of its Roltra-Morse business segment to Magna International Inc. for cash proceeds of \$30 million plus the assumption of Roltra-Morse's debt. The operating results of the Roltra-Morse segment have been segregated and reported as a discontinued operation in the accompanying Consolidated Condensed Statements of Income. The Company has also accounted for its former Electro-Optical Systems and Instrumentation business segments as discontinued operations. The sale of the Varo Electronic Systems division of the Electro-Optical Systems business and the sale of the Instrumentation business segment were completed in April 1997 and August 1997, respectively. Prior year financial statements have been reclassified to conform to the current year presentation.

Net sales of the discontinued operations were \$14.4 million and \$48.1 million for the first quarters of 1998 and 1997, respectively. Operating results of discontinued operations for the first quarter of 1998 resulted in a net loss of \$1 million, or \$.06 per share compared to net income of \$1.5 million, or \$.09 per share for the first quarter of 1997. Roltra-Morse's net loss of \$1 million, which includes \$.2 million of allocated interest, was included with the net book value of the assets on the date of sale, February 27, 1998. Therefore, there was no income from discontinued operations for the first quarter of 1998. The operating results from discontinued operations include allocated interest expense of \$.2 million and \$1.2 million for the first quarters of 1998 and 1997, respectively.

Allocated interest expense includes interest on debt of the discontinued operations to be assumed by the buyer and an allocation of other consolidated interest expense to the discontinued operations based on the ratio of net assets to be sold to the sum of the Company's consolidated net assets, if positive, plus other consolidated debt.

The Company reviews quarterly the assumptions used in determining the estimated gain or loss from discontinued operations and the adequacy of the recorded liabilities. Management believes that the recorded amount of estimated liabilities related to its discontinued operations at April 3, 1998 is adequate. However, the amounts estimated may differ from actual results.

NOTE D--INVENTORIES

Inventories (in thousands of dollars) are summarized as follows:

April 3,	December 31,
----------	--------------

	1998	1997
	-----	-----
	(Unaudited)	
Finished products	\$23,354	\$18,823
Work in process	22,144	23,218
Materials and supplies	20,414	23,481
	-----	-----
	65,912	65,522
Less customers' progress payments	610	634
	-----	-----
	\$65,302	\$64,888
	=====	=====

#### NOTE E--NOTES PAYABLE AND LONG-TERM DEBT

As of April 3, 1998, the Company had revolver borrowings of \$35 million and \$19.6 million of outstanding standby letters of credit under the Company's existing credit agreement. The Company had \$7 million in foreign short-term credit facilities with amounts outstanding at April 3, 1998 of \$1.4 million. The weighted average interest rate on short-term notes payable was 8.37% and 8.03% at April 3, 1998 and December 31, 1997, respectively.

In addition, the Company had outstanding \$102 million of its 11.75% senior subordinated notes due in 2006, and \$51 million of term loan borrowings. The sale of Roltra-Morse and the resultant reduction in domestic senior debt increased the Company's availability under its revolving credit facility, allowing it to purchase a portion of its 11.75% senior subordinated notes (the "Notes") in the open market. During the first quarter of 1998, the Company purchased, in the open market at a premium, Notes in the face amount of \$33.1 million. As a result of the early extinguishment of these Notes and the prepayment of a portion of the term loan facility, an extraordinary charge of \$5.6 million was recognized in the first quarter of 1998.

#### NOTE F--CONTINGENCIES

##### Legal Proceedings

The Company and one of its subsidiaries are two of a large number of defendants in a number of lawsuits brought in various jurisdictions by approximately 6,900 claimants who allege injury caused by exposure to asbestos. Although neither the Company nor any of its subsidiaries has ever been a producer or direct supplier of asbestos, it is alleged that the industrial and marine products formerly sold by the Company and the subsidiary named in such complaints contained components which contained asbestos. Suits against the Company and its subsidiary have been tendered to its insurers, who are defending under their stated reservation of rights. In addition, the Company and the subsidiary are named in cases, involving approximately 22,000 claimants, which in 1996 were "administratively dismissed" by the U.S. District Court for the Eastern District of Pennsylvania.

Cases that have been "administratively dismissed" may be reinstated only upon a showing to the Court that (i) there is satisfactory evidence of an asbestos-related injury; and (ii) there is probative evidence that the plaintiff was exposed to products or equipment supplied by each individual defendant in the case. The Company believes that it has adequate insurance coverage or has established appropriate reserves to cover potential liabilities related to these cases.

On April 3, 1998 the Company was served with a complaint in an action brought by Dravo Corporation seeking damages in excess of \$17 million for problems associated with turbines sold to it in 1986 for use at a powerplant in Long Beach, California. The Company has few details of this matter other than as set forth in the complaint, however, the Company believes that there are legal and factual defenses to the claims and intends to defend the action vigorously.

The Company was a defendant in a lawsuit in the U.S. District Court for the Western District of Pennsylvania, which alleged component failures in equipment sold by its former diesel engine division. The complaint sought damages of approximately \$3 million. On September 30, 1997 the Court granted a summary judgment motion filed by the Company which effectively dismissed all claims against it. Plaintiffs have appealed this judgment to the United States Court of Appeals for the Third Circuit.

The Company is a defendant in a lawsuit in the Circuit Court of Cook County, Illinois alleging performance shortfalls in products delivered by the Company's former Delaval Turbine Division and claiming damages of approximately \$8 million. To date the Court has granted a series of summary judgment motions filed by the Company which have significantly reduced the scope of damages which the plaintiff may claim but the court has also permitted additional discovery to determine whether any other damages exist which plaintiff may be entitled to seek at a trial.

On June 3, 1997 the Company was served with a complaint in a case brought in the Superior Court of New Jersey which alleges damages in excess of \$10 million incurred as a result of losses under a Government Contract Bid transferred in connection with the sale of the Company's former Electro-Optical Systems business. The Electro-Optical Systems business was sold in a transaction that closed on June 2, 1995. The sales contract provided certain representations and warranties as to the status of the business at the time of sale. The complaint alleges that the Company failed to provide notice of a "reasonably anticipated loss" under a bid that was pending at the time of the transfer of the business and therefore a representation was breached. The contract was subsequently awarded to the Company's Varo subsidiary and thereafter transferred to the buyer of the Electro-Optical Systems business. The case is in the preliminary stages of pleading but the Company believes that there are legal and factual defenses to the claims and intends to defend the action vigorously.

The Company is one of five defendants in an action brought in the United States District Court for the Middle District of Louisiana. In April 1991, the Company's former Deltex division performed a repair of a turbine. Following the repair, the turbine was included in a spare parts pool until January 1995. The

plaintiff alleges that following installation in its plant the turbine experienced severe vibrations requiring the turbine to be run at less than optimal speed. They further allege that the shortfall in performance caused them to incur repair costs, and consequential damages in excess of \$5 million. The lawsuit is in the early discovery stage; however, the Company believes that there are legal and factual defenses to the claims and intends to defend the action vigorously.

The operations of the Company, like those of other companies engaged in similar businesses, involve the use, disposal and clean up of substances regulated under environmental protection laws. In a number of instances the Company has been identified as a Potentially Responsible Party by the U.S. Environmental Protection Agency, and in one instance by the State of Washington, with respect to the disposal of hazardous wastes at a number of facilities that have been targeted for clean-up pursuant to CERCLA or similar state law. Similarly, the Company has received notice that it is one of a number of defendants named in an action filed in the United States District Court, for the Southern District of Ohio Western Division by a group of plaintiffs who are attempting to allocate a share of cleanup costs, for which they are responsible, to a large number of additional parties, including the Company. Although CERCLA and corresponding state law liability is joint and several, the Company believes that its liability will not have a material adverse effect on the financial condition of the Company since it believes that it either qualifies as a de minimis or minor contributor at each site. Accordingly, the Company believes that the portion of remediation costs that it will be responsible for will not be material.

The Company is also involved in various other pending legal proceedings arising out of the ordinary course of the Company's business. None of these legal proceedings is expected to have a material adverse effect on the financial condition of the Company. With respect to these proceedings and the litigation and claims described in the preceding paragraphs, management of the Company believes that it either will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the financial condition or results of operations of the Company.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following paragraphs provide Management's discussion and analysis of the significant factors which have affected the Company's consolidated results of operations and financial condition during the first quarter of 1998. This section should be read in conjunction with the Company's 1997 Form 10-K Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Recent Events

Consent Solicitation: On April 14, 1998, the Company commenced a consent solicitation, seeking consents from the holders of the Company's 11 3/4% Senior Subordinated Notes due 2006 ("the Notes") to certain amendments to the Indenture governing the Notes. The proposed amendments would permit the Company to complete a "short-form" merger with and into a wholly owned subsidiary of II Acquisition Corp. On May 6, 1998, the Company received sufficient consents to effect the proposed amendments, and entered into a Supplemental Indenture with respect to such amendments. The Company paid an aggregate of \$483,650 to holders of Notes in connection with the solicitation. Notwithstanding that the proposed amendments were adopted, there can be no assurance that any merger involving the Company will be consummated.

New York Stock Exchange, Inc.: On March 16, 1998, the Company received a letter from the New York Stock Exchange, Inc. ("NYSE") indicating the NYSE's determination that the Company had fallen below certain continued listing criteria, and that the NYSE was carefully considering the appropriateness of the continued listing of the Company's common stock. The Company has been in contact with representatives of the NYSE and has taken the position that the NYSE should maintain the listing of the Company's common stock. The Company will seek to persuade the NYSE to continue such listing, but there can be no assurance that the NYSE will not attempt to delist the Company's common stock.

Roltra-Morse Sale: On February 27, 1998, the Company completed the sale of its Roltra-Morse business to Magna International Inc. for cash of \$30 million plus the assumption of Roltra-Morse's debt. The sale price approximated the recorded net book value of the business. Net proceeds were used to reduce domestic senior debt. This transaction is reflected in the Company's consolidated condensed financial statements for the quarter ended April 3, 1998.

The sale of Roltra-Morse and the resultant reduction in domestic senior debt increased the Company's availability under its revolving credit facility, allowing it to purchase a portion of its Notes in the open market. During the first quarter of 1998, the Company purchased, in the open market at a premium, Notes in the face amount of \$33.1 million. As a result of the early extinguishment of these Notes and the prepayment of a portion of the term loan facility, an extraordinary charge of \$5.6 million was recognized in the first quarter of 1998.

## Results of Operations

The Roltra-Morse, Instrumentation, and Electro-Optical Systems business segments were sold in February 1998, August 1997, and April 1997, respectively, and were accounted for as discontinued operations in the accompanying consolidated condensed financial statements. Accordingly, the discussion that follows concerns only the results of continuing operations. The Company's continuing businesses are grouped into three business segments for management and segment reporting purposes: Power Transmission, Pumps, and Morse Controls.

Sales. Net sales from continuing operations for the first quarter of 1998 were \$83 million, an increase of 5.2%, compared with \$78.9 million in the comparable 1997 period. Increases in the volume of shipments and new products provided this

growth. First quarter 1998 net sales increased for the Pumps and Morse Controls segments and remained flat for the Power Transmission segment, compared to the prior year period.

Gross Profit. Gross profit increased as a percentage of sales to 32.2% for the first quarter of 1998 compared with 31.2% in the first quarter of 1997. The higher gross profit was the result of increased sales volume and productivity improvements in each segment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased as a percentage of sales to 18.3% for the first quarter of 1998 compared with 22.0% in the first quarter of 1997. The decreased expenses as a percentage of sales in 1998 were due to increased sales volume and the effects of Company-wide cost reduction programs instituted in August of 1997, offset by increased goodwill amortization resulting from the purchase of the Company by II Acquisition Corp.

Unusual Item. In the first quarter of 1997, the Company recorded an unusual charge of \$12.9 million, as a result of the reinstatement of a judgment, plus interest to date, against the Company in favor of International Insurance Company.

Interest Expense. Average borrowings in the first quarter of 1998 were approximately \$93 million lower than the first quarter of 1997. Total interest expense (before allocation to discontinued operations) was \$6.7 million for the first quarter of 1998 compared with \$8.8 million for the same period in 1997. Interest expense for continuing operations excludes a general interest allocation to the discontinued operations of \$.2 million and \$1.2 million for the first quarters of 1998 and 1997, respectively.

Provision for Income Taxes. Income tax expense for continuing operations was \$.8 million and \$.6 million for the first quarters of 1998 and 1997, respectively. These amounts represent current tax expense for foreign and state income taxes, as the Company is utilizing existing U.S. net operating loss carryforwards with its domestic earnings.

Income from Continuing Operations. The Company had net income from continuing operations of \$3.3 million, or \$0.20 per share, for the first quarter of 1998, compared with a net loss of \$14.3 million, or \$0.84 per share, for the comparable 1997 period.

Income (Loss) from Discontinued Operations. Roltra-Morse's net loss of \$1 million, which includes \$.2 million of allocated interest, was included with the net book value of the assets on the date of sale February 27, 1998. Therefore, there was no income from discontinued operations for the first quarter of 1998 compared with income of \$1.5 million for the first quarter of 1997. Results from operations for the discontinued operations include allocations for interest of \$1.2 million for the 1997 period.

Extraordinary Item. In March 1998, the Company purchased, in the open market at a premium, Notes in the face amount of \$33.1 million. As a result of the early

extinguishment of these Notes and the prepayment of a portion of the term loan, an extraordinary charge of \$5.6 million was recognized in the first quarter of 1998.

Net Income (Loss). The net loss in the first quarter of 1998 was \$2.3 million, or \$0.13 per share, compared with a net loss of \$12.8 million, or \$0.75 per share, in the comparable 1997 period. The net loss in the first quarters of 1998 and 1997 were due to the factors discussed above.

## Liquidity and Capital Resources

### Short-term and Long-term Debt

As of April 3, 1998, availability under the revolving credit facility was \$15.4 million, as the Company had revolver borrowings of \$35 million and \$19.6 million of outstanding standby letters of credit under the Company's existing credit agreement. The Company's continuing operations had \$7 million in foreign short-term credit facilities with amounts outstanding at April 3, 1998 of \$1.4 million.

In addition, the Company had outstanding \$102 million of its 11.75% senior subordinated notes due in 2006, and \$51 million of term loan borrowings.

### Cash Flow

The Company's operating activities provided net cash of \$7.9 million in the first quarter of 1998, compared with cash used of \$3.5 million in the comparable 1997 period. The cash provided by operating activities in 1998 was attributable to net operating profits and the decrease in working capital in the period, primarily due to the decrease in other current assets. The cash used by operating activities in 1997 was primarily due to the increase in working capital. For the quarter, total debt reduction was \$32.5 million, \$30 million of which was provided by the sale of Roltra-Morse. Cash and cash equivalents were \$2.2 million at April 3, 1998 compared with \$3.5 million at December 31, 1997.

The sale of the Roltra-Morse business segment has improved the Company's liquidity position. Management believes that cash flow from operations and cash available from unused credit facilities will be sufficient to meet the Company's foreseeable liquidity needs.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. Except for historical matters, the matters discussed in this Form 10-Q Report are forward-looking statements based on current expectations and involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements under the following headings: (i) Legal Proceedings - the future impact of legal proceedings on the financial condition of the Company; and, (ii) "Results of Operations" - the future performance of various programs and foreign market conditions in each segment and the impact of such programs and foreign market conditions on future sales and on operating income. The Company wishes to caution the reader that, in addition to the matters described above, various factors such as delays in

contracts from key customers, demand and market acceptance risk for new products, continued or increased competitive pricing and the effects of under-utilization of plants and facilities, particularly in Europe, and the impact of worldwide economic conditions on demand for the Company's products, could cause results to differ materially from those in any forward-looking statement.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

For information regarding certain pending lawsuits, reference is made to the Company's Form 10-K for the year ended December 31, 1997, which is incorporated herein by reference, and to Note F in Part I of this Form 10-Q Report.

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits:

The following exhibits are being filed as part of this Report:

Exhibit No.	Description
4.3 (E)	Fourth Amendment to the Rights Agreement, dated as of April 30, 1998, between the Company and First Chicago Trust Company of New York, dated as of April 15, 1998 (incorporated by reference to Exhibit 5 of the Company's Form 8-A/A dated as of May 1, 1998).
10.27 (E)	Fourth Amendment to Credit and Guaranty Agreement dated as of March 9, 1998
10.28	Third Supplemental Indenture, dated as of May 6, 1998, to Indenture dated as of April 15, 1996, with respect to the Company's 11 3/4% Senior Subordinated Notes due 2006.
27	Financial Data Schedule as of April 3, 1998

#### (b) Reports on Form 8-K:

On February 3, 1998, the Company filed a report on Form 8-K, reporting under Item 5, disclosing the announcement that the Company had entered into an agreement to sell its Roltra Morse S.p.A. subsidiary to Magna International Inc.

On March 13, 1998, the Company filed a report on Form 8-K, reporting under Item 2, disclosing that on February 27, 1998, the Company completed the



sale of its Roltra Morse S.p.A. subsidiary to Magna International Inc.

On April 17, 1998, the Company filed a report on Form 8-K, reporting under Item 5, disclosing that on April 14, 1998, the Company announced that it is soliciting the consents of holders of its 11 3/4% Senior Subordinated Notes due 2006 to certain amendments to the Indenture governing the Notes.

On May 1, 1998, the Company filed a report on Form 8-K, reporting under Item 5, disclosing that on April 30, 1998, the Company announced that it is supplementing its Consent Solicitation Statement, dated April 14, 1998, in which the Company is soliciting the consents of holders of its 11 3/4% Senior Subordinated Notes due 2006 to certain amendments to the Indenture governing the Notes.

On May 12, 1998, the Company filed a report on Form 8-K, reporting under Item 5, disclosing that on May 7, 1998, the Company announced that holders of more than 51% of the outstanding principal amount of the Company's 11 3/4% Senior Subordinated Notes due 2006 consented to certain proposed amendments to the Indenture governing the Notes, pursuant to the Company's Consent Solicitation.

#### SIGNATURES

Pursuant to the requirements 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.

Imo Industries Inc.

-----  
(Registrant)

Date: May 13, 1998

/s/ JOHN A. YOUNG

-----  
John A. Young  
Chief Financial Officer

Date: May 13, 1998

/s/ G. SCOTT FAISON

-----  
G. Scott Faison  
Corporate Controller

FOURTH AMENDMENT TO CREDIT AND GUARANTY AGREEMENT

THIS FOURTH AMENDMENT, dated as of March 9, 1998 (this "Amendment") to the Existing Credit Agreement referred to below is among IMO INDUSTRIES INC., a Delaware corporation (the "Borrower"), II ACQUISITION CORP., a Delaware corporation (the "Parent") and the Lenders (as defined below) parties hereto.

W I T N E S S E T H:

WHEREAS, the Borrower, the Parent, certain financial institutions from time to time parties thereto (collectively, the "Lenders"), The Bank of Nova Scotia, as the Administrative Agent and NationsBanc Capital Markets, Inc., as the Syndication Agent have entered into the Credit and Guaranty Agreement, dated as of August 29, 1997 (as amended, supplemented, amended and restated or otherwise modified prior to the date hereof, the "Existing Credit Agreement" and, as amended by, and together with, this Amendment, the "Credit Agreement"); and

WHEREAS, the Borrower and the Parent have requested that the Existing Credit Agreement be amended in certain respects and that the Lenders grant a waiver to certain terms of the Existing Credit Agreement and consent to the Transaction (as defined below), and the Lenders have agreed to amend the Existing Credit Agreement and grant such waivers and consent (subject to the terms and conditions of this Amendment);

NOW, THEREFORE, in consideration of the premises and the other provisions herein contained, the parties hereto hereby agree as follows.

PART I  
DEFINITIONS

SUBPART 1.1. Use of Defined Terms. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the respective meanings provided therefor in the Existing Credit Agreement.

PART II  
AMENDMENTS TO THE EXISTING CREDIT AGREEMENT

Effective upon (and subject to) the occurrence of the Fourth Amendment Effective Date (as defined in Subpart 3.1), certain terms and provisions of the

Existing Credit Agreement are hereby amended, and the waivers and consent described below are hereby granted, in accordance with this Part. Except as so amended or modified by this Amendment, the Existing Credit Agreement shall continue in full force and effect in accordance with its terms.

SUBPART 2.1. Amendment to Article I. Article I of the Existing Credit Agreement is hereby amended in accordance with Subparts 2.1.1 and 2.1.2.

SUBPART 2.1.1. Section 1.1 of the Existing Credit Agreement is hereby amended by inserting the following definitions in the appropriate alphabetical order:

"Amendment No. 4" means the Fourth Amendment, dated as of March 9, 1998, to this Agreement among the Borrower, the Parent and the Lenders parties thereto.

"Borrower Merger" means the merger of Newco with and into the Borrower, with the Borrower being the surviving corporation at such merger.

"Fourth Amendment Effective Date" is defined in Subpart 3.1 of Amendment No. 4.

"Newco" means a to be formed Delaware corporation that will be a direct, wholly owned Subsidiary of the Parent.

"Transaction" means the incorporation of Newco by the Parent, the contribution of cash by the Parent to Newco sufficient in amount to pay for the redemption of approximately 1,200,000 issued and outstanding shares of the Borrower's common stock (owned by other than Affiliates of the Borrower) required as a result of the Borrower Merger and the contribution of all of the issued and outstanding shares of common stock of the Borrower owned on March 9, 1998 by the Parent into Newco (with the contribution of such cash and shares by the Parent into Newco collectively referred to as the "Contribution"), and within three Business Days following the Contribution, the consummation of the Borrower Merger.

SUBPART 2.1.2. Section 1.1 of the Existing Credit Agreement is hereby further amended by amending the definition of "Permitted Amount" in its entirety to read as follows:

"Permitted Amount" means in the case of (a) the permitted maximum amount of Revolving Loans which may be applied by the Borrower to purchase outstanding Senior Subordinated Notes "put" to the Borrower pursuant to the "put" provision contained in the Senior Subordinated Notes in the event of a Change of Control (as defined therein) pursuant to the terms of Section 4.10, \$40,000,000, (b) the permitted maximum aggregate amount of Revolving Loans which may be applied from time to time by the Borrower to open market purchases or redemptions of outstanding Senior Subordinated Notes pursuant to the terms of Section 4.10 (whether or not the Borrower has repaid or prepaid Revolving Loans subsequent to the date such

Revolving Loans were made (even if all Revolving Loans are repaid or prepaid in full on any given date)), the sum of (i) \$75,000,000 (payable in respect of the face amount of Senior Subordinated Notes purchased or redeemed) plus (ii) an amount (referred to as the "Additional Amount") payable in respect of any premium over the face amount of the Senior Subordinated Notes purchased or redeemed by it in the open market (with the payment of such Additional Amount being in all events subject to the terms of clause (iv) of Section 4.10), (c) the permitted maximum amount of Revolving Loans which may be applied by the Borrower to make intercompany loans to Non-U.S. Subsidiaries to refinance existing Indebtedness of such Non-U.S. Subsidiaries, \$25,000,000, and (d) guarantees by the Borrower of Indebtedness of Non-U.S. Subsidiaries, in an amount not to exceed \$20,000,000; provided, however, that the sum of clauses (a), (b), (c) and (d) above shall not at any time exceed \$75,000,000 plus (in the case of clause (b) only), the Additional Amount.

SUBPART 2.2. Amendment to Article II. Section 2.7 of the Existing Credit Agreement is hereby amended by inserting the following sentence after the first sentence contained in such Section:

"Notwithstanding the immediately preceding sentence, solely with regard to Letter of Credit No. 90016/80085 issued in favor of Magna International Inc. on February 27, 1998, the Borrower may deliver an Issuance Request on not less than 60 nor more than 90 Business Days' notice prior to the then existing Stated Expiry Date of such Letter of Credit requesting that the Issuer extend the Stated Expiry Date of such Letter of Credit and unless the Borrower delivers an Issuance Request during such period, such Letter of Credit will not be extended by the Issuer pursuant to the "evergreen" provisions."

SUBPART 2.3. Amendment to Article IV. Clause (iv) (B) of Section 4.10 of the Existing Credit Agreement is hereby amended by deleting the figure "\$50,000,000" in such clause, and inserting the figure "\$75,000,000" in its place.

SUBPART 2.4. Amendment to Article VII. Article VII of the Existing Credit Agreement is hereby amended in accordance with Subparts 2.4.1 through 2.4.2.

SUBPART 2.4.1. Clause (e) of Section 7.2.2 of the Existing Credit Agreement is hereby amended by designating existing clause (e) as clause "(e) (i)", and adding a new clause (e) (ii) to read in its entirety to read as follows:

"(e) (ii) unsecured Indebtedness of the Parent in a principal amount not to exceed \$95,000,000 at any time outstanding owing to Persons (other than the Borrower or any Subsidiary of the Borrower) that are directly or indirectly wholly owned and controlled by the two largest individual Stockholders of the Parent (determined as of March 9, 1998) pursuant to documentation containing terms (including the events of default, rights of acceleration, representations and covenants) satisfactory to the Administrative Agent; provided, that such Indebtedness shall be fully

subordinated on terms satisfactory to the Administrative Agent to the obligations of the Parent under the guaranty of the Parent contained in Article IX hereof and the final maturity date is at least one year following the Stated Maturity Date (with no amortization or other payments of principal required prior to such final maturity date), and the lenders of such unsecured Indebtedness shall covenant that they will not commence or cause the commencement of any of the actions described in clause (b), (c) or (d) of Section 8.1.9 of this Agreement with respect to the Parent;"

SUBPART 2.4.2. Clause (b)(ii) of Section 7.2.6 of the Existing Credit Agreement is hereby amended by deleting the figure "\$50,000,000" in such clause, and inserting the figure "\$75,000,000" in its place.

SUBPART 2.5. Limited Waivers and Consent. Subject to the terms of this Subpart, by their signatures below the Lenders hereby waive compliance with the following terms of the Credit Agreement, but only to the extent necessary to enable the Parent and the Borrower to consummate the Transaction:

(a) the provisions of clause (d) of the definition of "Change in Control" for the period of time from the date of the Contribution to the date of the consummation of the Borrower Merger;

(b) the representation contained in Section 6.17 of the Credit Agreement; provided, that from the date of the Contribution until the date of the consummation of the Borrower Merger, "(together with Newco)" shall be deemed to be substituted for the words "(together with management shareholders of the Parent and the Borrower)" and the phrase "(other than Liens pursuant to a Loan Document)" shall be deemed to be substituted for the phrase "(other than Liens pursuant to the Parent Pledge Agreement)";

(c) the provisions of clause (a) of Section 7.2.5 of the Credit Agreement limiting the Parent's Investment to its Investment existing on the Effective Date in the Borrower, but only to the extent of an Investment by the Parent in Newco contemplated by the Transaction and to the extent that the Parent is the owner of 100% of the capital stock of Newco prior to the Borrower Merger;

(d) the provisions of Section 7.2.6 of the Credit Agreement, but only to the extent the Borrower is obligated to pay consideration (including cash) to holders (other than Affiliates of the Borrower) of the Senior Subordinated Notes for consents to amend the Senior Subordinated Indenture in connection with the Transaction in an amount agreed to by the Administrative Agent;

(e) the provisions of Section 7.2.10 of the Credit Agreement in connection with the Borrower Merger, but only to the extent that the Borrower is the surviving corporation of the Borrower Merger; and

(f) the provisions of Section 7.2.11 and Section 7.2.19 of the Credit Agreement, but only to the extent necessary to permit the Parent to contribute cash and the Borrower Shares to Newco (as described in the

definition of "Transaction") in connection with the Transaction.

The limited waivers and consent described above are subject to the following conditions:

(i) Newco shall at all times prior to the consummation of the Borrower Merger be a direct, wholly owned Subsidiary of the Parent, and Newco shall own directly all the issued and outstanding shares of the Borrower that were owned on March 9, 1998 by the Stockholders and management shareholders of the Borrower and of the Parent (the "Borrower Shares"), free and clear of all Liens (other than Liens granted pursuant to a Loan Document);

(ii) if the Borrower Merger shall not have been consummated within three Business Days following the Contribution, Newco shall have executed and delivered on such third Business Day a Guaranty in substantially the form of the Parent Guaranty (with such changes thereto as are deemed to be necessary by the Administrative Agent) and a Pledge Agreement in substantially the form of the Borrower Pledge Agreement (with such changes thereto as are deemed to be necessary by the Administrative Agent), and Newco shall have delivered in pledge to the Administrative Agent on such third Business Day the original share certificates evidencing all of the Borrower Shares, together with undated stock powers executed by Newco in blank for all Borrower Shares, and legal opinions from counsel to the Borrower and Newco in form and substance satisfactory to the Administrative Agent; and

(iii) prior to the date of the Contribution, the Administrative Agent shall have received copies of all documentation to be delivered in connection with the Transaction.

### PART III CONDITIONS TO EFFECTIVENESS

SUBPART 3.1. This Amendment shall become effective on the date first set forth above (the "Fourth Amendment Effective Date") when all of the following conditions have been satisfied to the satisfaction of the Administrative Agent.

SUBPART 3.1.1. Execution of Counterparts. The Administrative Agent shall have received copies of this Amendment, duly executed and delivered by the Borrower, the Parent and the Required Lenders.

SUBPART 3.1.2. Affirmation and Consent. The Administrative Agent shall have received an affirmation and consent in form and substance satisfactory to it, duly executed and delivered by the Parent and each other Guarantor.

SUBPART 3.1.3. Satisfactory Legal Form. All documents executed or submitted pursuant hereto shall be satisfactory in form and substance to the Administrative Agent and its counsel. The Administrative Agent and its counsel shall have received all information and such counterpart originals or such

certified or other copies or such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the transactions contemplated by this Amendment shall be satisfactory to the Administrative Agents and its counsel.

#### PART IV REPRESENTATIONS AND WARRANTIES

In order to induce the Lenders to enter into this Amendment, the Borrower and the Parent represent and warrant to the Administrative Agent, each Issuer and each Lender as set forth in this Part.

SUBPART 4.1. Compliance with Warranties. The representations and warranties set forth herein, in Article VI of the Credit Agreement and in each other Loan Document delivered in connection herewith or therewith are true and correct in all material respects with the same effect as if made on and as of the date hereof (unless stated to relate solely to an earlier date, in which case they were true and correct as of such earlier date).

SUBPART 4.2. Due Authorization, Non-Contravention, etc. The execution, delivery and performance by the Borrower, the Parent and the Guarantors of this Amendment and other documents delivered pursuant hereto are within the Borrower's, the Parent's and the Guarantors' corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene either the Borrower's, the Parent's or the Guarantors' Organic Documents, (ii) contravene or result in a default under any contractual restriction, law or governmental regulation or court decree or order binding on or affecting either the Borrower, the Parent or the Guarantors, or (iii) result in, or require the creation or imposition of, any Lien (except as contemplated in or created by the Loan Documents).

SUBPART 4.3. Validity, etc. This Amendment has been duly executed and delivered by the Borrower and the Parent and constitutes the legal, valid and binding obligation of the Borrower and the Parent enforceable in accordance with its terms, subject as to enforcement to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and to general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity.

SUBPART 4.4. Compliance With Existing Credit Agreement. As of the Fourth Amendment Effective Date, and both before and after giving effect to the terms of this Amendment, no Default has occurred and is continuing.

#### PART V MISCELLANEOUS PROVISIONS

SUBPART 5.1. Ratification of and Limited Amendment to the Credit Agreement. This Amendment shall be deemed to be an amendment to the Existing Credit Agreement, and the Existing Credit Agreement, as amended hereby, is



hereby ratified, approved and confirmed in each and every respect. Except as specifically amended or modified herein, the Existing Credit Agreement shall continue in full force and effect in accordance with the provisions thereof and except as expressly set forth herein the provisions hereof shall not operate as a waiver of or amendment of any right, power or privilege of the Administrative Agent and the Lenders nor shall the entering into of this Amendment preclude the Lenders from refusing to enter into any further or future amendments. This Amendment shall be deemed to be a "Loan Document" for all purposes of the Credit Agreement.

SUBPART 5.2. Credit Agreement, References, etc. All references to the Credit Agreement in any other document, instrument, agreement or writing shall hereafter be deemed to refer to the Existing Credit Agreement as amended hereby. As used in the Credit Agreement, the terms "Agreement", "herein", "hereinafter", "hereunder", "hereto" and words of similar import shall mean, from and after the date hereof, the Existing Credit Agreement as amended by this Amendment.

SUBPART 5.3. Expenses. The Borrower agrees to pay all out-of-pocket expenses incurred by the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment.

SUBPART 5.4. Headings; Counterparts. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof. This Amendment may be signed in any number of separate counterparts, each of which shall be an original, and all of which taken together shall constitute one instrument.

SUBPART 5.5. Governing Law; Entire Agreement. THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. This Amendment constitutes the entire understanding among the parties hereto with respect to the subject matter hereof and supersedes any prior agreements, written or oral, with respect thereto.

SUBPART 5.6. Loan Document Pursuant to Credit Agreement. This Amendment is a Loan Document executed pursuant to the Credit Agreement and shall be construed, administered and applied in accordance with all of the terms and provisions of the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

IMO INDUSTRIES INC.

By: John A. Young  
Title: Vice President

II ACQUISITION CORP.

By: John A. Young  
Title: Vice President

THE BANK OF NOVA SCOTIA

By: James R. Trimble  
Title: Senior Relationship Manager

NATIONSBANK, N.A.

By: Michael R. Heredis  
Title: Senior Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By: Amy L. Robbins  
Title: Vice President

FLEET CAPITAL CORPORATION

By: Roland J. Robinson  
Title: Senior Vice President

COMPAGNIE FINANCIERE DE CIC ET DE L'UNION  
EUROPEENNE

By: Brian O'Leary  
Title: Vice President

By: Sean Mounier  
Title: First Vice President

CRESTAR BANK

By: Christopher B. Werner

Title: Vice President

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN  
BRANCHES

By: Richard W. Conroy  
Title: Vice President

By: Kam Pasha  
Title: Vice President

TRANSAMERICA BUSINESS CREDIT CORPORATION

By: Perry Vavoules  
Title: Senior Vice President

US TRUST

By: Thomas F. Macina  
Title: Vice President

CIBC INC.

By: William M. Swenson  
Title: Authorized Signatory

THIRD SUPPLEMENTAL INDENTURE

THIRD SUPPLEMENTAL INDENTURE dated as of May 6, 1998 between IMO INDUSTRIES INC., a Delaware corporation (the "Company"), and IBJ SCHRODER BANK & TRUST COMPANY, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Company and the Trustee have heretofore entered into an Indenture dated as of April 15, 1996 (as previously supplemented, the "Indenture") pursuant to which the Company issued its 11 3/4% Senior Subordinated Notes due 2006 (the "Notes"); and

WHEREAS, the Company has caused to be delivered to the holders of the Notes a Consent Solicitation Statement, dated April 14, 1998 (as the same may be amended from time to time, the "Consent Solicitation Statement"), and a related Consent Letter pursuant to which the Company has solicited consents to the adoption of certain proposed amendments to the Indenture, as further described herein;

WHEREAS, Section 9.02 of the Indenture provides that the Company and the Trustee may amend or supplement the Indenture and the Notes with the consent of the Holders of at least a majority in principal amount of the outstanding Notes (the "Requisite Holders"), subject to paragraphs (1) - (8) thereof;

WHEREAS, the Company has received the consents of the Requisite Holders to the amendments set forth in this Third Supplemental Indenture;

WHEREAS, the Company has delivered an Officers' Certificate and Opinion of Counsel to the Trustee pursuant to Section 9.06 of the Indenture;

WHEREAS, all other actions necessary to make this Third Supplemental Indenture a legal, valid and binding obligation of the parties hereto in accordance with its terms and the terms of the Indenture have been performed; and

WHEREAS, the Company and the Trustee desire to enter into, execute and deliver this Third Supplemental Indenture in compliance with the provisions of the Indenture.

NOW, THEREFORE, the Company and the Trustee hereby agree as follows for the benefit of each other and for the equal and ratable benefit of the holders of the Notes:

## ARTICLE ONE

### DEFINITIONS

1.1. Definitions. Unless otherwise specifically defined herein, each term used herein which is defined in the Indenture shall have the meaning assigned to such term in the Indenture.

## ARTICLE TWO

### AMENDMENTS TO INDENTURE

2.1. Amendment of Article 1. The definition of "Change of Control" in Section 1.01 ("Definitions") of Article 1 ("Definitions and Incorporation by Reference") of the Indenture is hereby amended by inserting the following sentence at the end of the current text of the definition:

"Notwithstanding the preceding sentence or any other provision in this Indenture, neither (a) the contribution by II Acquisition Corp., a Delaware corporation ("IIAC"), of 100% of its holdings of the common stock of the Company, par value \$1.00 per share, to any wholly-owned subsidiary of IIAC, nor (b) the merger of the Company with and into a wholly-owned subsidiary of IIAC, shall constitute a "Change of Control" under this Indenture; provided that in the case of (b), such subsidiary, at the time of such merger, is not, individually or jointly with any other party, an obligor with respect to, or guarantor of, any indebtedness."

2.2. Amendment of Article 5. Article 5 ("Successor Company") of the Indenture is hereby amended by adding a subsection (c) to Section 5.01 ("When Company May Merge or Transfer Assets") that reads in its entirety as follows:

"(c) Nothing in this Article 5 or any other provision in this Indenture shall prevent or in any way limit the Company from consummating a merger with and into any wholly-owned subsidiary of II Acquisition Corp., a Delaware corporation ("IIAC"), or from effecting the payment, in connection with such merger, for the remaining equity interests in the Company not already owned by IIAC or its affiliates, and the provisions of Section 5.01(a) and (b) shall be null and void and of no force and effect with respect to such merger and payment; provided, that such subsidiary, at the time of such merger, is not, individually or jointly with any other party, an obligor with respect to, or guarantor of, any indebtedness."

2.3. Amendment of Article 6. Article 6 ("Defaults and Remedies") of

the Indenture is hereby amended by inserting a new paragraph after the final paragraph of the current Section 6.01 ("Events of Default"), reading in its entirety as follows:

"Notwithstanding the foregoing or any other provision in this Indenture, neither (a) the contribution by II Acquisition Corp., a Delaware corporation ("IIAC"), of 100% of its holdings of the common stock of the Company, par value \$1.00 per share, to any wholly-owned subsidiary of IIAC, nor (b) the merger of the Company with and into a wholly-owned subsidiary of IIAC, nor (c) the payment, in connection with the merger, for the remaining equity interests in the Company not already owned by IIAC or its affiliates, nor (d) the failure to comply with Section 4.10 as a result of (a) or (b), shall constitute a "Event of Default" under this Indenture; provided that in the case of (b), such subsidiary, at the time of such merger, is not, individually or jointly with any other party, an obligor with respect to, or guarantor of, any indebtedness."

### ARTICLE THREE

#### MISCELLANEOUS

3.1 Indemnification. The Company agrees to indemnify the Trustee and hold the Trustee harmless from and against any and all liabilities, losses, damages, claims or actions to which the Trustee may become subject as a result of or in connection with the execution of this Third Supplemental Indenture and the amendment of the Indenture pursuant hereto, and will reimburse the Trustee for any legal or other expenses reasonably incurred by the Trustee in connection with investigating or defending any such liability, loss, damage, claim or action.

3.2. Ratification. Except as hereby expressly amended, the Indenture and the Notes issued thereunder are in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. Upon execution, this Third Supplemental Indenture shall form a part of the Indenture, and the Third Supplemental Indenture and the Indenture shall be read, taken and construed as one and the same instrument for all purposes, and every holder of Notes heretofore or hereafter authenticated and delivered under the Indenture shall be bound hereby.

3.3. Effectiveness. This Third Supplemental Indenture shall become effective as of the date first above written.

3.4. Governing Law. THIS THIRD SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

3.5. Counterpart Originals. The parties may sign any number of

copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Third Supplemental Indenture.

IN WITNESS WHEREOF, the parties hereto have caused this THIRD SUPPLEMENTAL INDENTURE to be duly executed as of the date hereof.

IMO INDUSTRIES INC.

By: /s/ Michael G. Ryan  
Name: Michael G. Ryan  
Title: Vice President

IBJ SCHRODER BANK & TRUST  
COMPANY, as Trustee

By: /s/ Terence Rawlins  
Name: Terence Rawlins  
Title: Assistant Vice President

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