

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

KEYSTONE CONSOLIDATED INDUSTRIES INC

CIK: **55604** | IRS No.: **370364250** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-03919** | Film No.: **96664220**
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

Mailing Address
5430 LBJ FWY STE 1740
THREE LINCOLN CENTRE
DALLAS TX 75240

Business Address
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THREE LINCOLN CENTRE
DALLAS TX 75240
2144580028

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarter ended September 30, 1996

Commission file number 1-3919

KEYSTONE CONSOLIDATED INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

37-0364250

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

5430 LBJ Freeway, Suite 1740, Three Lincoln Centre, Dallas, TX. 75240-2697

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (972) 458-0028

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

Number of shares of common stock outstanding at November 5, 1996: 9,186,424

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

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KEYSTONE CONSOLIDATED INDUSTRIES, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

<TABLE>
<CAPTION>

ASSETS	December 31, 1995	SEPTEMBER 30, 1996
	-----	-----
<S>		
Current assets:	<C>	<C>
Restricted short-term investments	\$ -	\$ 1,180
Notes and accounts receivable	31,363	40,795
Inventories	35,631	29,671
Deferred income taxes	3,685	9,298
Prepaid expenses	2,026	1,594
	-----	-----
Total current assets	72,705	82,538
	-----	-----
Property, plant and equipment	245,759	254,608
Less accumulated depreciation	159,323	168,370
	-----	-----
Net property, plant and equipment	86,436	86,238
	-----	-----
Other assets:		
Restricted investments	2,410	6,438
Unrecognized pension obligation	8,427	-
Deferred income taxes	24,485	-
Prepaid pension	-	103,303
Other	4,359	4,572
	-----	-----
Total other assets	39,681	114,313
	-----	-----
	\$198,822	\$283,089
	=====	=====

</TABLE>

KEYSTONE CONSOLIDATED INDUSTRIES, INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

<TABLE>

<CAPTION>

LIABILITIES, REDEEMABLE PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY (DEFICIT)	December 31, 1995	SEPTEMBER 30, 1996
<S>	<C>	<C>
Current liabilities:		
Notes payable and current long-term debt	\$ 18,750	\$ 17,760
Accounts payable	26,534	39,812
Accounts payable to affiliates	39	59
Accrued pension cost	7,170	-
Accrued OPEB cost	7,776	8,719
Other accrued liabilities	19,297	31,704
	-----	-----
Total current liabilities	79,566	98,054
	-----	-----
Noncurrent liabilities:		
Long-term debt	11,195	17,852
Accrued pension cost	39,222	-
Accrued OPEB cost	97,868	100,946
Negative goodwill	-	5,727
Deferred income taxes	453	11,495
Other	8,011	14,816
	-----	-----
Total noncurrent liabilities	156,749	150,836
	-----	-----
Redeemable preferred stock	-	5,100
	-----	-----
Common stockholders' equity (deficit):		
Common stock	6,362	9,916
Additional paid-in capital	20,013	46,329
Accumulated deficit	(27,599)	(27,134)
Net pension liabilities adjustment	(36,257)	-
Treasury stock, at cost	(12)	(12)
	-----	-----
Total common stockholders' equity (deficit)	(37,493)	29,099
	-----	-----

\$198,822 \$283,089
===== =====

</TABLE>

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

<TABLE>
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	1995	1996	1995	1996
<S>	<C>	<C>	<C>	<C>
Revenues and other income:				
Net sales	\$82,921	\$82,703	\$269,171	\$252,821
Other, net	37	151	361	337
	82,958	82,854	269,532	253,158
Costs and expenses:				
Cost of goods sold	76,382	74,531	243,886	232,206
Selling	1,089	992	3,452	2,998
General and administrative	3,346	5,197	13,243	14,493
Interest	886	808	2,520	2,677
	81,703	81,528	263,101	252,374
Income before income taxes	1,255	1,326	6,431	784
Provision for income taxes	496	534	2,541	319
Net income	\$ 759	\$ 792	\$ 3,890	\$ 465
Income per common and common equivalent share	\$.14	\$.14	\$.69	\$.08

	=====	=====	=====	=====
Weighted average common and common equivalent shares outstanding	5,661		5,654	5,682
	-----		-----	-----
		5,690		
	-----	=====	-----	-----

</TABLE>

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>

<CAPTION>

	Nine months ended September 30,	
	1995	1996
	----	----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 3,890	\$ 465
Depreciation	9,689	10,530
Deferred income taxes	855	(2,271)
Other, net	301	1,075
	-----	-----
	14,735	9,799
Change in assets and liabilities:		
Notes and accounts receivable	1,758	(7,754)
Inventories	3,038	5,564
Accounts payable	(8,441)	1,960
Accrued pension cost	(8,724)	(4,871)
Other, net	(886)	864
	-----	-----
	1,480	5,562
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(11,951)	(10,423)
Merger costs	-	(935)
Other, net	812	129
	-----	-----

Net cash used by investing activities	(11,139)	(11,229)
	-----	-----
Cash flows from financing activities:		
Revolving credit facility, net	12,940	(458)
Other notes payable and long-term debt:		
Additions	81	9,461
Principal payments	(3,364)	(3,336)
Common stock issued, net	2	-
	-----	-----
Net cash provided by financing activities	9,659	5,667
	-----	-----
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
	-----	-----
Cash and cash equivalents, end of period	\$ -	\$ -
	=====	=====

</TABLE>

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(In thousands)

<TABLE>
<CAPTION>

	Nine months ended September 30,	
	-----	-----
	1995	1996
	----	----
<S>	<C>	<C>
Supplemental disclosures:		
Cash paid for:		
Interest, net of amount capitalized	\$ 2,826	\$ 3,031
Income taxes	1,181	991
Common stock contributed to employee benefit plan	\$ 597	\$ 522
Business combination:		
Net assets consolidated:		
Noncash assets	\$ -	\$101,981
Liabilities	-	(60,906)
Negative goodwill	-	(5,727)
	-----	-----

	-	35,348
Redeemable preferred stock issued, including accumulated unpaid dividends	-	(5,100)
Common stock issued	-	(29,313)
	-----	-----
Cash paid	\$ -	\$ 935
	=====	=====

</TABLE>

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF REDEEMABLE PREFERRED STOCK
AND COMMON STOCKHOLDERS' EQUITY (DEFICIT)

Nine months ended September 30, 1996

(In thousands)

[S]	Redeemable preferred stock	[C]

Balance at December 31, 1995		\$ -
Net income		-
Issuance of stock:		
Merger		5,100
Other		-
Pension adjustment, net		-
Merger of pension plans, net		-

Balance at September 30, 1996		\$5,100
		=====

<TABLE>

Common stockholders' equity (deficit)

	Common stock	Additional paid-in capital	Accumulated deficit	Net pension liabilities adjustment	Treasury stock	Total common stockholders' equity (deficit)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$6,362	\$20,013	\$(27,599)	\$(36,257)	\$ (12)	\$(37,493)
Net income	-	-	465	-	-	465
Issuance of stock:						
Merger	3,500	25,813	-	-	-	29,313
Other	54	503	-	-	-	557
Pension adjustment, net	-	-	-	3,554	-	3,554
Merger of pension plans, net	-	-	-	32,703	-	32,703
Balance at September 30, 1996	\$9,916	\$46,329	\$(27,134)	\$ -	\$ (12)	\$ 29,099

KEYSTONE CONSOLIDATED INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

Prior to September 27, 1996, Keystone Consolidated Industries, Inc. (the "Company" or "Keystone") was a majority-owned subsidiary of Contran Corporation ("Contran"). On September 27, 1996, the Company acquired DeSoto, Inc. ("DeSoto") in a merger transaction and, as a result, Contran's ownership in the Company was reduced to 41%. See Note 2. Contran may continue to be deemed to control Keystone.

The consolidated balance sheet at December 31, 1995 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 1996 and the consolidated statements

of operations and cash flows for the interim periods ended September 30, 1995 and 1996, and the consolidated statement of redeemable preferred stock and stockholders' equity (deficit) for the interim period ended September 30, 1996 have been prepared by the Company without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to

present fairly the consolidated financial position, results of operations and cash flows have been made. However, it should be understood that accounting measurements at interim dates may be less precise than at year end. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

Certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "Annual Report") and the Company's Joint Proxy Statement and Prospectus dated August 23, 1996 related to the DeSoto merger (the "Joint Proxy Statement").

Note 2 - Merger:

On September 27, 1996, the stockholders of Keystone and DeSoto approved the merger of the two companies (the "Merger"), in which DeSoto became a wholly-owned subsidiary of Keystone. DeSoto manufactures household cleaning products including powdered and liquid laundry detergents and performs contract manufacturing and packaging of household cleaning products. Keystone issued approximately 3.5 million shares of its common stock (approximately \$29.3 million at the \$8.375 per share market price on September 27, 1996) and 435,458 shares of Keystone preferred stock (\$3.5 million redemption value beginning on July 21, 1997 plus \$1.6 million in accumulated, unpaid dividends) in exchange for all of the outstanding common stock and preferred stock, respectively, of

DeSoto. Each DeSoto common stockholder received .7465 of a share of Keystone common stock for each share of DeSoto common stock.

In connection with the Merger, Keystone assumed certain options to purchase DeSoto common stock and converted them to options to acquire approximately 139,000 shares of Keystone common stock at a price of \$5.86 to \$13.56 per share. Keystone also assumed certain DeSoto warrants giving holders the right to acquire the equivalent of 447,900 shares of Keystone common stock at a price of \$9.38 per share.

Simultaneous with the Merger, Keystone's three underfunded defined benefit pension plans were merged with and into DeSoto's overfunded defined benefit pension plan, which resulted in an overfunded plan for financial reporting purposes. See Note 6.

Pursuant to the Merger Agreement, Keystone was obligated to, and has caused DeSoto to pay, approximately \$5.9 million in October 1996 to certain of DeSoto's trade creditors who are parties to a trade composition agreement with DeSoto, and DeSoto will pay an additional \$1.4 million, plus interest at 8%, to such trade creditors within one year of the Merger. Additionally, Keystone was obligated to immediately pay to the holders of DeSoto preferred stock approximately \$1.6 million in accumulated, unpaid dividends, which amounts were also paid in October 1996. See Note 8.

As a result of these and other transactions related to the Merger, Keystone required additional funding from its primary lender. In order to obtain such additional funds, Keystone received the consent of the Pension Benefit Guaranty Corporation (the "PBGC") to increase Keystone's allowable borrowings by \$20 million upon consummation of the Merger and the merger of the Keystone defined benefit pension plans with and into the DeSoto defined benefit pension plan.

The PBGC's consent was required due to prior agreements with the PBGC whereby the PBGC and Keystone agreed to certain borrowing restrictions. See Note 4.

Keystone accounted for the Merger by the purchase method of accounting and, accordingly, DeSoto's results of operations and cash flows will be included in the Company's consolidated financial statements subsequent to the Merger. The purchase price has been allocated to the individual assets acquired and liabilities assumed of DeSoto based upon preliminary estimated fair values. The actual allocation of the purchase price may be different from the preliminary allocation due to adjustments in the purchase price and refinements in estimates of the fair values of the net assets acquired. Negative goodwill resulting from the Merger will be amortized on the straight-line basis over 20 years.

The following pro forma financial information has been prepared assuming the Merger and the subsequent merger of the defined benefit pension plans occurred as of January 1, 1995. The pro forma financial information also reflects adjustments to assume that (i) the April 1996 sale of DeSoto's Union City, California business, and (ii) the 1995 sales of DeSoto's businesses in Thornton and South Holland, Illinois had occurred on December 31, 1994. The pro forma financial information is not necessarily indicative of actual results had the transactions occurred at the beginning of the periods, nor do they purport to represent results of future operations of the merged companies.

</TABLE>
<TABLE>
<CAPTION>

Nine months ended
September 30,

1995 1996
----- -----

(Unaudited)

(In millions, except per
share data)

	<C>	<C>
<S> Revenues and other income	\$283.9	\$264.8
Net income	\$ 7.0	\$.1
Net income (loss) available to common stockholders	\$ 6.7	\$ (.3)
Net income (loss) per Keystone common share	\$.72	\$ (.03)

</TABLE>

Note 3 - Inventories:

Inventories are stated at the lower of cost or market. At September 30, 1996, the last-in, first-out ("LIFO") method is used to determine the cost of approximately three-fourths of total inventories and the first-in, first-out or average cost methods are used to determine the cost of other inventories.

<TABLE>
<CAPTION>

December 31, SEPTEMBER 30,
1995 1996

	(In thousands)	
<S>	<C>	<C>
Raw materials	\$12,669	\$12,243
Work in process	13,825	11,638
Finished products	10,258	8,743
Supplies	13,552	12,241
	-----	-----
	50,304	44,865
Less LIFO reserve	14,673	15,194
	-----	-----
	\$35,631	\$29,671
	=====	=====

</TABLE>

Note 4 - Notes payable and long-term debt:

<TABLE>

<CAPTION>

	December 31, 1995	SEPTEMBER 30, 1996
	-----	-----
	(In thousands)	
<S>	<C>	<C>
Commercial credit agreements:		
Revolving credit facility	\$14,561	\$14,103
Term loan	13,050	19,999
Other	2,334	1,510
	-----	-----
	29,945	35,612
Less current maturities	18,750	17,760
	-----	-----
	\$11,195	\$17,852
	=====	=====

</TABLE>

In connection with the Merger, Keystone's revolving credit facility was amended and increased from \$35 million to \$55 million. See Note 2. In addition, Keystone's term loan was increased from \$10.5 million to \$20 million, and the proceeds therefrom were used to reduce the revolving credit facility. The revolving credit facility, as amended, is collateralized primarily by the Company's trade receivables and inventories, bears interest at 1% over the prime rate and matures December 31, 1999. The effective interest rate at September 30, 1996 was 9.25%. The amount of available borrowings is based on formula-determined amounts of trade receivables and inventories, less the amount of outstanding letters of credit. Additional borrowings available were \$35.5 million at September 30, 1996. This credit facility requires the Company's daily cash receipts to be used to reduce the outstanding borrowings, which results in the Company maintaining zero cash balances.

The Company's term loan, as amended, bears interest at the prime rate plus 1%, and is due in monthly installments of \$.3 million plus accrued interest, through November 1999, with one final installment of the remaining principal and interest on December 31, 1999. The term loan is with the same financial institution that provides the Company's revolving credit facility and requires compliance with the restrictive covenants, security agreement and certain other terms of the revolving credit facility, and is further collateralized by the Company's property, plant and equipment. The term loan becomes due and payable if the Company's revolving credit facility is terminated.

The Company's credit agreements contain restrictive covenants including certain minimum working capital and net worth requirements and a prohibition against the payment of dividends on Keystone common stock without lender consent.

Note 5 - Income taxes:

The differences between the provision for income taxes and the amounts that would be expected using the U.S. federal statutory income tax rate of 35% are presented in the following table.

<TABLE>

<CAPTION>

	Nine months ended September 30,	

	1995	1996
	----	----
	(In thousands)	
<S>	<C>	<C>
Expected tax expense, at statutory rates	\$ 2,251	\$ 274
Impact of elimination of the pension liabilities adjustment component of stockholders' equity	-	8,509
Reduction of deferred income tax asset valuation allowance	-	(8,500)
U.S. state income taxes and other, net	290	36
	-----	-----
	\$ 2,541	\$ 319
	=====	=====

</TABLE>

The \$8.5 million impact of elimination of the pension liabilities adjustment component of stockholders' equity arises primarily because of the adoption of Statement of Financial Accounting Standards No. 109 in 1992, when the initial recognition of a deferred income tax asset related to the Company's accrued pension cost was recognized in earnings as part of the cumulative effect of change in accounting principle.

As a result of the merger of the defined benefit pension plans and the elimination of the Company's accrued pension cost, Keystone reduced its deferred income tax asset valuation allowance by \$8.5 million during the third quarter of 1996. The net deferred tax asset valuation allowance amounted to \$30 million

and \$21.5 million at December 31, 1995 and September 30, 1996, respectively.

Note 6 - Pension plans:

Simultaneous with the Merger, Keystone's three underfunded defined benefit pension plans were merged with and into DeSoto's overfunded defined benefit pension plan resulting in an overfunded plan for financial reporting purposes. As a result, Keystone's unrecognized pension obligation asset, additional minimum pension liability and pension liabilities adjustment component of stockholders' equity were eliminated.

The following table sets forth the estimated funded status of the Company's defined benefit pension plan at September 30, 1996.

<TABLE>

<CAPTION>

	September 30, 1996

	(In thousands)
<S>	<C>
Plan assets at fair value	\$313,610
Projected benefit obligation	263,658

Plan assets in excess of projected benefit obligation	49,952
Unrecognized net loss from experience different from actuarial assumptions	46,343
Unrecognized net obligation	7,008

Prepaid pension cost	\$103,303
	=====

</TABLE>

During the mid 1980's, Keystone received permission from the Internal Revenue Service to defer certain annual pension plan contributions. Such deferred amounts were payable to the plans, with interest, over a 15 year period. Due to the merger of the pension plans, the Company will no longer be required to make these deferred contributions provided the Plan maintains a specified funded status.

Note 7 - Other accrued liabilities:

<TABLE>

<CAPTION>

	December 31, 1995	September 30, 1996
	-----	-----
	(In thousands)	
<S>	<C>	<C>
Current:		
Salary, wages, vacations and other employee expenses	\$ 9,342	\$11,155

Environmental	4,111	6,637
Accrued excise tax and related interest	1,033	-
Accrued restructuring costs	-	5,414
Other	4,811	8,498
	-----	-----
	\$19,297	\$31,704
	=====	=====

Noncurrent:

Environmental	\$ 6,677	\$11,113
Other	1,334	3,703
	-----	-----
	\$ 8,011	\$14,816
	=====	=====

</TABLE>

Accrued restructuring costs at September 30, 1996 relate primarily to the closure or disposition of former DeSoto businesses.

Note 8 - Redeemable preferred stock:

In connection with the Merger, Keystone issued 435,458 shares of Keystone Series A Senior Preferred Stock for all of the outstanding preferred stock of DeSoto. The preferred stock may be redeemed by Keystone, in whole or, from time to time, in part, at a cash redemption price equal to \$8.0375 per share (or an aggregate of \$3.5 million) plus all accrued but unpaid dividends thereon, whether or not earned or declared (the "Liquidation Preference"), at any time after July 21, 1997 or at certain other times. Dividends are payable to holders of the preferred stock quarterly, at the rate of 8% of the Liquidation Preference. If such dividends are in arrears for four quarterly periods, dividends for any subsequent quarterly periods are payable to holders of the preferred stock at the rate of 10% of the Liquidation Preference. Redeemable preferred stock at September 30, 1996 includes \$1.6 million of cumulative unpaid dividends which were subsequently paid in October 1996.

Holders of the preferred stock are entitled to one vote for each share of such stock voting together as one class with holders of Keystone's common stock. If the accrued dividends for two or more quarterly dividend periods shall not have been paid to holders of any shares of the Company's preferred stock, holders of a majority of such stock shall have the exclusive right, voting as a separate class, to elect two directors of Keystone.

Note 9 - Contingencies:

Environmental matters. As discussed in the Annual Report, the Company is involved in the closure of inactive waste disposal units at its facility in Peoria, Illinois. In addition, the Company is subject to federal and state "Superfund" legislation at three sites involving cleanup of landfills and disposal facilities which allegedly received hazardous substances generated by discontinued operations of the Company. The Company has accrued its estimated

costs related to these issues. The Company believes its comprehensive general liability insurance policies provide indemnification for certain costs the Company incurs at the "Superfund" sites and has recorded receivables for the estimated insurance recoveries. There was no significant change in the status of these environmental matters during the first nine months of 1996.

As reported in the Joint Proxy Statement, DeSoto has been identified by government authorities as one of the parties responsible for the cleanup costs of waste disposal sites, many of which are "Superfund" sites, and for alleged contamination. In addition, damages are being claimed against DeSoto in private actions for alleged personal injury or property damage in the case of certain other waste disposal sites. The Company has deposited funds in restricted cash accounts in connection with certain of the Company's environmental liabilities. These deposits are shown as restricted investments on the accompanying balance sheet. DeSoto has access, under certain conditions, to a portion of these restricted investments for any expenses or liabilities incurred by DeSoto regarding certain sites. As such, a portion of these restricted investments are shown as a current asset on the accompanying consolidated balance sheet to the extent they relate to sites for which the Company has recognized a current accrued environmental liability.

For additional information related to commitments and contingencies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Annual Report and the Joint Proxy Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

The Company's principal operations are the manufacture and sale of carbon steel rod, wire and wire products for agricultural, industrial, construction, commercial, original equipment manufacturers and retail consumer markets. Historically, the Company has experienced greater sales and profits during the first half of the year due to the seasonality of sales in principal wire products markets, including the agricultural and construction markets. As discussed in Note 2 to the Consolidated Financial Statements, on September 27, 1996, the Company acquired DeSoto, and DeSoto became a wholly-owned subsidiary of Keystone. DeSoto manufactures household cleaning products including powdered and liquid laundry detergents and performs contract manufacturing and packaging of household cleaning products. On a pro forma basis, the DeSoto operations would have added \$14.4 million and \$11.6 million to the consolidated revenues of the Company during the nine month periods ended September 30, 1995 and 1996, respectively.

The statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts including, but not limited to, statements found in this Item 2 - Management's Discussion And Analysis Of Financial Condition And Results Of Operations, are forward looking statements that involve a number of risks and uncertainties. Factors that could cause actual future results to differ materially from those expressed in such forward looking statements

include, but are not limited to, cost of raw materials, future supply and demand for the Company's products (including seasonality thereof), general economic conditions, competitive products and substitute products, customers and

competitor strategies, the impact of price and production decisions, environmental matters, government regulations and possible changes therein, and the ultimate resolution of pending litigation and possible future litigation as discussed in this Quarterly Report and the Annual Report, including, without limitation, the section referenced above.

During the third quarter of 1996, billet production at the Company's steel mill in Peoria, Illinois of 172,000 tons increased 11% from production in the comparable 1995 period. This increase was primarily a result of down-time associated with equipment repairs and electrical power refusals and interruptions during the 1995 third quarter. The Company purchases electrical energy from a regulated utility under an interruptible service contract which provides for more economical electricity rates but allows the utility to refuse or interrupt power during periods of peak demand. Billet production of 481,000 tons for the first nine months of 1996 approximated that of the comparable 1995 period as the increased production in the third quarter of 1996 was offset by lower production levels during the first quarter of 1996 due to start-up problems in January 1996 following the annual maintenance shut-down and abnormally cold weather.

The Company's billet production capacity is less than its rod production capacity, and as such, the Company periodically purchases billets from other manufacturers to increase the utilization of its Peoria rod mill and thus assure the Company's ability to meet customer orders. The decision to purchase billets depends on billet prices, product demand and other market conditions. The Company purchased 36,000 tons of billets during the first nine months of 1996 compared to 56,000 tons in the first nine months of 1995. The Company currently

anticipates purchasing 11,000 tons of billets during the remainder of 1996 whereas 5,000 tons were purchased during the last quarter of 1995.

Rod production during the third quarter of 1996 was 179,000 tons, up 22% from the 1995 third quarter. This third quarter increase was primarily a result of lower billet production and purchases as well as power refusals and interruptions during the 1995 period. Rod production of 516,000 tons during the first nine months of 1996 was 3% higher than in the comparable 1995 period as elimination of the third quarter 1995 production problems was partially offset primarily by unscheduled downtime due to the 1996 first quarter start-up and weather problems and rod mill equipment failures.

Net sales for the third quarter of 1996 approximated those of the comparable 1995 quarter as a 3% decline in average selling prices offset a 2% increase in tons sold. Tons of rod and wire sold each increased 4% to 75,000 tons and 43,000 tons, respectively, while tons of wire products sold declined 2% to 55,000 tons. Rod, wire and wire products per ton selling prices declined during the third quarter of 1996 approximately 4%, 2% and 1%, respectively, from the per ton selling prices during the same quarter in 1995. Wire and wire products are sold at higher per ton selling prices than rod.

Net sales for the first nine months of 1996 declined \$16.4 million, or 6% from the comparable 1995 period. Sales were adversely impacted by a decline in per ton selling prices for rod, wire and wire products of 10%, 4% and 3%, respectively. Total tons of product sold during the first nine months of 1996 approximated those of the comparable 1995 period as tons of rod sold increased 10% to 232,000 tons while tons of wire and wire products sold decreased by 1% and 12%, respectively, to 122,000 tons and 294,000 tons, respectively.

Although total sales tonnage in the third quarter of 1996 increased over the

comparable 1995 period, sales tonnage for the first nine months of 1996 only

approximated the 1995 nine-month period. The Company believes this was a result of several factors, occurring primarily in the 1996 first quarter, including customers adjusting inventory levels, new capacity from U.S. competitors and increased imports due to market weaknesses in other parts of the world. The Company also believes these pressures softened somewhat in the second and third quarters of 1996 as evidenced by a 7% year-to-year increase in order backlog at September 30, 1996 (as compared to a 38% year-to-year decline in order backlog at March 31, 1996). The Company currently expects 1996 fourth quarter revenues to increase over those of the 1995 fourth quarter with higher sales tonnage being partially offset by lower overall sales prices.

Gross profit was \$8.2 million for the third quarter of 1996, an increase of \$1.7 million from the comparable 1995 period, as the gross profit margin increased to 9.9% from 7.9%. This increase is primarily the result of lower costs for scrap steel, the Company's primary raw material, more than offsetting lower selling prices and increased rod conversion costs. Conversely, gross profit of \$20.6 million for the first nine months of 1996 was \$4.7 million lower than the same 1995 period as year-to-date gross profit margins decreased to 8.2% from 9.4%. This decrease is primarily the result of lower selling prices and a 9% year-to-year increase in rod conversion costs caused, in part, by the 1996 first quarter start-up problems, unscheduled downtime and rod mill equipment failures as well as a 27% year-to-year increase in the cost of natural gas. Scrap steel prices were approximately 2% lower during the third quarter of 1996 as compared to the same 1995 period, while scrap costs during the first nine months of 1996 approximated those of the same 1995 period. Scrap steel costs are currently expected to decline from current levels during the last quarter of 1996.

Selling expenses, as a percentage of net sales, approximated 1995 levels during the respective 1996 periods. General and administrative expenses, as a percentage of net sales, increased to 6% in the third quarter of 1996 as

compared to 4% in the comparable 1995 period primarily as a result of increased environmental and employee related expenses. General and administrative expenses for the first nine months, as a percentage of net sales, increased to 6% from 5% between the 1995 and 1996 periods also primarily as a result of increased environmental and employee related expenses as well as increased insurance costs and costs incurred in connection with a possible joint venture related to recovery of zinc and other metals from electric arc furnace dust. Discussions with the potential joint venture partner were discontinued and the incurred costs were charged to expense. Interest expense in the 1996 periods approximated the 1995 periods as lower interest rates were offset by increased borrowings under the Company's revolving credit facility.

LIQUIDITY AND CAPITAL RESOURCES:

The Company's cash flows from operating activities are affected by the seasonality of its business as sales of certain products used in the agricultural and construction industries are typically highest during the second quarter and lowest during the fourth quarter of each year. These seasonal fluctuations, as well as the normal December shutdown for maintenance and repairs at the Company's Peoria, Illinois facility impact the timing of production, sales and purchases.

At September 30, 1996, the Company had a working capital deficit of \$15.5

million. Notes payable and current long-term debt, deductions in the computation of working capital, aggregated \$17.8 million, and included outstanding borrowings of \$14.1 million under the Company's \$55 million revolving credit facility. The amount of available borrowings is based on formula-determined amounts of trade receivables and inventories, less the amount of outstanding letters of credit, and additional borrowings available were \$35.5 million at September 30, 1996. The Company's daily cash receipts are required to be used to reduce the outstanding borrowings, which results in the Company

maintaining zero cash balances. Borrowings under the revolving credit facility mature December 31, 1999.

Capital expenditures during the first nine months of 1996 amounted to \$10.4 million and are currently estimated to approximate \$15 million for the full year. The Company's capital expenditures for the years 1995 and 1996 are relatively high, as compared to levels of the six preceding years, due to modernization and expansion of the Company production facilities as well as a new management information system at the Company's Peoria facility.

During the first nine months of 1996, the Company's pension plans had an investment return of approximately 14.2% (an annualized rate of approximately 18.9%). This rate of return exceeds the actuarially assumed annual rate of return of 10% and, as a result, reduced the Company's pre-merger pension liability and pension liabilities adjustment component of stockholders' equity. At September 30, 1996, approximately 49% of the Company's pension plan's assets are invested in a collective investment trust (the "Collective Trust") for Contran and its affiliates (prior to the Merger, significantly all of the plan assets were invested in the Collective Trust). At September 30, 1996, approximately one-fourth of the Collective Trust's assets relate to a single security. This security has increased in value by approximately 26% since December 31, 1995 and, as such, was a significant factor in the 14.2% overall return for the first nine months of 1996. Variances from actuarial assumptions, including the rate of return on pension plan assets and discount rate, will result in increases or decreases in prepaid pension costs, deferred taxes, pension expense and funding requirements in future periods.

The merger of Keystone's underfunded defined benefit pension plans with and into DeSoto's overfunded defined benefit pension plan following the Merger is expected to result in lower pension contributions and pension expense than Keystone has historically experienced. The anticipated increase in cash flows

due to lower pension contributions is expected to eventually more than offset the cash payments to be made as a result of the Merger. Pension contributions during the first nine months of 1996 amounted to \$9.7 million. No further contributions will be required during 1996.

As discussed in Note 2 to the Consolidated Financial Statements, pursuant to the terms of the Merger, Keystone was obligated to, and has caused DeSoto to pay, approximately \$5.9 million in October 1996 to certain of DeSoto's trade creditors. In addition, Keystone was required to, and paid in October 1996, the holders of DeSoto's preferred stock all dividend arrearages (approximately \$1.6 million). Although the Company has obtained a \$20 million increase, to \$55 million, in its revolving credit facility, the availability of borrowings under this agreement will likely be limited to a lower amount due to certain borrowing base limitations. As a result of the Merger related transactions and lower than expected sales and earnings during the first nine months of 1996, Keystone will likely experience borrowing constraints in the short-term and may need to seek

additional increases in its borrowing base limitations during the first quarter of 1997 to provide additional liquidity.

Management's budget, as revised to consider the Merger and related transactions, provides for sufficient cash flows from operations and financing activities to meet its anticipated operating needs for 1997. This budget is based upon management's assessment of various financial and operational factors including, but not limited to, assumptions relating to product shipments, product mix and selling prices; production schedules; productivity rates; raw materials, electricity, labor, employee benefit and other fixed and variable costs; working capital requirements; interest rates; repayments of long-term debt; capital expenditures; and borrowing base limitations and resulting availability under the Company's credit facilities. However, any significant decline in the Company's markets, market share or selling prices, any inability to maintain satisfactory billet and rod production levels, any significant

increase in the cost of scrap steel, or any other significant unanticipated costs, could result in a need for funds greater than the Company currently has available. There can be no assurance the Company would be able to obtain an adequate amount of additional financing. Additionally, potential liabilities under environmental laws and regulations with respect to the clean-up and disposal of wastes beyond present accruals, or any significant increase in the cost of providing medical coverage to active and retired employees, could have a material adverse affect on the future liquidity, financial condition or results of operations of the Company.

PART II.

ITEM 1. Legal Proceedings

Reference is made to disclosure provided under the caption "Current litigation" in Note 13 to the Consolidated Financial Statements included in the Annual Report.

Note 9 to the Consolidated Financial Statements is incorporated herein by reference.

PART III.

ITEM 2. Changes in securities

In connection with the Merger, Keystone designated and issued 440,000 and 435,458 shares, respectively, of Series A Senior Preferred Stock. Such preferred stock has liquidation and dividend rights senior to Keystone's common stock.

Notes 2 and 8 to the Consolidated Financial Statements are incorporated herein by reference.

ITEM 4. Submission of Matters to a Vote of Security Holders

On September 27, 1996 a special meeting of the stockholders of Keystone was held for the purpose of voting upon a proposal to approve the issuance of Keystone common stock pursuant to an Agreement and Plan of Reorganization dated as of June 26, 1996 between Keystone and DeSoto (the "Agreement").

Results of voting at the special meeting are detailed below (5,686,424 shares were issued, outstanding and entitled to vote at the meeting).

For	4,507,575
Withheld	23,159
Abstained	8,557

	4,539,291
	=====

After approval by the Keystone stockholders and the DeSoto stockholders at a similar meeting, the merger was consummated on September 27, 1996.

Pursuant to the Agreement, the Keystone Board of Directors was expanded to include William Spier and William P. Lyons, two directors of DeSoto, upon consummation of the merger.

ITEM 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

- 2.1 Agreement and Plan of Reorganization, dated as of June 26, 1996, between Registrant and DeSoto, Inc. (Incorporated by reference to Exhibit 2.1 of Registrant's Registration Statement on Form S-4 (Registration No. 333-09117)).
- 10.1 First Amendment to Amended and Restated Revolving Loan and Security Agreement dated as of September 27, 1996 between Registrant and Congress Financial Corporation (Central).
- 10.2 First Amendment to Term Loan and Security Agreement dated as of September 27, 1996 between Registrant and Congress Financial Corporation (Central).
- 10.3 Preferred Stockholder Waiver and Consent Agreement between Registrant, Coatings Group, Inc., Asgard, Ltd. and Parkway M&A Capital Corporation, (collectively, the "Sutton Entities") dated June 26, 1996. (Incorporated by reference to Exhibit 10.7 of Registrant's Registration Statement on Form S-4 (Registration No. 333-09117)).
- 10.4 Warrant Conversion Agreement between the Sutton Entities and Registrant dated June 26, 1996. (Incorporated by reference to Exhibit 10.9 of Registrant's Registration Statement on Form S-4 (Registration No. 333-09117)).
- 10.5 Stockholders Agreement by and Among Registrant, the Sutton Entities, DeSoto and Contran, dated June 26, 1996. (Incorporated by reference to

27.1 Financial Data Schedule for the nine month period ended September
30, 1996.

(b) Reports on Form 8-K filed during the quarter ended September 30, 1996:

A current report on Form 8-K, dated as of September 27, 1996, was filed to
report under Item 2 that the Company had merged with DeSoto, Inc.

S I G N A T U R E S

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.

Keystone Consolidated Industries, Inc.

(Registrant)

Date: November 14, 1996

By /s/Harold M. Curdy

Harold M. Curdy
Vice President - Finance/Treasurer
(Principal Financial Officer)

Date: November 14, 1996

By /s/Bert E. Downing, Jr.

Bert E. Downing, Jr.

Corporate Controller
(Principal Accounting Officer)

S I G N A T U R E S

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.

Keystone Consolidated Industries, Inc.

(Registrant)

Date: November 14, 1996

By

Harold M. Curdy

Vice President - Finance/Treasurer
(Principal Financial Officer)

Date: November 14, 1996

By

Bert E. Downing, Jr.
Corporate Controller
(Principal Accounting Officer)

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The schedule contains summary financial information extracted from Keystone Consolidated Industries, Inc.'s consolidated financial statements for the nine months ended September 30, 1996 and is qualified in its entirety by reference to such.

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EXHIBIT 10.1

FIRST AMENDMENT TO AMENDED AND RESTATED
REVOLVING LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT (the "First Amendment") is entered into as of September , 1996 by and between KEYSTONE CONSOLIDATED INDUSTRIES, INC., a Delaware corporation ("Borrower"), and CONGRESS FINANCIAL CORPORATION (CENTRAL), an Illinois corporation ("Lender"). Except for terms which are expressly defined herein, all capitalized terms used herein shall have the meaning subscribed to them in the Loan Agreement (as defined below).

RECITALS

WHEREAS, Borrower and Lender are parties to that certain Amended And Restated Revolving Loan And Security Agreement, dated as of December 29, 1995 (the "Loan Agreement").

WHEREAS, Borrower has requested that Lender amend the Loan Agreement to provide for, among other things, the DeSoto Acquisition and to provide further financial accommodations under the Loan Agreement.

WHEREAS, Lender is willing to amend the Loan Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

I. AMENDMENTS TO THE LOAN AGREEMENT.

A. Introduction/Preamble. The introductory provisions of the Loan

Agreement are hereby amended to change the reference to Lender as being a Delaware corporation to reflect the fact that Lender is, in fact, an Illinois corporation. All references, at any time, to Lender are intended to refer to such Illinois corporation.
Joint Venture. All references to the "Joint Venture," the "Joint

Venture Credit Facility," and the "Joint Venture Guarantee" are hereby deleted in their entirety.

B. Definitions.

1. Section 1 of the Loan Agreement is hereby amended by adding the following defined terms in the appropriate alphabetical order:
 - a) "Caldwell" shall mean Sherman Wire of Caldwell, Inc.
 - b) "DeSoto Loan Agreement" shall mean that certain Revolving Loan and Security Agreement dated as of September , 1996,
--
by and between Congress and DSO Acquisition Corporation, a Delaware corporation.
 - c) "DeSoto Acquisition" shall mean the merger of DSO Acquisition Corporation with and into DeSoto, Inc. pursuant to the terms of the Agreement and Plan of Reorganization (the "Merger Agreement") dated June 26, 1996, by and between DeSoto, Inc. and Borrower.
 - d) "Eligible Borrower Accounts" shall mean Accounts created by Borrower which are and continue to be acceptable to Lender based on the criteria set forth below. In general, Accounts shall be Eligible Borrower Accounts if:
 - (a) such Accounts arise from the actual and bona fide

sale and delivery of goods by Borrower or rendition of services by Borrower in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;
 - (b) such Accounts are not unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the due date of the original invoice for them;
 - (c) such Accounts comply with the terms and conditions contained in Section 7.2(c) of this Agreement;
 - (d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;
 - (e) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, or, at Lender's option, if either: (i) the account debtor has delivered

to Borrower an irrevocable letter of credit issued or confirmed by a bank reasonably satisfactory to Lender, sufficient to cover such Account, in form and substance reasonably satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

- (f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Lender shall have received an agreement in writing from the account debtor, in form and substance reasonably satisfactory to Lender, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;
- (g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of setoff against such Accounts;
- (h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
- (i) such Accounts are subject to the first priority, valid and perfected security interest of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;
- (j) except for Engineered Wire Products, neither the account debtor nor any director, officer or employee of the account debtor with respect to such Accounts is an officer, director or employee of or is affiliated with Borrower directly or indirectly by virtue of family membership, ownership, control, management or otherwise;

- (k) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner reasonably satisfactory to Lender;
- (l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;
- (m) such Accounts of a single account debtor (when combined with Accounts owing by such account debtor to Caldwell and Fox Valley) or its affiliates do not constitute more than fifty (50%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Borrower Accounts);
- (n) such Accounts are not owed by an account debtor who has Accounts (when combined with Accounts owing by such account debtor to Caldwell and Fox Valley) which are unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the due date of the original invoice for them, which constitute more than fifty (50%) percent of the total Accounts owed to Borrower, Caldwell and Fox Valley by such account debtor;
- (o) such Accounts are owed by account debtors whose total indebtedness to Borrower does not exceed the credit limit, if any, with respect to such account debtors as established by Lender from time to time (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Borrower Accounts); and
- (p) such Accounts are not owed by account debtors which Lender has advised Borrower in writing are

not deemed to be creditworthy by Lender;

General criteria for Eligible Borrower Accounts may be established and revised from time to time by Lender in good faith. Any Accounts which are not Eligible Borrower Accounts shall nevertheless be part of the Collateral.

- e) "Eligible Borrower Inventory" shall mean that Inventory of Borrower which is and at all times continues to be acceptable to Lender in all respects. Standards of eligibility may be fixed and revised from time to time solely by Lender in its exclusive judgment. In determining eligibility Lender may, but is not required to, rely on reports and schedules of Inventory furnished by Borrower, but reliance by Lender thereon from time to time shall not be deemed to limit Lender's right to revise standards of eligibility at any time as to both present and future Inventory. In general and without limiting Lender's discretion, Eligible Borrower Inventory shall not include:
- (a) work-in-process (other than work-in-process of Keystone Steel and Wire Division of Borrower);
 - (b) components which are not part of finished goods;
 - (c) spare parts for equipment (other than expendable spare parts of equipment that are used on Borrower's machinery and which have not been installed in any of the equipment);
 - (d) supplies used or consumed in Borrower's business (other than steel used or consumed by Borrower in the process of manufacturing Inventory);
 - (e) Inventory at premises other than those owned and controlled by Borrower, except if Lender shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Lender acknowledging Lender's first priority security interest in the Inventory, waiving security interests and claims by such person against the Inventory and permitting Lender access to, and the right to remain on, the premises so as to exercise Lender's rights and remedies and otherwise deal with the Collateral;
 - (f) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement;

- (g) bill and hold goods;
- (h) Inventory, which in Lender's discretion is unserviceable, obsolete or slow moving;
- (i) Inventory which is not subject to the first priority, valid and perfected security interest of Lender;
- (j) returned, damaged and/or defective Inventory; and
- (k) Inventory purchased or sold on consignment.

General criteria for Eligible Borrower Inventory may be established and revised from time to time by Lender in good faith. Any Inventory which is not Eligible Borrower Inventory shall nevertheless be part of the Collateral.

f) "Eligible Caldwell Accounts" shall mean Accounts created by Caldwell which are and continue to be acceptable to Lender based on the criteria set forth below. In general, Accounts shall be Eligible Caldwell Accounts if:

(a) such Accounts arise from the actual and bona fide

sale and delivery of goods by Caldwell or rendition of services by Caldwell in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts are not unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the due date of the original invoice for them;

(c) such Accounts comply with the terms and conditions contained in Section 7.2(c) of this Agreement;

(d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;

(e) the chief executive office of the account debtor with respect to such Accounts is located in the

United States of America, or, at Lender's option, if either: (i) the account debtor has delivered to Caldwell an irrevocable letter of credit issued or confirmed by a bank reasonably satisfactory to Lender, sufficient to cover such Account, in form and substance reasonably satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

- (f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Lender shall have received an agreement in writing from the account debtor, in form and substance reasonably satisfactory to Lender, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;
- (g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of setoff against such Accounts;
- (h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
- (i) such Accounts are subject to the first priority, valid and perfected security interest of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;
- (j) neither the account debtor nor any director, officer or employee of the account debtor with respect to such Accounts is an officer, director or employee of or is affiliated with Borrower or Caldwell directly or indirectly by virtue of

family membership, ownership, control, management or otherwise;

- (k) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner reasonably satisfactory to Lender;
- (l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;
- (m) such Accounts of a single account debtor (when combined with Accounts owing by such account debtor to Borrower and Fox Valley) or its affiliates do not constitute more than fifty (50%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Caldwell Accounts);
- (n) such Accounts are not owed by an account debtor who has Accounts (when combined with Accounts owing by such account debtor to Borrower and Fox Valley) which are unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the due date of the original invoice for them, which constitute more than fifty (50%) percent of the total Accounts owed to Borrower, Caldwell and Fox Valley by such account debtor;
- (o) such Accounts are owed by account debtors whose total indebtedness to Caldwell does not exceed the credit limit, if any, with respect to such account debtors as established by Lender from time to time (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Caldwell Accounts); and

- (p) such Accounts are not owed by account debtors which Lender has advised Caldwell in writing are not deemed to be creditworthy by Lender;

General criteria for Eligible Caldwell Accounts may be established and revised from time to time by Lender in good faith. Any Accounts which are not Eligible Caldwell Accounts shall nevertheless be part of the Collateral.

- g) "Eligible Caldwell Inventory" shall mean that Inventory of Caldwell which is and at all times continues to be acceptable to Lender in all respects. Standards of eligibility may be fixed and revised from time to time solely by Lender in its exclusive judgment. In determining eligibility Lender may, but is not required to, rely on reports and schedules of Inventory furnished by Caldwell, but reliance by Lender thereon from time to time shall not be deemed to limit Lender's right to revise standards of eligibility at any time as to both present and future Inventory. In general and without limiting Lender's discretion, Eligible Caldwell Inventory shall not include:
 - (a) work-in-process;
 - (b) components which are not part of finished goods;
 - (c) spare parts for equipment;
 - (d) supplies used or consumed in Caldwell's business (other than steel used or consumed by Caldwell in the process of manufacturing Inventory);
 - (e) Inventory at premises other than those owned and controlled by Caldwell, except if Lender shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Lender acknowledging Lender's first priority security interest in the Inventory, waiving security interests and claims by such person against the Inventory and permitting Lender access to, and the right to remain on, the premises so as to exercise Lender's rights and remedies and otherwise deal with the Collateral;
 - (f) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement;
 - (g) bill and hold goods;

- (h) Inventory, which in Lender's discretion is unserviceable, obsolete or slow moving;
- (i) Inventory which is not subject to the first priority, valid and perfected security interest of Lender;
- (j) returned, damaged and/or defective Inventory; and
- (k) Inventory purchased or sold on consignment.

General criteria for Eligible Caldwell Inventory may be established and revised from time to time by Lender in good faith. Any Inventory which is not Eligible Caldwell Inventory shall nevertheless be part of the Collateral.

h) "Eligible Fox Valley Accounts" shall mean Accounts created by Fox Valley which are and continue to be acceptable to Lender based on the criteria set forth below. In general, Accounts shall be Eligible Fox Valley Accounts if:

(a) such Accounts arise from the actual and bona fide

sale and delivery of goods by Fox Valley or rendition of services by Fox Valley in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts are not unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the due date of the original invoice for them;

(c) such Accounts comply with the terms and conditions contained in Section 7.2(c) of this Agreement;

(d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;

(e) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, or, at Lender's option,

if either: (i) the account debtor has delivered to Fox Valley an irrevocable letter of credit issued or confirmed by a bank reasonably satisfactory to Lender, sufficient to cover such Account, in form and substance reasonably satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

- (f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Lender shall have received an agreement in writing from the account debtor, in form and substance reasonably satisfactory to Lender, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;
- (g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of setoff against such Accounts;
- (h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;
- (i) such Accounts are subject to the first priority, valid and perfected security interest of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;
- (j) neither the account debtor nor any director, officer or employee of the account debtor with respect to such Accounts is an officer, director or employee of or is affiliated with Borrower or Fox Valley directly or indirectly by virtue of

family membership, ownership, control, management or otherwise;

- (k) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner reasonably satisfactory to Lender;
- (l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;
- (m) such Accounts of a single account debtor (when combined with Accounts owing by such account debtor to Borrower and Caldwell) or its affiliates do not constitute more than fifty (50%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Fox Valley Accounts);
- (n) such Accounts are not owed by an account debtor who has Accounts (when combined with Accounts owing by such account debtor to Borrower and Caldwell) which are unpaid for the lesser of (i) more than ninety (90) days after the date of the original invoice for them or (ii) more than sixty (60) days after the date of the original invoice for them, which constitute more than fifty (50%) percent of the total Accounts owed to Borrower, Caldwell and Fox Valley by such account debtor;
- (o) such Accounts are owed by account debtors whose total indebtedness to Fox Valley does not exceed the credit limit, if any, with respect to such account debtors as established by Lender from time to time (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Fox Valley Accounts); and
- (p) such Accounts are not owed by account debtors which Lender has advised Fox Valley in writing are

not deemed to be creditworthy by Lender;

General criteria for Eligible Fox Valley Accounts may be established and revised from time to time by Lender in good faith. Any Accounts which are not Eligible Fox Valley Accounts shall nevertheless be part of the Collateral.

- i) "Eligible Fox Valley Inventory" shall mean that Inventory of Fox Valley which is and at all times continues to be acceptable to Lender in all respects. Standards of eligibility may be fixed and revised from time to time solely by Lender in its exclusive judgment. In determining eligibility Lender may, but is not required to, rely on reports and schedules of Inventory furnished by Fox Valley, but reliance by Lender thereon from time to time shall not be deemed to limit Lender's right to revise standards of eligibility at any time as to both present and future Inventory. In general and without limiting Lender's discretion, Eligible Fox Valley Inventory shall not include:
- (a) work-in-process;
 - (b) components which are not part of finished goods;
 - (c) spare parts for equipment;
 - (d) supplies used or consumed in Fox Valley's business (other than steel used or consumed by Fox Valley in the process of manufacturing Inventory);
 - (e) Inventory at premises other than those owned and controlled by Fox Valley, except if Lender shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Lender acknowledging Lender's first priority security interest in the Inventory, waiving security interests and claims by such person against the Inventory and permitting Lender access to, and the right to remain on, the premises so as to exercise Lender's rights and remedies and otherwise deal with the Collateral;
 - (f) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement;
 - (g) bill and hold goods;
 - (h) Inventory, which in Lender's discretion is

unserviceable, obsolete or slow moving;

- (i) Inventory which is not subject to the first priority, valid and perfected security interest of Lender;
- (j) returned, damaged and/or defective Inventory; and
- (k) Inventory purchased or sold on consignment.

General criteria for Eligible Fox Valley Inventory may be established and revised from time to time by Lender in good faith. Any Inventory which is not Eligible Fox Valley Inventory shall nevertheless be part of the Collateral.

- j) "Fox Valley" shall mean Fox Valley Steel & Wire Company.
- k) "GAAP" shall mean generally accepted accounting principles in the United States of America including the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Boards which are applicable to the circumstances as of the date hereof.
- l) "Inventory Cap Adjustment" shall mean, at any time, the amount, if any, by which the Inventory Utilization exceeds \$20,000,000.
- m) "Inventory Utilization" shall mean, at any time, the total outstanding amount of (i) the sum of (a) Revolving Loans, (b) Letter of Credit Accomodations, (c) "Revolving Loans" as defined under the DeSoto Loan Agreement, and (d) "Letter of Credit Accomodations" as defined under the DeSoto Loan Agreement, less (ii) the sum of the amounts then being

included in the Borrowing Base (or, with respect to DeSoto, Inc., the borrowing formulas applicable in the DeSoto Loan Agreement) by virtue of (w) Section 2.1(a)(i)(A) hereof, (x) Section 2.1(a)(ii)(B)(i) hereof, (y) Section 2.1(a)(iii)(B)(i) hereof, and (z) Section 2.1(a)(i)(A) of the DeSoto Loan Agreement.
- n) "Net Amount of Eligible Caldwell Accounts" shall mean the gross amount of Eligible Caldwell Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.

- o) "Net Amount of Eligible Fox Valley Accounts" shall mean the gross amount of Eligible Fox Valley Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.
- p) "Net Amount of Eligible Borrower Accounts" shall mean the gross amount of Eligible Borrower Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.
- q) "Person" shall mean an individual, a partnership, a corporation, a trust, an unincorporated organization, a government or any department or agency thereof or any other entity.
- r) "Solvent" shall mean, as to any Person, that (i) the sum of the assets of such Person, both at a fair valuation and at present fair salable value, will exceed its liabilities, including contingent liabilities, (ii) such Person will have sufficient capital with which to conduct its business as presently conducted and as proposed to be conducted and (iii) such Person has not incurred debts, and does not intend to incur debts, beyond its ability to pay such debts as they mature. For purposes of this definition, "debt" means any liability on a claim, and "claim" means (x) a right to payment, whether or not such right is reduced to judgment, liquidated, disputed, undisputed, legal, equitable, secured, or unsecured, or (y) a right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured. With respect to any such contingent liabilities, such liabilities shall be computed at the amount which, in light of all the facts and circumstances existing at the time, represents the amount which can reasonably be expected to become an actual or matured liability.

2. The definition of "Eligible Accounts" set forth in Section 1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Eligible Accounts" shall mean (i) Eligible Borrower Accounts, (ii) Eligible Caldwell Accounts, and (iii) Eligible Fox Valley Accounts.

3. The definition of "Eligible Inventory" set forth in Section 1 of

the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Eligible Inventory" shall mean (i) Eligible Borrower Inventory, (ii) Eligible Caldwell Inventory, and (iii) Eligible Fox Valley Inventory.

4. The definition of "Inventory" set forth in Section 1 of the Loan Agreement is hereby amended and restated as follows:

"Inventory" shall mean all of Borrower's, or, when used in the definition of Caldwell Eligible Inventory or Fox Valley Eligible Inventory, Caldwell's or Fox Valley's (as applicable), now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located and all wrapping, packaging, advertising and shipping materials, and any documents relating thereto, and all labels and other devices, names and marks affixed or to be affixed thereto for purposes of selling or of identifying the same or the seller or manufacturer thereof, and all right, title and interest of Borrower, or, when used in the definition of Caldwell Eligible Inventory or Fox Valley Eligible Inventory, Caldwell or Fox Valley (as applicable) therein and thereto, wherever located, whether now owned or hereafter acquired by Borrower, or, when used in the definition of Caldwell Eligible Inventory or Fox Valley Eligible Inventory, Caldwell or Fox Valley (as applicable).

5. The definition of "Maximum Credit" set forth in Section 1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Maximum Credit" shall mean the amount of \$55,000,000.00.

6. The definition of "Net Amount of Eligible Accounts" set forth in Section 1 of the Loan Agreement is hereby deleted in its entirety.

7. The definition of "Tangible Net Worth" set forth in Section 1 of the Loan Agreement is hereby amended by inserting ", on a consolidated basis" immediately between "(GAAP)" and the comma on the third line thereof.

- C. Section 2.1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

2.1 Revolving Loans.

(a) Subject to, and upon the terms and conditions contained herein, Lender may, in its sole discretion, agree to make Revolving Loans to Borrower from time to time in amounts requested by Borrower up to the amount which is equal to the sum of:

(i) the sum of:

(a) eighty-five percent (85%) of the Net Amount of Eligible Borrower Accounts,
plus

(b) the sum of (a) sixty percent (60%) of the value of Eligible Borrower Inventory which constitutes finished goods and (b) the sum of fifty percent (50%) of Eligible Borrower Inventory excluding finished goods; plus

(ii) provided that Caldwell is Solvent at the time of the proposed Revolving Loans, the sum of:

(a) the lesser of \$3,500,000, or

(b) (i) eighty-five percent (85%) of Eligible Caldwell Accounts; plus (ii)

the sum of (x) sixty percent (60%) of the value of Eligible Caldwell Inventory which constitutes finished goods and (y) fifty percent (50%) of the value of Eligible Caldwell Inventory excluding finished goods; plus

(iii) provided that Fox Valley is Solvent at the time of the proposed Revolving Loans, the sum of:

(a) the lesser of \$2,500,000, or

(b) (i) eighty-five percent (85%) of

Eligible Fox Valley Accounts; plus (ii)

the sum of (x) sixty percent (60%) of
Eligible Fox Valley Inventory which
constitutes finished goods and (y) fifty
percent (50%) of the value of Eligible
Fox Valley Inventory excluding finished
goods; less

(iv) any Availability Reserves; less

the Inventory Cap Adjustment (the calculation
determined in this Section 2.1(a) is
hereinafter referred to as the "Borrowing
Base").

(b) Lender may, in its discretion, from time to time, upon not less than five (5) days prior notice to Borrower, (i) reduce the lending formula with respect to Eligible Accounts to the extent that Lender determines in good faith that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may be reasonably anticipated to increase in any material respect above historical levels, or (B) the general creditworthiness of account debtors has declined or (ii) reduce the lending formula(s) with respect to Eligible Borrower Inventory, Eligible Caldwell Inventory and Eligible Fox Valley Inventory to the extent that Lender determines that: (A) the number of days of the turnover of the Inventory for any period has changed in any material respect or (B) the liquidation value of the Eligible Inventory or any category thereof, has decreased, or (C) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the lending formula(s), Lender may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory or in establishing Availability Reserves.

(c) Except in Lender's discretion, the aggregate

amount of the Revolving Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the Maximum Credit minus the

aggregate amount of the "Revolving Loans" (as defined and used in the DeSoto Loan Agreement) and the "Letter of Credit Accommodations" (as defined and used in the DeSoto Loan Agreement). In the event that the outstanding amount of any component of the Revolving Loans, or the aggregate amount of the outstanding Revolving Loans and Letter of Credit Accommodations, exceed the amounts available under the lending formulas, the sublimits for Letter of Credit Accommodations set forth in Section 2.2(c) or the Maximum Credit, as applicable, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and Borrower shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of any such excess(es) for which payment is demanded.

- D. Section 5.2 of the Loan Agreement is hereby amended by inserting "investment property," between the words "letters of credit," and "bankers' acceptances" in the sixth line thereof.
- E. The first sentence of Section 8.1 of the Loan Agreement is hereby amended and restated to read as follows:

Borrower is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states and jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary.

- F. Section 8 of the Loan Agreement is hereby amended by inserting the following immediately after Section 8.12 thereof:

Subsidiary Representations. Borrower represents

and warrants that all of the representations set forth in Section 8 are true and correct with respect to Caldwell and Fox Valley as if they were made by each of Caldwell and Fox Valley with respect to the various assets, businesses and operations of Caldwell and Fox Valley

respectively. Borrower shall immediately notify Lender, or cause each of Caldwell and Fox Valley to notify Lender, of any fact or circumstance which would cause this Section 8.13 to be untrue.

- G. Section 9 of the Loan Agreement is hereby amended by inserting the following immediately after Section 9.19 thereof:

Subsidiary Covenants. All of the covenants in

Sections 9.1, 9.2, 9.3, 9.4, 9.5, 9.6(d), 9.7, 9.8, 9.9, 9.10, 9.12, 9.15, 9.16, 9.17, 9.18 and 9.19 shall apply with respect to Caldwell and Fox Valley as if such covenants were made by each of Caldwell and Fox Valley with respect to their respective assets, businesses and operations. Borrower shall immediately notify Lender, or cause each of Caldwell and Fox Valley to notify Lender, of any fact or circumstance which would violate this Section 9.20.

- H. Section 9.6(d) is hereby amended by inserting "Borrower shall furnish or cause to be furnished to Lender, on a monthly basis, (i) separate financial statements showing current financial data for each of DeSoto, Inc., Caldwell and Fox Valley, and (ii) the information required by Lender to reflect and monitor the assets which are used to determine the Borrowing Base." immediately after the period in the twelfth line therein.
- I. Section 9.7 of the Loan Agreement is hereby amended by inserting the following sentence immediately following the last sentence thereof: "Notwithstanding the foregoing, Lender hereby authorizes the DeSoto Acquisition in accordance with the Merger Agreement."
- J. Section 9.9 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

Indebtedness. Borrower shall not, nor permit

Caldwell or Fox Valley to, incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except (a) the Obligations; (b)

trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which the Borrower, Caldwell or Fox Valley (as applicable) is

contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Borrower, Caldwell or Fox Valley (as applicable), and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement; and (d) obligations or indebtedness set forth on the INFORMATION CERTIFICATE; provided,

that, (i) Borrower, Caldwell or Fox Valley (as

applicable) may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof, (ii) Borrower, Caldwell and Fox Valley shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, (iii) Borrower, Caldwell or Fox Valley (as applicable) shall furnish to Lender all notices or demands in connection with such indebtedness either received by Borrower, Caldwell or Fox Valley (as applicable) or on their behalf, promptly after the receipt thereof, or sent by Borrower, Caldwell or Fox Valley (as applicable) or on their behalf, concurrently with the sending thereof, as the case may be, and (iv) at no time shall any such obligations or indebtedness (a) of Caldwell (other than indebtedness owed to Borrower and permitted under Section 9.10 hereof) exceed \$250,000 and (b) of Fox Valley (other than indebtedness owed to Borrower and permitted under Section 9.10 hereof) exceed \$250,000.

- K. Section 9.10 of the Loan Agreement is hereby amended by deleting "(v) advances to the Joint Venture which are approved from time to time by Lender" in the thirteenth and fourteenth lines thereof and inserting "(v) loans or investments of no greater than (i) \$3,000,000 to Fox Valley, provided that Fox Valley is Solvent at the time of such loans or investments, (ii) \$5,000,000 to Caldwell, provided that Caldwell is

Solvent at the time of such loans or investments, and (iii) \$10,000,000 to DeSoto, Inc. (excluding the initial investment of approximately \$70,000,000 made to initially capitalize DSO Acquisition Corporation with the contribution of the Sherman Wire assets plus (i) the value of Borrower's stock issued in connection with the DeSoto Acquisition and (ii) all transaction costs related to the DeSoto Acquisition), provided that DeSoto, Inc. is Solvent at the time of such loans or investments" in its place.

- L. Section 9.12 of the Loan Agreement is hereby amended by inserting the following sentence immediately following the last sentence thereof: "Notwithstanding the foregoing, Lender hereby authorizes the DeSoto Acquisition in accordance with the Merger Agreement."
- M. Section 10.1(n) of the Loan Agreement is hereby amended by (i) inserting ", as amended," between "1986" and "shall" in the third line thereof and (ii) deleting the word "or" in the third line thereof.
- N. Section 10.1(o) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

there shall occur a termination of that certain Amendment and Restatement of Subordination Agreement executed by the Trustee of the Keystone Consolidated Industries, Inc. Master Pension Trust (successor to the "Keystone Master Pension Trust") in favor of Lender dated as of January 8, 1986, as amended and restated June 30, 1987 and further amended by a Second Amendment dated as of August 19, 1996 (although the amendment is referred to as the "Second Amendment", there exists no prior amendment), or the Trustee or any party succeeding in interest thereto shall assert the termination of such Subordination Agreement or contest the binding effect or validity thereof; or

- O. Section 10 of the Loan Agreement is hereby amended by inserting a new Section 10.1(p) as follows:

a default under that certain Agreement dated August 19, 1996, between the Pension Benefit Guaranty Corporation, acting on behalf of itself and the various Keystone Pension Plans (as defined therein), the Keystone Master Retirement Trust, and Borrower; or

- P. Schedule 8.4 and the Information Certificate (which contains supplemental data with respect to Desoto, Inc., Caldwell and Fox Valley, as well as additional updated information) are attached hereto and are hereby substituted for Schedule 8.4 and the Information Certificate, respectively, originally attached to the Loan Agreement.

Lender acknowledges and accepts such revised Information Certificate and Schedule 8.4 as being effective as of the date hereof for all transactions with Lender after the date hereof.

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II. CONDITIONS TO EFFECTIVENESS OF FIRST AMENDMENT

A. First Amendment. Borrower shall have duly executed and delivered this First Amendment.

B. Term Loan Agreement. Borrower shall have duly executed and delivered the First Amendment to Term Loan and Security Agreement dated as of the date hereof, by and between Lender and Borrower.

C. DeSoto Loan Facility. Acquisition Subsidiary, Inc. shall have duly

executed and delivered the DeSoto Loan Agreement and, upon the consummation of the DeSoto Acquisition, DeSoto, Inc. shall have assumed the Acquisition Subsidiary, Inc.'s responsibilities under the DeSoto Loan Agreement and all conditions precedent to the initial advance thereunder shall have been satisfied or waived by Lender in writing.

D. DeSoto Acquisition. The DeSoto Acquisition shall have been completed

with the terms of the Merger Agreement in form and substance satisfactory to Lender, in its sole discretion, and Lender shall be satisfied, in its sole discretion, that the payment of the obligations owing by DeSoto, Inc. to its existing creditors shall be adequately provided for by the available credit hereunder and under the DeSoto Loan Agreement.

E. Additional Matters. Lender shall have received such other

certificates, opinions, documents and instruments relating to the obligations or the transactions contemplated hereby and by the Financing Agreements as may have been reasonably requested by Lender, and all corporate and other proceedings and all other documents and all legal matters in connection with the transactions contemplated hereby and by the Financing Agreements shall be reasonably satisfactory in form and substance to Lender.

F. Congress Amendment Fee. Borrower shall have paid Lender an amendment

fee equal to \$200,000.

this First Amendment, Borrower represents and warrants to Lender, upon the effectiveness of this First Amendment, which representations and warranties shall survive the execution and delivery of this First Amendment, that:

A. Unencumbered Assets. Borrower has no assets that are free from a

security interest, mortgage, pledge, lien, charge or other encumbrance.

B. Priority of Liens. The security interests and liens granted to Lender

under the Loan Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to existing liens indicated on Schedule 8.4 to the Loan Agreement and, with respect to Collateral other than Accounts and Inventory, the other liens permitted under Section 9.8 of the Loan Agreement.

C. Due Incorporation; etc. Borrower is a corporation duly incorporated,

validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

D. No Default; etc. No Event of Default has occurred and is continuing

after giving effect to this First Amendment or would result from the execution or delivery of this First Amendment or the consummation of the transactions contemplated hereby.

E. Corporate Power and Authority; Authorization. Borrower has the

corporate power and authority to execute, deliver and carry out the terms and provisions of this First Amendment and the other Financing Agreements, and the performance by Borrower of its obligations hereunder and under the other Financing Agreements to which it is a party, have been duly authorized by all requisite corporate action by Borrower.

F. Execution and Delivery. Borrower has duly executed and delivered this

First Amendment.

G. Enforceability. The Loan Agreement, as amended by this First

Amendment, constitutes a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity.

H. No Conflicts; etc. Neither the execution, delivery or performance by

Borrower of this First Amendment nor compliance by Borrower with the terms and provisions hereof (i) will contravene any applicable provision of any law, statute, rule, regulation, order, writ, injunction or decree of any court or governmental instrumentality or (ii) will conflict or be inconsistent with, or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any property or assets owned by it pursuant to the terms of any indenture, mortgage, deed of trust, agreement or other instrument to which Borrower is a party or by which Borrower or any of its property or assets is bound or to which Borrower may be subject, or (iii) will violate any provision of Borrower's certificate of incorporation or by-laws.

I. Consents; etc. Other than the filing of mortgages and deeds of trust

and the Uniform Commercial Code financing statements which have been executed and delivered to Lender on or before the date of the First Amendment, no order, consent, approval, license, authorization, or validation of, or filing, recording or registration with or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with the execution, delivery and performance of this First Amendment or the consummation of any of the transactions contemplated hereby.

J. Representations and Warranties. All of the representations and

warranties contained in the Loan Agreement and in the other Financing Agreements (other than those which speak expressly only as of a different date) are true and correct as of the date of this First Amendment after giving effect to this First Amendment.

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A. Effect; Ratification. The amendments set forth herein are effective

solely for the purposes set forth herein and shall be limited precisely as written, and shall not be deemed to (i) be a consent to any amendment, waiver or modification of any other term or condition of the Loan Agreement or of any other Financing Agreements or (ii) prejudice any right or rights that Lender may now have or may have in the future under or in connection with the Loan Agreement or any other Financing Agreements. Each reference in the Loan Agreement to "this Agreement", "herein", "hereof" and words of like import and each reference in the other Financing Agreements to the Loan Agreement shall mean the Loan Agreement as amended hereby. This First Amendment shall be construed in connection with and as part of the Loan Agreement and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Agreement and each other Financing Agreement, except as herein amended or waived, are hereby ratified and confirmed and shall remain in full force and effect.

B. Costs and Expenses. Borrower shall pay to Lender on demand all

reasonable out-of-pocket costs, expenses, title insurance premiums and fees, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this First Amendment, the Loan Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including, but not limited to: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording and title insurance taxes and fees, if applicable); (b) costs and expenses and fees for title insurance and other insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this First Amendment, the Loan Agreement and the other Financing Agreements or

defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including, without limitation, preparations for and consultations concerning any such matters); and (g) the fees and disbursements of counsel (including legal assistants) to Lender in connection with the foregoing.

C. Certain Waivers; Release. Although Borrower does not believe that it

has any claims against Lender, it is willing to provide Lender with a general and total release of all such claims in consideration of the benefits which Borrower will receive pursuant to this First Amendment.

Accordingly, Borrower for itself and any successor of Borrower hereby knowingly, voluntarily, intentionally and irrevocably releases and discharges Lender and its respective officers, directors, agents and counsel (each a "Releasee") from any and all actions, causes of action, suits, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, losses, liabilities, costs, expenses, debts, dues, demands, obligations or other claims of any kind whatsoever, in law, admiralty or equity, which Borrower ever had, now have or hereafter can, shall or may have against any Releasee for, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the date of this First Amendment.

D. Effectiveness. This First Amendment shall immediately become

effective as of the date first written above upon (i) the receipt by Lender of duly executed counterparts of this First Amendment from Borrower and (ii) the satisfaction or written waiver of each condition precedent contained herein.

E. Counterparts. This First Amendment may be executed in any number of

counterparts, each such counterpart constituting an original but all together constitute one and the same instrument.

F. Severability. Any provision contained in this First Amendment that is

held to be inoperative, unenforceable or invalid in any jurisdiction

shall, as to that jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions of this First Amendment in that jurisdiction or the operation, enforceability or validity of that provision in any other jurisdiction.

G. GOVERNING LAW. THIS FIRST AMENDMENT SHALL BE GOVERNED BY AND

CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF

ILLINOIS.

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

CONGRESS FINANCIAL CORPORATION (CENTRAL)

By -----

Title: -----

KEYSTONE CONSOLIDATED INDUSTRIES, INC.

By -----

EXHIBIT 10.2

FIRST AMENDMENT TO TERM LOAN AND SECURITY AGREEMENT

This First Amendment to Term Loan and Security Agreement (the "First Amendment") is made and entered into as of September 27, 1996, by and between Congress Financial Corporation (Central) ("Lender") and Keystone Consolidated Industries, Inc. ("Borrower").

RECITALS

- A. Borrower and Lender are parties to that certain Term Loan And Security Agreement dated as of December 30, 1993 ("the Term Loan Agreement"). Capitalized terms used and not otherwise defined in this Agreement are used as they are defined in the Term Loan Agreement.
- B. Borrower has requested and Lender has agreed that Lender will relend to Borrower the amortized principle payments which have been made under the prior term loan and establish a new amortization schedule for the full term loan, all upon the terms and subject to the conditions set forth in this First Amendment.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good

and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

- 1. Revised Term Loan Agreement. Subject to, and upon the terms

and conditions contained herein and in the Term Loan Agreement, Lender agrees to lend to Borrower, within two (2) business days of the Effective Date of this First Amendment, the principal amount of \$10,549,656, representing the full payments received to date on the Term Loan, such that, as of the date of such advance, the total principal amount of the Term Loan shall equal \$20,000,000 (such increased loan being

referred to herein as the "Reloaded Term Loan"; after the disbursement thereof, all references to the Term Loan shall be deemed to refer to such Reloaded Term Loan).

2. Scheduled Principal Payments. Except as provided in Sections

2.3 and 8.2(b) of the Term Loan Agreement, the principal amount of the Reloaded Term Loan shall be due and payable in 38 equal monthly payments of \$277,777 due on October 1, 1996 and on the first day of each month thereafter and final payment of the remaining principal balance due on December 31, 1999.

3. Use Of Proceeds. Borrower shall use the principal amount of

the Reloaded Term Loan to reduce the principal amount of the Revolving Loans (as defined in the Revolving Loan Agreement).

4. Representations And Warranties. Borrower represents and

warrants that this First Amendment constitutes a legal, valid and binding obligation enforceable against Borrower in accordance with its terms.

5. Reference To And Effect Upon The Term Loan Agreement.

5.1. Upon the effectiveness of this First Amendment, each reference in the Term Loan Agreement to "the Agreement," "hereunder," "hereof," "herein," or words of like import, shall mean and be a reference to the Term Loan Agreement, as amended hereby.

5.2. Except as specifically amended hereby, the Term Loan Agreement shall remain in full force and effect and is hereby ratified and confirmed.

5.3. The execution, delivery and effectiveness of this First Amendment shall not operate as a waiver of any right, power or remedy of Lender under the Term Loan Agreement, nor constitute a waiver of any provision of the Term Loan Agreement.

6. Governing Law. This First Amendment shall be governed by and

construed in accordance with the laws and decisions of the State of Illinois.

7. Section Titles. The section titles contained in this First

Amendment are and shall be without substance, meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

8. Partial Invalidity. If any provision of this First Amendment

is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this First Amendment as a whole but this First Amendment shall be construed as though it did not contain the particular provision held to be invalid or enforceable and the rights and obligations of the parties hereto shall be construed and enforced only to such extent as shall be permitted by applicable law.

9. Counterparts. This First Amendment may be executed in any

number of counterparts, each such counterpart constituting an original but all together constitute one and the same instrument.

10. Effectiveness. This First Amendment shall immediately become

effective upon the date ("Effective Date") when: (i) Lender has received duly executed counterparts of this First Amendment from Borrower; (ii) the satisfaction of (or waiver by Lender) all conditions precedent contained in Section 4.1 of the Revolving Loan and Security Agreement by and between Lender and Acquisition Subsidiary, Inc., a Delaware corporation and wholly owned subsidiary of Lender, and (iii)

the satisfaction of (or waiver by Lender) all conditions contained in Article II of the First Amendment to Amended and Restated Revolving Loan and Security Agreement dated as of the date hereof, by and between Lender and Borrower.

11. Effect; Ratification. The amendments set forth herein are

effective solely for the purposes set forth herein and shall be limited precisely as written, and shall not be deemed to (i) be a consent to any amendment, waiver or modification of any other term or condition of the Term Loan Agreement or (ii) prejudice any right or rights that Lender may now have or may have in the future under or in connection with the Term Loan Agreement. Each reference in the Term Loan Agreement to "this Agreement", "herein", "hereof" and words of like import shall mean the Term Loan Agreement as amended hereby. This First Amendment shall be construed in connection with and as part of the Term Loan Agreement and all terms, conditions, representations, warranties, covenants and agreements set forth in the Term Loan Agreement, except as herein amended or waived, are hereby ratified and confirmed and shall remain in full force and effect.

IN WITNESS WHEREOF, Borrower has caused these presents to be duly executed and delivered as of the day and year first above written.

Borrower

KEYSTONE CONSOLIDATED INDUSTRIES,
INC.

By:

Title:

CHIEF EXECUTIVE OFFICE:

Accepted and Agreed:

CONGRESS FINANCIAL CORPORATION (CENTRAL)

By:

Title:

Address:

100 S. Wacker Drive
Suite 1940
Chicago, Illinois 60606