

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

MONARCH MACHINE TOOL CO

CIK: **67532** | IRS No.: **344307810** | State of Incorporation: **OH** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **001-01997** | Film No.: **99574988**
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998 Commission File No 1-1997

THE MONARCH MACHINE TOOL COMPANY

Ohio 34-4307810
(State of Incorporation) (IRS Employer Identification No.)

2600 Kettering Tower, Dayton, Ohio 45423

Telephone 937/910-9300

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

Title of each class -----	Name of each exchange on which registered -----
Common shares, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

The aggregate market value of the common shares held by nonaffiliates of the registrant as of the close of business on March 5, 1999 was \$27,260,000.

The number of common shares outstanding as of March 5, 1999, was 3,779,393.

Documents Incorporated By Reference

Portions of the Registrant's Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on May 5, 1999.

PART I

ITEM 1 - BUSINESS

The Monarch Machine Tool Company ("Monarch" or the "Company") was incorporated in 1909. The Company operates in three business segments where it designs, manufactures and assembles metal coil processing equipment, paper coating and laminating equipment and machining centers.

Recent Developments

On December 31, 1998, the Company acquired all of the outstanding shares of common stock of GFG Corporation ("GFG"), based in Milwaukee, Wisconsin. GFG designs and assembles roll coating, electrostatic oil application and strip processing equipment used by the metal coil processing industry.

In November 1998, the Company acquired engineering designs from Unisign B.V., a Netherlands company, to produce travelling-column CNC machining centers. In addition, the Company has a license for the exclusive right to sell this equipment to North American customers for a period of 5 years. The Company anticipates that this equipment will be manufactured at its machining center operations in Cortland, NY.

The Company entered into a strategic alliance in 1997 with Spinner Machine Tool Company, a German company, to market in North America ultra-precision horizontal turning machines produced by Spinner and to have Spinner market the Company's machining centers in Europe.

During 1997, the Company sold the business of the Sidney lathe (turning machines) operation and decided to close the operations of its three German businesses. Subsequently, in March 1998, the Company entered into an agreement to sell a majority of the assets of one of the German businesses, with the buyer agreeing to assume certain liabilities of the business.

The following is a description of the Company's primary businesses.

Metal Coil Processing Equipment

The Company designs and manufactures a broad line of metal coil processing equipment. This equipment, generally sold as complete lines, is used by steel and aluminum mills and mini-mills, ferrous and non-ferrous supply centers, and end users of coiled material. Coil processing lines perform various operations, such as slitting, tension leveling, shearing, cleaning, forming, coating, galvanizing, annealing, and heat treating. Individual components are also manufactured for the upgrading of existing lines. GFG designs and assembles roll coating and electrostatic oil application equipment also used by the above industries. GFG also designs and assembles metal strip processing equipment to process metal normally of smaller gauge and width than that processed by the coil processing equipment.

Machining Centers

A machining center is a multi-functional machine that removes metal by milling, drilling, boring, or tapping with a rotating tool on a stationary part. Monarch manufactures vertical spindle machining centers in various sizes and configurations. All are computer numerically controlled (CNC) and have automatic tool changers that change tools in the spindle without operator assistance. Automatic part fixture loading devices have been developed by Monarch that can be added to most models. Through strategic alliances with 2 European companies, the Company markets precision turning machines, produced by a German company, in North

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America and intends to manufacture and sell travelling-column machining centers through an alliance with a Dutch company, which includes a 5-year exclusive selling arrangement in North America.

Paper Coating and Laminating Equipment

In 1995, the Company entered a new industry segment with its purchase of certain assets of the coating and laminating equipment business of a German company. In 1996, the Company also began designing and manufacturing this type of equipment in the United States. In 1997, the Company decided to close the German business. The equipment, typically sold in complete lines, is used to further process paper, plastics, and foil for use in flexible or medical packaging, pressure sensitives, adhesives products and wall coverings. The products include continuous roll processing with in-line coating, drying, dry or wet laminating, slitting and rewinding. The coatings and adhesives applied are aqueous solvent, solventless, hot melt and wax. Individual components are also available for upgrading existing installations.

Competition

Monarch actively competes with other equipment manufacturers, both domestic and foreign. The market for the Company's products is subject to normal price, service, and quality competition. Domestically, the coil processing equipment produced by the Company's Stamco operations primarily competes with other domestic producers and the Company believes it holds a second place market share position. Internationally, the Company competes with a number of other major international companies. GFG believes it has over 50% of the market share, both domestically and internationally, for its roll coating equipment and also holds the largest market share compared to its competitors for its electrostatic oil application equipment. Its major competitors include both domestic and international companies. Increasingly, foreign machining center manufacturers aggressively compete in the North American market. Although the prior competitors in this business were predominantly Japanese, they are now spread throughout Asia. However, for the Company's machining centers, the competition continues to be primarily Japanese manufacturers. During 1998, competition in the machining center business intensified with foreign competitors discounting equipment to North American customers, largely due to lower international demand and weak foreign currencies values, especially the Japanese yen.

Customers

Monarch has a broad customer base. Producers, suppliers and users of strip metal have a need for coil processing equipment. Virtually all manufacturing plants that perform metal cutting operations are potential customers for Monarch machining centers. The Company's paper coating and laminating equipment is used

by individual customers in the packaging industry and by producers of commercial or consumer products. The loss of any individual customer would not have a materially adverse effect upon the Company.

Backlog

Monarch's backlog, segregated by industry segment, is as follows (in thousands):

<TABLE>

<CAPTION>

	DECEMBER 31 1998	DECEMBER 31 1997
	----	----
<S>	<C>	<C>
Metal Coil Processing Equipment	\$43,112	\$30,352
Machining Centers	4,302	10,275
Paper Coating and Laminating Equipment	1,839	1,584
	-----	-----
	\$49,253	\$42,211
	=====	=====

</TABLE>

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The entire backlog can reasonably be expected to be shipped within twelve months. Seasonal factors are not significant to Monarch.

Purchases of Raw Materials and Supplies

Monarch generally manufactures certain of the components of its machines and purchases other components such as castings, large weldments, computer numerical controls, large gear boxes, motors, and electrical components. The principal materials purchased are obtained on a competitive basis from many different sources and are commercially available. Monarch's numerically controlled machines are designed to be used with controls made by one of two major industrial control manufacturers. The paper coating and laminating and GFG businesses are primarily involved in the design and assembly of their equipment. These operations generally sub-contract for a significant portion of components of their equipment from numerous suppliers. The Company does not believe that the loss of any one supplier would have a material adverse affect on the ability of these operations to continue. GFG has alliances with certain key suppliers of components used in its equipment. While the loss of one of these suppliers could be disruptive in the short-term, alternative sources of supply would be available.

Patents, Licenses and Franchises

In 1998, the Company entered into an agreement with Unisign B.V. to sell, on an exclusive basis in North America for a 5-year period, travelling-column machining centers which will be manufactured by the Company. The Company also has a strategic alliance with Spinner Machine Tool Company GmbH to jointly sell each other's products. In North America, the Company sells Spinner's ultra-precision horizontal turning machines.

Engineering and Development

The Company's engineering departments are responsible for designing equipment to customer order specifications, the improvement of existing product lines, and the development of new products. Refer to the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K, for the amount of research and development expense incurred by the Company.

Employees

The Company had 570 employees at December 31, 1998.

Working Capital

Because of the up to 12 month cycle time required to manufacture certain of its products, Monarch may be required to finance a substantial volume of work in process. However, to the extent possible, it obtains progress payments from customers during the production cycle.

Domestic and Foreign Operations and Export Sales

Amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations are included in Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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ITEM 2 - PROPERTIES

Domestic

Engineering design and manufacturing operations for the metal coil processing equipment business are conducted in New Bremen, Ohio, in a plant of 180,000 square feet, and for the machining center business in Cortland, New York, in a plant of 135,000 square feet. Both facilities are owned by the Company and are in good condition. During 1998, the Company relocated its corporate headquarters from Sidney, Ohio to leased facilities in Dayton, Ohio. GFG Corporation's business is located in Milwaukee, Wisconsin in a leased facility containing 60,000 square feet of office and plant space. The paper coating and laminating equipment business is presently based in Sidney, Ohio, but will be relocated to the GFG facility during 1999.

Foreign

Stamco (U.K.) Ltd., leases office facilities near Birmingham, England where it designs, purchases components and sells metal coil processing equipment.

GFG Peabody Ltd. leases a sales and service office in Surrey, England.

During 1997, the Company decided to close or sell the operations of Stamco Depiereux GmbH, Monarch Werkzeugmaschinen GmbH and Monarch Busch GmbH, all located in Germany. Each of the companies are in liquidation, in accordance with the regulations for liquidation required in Germany. The liquidation process is expected to be substantially completed in 1999.

All of the Company's facilities are in good condition.

ITEM 3 - LEGAL PROCEEDINGS

In September 1988, the Company and several other potentially responsible parties ("PRPs") were ordered by the Environmental Protection Agency ("EPA"), under the Federal "Superfund" legislation, to perform a remedial investigation and a limited removal action to dispose of waste materials at the Rosen site, a former scrap yard in Cortland, New York. The investigation and removal action work was completed in 1996 to the EPA's satisfaction.

In 1998, a Consent Decree was entered into among the EPA, the PRPs (including the Company) and a group of ten companies ("Defendants"), that the EPA considered to be potentially liable, to share the costs of remediation. The Consent Decree prescribes the remediation procedures necessary to be performed at the property. Prior to implementation, the Consent Decree requires approval of the U.S. Department of Justice and the U.S. District Court in New York. If the Consent Decree is approved in its present form, the Company will have limited responsibility for any future remediation or maintenance costs related to the property, provided that the EPA approved remedy is implemented and ultimately is successful. Pursuant to the terms of the Consent Decree, the Company, along with the PRPs and Defendants, have joint and several responsibility to pay any additional EPA oversight costs.

Based on information presently available, the Company believes that the \$1.3 million it has reserved at December 31, 1998 is adequate to provide for its share of the estimated costs for resolution of this matter. However, the Company's ultimate liability for remediation will likely be reduced if the Consent Decree is approved by the appropriate agencies. The Company anticipates continuing to review the adequacy of its present reserve and will recognize an adjustment to the reserve when appropriate.

Included in these legal actions is a claim by one of the Company's customers related to alleged defects in equipment supplied by the Company (Flat Rock Metal, Inc. v. The Monarch Machine Tool Company). The action was filed on May 17, 1996 and the matter is scheduled for trial in May 1999 in the United States District Court for the Eastern District of Michigan, Case No. 96-72776. The Company believes that the equipment meets all specifications prescribed in the contract and intends to vigorously defend this litigation.

The Company is a defendant in various legal actions, arising in the ordinary course of business, including product liability claims. The Company is responsible for legal and settlement costs up to \$100,000 associated with product liability claims and has insurance coverage for costs which exceed that amount, subject to specific and aggregate loss limitations. The Company believes that the ultimate liability, if any, resulting from these matters will not have a material effect on the Company's consolidated financial position or results of operations.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDERS MATTERS

The following table sets forth for 1998 and 1997 the high and low price of the Company's Common Stock on the New York Stock Exchange-Composite Tape and the dividend per share paid on the Common Stock (ticker symbol is MMO):

<TABLE>
<CAPTION>

	1998			1997			
	QUARTER ENDED -----	HIGH ----	LOW ---	DIVIDEND PAID ----	HIGH ----	LOW ---	DIVIDEND PAID ----
<S>		<C>	<C>	<C>	<C>	<C>	<C>
	March 31	\$ 8-1/2	\$ 7-1/2	\$.05	\$ 9-1/8	\$ 7-3/8	\$.05
	June 30	\$ 8-15/16	\$ 7-13/16	\$.05	\$ 9	\$ 7	\$.05
	September 30	\$ 8-11/16	\$ 7	\$.05	\$ 9-3/4	\$ 7-3/16	\$.05
	December 31	\$ 7-1/8	\$ 6-1/4	\$.05	\$ 9-15/16	\$ 7-11/16	\$.05

</TABLE>

At December 31, 1998, the number of holders of record for the Company's Common Stock was 737. Under its revolving credit facility the Company is restricted as to the amount of dividends it may pay in any year, as described in the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

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ITEM 6 - SELECTED FINANCIAL DATA

The selected financial data set forth below for the five years ended December 31, 1998 has been derived from the audited financial statements of the Company and its consolidated subsidiaries. Such information should be read in conjunction with the financial statements. (Dollars in thousands, except per share amounts).

<TABLE>
<CAPTION>

	1998 ----	1997 ----	1996 ----	1995 ----	1994 ----
<S>	<C>	<C>	<C>	<C>	<C>
SUMMARY OF OPERATIONS:					
Net Sales	\$79,066	\$107,116	\$115,528	\$114,991	\$ 76,332
Operating Income (Loss)	\$ 3,328	\$ (4,850) (a)	\$ (11,220) (b)	\$ 1,220	\$ (3,407)
Net Income (Loss)	\$ 2,083	\$ (4,202)	\$ (5,498)	\$ 786	\$ (1,463)
Earnings (Loss) per Common Share	\$.55	\$ (1.12)	\$ (1.47)	\$.21	\$ (.39)
BALANCE SHEET DATA:					
Working Capital	\$14,828	\$ 15,308	\$ 36,368	\$ 38,942	\$ 25,943
Total Assets	\$88,457	\$ 75,869	\$102,912	\$101,348	\$ 78,342
Long-term Debt	\$16,497	\$ 1,598	\$ 18,175	\$ 14,318	
Shareholders' Equity	\$42,654	\$ 41,269	\$ 46,579	\$ 52,650	\$ 52,676
OTHER DATA:					
Cash Provided by (Used in)					
Operating Activities	\$ (1,041)	\$ 14,797	\$ (4,069)	\$ (6,155)	\$ 2,231
Payments of Indebtedness	\$	\$ 20,586	\$ 120		\$ 1,000
Additional Indebtedness	\$14,786		\$ 4,129	\$ 11,764	
Ending Backlog	\$49,300	\$ 42,200	\$ 60,800	\$ 59,600	\$ 49,600
Cash Dividend per Common Share	\$.20	\$.20	\$.20	\$.20	\$.20

</TABLE>

(a) Includes reserves for asset impairment, closure costs and inventory write-down of \$3,030 (\$.81 per share, before tax) related to sale of Sidney lathe business and \$1,383 (\$.37 per share, before tax) related to the sale and closure of the German businesses.

(b) Includes a reserve of \$7,463 (\$1.99 per share, before tax) resulting from

an inventory write-down at the Sidney lathe business and a gain of \$2,518 (\$.67 per share, before tax) related to LIFO liquidations.

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

RESULTS OF OPERATIONS

1998 Compared to 1997

The Company realized net income of \$2.1 million in 1998 compared to a net loss of \$4.2 million in 1997. The Company's ongoing businesses generated income before tax of \$3.2 million in 1998 compared to income before tax of \$843,000 in 1997. Included in 1998 results is a \$250,000 reserve for potential costs to be incurred in closing the Company's operations in Germany. During 1997, the Company's decision to sell its Sidney lathe business and to close or dispose of its operations in Germany resulted in a \$3.0 million charge for asset impairment and a \$1.4 million write-down of inventory.

Net sales were \$79.1 million in 1998 compared to \$107.1 million in 1997. The lower sales in 1998 were the result of the sale and closure of the German operations and the Sidney lathe business in 1997 and lower sales volume at the Company's coil processing business in 1998. The Company's ongoing businesses generated sales of \$79.1 million in 1998 compared to \$91.4 million in 1997. The decrease in sales at the coil-processing segment was primarily due to the segment entering 1998 with a low order backlog.

Cost of sales as a percentage of sales was 79.8% in 1998 compared to 86.0% in 1997. The improvement in gross margin percentage resulted from the sale and closure of the Company's German operations, which generated poor gross margins, and an improvement in the gross margin at the Company's coil processing segment. The improved margins for coil processing resulted from lower than expected cost of sales, primarily for raw materials. The improvement in margins for the coil processing segment were partially offset by lower gross margins at the Company's machine tool segment due to increased competition, which negatively impacted selling prices and ultimately, gross margins.

Selling, general and administrative expense decreased to \$12.6 million in 1998 from \$16.8 million in 1997. The selling, general and administrative expenses of ongoing businesses decreased by 3% from \$13.0 million in 1997 to \$12.6 million in 1998 as a result of the Company's efforts to reduce these expenses at each division.

Interest expense declined in 1998 as the Company used proceeds from the sale of the Sidney lathe business in the second half of 1997 to repay indebtedness and the Company's ongoing operations generated sufficient cash flow to maintain a lower average debt balance.

The Company's income tax provision (benefit) generally reflects the statutory rates in the jurisdiction in which the Company operated in 1998.

1997 Compared to 1996

The Company reported a net loss of \$4.2 million in 1997 compared to a net loss of \$5.5 million in 1996. During 1997, the Company sold the operating assets of the Sidney lathe business and decided to close or dispose of the operations of its three German businesses. These businesses had sustained operating losses during the past few years and the Company could not project an acceptable level of success in these businesses. Results in 1997 include a reserve of \$3.0 million for asset impairment and other disposal costs related to these businesses, while cost of sales includes \$1.4 million for the write-down of inventory at these businesses. Included in the 1996 loss is a \$7.5 million write-down of inventory, a gain of \$3.9 million from the sale of properties in Germany and income of \$2.5 million from LIFO liquidations, each related primarily to the

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businesses being sold or closed. The Company's ongoing businesses realized income before tax of \$843,000 in 1997 and a loss before tax of \$478,000 in 1996.

Net sales were \$107.1 million and \$115.5 million in 1997 and 1996, respectively. The decline in 1997 sales was due to the July 1997 sale of the Sidney lathe business and lower sales from the Company's German businesses, due to the decision in 1997 to sell or close these businesses. Sales from the Company's ongoing businesses were \$91.4 million in 1997 and \$78.4 million in 1996. The increase in 1997 was primarily realized in the coil processing segment.

Cost of sales as a percentage of sales was 86.0% in 1997 compared to 95.3% in

1996. The percentage was higher in 1996 due to the above noted \$7.5 million inventory write-down and lower margins achieved on certain coil processing lines of equipment shipped in 1996. The cost of sales percentage at the Company's ongoing businesses was 83.5% and 87.0% in 1997 and 1996, respectively, with the higher percentage in 1996 resulting from the aforementioned shipment of lower margin coil processing lines. The Company's ongoing machine tool business realized improved margins in 1997 due to a more profitable sales mix.

Selling, general and administrative expense remained relatively constant in 1997 compared to 1996. Expenses decreased in 1997 as a result of lower sales at the German businesses and the July sale of the Sidney lathe business, but this decrease was partially offset by additional selling expenses related to efforts to increase market penetration by the Company's ongoing operations.

Interest expense declined in 1997, as a significant portion of the Company's indebtedness was repaid in the second half of 1997, using proceeds from the sale of the Sidney lathe business and from collection of accounts receivable. Included in other income in 1996 was the aforementioned gain of \$3.9 million from the sale of properties in Germany.

The Company's income tax provision (benefit) generally reflects the statutory rates in the jurisdictions in which the Company operated, except during 1997. A lower income tax benefit rate was recorded in 1997 as the Company is limited in the tax benefit it expects to realize from losses incurred by its German businesses.

LIQUIDITY AND CAPITAL RESOURCES

During 1998, 1997 and 1996 the Company's operating activities used \$1.0 million, provided \$14.8 million and used \$4.1 million of cash, respectively. A major component of operating cash activity each year was from changes in the Company's working capital, which required \$2.4 million in 1998, provided \$14.6 million in 1997 and required \$2.4 million in 1996. These working capital changes relate primarily to the timing of collection of accounts receivable and payment of accounts payable and accrued expenses. Included in 1998 operating results is \$3.2 million of income earned on investments carried in the Company's overfunded pension plans, while \$2.0 million of income was recognized in both 1997 and 1996. This income does not generate operating cash to the Company, as the Company's pension assets are currently held in a trust to fund the Company's obligations under its pension plans. Because of its net operating loss position for Federal income tax purposes, the Company was not required to pay Federal income taxes on its 1998 earnings nor did it receive a cash refund for the income tax benefit it recorded in 1997 and 1996. Other non-cash charges included \$3.4 million recorded in 1997 in connection with a write-down of assets held for sale and a reserve for closure of certain of the Company's operations and a \$7.5 million provision recorded in 1996 for a write-down of inventory at one of those operations.

The Company's capital expenditures in 1998 totaled \$3.0 million, primarily related to implementation of a new company-wide business planning management information system, including the purchase of new computer hardware. In December 1998, the Company borrowed \$13.5 million under its line of credit to acquire GFG

Corporation. During 1997, the sale of Sidney division assets generated \$7.6 million while a German property sale provided \$4.0 million in 1996. The Company used proceeds received in 1997 from the sale of Sidney division assets and collection of accounts receivable to repay \$20.6 million of its bank debt.

During 1999, the Company plans to spend up to \$3.4 million for capital expenditures, including \$650,000 for computer and related equipment, primarily in conjunction with completion of the implementation of its management information system. The remaining amount is expected to be expended to acquire equipment to be used in the Company's manufacturing and assembly processes and for general business purposes. Included in other assets is \$3.2 million related to property and facilities held for sale, which are not being used in the Company's operations. The Company anticipates that certain of these properties are likely to be sold during 1999, at values equal to or in excess of their carrying basis.

The Company has up to \$27.5 million of borrowing capacity under two credit facilities, although the amount available to the Company to borrow at any time is determined based on levels of inventory and accounts receivable. The Company had borrowed \$16.5 million under the facilities and \$11 million was available to borrow at December 31, 1998. Under one credit facility for \$25 million, the Company is required to comply with various financial covenants, including maintaining a minimum tangible net worth and certain operating performance ratios, and is limited as to the amount of dividends it may pay. At December 31, 1998, the maximum amount of retained earnings available to pay dividends was \$2.2 million. In addition, the Company is required to repay any amounts outstanding under this credit facility from proceeds generated from asset sales

and the pension plan reversion discussed below. The amount available under this credit facility will be reduced by an amount equal to the above noted proceeds, to an amount not less than \$20 million.

The Company has approved the termination of two of its pension plans and is proceeding with the process which will ultimately result in the distribution of plan assets to participants and the Company. Presently the plans hold assets valued at approximately \$34 million. In connection with the terminations, plan assets are projected to be distributed as follows: \$17 million to plan participants, \$4 million to be transferred to a trust to be used to pay benefits under replacement pension plans adopted on January 1, 1999, \$3 million to pay excise taxes incurred because of plan termination and \$10 million reverting to the Company, which will be used to reduce indebtedness. These amounts are based on present valuations and may differ from amounts paid at distribution date (expected to be in the fourth quarter of 1999) because of changes in the market value of plan assets, interest rates and actuarial valuations. The Company does not anticipate paying any statutory federal income tax on this transaction, as it expects to use its present net operating loss carryforwards to offset any regular taxable income generated by the pension asset reversion. However, the Company would be subject to payment of alternative minimum tax on the taxable gain from this transaction. The termination is subject to approval by both the Pension Benefit Guaranty Corporation and the Internal Revenue Service. Any gain or loss on pension plan termination will be recognized at the date of plan asset distribution. The Company's prepaid pension costs at December 31, 1998 consists of \$13.6 million related to the two plans being terminated and \$5.4 million to its ongoing plans. The Company believes that the prepaid pension cost asset will increase by \$2.0 million in 1999, based on current assumptions.

The Company has a net deferred income tax asset of \$3.5 million at December 31, 1998. The Company has determined that it is not necessary to provide a valuation allowance against this asset, as it expects to realize the asset through the implementation of certain tax-planning strategies and the generation of future taxable income.

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BACKLOG

The Company's backlog at December 31, 1998 was \$43.5 million compared to a beginning of year backlog of \$40 million for its ongoing businesses. The Company recorded \$85.6 million of orders during 1998, including a record \$55 million recorded by its metal coil processing business. The December 1998 backlog does not include a \$5.7 million backlog carried by GFG Corporation, which the Company acquired in late December 1998.

YEAR 2000 COMPLIANCE

Year 2000 issues arise because of the inability of many existing computer systems and software, which utilize a two-digit conversion for recording years, to properly recognize and process information relating to Year 2000. In early 1998, the Company began a Company-wide program to replace its internal information processing systems for reasons unrelated to Year 2000 issues. It expects to complete this program during the third quarter of 1999, which should result in its internal information processing systems being Year 2000 compliant. The cost to the Company to fully implement this new system is estimated at approximately \$2.5 million. During 1998, the Company spent \$1.8 million on this project. Funds for this program are expected to be available to the Company from its internal operations and, if necessary, from its line of credit. GFG Corporation, acquired by the Company in late 1998, is also in the process of replacing its information processing system. This process began in 1998 and is expected to be substantially completed during the second quarter of 1999. The Company estimates the cost of this process to be \$325,000, of which \$200,000 was expended in 1998. As part of a comprehensive Year 2000 compliance project, the Company is also assessing other key aspects of its operating and administrative processes which, if they would become inoperable due to Year 2000 issues, would have a material impact on the Company's ability to continue its normal operations. This program includes a plan to identify the extent to which key vendors and consultants are addressing this same issue and an assessment of the Company's products. The Company will monitor and evaluate the progress of its vendors and consultants on this matter. The Company is also reviewing its non-information technology systems to determine the extent of any changes that may be necessary and presently believes that there will be minimal changes necessary for compliance. Although the Company cannot assess the result of this evaluation until it has obtained further information, based upon the work it has performed to date, it is not presently aware of any Year 2000 issues which would have a disruptive impact on its operations or a material adverse impact upon its financial condition or results of operation.

The Company believes it is diligently addressing Year 2000 issues and that it will satisfactorily resolve any significant Year 2000 problems. The Company anticipates completing its Year 2000 projects during 1999, with major completion milestones being targeted for the first, second and third quarters. In the event

the Company falls short of these milestones, additional internal resources will be focused on completing these projects or implementing contingency plans.

INFLATION AND INTEREST RATES

The Company has not been significantly affected by inflation in recent years and anticipates that it will not be significantly affected by inflation in 1999. A change in interest rates could have an impact on the Company's financial results, as the Company is presently paying a variable interest rate on its outstanding debt. However, the Company projects that a significant portion of its debt will be repaid during 1999, through use of proceeds from the sale of assets and the termination of two pension plans.

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FOREIGN CURRENCY

In its present operations, the Company has limited market risk exposure to changes in foreign exchange rates, as it does not have a substantial portion of its operating assets, liabilities and cash flows in currencies other than the U.S. dollar, nor does it transact a significant portion of its business in foreign currencies. The Company's foreign operations have their local currencies as their functional currency and primarily buy and sell using that same currency. The Company's primary foreign operations, which provide less than 10% of the Company's sales, total assets and total liabilities, are located in the United Kingdom.

The Company may use foreign exchange contracts with terms of less than one year to hedge certain transactions denominated in foreign currencies. Based upon the Company's overall foreign currency exchange rate exposure at December 31, 1998, a 10% adverse change in currency rates would not materially affect the Company's financial position, results of operations or cash flows.

NEW ACCOUNTING STANDARDS

All issued accounting standards presently applicable to the Company have been adopted by the Company.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report contains various forward-looking statements which are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks include, but are not limited to, changes in economic conditions, interest rates, price and product offering competition from domestic and foreign entities, customer purchasing patterns, labor costs, product liability issues and other legal claims and governmental regulatory issues. Words identifying forward-looking statements include "plan", "believe", "expect", "anticipate", "project", "intend", "estimate" and other expressions which are predictions or indications of future events or trends which do not relate to historical matters.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement is made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are urged to carefully review and consider the various disclosures made by the Company in this document and other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT ACCOUNTANTS

February 11, 1999

To the Board of Directors and Shareholders of
The Monarch Machine Tool Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of results of operations and comprehensive income (loss), shareholders' equity and of cash flows present fairly, in all material respects, the financial position of The Monarch Machine Tool Company and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Dayton, Ohio

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
as of December 31, 1998 and 1997
(Dollars in thousands)

<TABLE>

<CAPTION>

ASSETS	1998 ----	1997 ----
<S>	<C>	<C>
Cash	\$ 1,733	\$ 5,022
Accounts receivable, net of allowance for doubtful accounts of \$1,413 and \$1,507 in 1998 and 1997 respectively	23,893	26,762
Inventories	10,486	11,142
Cost and estimated earnings in excess of billings on uncompleted contracts	3,275	337
Prepaid expenses	667	540
Deferred income taxes	1,874	3,102
	-----	-----
Current assets	41,928	46,905
Property, plant and equipment, net	11,070	8,649
Prepaid pension cost	19,051	15,723

Deferred income taxes	1,631	1,153
Goodwill	10,099	
Other assets	4,678	3,439
Total assets	\$88,457	\$75,869

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
as of December 31, 1998 and 1997
(Dollars in thousands, except per share amounts)

LIABILITIES	1998	1997
	----	----
<S>	<C>	<C>
Short-term borrowings	\$ 500	\$
Accounts payable	8,930	10,138
Accrued liabilities	12,153	15,786
Billings in excess of costs and estimated earnings on uncompleted contracts	5,517	5,096
Current portion of long-term debt		577
Current liabilities	27,100	31,597
Postretirement benefits	1,450	1,405
Other liabilities	756	
Long-term debt, less current portion	16,497	1,598
Total liabilities	45,803	34,600

Contingencies

SHAREHOLDERS' EQUITY

Preferred stock, no par value, \$1.80 cumulative convertible, \$1 stated value; 500,000 shares authorized; 14,642 and 14,757 shares issued and outstanding in 1998 and 1997, respectively (liquidation preference of \$586)	14	14
Common stock, no par value, 12,000,000 shares authorized, 3,769,427 and 3,761,967 shares issued and outstanding, in 1998 and 1997, respectively	5,815	5,741
Unearned compensation, restricted stock	(37)	(77)
Retained earnings	37,042	35,739
Accumulated other comprehensive income	(180)	(148)
Total shareholders' equity	42,654	41,269
Total liabilities and shareholders' equity	\$ 88,457	\$ 75,869

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RESULTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands, except per share amounts)

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>

Net sales	\$ 79,066	\$ 107,116	\$ 115,528
Cost of sales	63,113	92,152	110,076
Selling, general and administrative	12,625	16,824	16,672
Impairment and other disposal costs		2,990	
	-----	-----	-----
Total costs and operating expenses	75,738	111,966	126,748
	-----	-----	-----
Operating income (loss)	3,328	(4,850)	(11,220)
Other income (expense):			
Interest expense	(368)	(978)	(1,399)
Interest income	161	554	334
Other income (expense), net	62	(31)	4,394
	-----	-----	-----
Income (loss) before income taxes	3,183	(5,305)	(7,891)
Income tax provision (benefit)	1,100	(1,103)	(2,393)
	-----	-----	-----
Net income (loss)	2,083	(4,202)	(5,498)
Other comprehensive income (loss), net of tax - foreign currency translation adjustments	(21)	(248)	133
	-----	-----	-----
Comprehensive income (loss)	\$ 2,062	\$ (4,450)	\$ (5,365)
	=====	=====	=====
Earnings (loss) per common share, basic and diluted	\$.55	\$ (1.12)	\$ (1.47)
	=====	=====	=====
Average shares outstanding:			
Basic	3,768,480	3,757,717	3,744,967
Diluted	3,768,480	3,757,717	3,744,967

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands, except per share amounts)

<TABLE>

<CAPTION>

	Preferred Stock	Common Stock	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	\$ 14	\$5,618	\$	\$ 46,993	\$ 25	\$52,650
Net (loss)				(5,498)		(5,498)
Cash Dividends:						
\$.20 per share - Common				(749)		(749)
\$1.80 per share - Preferred				(26)		(26)
Translation adjustments					202	202
	----	-----	-----	-----	-----	-----
Balance, December 31, 1996	14	5,618		40,720	227	46,579
Net (loss)				(4,202)		(4,202)
Cash Dividends:						
\$.20 per share - Common				(753)		(753)
\$1.80 per share - Preferred				(26)		(26)
Restricted Stock Awards:						
Shares granted		123	(123)			
Amortization			46			46
Translation adjustments					(375)	(375)
	----	-----	-----	-----	-----	-----

Balance, December 31, 1997	14	5,741	(77)	35,739	(148)	41,269
Net income				2,083		2,083
Cash Dividends:						
\$.20 per share - Common				(754)		(754)
\$1.80 per share - Preferred				(26)		(26)
Restricted Stock Awards:						
Shares granted		74	(74)			
Amortization			114			114
Translation adjustments					(32)	(32)
Balance, December 31, 1998	\$ 14	\$5,815	\$ (37)	\$37,042	\$ (180)	\$42,654

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
for the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands)

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 2,083	\$ (4,202)	\$ (5,498)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	1,181	1,565	1,955
Prepaid pension cost	(3,289)	(2,014)	(2,001)
Deferred tax provision (benefit)	1,100	(719)	(2,400)
Gain on sale of fixed assets	(9)	(79)	(3,400)
Provision for inventory write-down	262	751	9,690
Loss on sale of Sidney division		1,507	
Impairment of assets		1,914	
Changes in operating assets and liabilities excluding effect of acquisition in 1998 and the sale of the assets of the Sidney division in 1997:			
Accounts receivable	6,624	14,679	(9,479)
Inventories	2,105	(3,162)	397
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,937)	2,852	4,546
Billings in excess of costs and estimated earnings on uncompleted contracts	420	427	(21)
Other assets	(675)	(149)	(117)
Accounts payable	(2,408)	3,281	(448)
Accrued liabilities	(5,498)	(1,854)	2,707
	-----	-----	-----
Net cash provided by (used in) operating activities	(1,041)	14,797	(4,069)
Cash flows from investing activities:			
Capital expenditures	(3,005)	(665)	(1,101)
Acquisition of business, net of cash acquired	(13,181)		
Proceeds from sales of fixed assets	18	416	3,969
Proceeds from sale of Sidney division assets		7,167	
	-----	-----	-----
Net cash provided by (used in) investing activities	(16,168)	6,918	2,868

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
for the years ended December 31, 1998, 1997 and 1996
(Dollars in thousands)

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Cash flows from financing activities:			
Dividends paid	(780)	(779)	(775)
Proceeds from (repayment of) short-term borrowings	500	(4,586)	129
Proceeds from long-term borrowings	14,286		4,000
Repayment of long-term borrowings		(16,000)	(120)
	-----	-----	-----
Net cash provided by (used in) financing activities	14,006	(21,365)	3,234
Effect of exchange rates on cash	(86)	(176)	199
	-----	-----	-----
Net (decrease) increase in cash	(3,289)	174	2,232
Cash, beginning of year	5,022	4,848	2,616
	-----	-----	-----
Cash, end of year	\$ 1,733	\$ 5,022	\$ 4,848
	=====	=====	=====
Supplemental cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 362	\$ 1,102	\$ 1,380
Income taxes			\$ 469
Non-cash transactions:			
Liability incurred for licensing agreement recorded as an intangible	\$ 750		

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THE CONSOLIDATED FINANCIAL STATEMENTS

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain 1996 and 1997 amounts have been reclassified to conform to the 1998 presentation.

The following is a summary of the significant accounting policies:

a. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of The Monarch Machine Tool Company and its subsidiaries (the Company). All intercompany accounts and transactions have been eliminated.

b. CASH AND CASH EQUIVALENTS

Cash equivalents include those obligations which are readily convertible to cash and have a stated maturity of three months or less when purchased.

c. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated principally under the straight-line method, over their estimated useful lives. Repairs which do not extend the useful life of the asset are expensed as incurred. Major renewals or renovations are capitalized. When assets are retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is recognized.

d. GOODWILL

The excess of purchase price over the fair value of net assets of acquired businesses (goodwill) is being amortized on a straight-line basis over twenty-five years. Goodwill relates exclusively to the Company's purchase of GFG Corporation (see note 2) on December 31,

1998. The carrying value of goodwill will be reviewed periodically if the facts and circumstances suggest that it may be impaired. If the review indicates that goodwill will not be recoverable, as determined by the undiscounted cash flow method, the asset will be reduced to its estimated recoverable value.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

e. REVENUE RECOGNITION

Revenues are recorded at the time products are shipped, except for significant long-term contracts which are recorded on the percentage-of-completion method. The percentage-of-completion method is used in the production of custom metal coil processing equipment and coating and laminating equipment. Revenue and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Revenue and gross profit are adjusted prospectively for revisions in estimated total contract costs. Estimated losses on contracts are recorded when identified.

f. RESEARCH AND DEVELOPMENT COSTS

Research and development costs, which are expensed as incurred, were approximately \$1,265, \$1,474, and \$1,415, in 1998, 1997 and 1996, respectively.

g. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income (loss), after adjustment for the preferred stock dividend requirement, by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by adding the dilutive effect of common stock equivalents, such as the convertible preferred shares and any stock options outstanding, to the weighted average number of common shares outstanding.

h. ENVIRONMENTAL REMEDIATION COSTS

Costs incurred to investigate and remediate contaminated sites are expensed. Liabilities for these expenditures are recorded, on an undiscounted basis, when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

i. STOCK OPTIONS

The Company measures compensation cost for their stock option plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees.

j. POSTRETIREMENT BENEFITS

The Company accrues the cost of providing postretirement benefits for medical and life insurance coverage over the active service period of the employee. These benefits are funded by the Company when paid.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

k. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial instruments of the Company and its subsidiaries consist mainly of cash, long-term investments, current and non-current accounts receivables, short-term debt, accounts payable, accrued liabilities and long-term liabilities. In view of their nature, the fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying amount. The fair value of non-current receivables and long-term liabilities also approximates their carrying value, because they bear interest at rates close to the prevailing market rates.

2. ACQUISITION AND DISPOSAL OF BUSINESSES

a. ACQUISITION OF GFG CORPORATION

On December 31, 1998, the Company acquired all of the outstanding shares of common stock of GFG Corporation ("GFG") for an initial

cash price of \$13,497, subject to closing adjustments. The Company would be required to pay up to an additional \$1,780 to the seller in February 2000 if GFG achieves certain operating profits in 1999. GFG designs and assembles roll coating, electrostatic oil application and strip processing equipment used by the metal coil processing industry.

The acquisition of GFG is being recorded under the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to the net assets acquired based on their estimated fair values. The fair value of tangible assets acquired and liabilities assumed was \$7.1 million and \$3.7 million, respectively. The balance of the purchase price, \$10.1 million, was recorded as excess of purchase price over net assets acquired (goodwill) and is being amortized over twenty-five years on a straight-line basis.

Since the acquisition occurred on December 31, 1998, no amounts from GFG are included in the Company's results of operations in 1998. The following table reflects unaudited pro forma combined results of operations of the Company and GFG on the basis that the acquisition had taken place at the beginning of each respective period:

	1998	1997
	----	----
	<C>	<C>
Net sales	\$99,803	\$128,704
Net income (loss)	\$ 2,074	\$ (3,393)
Earnings (loss) per common share basic and diluted	\$.55	\$ (.90)

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in thousands, except per share data)

These unaudited pro forma results include certain adjustments, such as additional cost of sales as a result of a step-up in the carrying basis of inventory, additional expense related to the amortization of goodwill and increased interest expense on acquisition debt. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect during the periods presented, or of future results of operations of the consolidated entities.

b. SALE OF SIDNEY DIVISION

In 1997, the Company sold the business of the Sidney division and essentially all of its operating assets, including inventory and machinery and equipment carried at \$7,641 and \$1,540, respectively. The buyer paid \$7,167 in cash, assumed specified liabilities of \$564 and agreed to pay the remaining amount over a five year period. In March 1998, the Company agreed to certain adjustments related to various inventory valuation claims made by the buyer. As a result, the Company and buyer agreed to reduce the remaining payment due under the agreement to \$250 which will be received over a two year period beginning August 2000. The Company recorded disposal costs of \$391 (\$.07 per share after applicable income taxes of \$133) in 1997 related to this transaction, net of a \$318 benefit from a pension plan curtailment. In addition, cost of sales includes charges of \$1,139 (\$.20 per share after applicable income taxes of \$387) related to the write-down of inventory and to costs related to the settlement of claims made by the buyer.

The following is unaudited historical information relating to the Sidney division (including the disposal costs and charges noted above and \$1,500 (\$.26 per share after applicable income taxes of \$510) related to an impairment of a property held for sale described in Note 9):

	1997	1996
	<C>	<C>
Net sales	\$10,613	\$23,848
Operating (loss)	(3,302)	(9,569)

</TABLE>

c. DISPOSITION OF GERMAN BUSINESSES

During 1997, the Company decided to close the operations of its three businesses located in Germany and recorded a reserve of \$1,100 (\$.19 per share after applicable income taxes of \$374) for estimated costs related to the closure. In addition, included in cost of sales is \$283 (\$.05 per share after applicable income taxes of \$96) related to the write-off of inventory related to these businesses. In March 1998, the Company entered into an agreement to sell a majority of the assets of one of the businesses, with the buyer also agreeing to assume certain liabilities of the business. The expected loss on the sale of these assets was included in the reserve amount recorded in 1997 noted above.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

The following is unaudited historical information, including the reserves and charges noted above, relating to all three German businesses:

<TABLE>

<CAPTION>

	1997	1996
<S>	<C>	<C>
Net sales	\$ 5,133	\$13,253
Operating income (loss)	(3,550)	(1,559)

</TABLE>

3. ACCOUNTS RECEIVABLE

Included in accounts receivable are \$5,984 and \$5,740 of amounts unbilled as of December 31, 1998 and 1997, respectively. All unbilled amounts at December 31, 1998 are expected to be billed in 1999 including \$1,419 to one customer, which amount was also unbilled at December 31, 1997.

4. INVENTORIES

At December 31, 1998 and 1997, inventories aggregating \$6,858 and \$9,558, respectively, were valued at the lower of last-in, first-out (LIFO) cost or market, with the remaining inventories of \$3,628 and \$1,584, respectively, valued at the lower of first-in, first-out (FIFO) cost or market.

At December 31, 1998 and 1997, inventories are as follows:

<TABLE>

<CAPTION>

	1998	1997
<S>	<C>	<C>
Finished goods	\$ 1,285	\$ 2,729
Work-in-process and parts inventory	12,967	12,381
Raw materials	739	320
	-----	-----
Total first-in, first-out (FIFO) cost	14,991	15,430
Less allowance to adjust the carrying value of inventories to LIFO basis	4,505	4,288
	-----	-----
	\$10,486	\$11,142
	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

The Company provides for potential losses from obsolete and slow-moving inventory in the period in which they are identified. The charge to earnings, before giving effect to LIFO liquidations, in 1998, 1997 and 1996 relating to obsolete and slow-moving inventory was \$262, \$751, and \$9,690, respectively. During 1996, the Company decided to discontinue the manufacturing of certain product lines of the Sidney division, except for certain special orders and, accordingly, revalued its parts inventory relating to those product lines. As a result of this revaluation, before giving effect to LIFO liquidations, \$7,463 (\$1.32 per share after applicable income taxes of \$2,537) is included in the 1996 reserve for obsolete and slow-moving inventory. Because of the above and because of reductions in inventory in the normal course of business, prior year LIFO inventory quantities were reduced. In 1996, this resulted in an increase in income before taxes of \$2,518 (\$.44 per share after applicable income taxes of \$856).

5. CONTRACTS IN PROCESS

Amounts included in the consolidated financial statements related to uncompleted contracts are as follows:

<TABLE>
<CAPTION>

	Costs and Estimated Earnings in Excess of Billings ----- <C>	Billings in Excess of Costs and Estimated Earnings ----- <C>	Total ----- <C>
December 31, 1998:			
Costs	\$ 6,805	\$ 3,597	\$ 10,402
Estimated earnings	2,228	540	2,768
	-----	-----	-----
	9,033	4,137	13,170
Less amounts billed	(5,758)	(9,654)	(15,412)
	-----	-----	-----
	\$ 3,275	\$ (5,517)	\$ (2,242)
	=====	=====	=====
December 31, 1997:			
Costs	\$ 396	\$ 7,263	\$ 7,659
Estimated earnings	69	1,354	1,423
	-----	-----	-----
	465	8,617	9,082
Less amounts billed	(128)	(13,713)	(13,841)
	-----	-----	-----
	\$ 337	\$ (5,096)	\$ (4,759)
	=====	=====	=====

</TABLE>

THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

6. INCOME TAXES

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The income (loss) before income taxes reflected in the consolidated financial statements is comprised of the following:

<TABLE>
<CAPTION>

1998	1997	1996
----	----	----

<S>		<C>	<C>	<C>
	United States	\$ 2,539	\$ (2,395)	\$ (9,695)
	Europe	644	(2,910)	1,804
		-----	-----	-----
		\$ 3,183	\$ (5,305)	\$ (7,891)
		=====	=====	=====

</TABLE>

The income tax provision (benefit) reflected in the consolidated financial statements is comprised of the following:

<TABLE>

<CAPTION>

		1998	1997	1996
		----	----	----
<S>		<C>	<C>	<C>
	Current:			
	Federal	\$	\$	\$ (110)
	Foreign	16	(277)	100
		-----	-----	-----
		16	(277)	(10)
	Deferred - Federal	1,825	1,856	(2,501)
	Net operating loss carryforward:			
	Federal	(937)	(2,905)	(778)
	Foreign	196	223	896
		-----	-----	-----
		(741)	(2,682)	118
		-----	-----	-----
		\$ 1,100	\$ (1,103)	\$ (2,393)
		=====	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

The differences between the statutory U.S. income tax rate and effective income tax rate are as follows:

<TABLE>

<CAPTION>

		1998	1997	1996
		----	----	----
<S>		<C>	<C>	<C>
	U.S. income tax rate	34 %	34%	34%
	Effect of foreign operations	1	(13)	(4)
		--	--	--
		35%	21%	30%
		==	==	==

</TABLE>

The effect of the foreign operations in 1997 is primarily due to a valuation allowance provided against the deferred tax assets of the German subsidiaries.

The components of deferred taxes included in the consolidated balance sheets are as follows:

<TABLE>

<CAPTION>

		1998	1997
		----	----
<S>		<C>	<C>
	Deferred tax assets:		
	Accounts receivable	\$ 424	\$ 483
	Inventories	210	236
	Intangible assets	535	141
	Product liability reserve	185	204
	Accrued vacation	123	202
	Environmental reserve	442	493
	Other liabilities and reserves	491	1,212
	Postretirement benefits	493	272
	Net operating loss and tax credit carryforwards	8,966	7,913
		-----	-----

Total deferred tax assets	11,869	11,156
Less valuation allowance	(1,383)	(1,243)
	-----	-----
Deferred tax asset	10,486	9,913
Deferred tax liabilities:		
Property, plant and equipment	(503)	(457)
Prepaid pension cost	(6,478)	(5,201)
	-----	-----
Deferred tax liability	(6,981)	(5,658)
	-----	-----
Net deferred tax asset	3,505	4,255
Net current deferred tax asset	1,874	3,102
	-----	-----
Net non-current deferred tax asset	\$ 1,631	\$ 1,153
	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

Generally accepted accounting principles require a valuation allowance against deferred tax assets if based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company believes that a valuation allowance is not necessary, other than a valuation allowance relating to the net operating loss carryforwards of the German subsidiaries. The Company anticipates that the deferred tax assets will be realized as a result of the utilization of deferred tax liabilities, the generation of future taxable income and the existence of appreciated values over the tax basis of the Company's net assets. However, a valuation allowance against the deferred tax assets could be required if estimates of future taxable income are reduced.

At December 31, 1998, the Company has domestic net operating loss carryforwards available to offset future taxable income. These carryforwards expire as follows:

<TABLE>
<CAPTION>
<S>

<C>	<C>
2007	\$ 1,546
2008	2,068
2009	3,012
2010	624
2011	2,268
2012	8,760
2018	2,757

	\$21,035
	=====

</TABLE>

The Company also has foreign net operating loss carryforwards for its subsidiary in England and its subsidiaries in Germany of \$390 and \$3,073 respectively, which can be carried forward indefinitely.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

<TABLE>
<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Land	\$ 307	\$ 307
Buildings	10,995	10,975
Machinery and equipment	17,841	15,418
	-----	-----
	29,143	26,700

Accumulated depreciation	(18,073)	(18,051)
	-----	-----
	\$ 11,070	\$ 8,649
	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
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(Dollars in thousands, except per share data)

8. BENEFIT PLANS

Under the Company's pension plans (Plans), all domestic salaried employees are provided monthly retirement benefits based on an employee's compensation and years of service at date of retirement. In addition, bargaining hourly employees are paid monthly retirement benefits of specified amounts for each year of service. The Company annually contributes amounts to provide the Plans with sufficient assets to fund payment of the benefits based on actuarial assumptions as noted in the following tables. Minimal contributions were required in 1998, 1997 and 1996 as Plan assets exceeded projected benefit obligations. At December 31, 1998, Plan assets exceeded projected benefit obligations by \$26,978. Under present tax laws, the Company's ability to realize the full value of this asset is limited. The Company approved the termination of pension plans for its salaried and non-bargaining hourly employees, effective December 31, 1998.

In 1997, the Company realized a Plan curtailment gain of \$318, as a result of the sale of the Sidney division (described in Note 2), and subsequent termination of employees covered under the plan.

The Company also provides other postretirement and post employment benefits (OPEB") consisting of group health and life insurance coverage and salary continuation for certain retirees and other health benefits to all retirees.

Net periodic expense (income) for pension and OPEB plans includes the following components:

	1998		1997		1996	
	PENSION	OPEB	PENSION	OPEB	PENSION	OPEB
	-----	----	-----	----	-----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	\$ 628	\$ 75	\$ 636	\$ 26	\$ 455	\$ 24
Interest cost	1,481	105	1,481	88	1,380	43
Expected return on plan assets	(3,688)		(3,139)		(2,852)	
Amortization of prior service costs	151	8				
Amortization of initial asset	(151)		(329)		(329)	
Recognized net actuarial (gain) loss	(1,629)		(561)	(3)	(542)	
	\$ (3,208)	\$ 188	\$ (1,912)	\$ 111	\$ (1,888)	\$ 67
	=====	=====	=====	=====	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

The Plans funded status and accounting assumptions at December 31, 1998 and 1997 are as follows:

	1998		1997	
	PENSION	OPEB	PENSION	OPEB
	-----	----	-----	----
<S>	<C>	<C>	<C>	<C>
Change in benefit obligation:				

Benefit obligation at beginning of year	\$ 20,048	\$ 1,336	\$ 21,026	\$ 1,254
Service cost	628	75	503	26
Interest cost	1,481	105	1,390	88
Amendments	(1,205)	168		
Actuarial (gain) loss	405	66	(419)	53
Benefits paid	(1,527)	(111)	(2,452)	(85)
Benefit obligation at end of year	19,830	1,639	20,048	1,336
Change in plan assets:				
Fair value of plan assets at beginning of year	44,088		37,742	
Actual return on plan assets	4,248		8,668	
Employer contribution	121	(111)	216	(32)
Plan participant's contributions				
Benefits paid	(1,527)	111	(2,452)	32
Expenses paid	(122)		(86)	
Fair value of plan assets, end of year	46,808		44,088	
Funded Status	26,978	(1,639)	24,040	(1,336)
Unrecognized net actuarial (gain) loss	(6,450)	(4)	(8,020)	69
Unrecognized prior service cost	(1,266)	193	65	
Unrecognized initial net obligation	(211)		(362)	
Prepaid (accrued) benefit cost	\$ 19,051	\$ (1,450)	\$ 15,723	\$ (1,405)
Weighted-average assumptions as of December 31:				
Discount rate	7.0%	6.5%	7.25%	7.0%
Expected return on plan assets	6.3%		8.5%	
Rate of compensation increase	4.5%	3%	4.5%	3%

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
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The change in the pension plan discount rate to 7.0% at December 31, 1998 from 7.25% at December 31, 1997 has resulted in an increase of \$599 in the actuarial present value of projected benefit obligations at December 31, 1998. This amount will be amortized as an unrecognized net loss.

Unrecognized gains and losses, are amortized rateably over five years. Assets in the pension plans include common stock of the Company with a fair value of \$700 and \$792 at December 31, 1998 and 1997, respectively.

Under the Company's OPEB plans a 1% change in the assumed health care cost trend rates would have the following effect:

	1% Increase	1% Decrease
	-----	-----
Effect on total of service and interest cost components	\$ 13	\$(11)
Effect on postretirement benefit obligation	\$ 99	\$(82)

</TABLE>

For measurement purposes a 9.5% annual rate of increase in the per capita cost of health care benefits was assumed for 1999. The rate was assumed to decrease by .5% each year until 2008 and remain at 5% each year thereafter.

The Monarch Machine Tool Company Retirement Savings Plan (the Savings Plan) enables substantially all full-time domestic employees to participate and contribute up to 15% of their salary to the Savings Plan upon completion of six months of service. Company matching and profit-sharing contributions are determined annually by the Board of Directors. During 1998, 1997 and 1996, the Company made matching contributions of 10% and no profit-sharing contributions. Total expense was \$124, \$145 and \$142, in 1998, 1997 and 1996 respectively.

9. OTHER ASSETS

Other assets consists of the following:

<TABLE> <CAPTION>		1998	1997
		----	----
<S>		<C>	<C>
	Assets held for sale	\$3,205	\$2,945
	Intangible assets	1,246	252
	Notes receivable	209	195
	Other	18	47
		-----	-----
		\$4,678	\$3,439
		=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
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 (Dollars in thousands, except per share data)

During the fourth quarter of 1997, the Company reviewed the recoverability of the net book value of the land and building which housed the former Sidney division, due to the sale of the business. The Company determined that the estimated fair value of the property was less than the carrying amount by \$1,500 (\$.26 per share after applicable income taxes of \$510) and accordingly recorded an impairment loss which is included in the impairment and other disposal costs line item in the consolidated statements of results of operations. This determination was based on the estimated cash flow to be received from the lease and the estimated fair market value of the property if it were to be sold.

During 1996, the Company realized a gain of \$3,863 (\$.68 per share after applicable income taxes of \$1.313) from the sale of properties which were available for sale as a result of the discontinuance of a business in 1992 and the consolidation of certain of the Company's German business operations.

10. ACCRUED LIABILITIES

Accrued liabilities include the following:

<TABLE> <CAPTION>		1998	1997
		----	----
<S>		<C>	<C>
	Accrued start-up and warranty costs	\$ 3,821	\$ 7,266
	Self-insurance reserves	1,228	1,482
	Environmental reserve	1,299	1,450
	Payroll and related	1,670	1,238
	Customer deposits	1,983	434
	Other	2,152	3,916
		-----	-----
		\$12,153	\$15,786
		=====	=====

</TABLE>

11. DEBT

a. SHORT-TERM BORROWING

The Company has available a \$2,500 line of credit payable on demand with interest at .5% below prime rate and a foreign guaranty/letter of credit facility for \$4,800, committed through March 2000. At December 31, 1998, the Company had borrowed \$500 under its line of credit at a 7.75% interest rate and had utilized \$70 for bank guaranties under its foreign facility.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
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 (Dollars in thousands, except per share data)

b. LONG-TERM BORROWING

The Company has a revolving credit facility of \$25,000 ("Credit Facility") available through May 2001, when the Company may convert any amount outstanding into a term loan, payable in eight equal quarterly installments beginning June 2001 through March 2003. The Company may borrow at prime rate or at a premium of between .75% and 1.625% over 1 to 3 month LIBOR. The premium is 1.375% at December 31, 1998 and is adjusted quarterly based on a financial ratio. The Company's weighted average interest rate for the \$16,497 borrowed under the Credit Facility at December 31, 1998 is 6.51%. A commitment fee of between .25% and .375% per annum (based on a financial ratio) is due on the full amount of the Credit Facility.

The amount available under the Credit Facility is restricted to an amount based on levels of inventory and accounts receivable. At December 31, 1998, the Company is able to borrow up to \$25,000 under this Credit Facility. The Credit Facility requires the Company to use proceeds received from the sale of certain non-operating assets presently available for sale (see Note 9) and from the termination of two of its pension plans (see Note 8) to repay any amounts outstanding under the Credit Facility. The amount available under the Credit Facility will be reduced by an amount equal to such proceeds, to an amount not less than \$20,000.

The Credit Facility requires the Company to comply with various covenants, which include, among others, maintaining certain financial ratios and limiting the amount available for dividends, capital expenditures and acquisitions without lender approval. As of December 31, 1998, the maximum amount of retained earnings available for dividends is \$2,196.

Future payments due under the Credit Facility are as follows:

<S>	<C>	<C>
	2001	\$ 6,188
	2002	8,250
	2003	2,059

		\$16,497
		=====

</TABLE>

12. ENVIRONMENTAL LIABILITY

In September 1988, the Company and several other potentially responsible parties ("PRPs") were ordered by the Environmental Protection Agency ("EPA"), under the Federal "Superfund" legislation to perform a remedial investigation and a limited removal action to dispose of waste materials at the Rosen site, a former scrap yard in Cortland, New York. That investigation and removal action was completed in 1996 to the EPA's satisfaction.

In 1998, a Consent Decree was entered into among the EPA, the PRPs (including the Company) and a group of ten companies ("Defendants") that the EPA considered to be potentially liable to share the costs of remediation. The Consent Decree prescribes the remediation procedures necessary to be performed at the property. Prior to implementation the Consent Decree requires approval of the U.S. Department of Justice and the U.S. District Court in New York. If the Consent Decree is approved in its present form, the Company will have limited responsibility for any future remediation or maintenance costs related to the property, provided that the EPA approved remedy is implemented and ultimately is successful. Pursuant to the terms of the Consent Decree, the Company, along with the PRPs and Defendants have joint and several responsibility to pay any additional EPA oversight costs.

Based on information presently available, the Company believes that

the \$1,299 it has reserved at December 31, 1998 is adequate to provide for its share of the estimated costs for resolution of this matter. However, the Company's ultimate liability for remediation will likely be reduced if the Consent Decree is approved by the appropriate agencies. The Company anticipates continuing to review the adequacy of its present reserve and will recognize an adjustment to the reserve when appropriate.

13. CONTINGENCIES

The Company is self-insured for a portion of the cost of the health care benefits it provides its employees with an aggregate annual self-insured claim limit of \$2,500. The Company is also self-insured for workers' compensation for those divisions located in Ohio and is liable for individual claims up to \$350 per occurrence. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported.

The Company is a defendant in various legal actions arising in the ordinary course of business, including product liability claims. The Company is responsible for all legal and settlement costs associated with product liability claims up to \$100,000 for each matter and has insurance coverage for costs which exceed that amount, subject to specific and aggregate loss limitations. Included in these legal actions is a claim by one of the Company's customers related to alleged defects in equipment supplied by the Company. A trial date for litigation of this claim has been set for May 1999. The Company believes that the equipment meets all specifications prescribed in the contract and intends to vigorously defend this litigation. The Company believes that the ultimate liability, if any, resulting from these matters will not have a material effect on the Company's consolidated financial position. The significance of these matters on the Company's future operating results will depend on the Company's level of future earnings as well as the timing and the amount of the ultimate disposition of these matters above any amounts covered by insurance.

14. CAPITAL STOCK

The Company's preferred shares are \$1.80 cumulative. Each preferred share is entitled to one vote and is convertible into four common shares.

15. STOCK-BASED COMPENSATION PLANS

During the three-year period ended on December 31, 1998, the Company has maintained The Monarch Machine Tool Company 1994 Employees Stock Option Plan and The Monarch Machine Tool Company 1984 Restricted Stock Bonus Plan (collectively the "Plans", and individually the "Option Plan" and "Stock Plan", respectively), which are described below.

Under the Option Plan, the Company is authorized to issue up to 100,000 shares of Common Stock pursuant to stock options. The Company may grant incentive stock options, or nonqualified stock options. The Option Plan provides that the exercise price of the stock option may not be less than the fair market value of the Common Stock on the date of grant. All stock options granted during 1998 have terms of 10 years and are fully vested on the first anniversary of the date of grant.

In 1997, the Company granted 75,000 non-qualified stock options to an officer. The options granted during 1997 have a term of 10 years and vest on the sixth anniversary of the date of grant, or earlier if certain stock prices are achieved.

A summary of the status of the Company's stock options is presented below.

<TABLE>
<CAPTION>

NUMBER OF WEIGHTED AVERAGE

	SHARES	EXERCISE PRICE
	-----	-----
<S>	<C>	<C>
Outstanding December 31, 1995	41,800	\$ 11.49
Cancelled	(500)	\$ 10.19

Outstanding December 31, 1996	41,300	\$ 11.50
Granted	75,000	\$ 8.44
Cancelled or expired	(6,000)	\$ 11.95

Outstanding December 31, 1997	110,300	\$ 9.43
Granted	69,050	\$ 7.71
Cancelled or expired	(27,666)	\$ 9.95

Outstanding December 31, 1998	151,684	\$ 8.52
	=====	

</TABLE>

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The Company applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for option grants. No compensation expense has been recognized for any stock options granted in 1998, 1997 and 1996. Had the compensation cost for the Company's stock-based compensation plans been determined consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" the related compensation expense charged to operations, on a pre-tax basis, would have been \$126 in 1998, \$59 in 1997, and \$3 in 1996. SFAS 123 does not apply to options granted prior to 1995.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of options granted during 1998 and 1997 was \$1.85 and \$2.55, respectively, which was calculated using the following weighted-average assumptions..

ASSUMPTION	1998	1997
	----	----
<S>	<C>	<C>
Expected Term	5 years	7 years
Expected Volatility	24.3%	24.5%
Expected Dividend Yield	2.6%	2.37%
Risk-Free Interest Rate	5.54%	5.72%

</TABLE>

The following table summarizes information about stock options at December 31, 1998.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER	WEIGHTED		NUMBER	WEIGHTED	
RANGE OF EXERCISE PRICES	OUTSTANDING AT 12/31/98	AVERAGE REMAINING CONTRACT LIFE	AVERAGE EXERCISE PRICE	EXERCISABLE AT 12/31/98	AVERAGE EXERCISE PRICE	
-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	
\$7.59-\$ 8.56	133,384	8.6	\$ 8.12			
\$9.69-\$13.94	18,300	4.0	\$11.44	18,300	\$ 11.44	
	-----	-----	-----	-----	-----	
\$7.59-\$13.94	151,684	8.0	\$ 8.52	18,300	\$ 11.44	

</TABLE>

Under the Stock Plan, the Company is authorized to award up to 50,000 shares of Common Stock to employees. Of the 19,179 shares reserved for award under this plan at December 31, 1998, 9,549 shares were awarded in 1999 in connection with employee incentive

compensation for 1998. In addition, during 1998, 7,000 shares from the Stock Plan were awarded to an employee, which vest ratably over a 3-year period from date of award. During 1997, the Company awarded an employee 17,000 non-Stock Plan shares which vest ratably over a 2-year period from date of award. During 1998 and 1997, the Company recorded compensation expense of \$178 and \$46, respectively, in connection with the awarding of the above shares.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
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16. FOREIGN CURRENCY

All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at rates of exchange in effect at the close of the year, in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" (SFAS 52). SFAS 52 requires that the effects of changes in the value of the U.S. dollar, as compared to the local currency of the foreign subsidiaries, be shown as translation adjustments in Shareholders' Equity.

Translation adjustments are as follows.

<u><TABLE></u> <u><CAPTION></u>	1998	1997	1996
	----	----	----
<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>
Balance, beginning of year	\$(148)	\$ 227	\$ 25
Translation adjustment increase (decrease):			
Net long-term assets	(66)	(124)	(67)
Net current assets	34	(251)	269
	-----	-----	-----
Total adjustment	(32)	(375)	202
	-----	-----	-----
Balance, end of year	\$(180)	\$(148)	\$ 227
	=====	=====	=====

</TABLE>

Currency exchange losses during 1998, 1997 and 1996 were approximately \$24, \$456 and \$293, respectively, relating primarily to the Company's German operations.

The Company enters into forward foreign exchange contracts during the normal course of business to hedge its foreign currency exposure associated with sales contracts and purchase orders denominated in foreign currencies. Any gains and losses in connection with the contracts are included in the consolidated financial statements. There were no outstanding contracts at December 31, 1998 and 1997.

17. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in three primary industries in which it designs and builds coil processing equipment, paper coating and laminating equipment and machining centers. These segments have been identified based on the organizational reporting structure of the Company. Each of the segments listed above report their individual operating results directly to the Chief Executive Officer of the Company. All Company products are sold by direct Company sales people and independent agents throughout the United States and the world.

Approximately 13%, 11%, and 17%, of the Company's consolidated revenues from 1998, 1997 and 1996, respectively, were export sales from the United States primarily to Mexico, Canada, China and the Far East. Sustainably all long-lived assets are located in the United States. Intercompany and intersegment sales are priced at market but are not material. The foreign subsidiaries are located in England and Germany.

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in thousands, except per share data)

Business segment information is presented below:

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Sales			
Coil processing	\$ 45,995	\$ 62,221	\$ 57,383
Paper coating and laminating	2,595	3,618	3,623
Machining center	30,433	41,561	55,328
Adjustments and eliminations	43	(284)	(806)
	-----	-----	-----
	\$ 79,066	\$107,116	\$115,528
	=====	=====	=====
Operating income (loss):			
Coil processing	\$ 5,304	\$ 591	\$ (789)
Paper coating and laminating	(837)	(1,875)	(902)
Machining center	727	(2,887)	(9,258)
Corporate (1)	(1,866)	(679)	(271)
	-----	-----	-----
	\$ 3,328	\$ (4,850)	\$ (11,220)
	=====	=====	=====
Total assets:			
Coil processing	\$ 43,153	\$ 31,017	\$ 40,288
Paper coating and laminating	1,263	3,271	1,787
Machining center	19,701	22,918	56,122
Corporate (1)	23,340	18,663	4,715
	-----	-----	-----
	\$ 88,457	\$ 75,869	\$102,912
	=====	=====	=====
Depreciation and amortization:			
Coil processing	\$ 526	\$ 643	\$ 803
Paper coating and laminating	35	125	197
Machining center	421	797	955
Corporate (1)	199		
	-----	-----	-----
	\$ 1,181	\$ 1,565	\$ 1,955
	=====	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	<C>	<C>	<C>
<S>			
Cash provided by (used in) operating activities:			
Coil processing	\$ 377	\$ 6,709	\$ (1,581)
Paper coating and laminating	(826)	(1,319)	(315)
Machining center	3,868	11,866	(2,434)
Corporate (1)	(4,460)	(2,459)	261
	-----	-----	-----
	(1,041)	\$14,797	\$ (4,069)
	=====	=====	=====
Capital expenditures:			
Coil processing	\$ 653	\$ 223	\$ 434
Paper coating and laminating	106	69	78
Machining center	427	212	589
Corporate (1)	1,819	161	
	-----	-----	-----
	\$ 3,005	\$ 665	\$ 1,101
	=====	=====	=====

</TABLE>

(1) The Corporate entity includes the assets of the corporate office along with the majority of the prepaid pension asset. Since the Company files a consolidated federal income tax return and the reporting segments are divisions of the Company, the Corporate entity records the consolidated tax provision and the related deferred taxes. The Corporate entity also incurs interest expense on borrowings and certain unallocated legal, accounting and shareholder

relation expenses that are incurred for the benefit of all divisions.

Geographic information which for revenues and operating income is based on the geographic locations in which the sale originated, is presented below:

		1998	1997	1996
		----	----	----
<S>		<C>	<C>	<C>
	Sales:			
	United States	\$ 72,318	\$ 92,374	\$ 97,088
	Europe	6,748	15,026	19,246
	Adjustments and eliminations		(284)	(806)
		-----	-----	-----
		\$ 79,066	\$ 107,116	\$ 115,528
		=====	=====	=====
	Operating income (loss):			
	United States	\$ 4,653	\$ (1,133)	\$ (8,691)
	Europe	541	(3,038)	(2,258)
	Corporate	(1,866)	(679)	(271)
		-----	-----	-----
		\$ 3,328	\$ (4,850)	\$ (11,220)
		=====	=====	=====

</TABLE>

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THE MONARCH MACHINE TOOL COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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		1998	1997	1996
		----	----	----
<S>		<C>	<C>	<C>
	Total assets:			
	United States	\$ 83,006	\$ 61,751	\$ 88,033
	Europe	5,451	14,118	14,879
		-----	-----	-----
		\$ 88,457	\$ 75,869	\$ 102,912
		=====	=====	=====

</TABLE>

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers of the Registrant

The following are the names and ages of the Company officers, each of whom has been appointed to a one year term. Except as noted below, each person has been an officer and employee of the registrant for the last five years.

		Office	Name	Age
		-----	----	---
<S>			<C>	<C>
	President and Chief Executive Officer		Richard E. Clemens	49
	Vice President and Chief Financial Officer		Karl A. Frydryk	44
	Vice President, Operations Improvement		Patrick M. Flaherty	49
	Vice President, Human Resources		Timothy P. Gibson	41
	President - Stamco Division		Frederick G. Sharp	45
	President - Machining Center Division		Wayne W. Hanna	45

</TABLE>

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Mr. Clemens became President and Chief Executive Officer of Monarch in March 1997. He was previously the Vice President and General Manager of the Frick Company (a subsidiary of York International), a manufacturer of compressors, heat exchangers, and process refrigeration equipment, from 1995 to 1997. Prior to working for the Frick Company, he was President and Chief Executive Officer of Clark Material Handling Company, a manufacturer of fork lift trucks, from 1994 to 1995. Before then, he was President of BMY Combat Systems, a division of Harsco Corporation, from 1992 to 1994 and held various other management positions with the division from 1985 to 1992.

Mr. Frydryk, a CPA, became Vice President and Chief Financial Officer on January 5, 1998. He had previously been employed for over 13 years by Nord Resources Corporation, a New York Stock Exchange listed company engaged in mining and mineral and chemical processing. He held various positions with that company, including serving for over 10 years as its Vice President - Controller and Secretary.

Mr. Flaherty became Vice President, Operations Improvement on February 16, 1998. Prior to joining the Company, he was a consultant, providing consulting services to the Company for 6 months. From 1995 to 1997 he was Vice President, Operations for the Frick Company, a subsidiary of York International, which manufactures compressors, heat exchangers and process refrigeration equipment. From 1994 to 1995 he served as Vice President, Operations and then Vice President, Business Development for Clark Equipment Handling Company, a manufacturer of fork lift trucks, and from 1994 to 1997 served in various capacities with Allied Signal, including Vice President, Airline Services from 1992 to 1994.

Mr. Gibson became Vice President, Human Resources on March 2, 1998. From January 1995 until his employment by the Company he was Vice President, Human Resources for CTG, Inc., a distributor of computer-related equipment. Prior to then he was, for over 5 years, the Senior Director, Human Resources for US Airways Express.

Mr. Sharp became President of the Stamco Division on February 23, 1998. He was previously Vice President, Marketing and Sales, for Fairfield Manufacturing Company, Inc., a designer and manufacturer of custom and proprietary power transmission components, from 1996 to 1998. Before then, he was Director - Combat Artillery Program, United Defense, LP (formerly BMY Combat Systems), a designer and manufacturer of combat vehicles, from 1991 to 1996.

Mr. Hanna became President of the Machining Center Division on August 24, 1998. He was previously Executive Vice President for Strategic Sourcing Group, a consulting firm specializing in mergers and acquisitions, strategic issues and global sourcing, from 1992 to 1998. He was also President of DAB Acquisition Corporation & Tradestar Expo, Ltd., a venture capital firm and an affiliate of Strategic Sourcing Group, from 1994 to 1996.

Mr. Dugdale, a CPA, was named Controller on June 1, 1998 and Secretary effective March 1, 1999, replacing Mr. Earl Hull, the former Secretary who retired on February 28, 1999. Mr. Dugdale was employed by Moto Photo Corporation, a NASDAQ-listed company engaged in franchising of film processing service-centers in 1998, prior to joining the Company. Until 1998, he was employed for over 10 years as assistant controller with Nord Resources Corporation, a New York Stock Exchange listed company engaged in mining and mineral processing and for 2 years served as Secretary for Nord Pacific Limited, a NASDAQ-listed company engaged in the same industry.

Additional information required by this Item 10 is set forth on the Proxy Statement and is incorporated herein by reference.

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ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the Proxy Statement and is incorporated herein by this reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is set forth in the Proxy Statement and is incorporated herein by this reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 12 is set forth in the Proxy Statement and is incorporated herein by this reference.

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

(a) List of Documents filed as part of this Report.

(1) Financial Statements:

See Item 8-Index to Financial Statements

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Schedule II - Valuation and Qualifying Accounts	45

Schedules other than those listed above are omitted as they are not applicable or are not required

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(3) Exhibits: See Index of Exhibits

(b) No reports on Form 8-K have been filed during the fourth quarter of 1998

(c) See Index of Exhibits for location of filed exhibits

(d) No other financial statements, other than those mentioned above, are required to be filed to comply with regulation S-X

SIGNATURES

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

THE MONARCH MACHINE TOOL COMPANY

By: /s/ Richard E. Clemens

RICHARD E. CLEMENS
Director, President and Chief Executive Officer
March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of The Monarch Machine Tool Company and in the capacities and on the dates indicated:

<TABLE>

<CAPTION>

<S>

By: /s/ Richard E. Clemens ----- RICHARD E. CLEMENS Director, President and Chief Executive Officer March 26, 1999	<C> By: /s/ Kenneth H. Hopkins ----- KENNETH H. HOPKINS Director March 26, 1999
By: /s/ John A. Bertrand ----- JOHN A. BERTRAND Director March 26, 1999	By: /s/ David E. Lundeen ----- DAVID E. LUNDEEN Director March 26, 1999
By: /s/ Gerald L. Connelly ----- GERALD L. CONNELLY	By: /s/ Joseph M. Rigot ----- JOSEPH M. RIGOT

Director
March 26, 1999

Director
March 26, 1999

By: /s/ William A. Enouen

WILLIAM A. ENOUE
Director
March 26, 1999

By: /s/ Karl A. Frydryk

KARL A. FRYDRYK
Vice President
(Principal Financial Officer)
March 26, 1999

By: /s/ Waldemar M. Goulet

WALDEMAR M. GOULET
Director
March 26, 1999

By: /s/ Leo E. Dugdale III

LEO E. DUGDALE III
Controller
(Principal Accounting Officer)
March 26, 1999

By: /s/ William R. Graber

WILLIAM R. GRABER
Director
March 26, 1999

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REPORT OF INDEPENDENT ACCOUNTANTS

February 11, 1999

To the Board of Directors and Shareholders of
The Monarch Machine Tool Company

Our report dated February 11, 1999 on our audits of the consolidated financial statements of The Monarch Machine Tool Company and Subsidiaries as of December 31, 1998 and 1997 and for the years ended December 1998, 1997 and 1996 is contained under Item 8 of this Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

PricewaterhouseCoopers LLP
Dayton, Ohio

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THE MONARCH MACHINE TOOL COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
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COL. A DESCRIPTION -----	COL. B BALANCE AT BEGINNING OF PERIOD -----	COL. C ADDITIONS -----	COL. D DEDUCTIONS -----	COL. E BALANCE AT END OF PERIOD -----
<S>	<C>	<C>	<C>	<C>
Year ended December 31, 1998:				
Allowance for doubtful trade accounts receivable	\$ 1,507	\$ 310	\$ (404)	\$ 1,413
Inventory reserves	1,031	552	(1,031)	552
Impairment reserve - assets held for resale	1,500			1,500
Environmental reserve	1,450		(151)	1,299
Valuation allowance for deferred tax assets	1,243	140	--	1,383
Total	\$ 6,731	\$ 1,002	\$ (1,586)	\$ 6,147

Year ended December 31, 1997:

Allowance for doubtful trade accounts receivable	\$ 469	\$ 1,097	\$ (59)	\$ 1,507
Inventory reserves	13,516	751	(13,236)	1,031
Impairment reserve - assets held for sale		1,500		1,500
Environmental reserve	1,500		(50)	1,450
Valuation allowance for deferred tax assets		1,243		1,243
Total	\$ 15,485	\$ 4,581	\$ (13,345)	\$ 6,731

Year ended December 1996:

Allowance for doubtful trade accounts receivable	\$ 150	\$ 463	\$ (144)	\$ 469
Inventory reserves	4,085	9,690	(259)	13,516
Environmental reserve	1,500	50	(50)	1,500
Total	\$ 5,735	\$ 10,203	\$ (453)	\$ 15,485

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Exhibit Number	Description	Footnote Number
3	Articles of Incorporation and Regulations	(2)
10	Material Contracts	
10.1	1994 Employees Stock Option Plan	(3)
10.2	Letter Agreement, dated February 13, 1997, between The Monarch Machine Tool Company and Richard E. Clemens	(3)
10.3	Amended and Restated Credit Agreement dated as of May 29, 1998 by and among the Company, NBD Bank, Star Bank, N.A. and NBD Bank, as agent	(1)
10.4	Asset Purchase Agreement by and between Monarch Lathes, L.P. and the Company, dated July 16, 1997	(4)
10.5	First Amendment to Amended and Restated Credit Agreement dated as of December 29, 1998	(5)
10.6	Letter agreement, dated November 3, 1998 between the Monarch Machine Tool Company and Richard E. Clemens	(1)
10.7	Letter agreement, dated November 3, 1998 between the Monarch Machine Tool Company and Karl A. Frydryk	(1)
21	Subsidiaries of the Registrant	(1)
23	Consent of Independent Accountants	(1)
27	Financial Data Schedules	(1)

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Footnote Number	Description
(1)	Indicates Exhibit is being filed with this report

- (2) Incorporated by reference to the Exhibits with the same number filed with the Company's Form 10-K for the year ended December 31, 1980
- (3) Incorporated by reference to the Exhibits with the same number filed with the Company's Form 10-K for the year ended December 31, 1996
- (4) Incorporated by reference to Exhibit 10.1 filed with the Company's Form 8-K dated August 13, 1997
- (5) Incorporated by reference to Exhibit 1.1 filed with the Company's Form 8-K dated January 14, 1999

</TABLE>

THE MONARCH MACHINE TOOL COMPANY

\$15,000,000
SECOND AMENDED AND RESTATED CREDIT AGREEMENT
dated as of May 29, 1998

NBD BANK, N.A.
STAR BANK, N.A.
and
NBD BANK, N.A., as Agent

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- Exhibit A-1 - Form of Revolving Credit Note
- Exhibit A-2 - Form of Term Note
- Exhibit B - Request for Advance
- Exhibit C - Opinion of Borrower's Counsel
- Exhibit D - Request for Continuation or Conversion of Loan
- Exhibit E - Borrowing Base Certificate
- Exhibit F - Environmental Certificate

SCHEDULES

- 4.4 - Subsidiaries
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- 5.2(d) - Liens
- 5.2(k) - Investments, Loans and Advances

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THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of May 29, 1998 (this "Agreement"), is by and among THE MONARCH MACHINE TOOL COMPANY, INC., an Ohio corporation (the "Company"), the Banks set forth on the signature pages hereof (collectively, the "Banks" and, individually, a "Bank") and NBD BANK, N.A., a national banking association ("NBD"), as agent for the Banks (in such capacity, the "Agent").

INTRODUCTION

A. The Company, the Banks and the Agent (NBD, as a Bank and as the Agent, being the successor by assignment to NBD Bank, a Michigan banking corporation) are parties to that certain Amended and Restated Credit Agreement, dated as of June 9, 1995, as amended or modified from time to time (the "1995 Credit Agreement"), pursuant to which the Banks provide to the Company a revolving credit facility, including, in the Banks' sole discretion, loans in foreign currencies, in an aggregate principal amount the Dollar Equivalent of which does not exceed \$20,000,000, in order to provide funds for the Company's general corporate purposes, which credit facility is convertible into a three-year term loan, all on the terms and conditions therein set forth.

B. The Company now desires to extend the expiry date of such revolving credit facility three years, reduce the amount of such facility to \$15,000,000, eliminate foreign currency loans from the facility, add standby letters of credit to the facility, provide for its conversion to a two-year term loan, and modify the pricing and fees under the credit facility and certain covenants applicable to the Company, and the Banks and the Agent are willing to so modify the 1995 Credit Agreement, and for such purpose amend and restate the 1995 Credit Agreement in full, all the terms and condition herein set forth.

In consideration of the premises and of the mutual agreements herein contained, the parties hereby agree, and hereby amend and restate the 1995 Credit Agreement in full, as follows:

ARTICLE I.
DEFINITIONS

1.1. Certain Definitions. As used herein the following terms shall have the following respective meanings:

"Advance" shall mean any Loan and any Letter of Credit Advance.

"Affiliate", when used with respect to any person, shall mean any other person which, directly or indirectly, controls or is controlled by or is under common control with such person. For purposes of this definition "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), with respect to any person, shall mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or by contract or

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otherwise.

"Applicable Commitment Fee Rate", "Applicable Eurodollar Rate Margin", "Applicable Floating Rate Margin" and "Applicable L/C Fee Rate" shall be, for purposes of determining the commitment fee payable under Section 2.3(a) for any month (the "Application Month"), the Eurodollar Rate applicable to any Eurodollar Rate Loan outstanding at any time during any Application Month, the Floating Rate applicable to any Floating Rate Loan outstanding at any time during any Application Month, or the fee under Section 2.3(d) for any Letter of Credit issued during any Application Month, as the case may be, the percent set forth under the heading "Applicable Commitment Fee Rate", "Applicable Eurodollar Rate Margin for Revolving Credit Loans", "Applicable Eurodollar Rate Margin for the Term Loan", "Applicable Floating Rate Margin for Revolving Credit Loans", "Applicable Floating Rate Margin for the Term Loan" and "Applicable L/C Fee Rate", respectively, below in the row corresponding to the range into which falls the ratio (the "Ratio") of the Consolidated Total Liabilities of the Company and its Subsidiaries to the Consolidated Tangible Net Worth of the Company and its Subsidiaries as of the end of the last fiscal quarter (the "Determination Quarter") preceding such Application Month for which financial statements have been delivered to the Banks under Section 5.1(d) (ii):

<TABLE>
<CAPTION>

Applicable

Ratio -----	Applicable Commitment Fee Rate -----	Applicable Eurodollar Rate Margin for Revolving Credit Loans -----	Applicable Eurodollar Rate Margin for the Term Loan -----	Floating Rate Margin for Revolving Credit Loans -----	Applicable Floating Rate Margin for the Term Loan -----	Applica- ble L/C Fee Rate -----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Less than or equal to 0.75 to 1.00	0.25%	0.75%	1.00%	0%	0.25%	0.75%
Greater than 0.75 to 1.00 but less than or equal to 1.15 to 1.00	0.375%	1.00%	1.25%	0%	0.25%	1.00%
Greater than 1.15 to 1.00	0.375%	1.50%	1.75%	0%	0.25%	1.50%

Each change in the Applicable Commitment Fee Rate, Applicable Eurodollar Rate Margin, Applicable Floating Rate Margin and Applicable L/C Fee Rate in accordance with this definition, as finally determined upon the Banks' receipt of the Company's financial statements for any Determination Quarter pursuant to Section 5.1(d) (ii), shall be effective as of the first day

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of the corresponding Application Month following such Determination Quarter.

"Borrowing Base" shall mean, as of any date, the sum of (a) an amount equal to 80% of the Eligible Accounts Receivable plus (b) an amount equal to 50% of the Eligible Inventory minus (c) the Fifth Third Borrowings.

"Borrowing Base Certificate" or any date shall mean an appropriately completed report as of such date in substantially the form of Exhibit E hereto, certified as true and correct as of such date by the chief financial officer of the Company.

"Business Day" shall mean a day other than a Saturday, Sunday or other day on which the Agent is not open to the public for carrying on substantially all of its banking functions, and if an applicable Business Day relates to a Eurodollar Rate Loan or Eurodollar Interest Period, a day which is also a day on which dealings in Dollar deposits are carried out in the relevant interbank market.

"Capital Lease" of any person shall mean any lease which, in accordance with generally accepted accounting principles, is or should be capitalized on the books of such person.

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

"Commitments" shall mean the Revolving Credit Commitments and the Term Loan Commitments; and "Commitment" shall mean any one of such Commitments.

"Consolidated" or "consolidated" shall mean, when used with reference to any financial term in this Agreement, the aggregate for two or more persons of the amounts signified by such term for all such persons determined on a consolidated basis in accordance with generally accepted accounting principles.

"Contingent Liabilities" of any person shall mean, as of any date, all obligations of such person or of others for which such person is contingently liable, as obligor, guarantor, surety or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of any letters of credit, surety bonds or similar obligations and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person; provided that "Contingent Liabilities" of any person shall not include (a) contingent obligations of such person to the extent such contingent obligations do not exceed related direct liabilities of such person reflected in the financial statements of such person and permitted under the terms of this Agreement, and such contingent obligations shall terminate upon payment of such direct liabilities, e.g., reimbursement obligations of such person in respect of financial letters of credit issued for the account of such person to secure trade payables of such person or performance of contracts for which such person has received advance payment, or (b) reimbursement obligations of such person in respect of letters of credit issued for the account of

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such person to secure performance and warranty obligations of such person arising in the ordinary course of business.

"Cumulative Net Income" of any person shall mean, as of any date (the "Determination Date"), the net income of such person (after deduction for income and other taxes of such person determined by reference to income or profits of such person) for the period (the "Relevant Period") after the specified date until the Determination Date (but without reduction for any net loss incurred for any fiscal year or shorter period during the Relevant Period), taken as one accounting period, all as determined in accordance with generally accepted accounting principles.

"Current Assets" and "Current Liabilities" of any person shall mean, as of any date, all assets or liabilities, respectively, of such person which, in accordance with generally accepted accounting principles, should be classified as current assets or current liabilities, respectively, on a balance sheet of such person.

"Default" shall mean any of the events or conditions described in Section 6.1 which might become an Event of Default with notice or lapse of time or both.

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

"EBIT" of any person shall mean, for any period, the net income (after deduction for income taxes and other taxes of such person determined by reference to income or profits of such person) for such period plus, to the extent deducted in computation of such net income, (a) the Interest Expense of such person for such period and (b) income taxes and other taxes of such person determined by reference to income or profits of such person.

"Effective Date" shall mean the effective date specified in the final paragraph of this Agreement.

"Eligible Accounts Receivable" shall mean, as of any date, those trade accounts receivable owned by the Company which are payable in Dollars valued at the face amount thereof less sales, excise or similar taxes and less returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed, but shall not include any such account receivable (a) that is not a bona fide existing obligation created by the sale of inventory, goods or other property or the furnishing of services or other good and sufficient consideration to customers of the Company in the ordinary course of business, (b) that is more than 90 days past due or that remains outstanding more than 90 days after the earlier of the date of the invoice or the final shipment of the related inventory, goods or other property at project completion or the furnishing of the related services or other consideration, (c) to the extent that such receivable is subject to any dispute, contra-account, defense, offset or counterclaim or any Lien, or the inventory, goods, property, services or other consideration of which such account receivable constitutes proceeds is subject to any such Lien, (d) in respect of which the inventory, goods, property, services or other consideration have been rejected or the amount is in dispute, (e) that is due from any Affiliate or Subsidiary of the Company, (f) that has been classified by the Company as doubtful or has otherwise failed to

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meet established or customary credit standards of the Company, (g) that is payable by any person as to which 50% or more of the aggregate amount of such accounts receivable payable by such person to the Company do not otherwise constitute Eligible Accounts Receivable, (h) that is payable by any person that is the subject of any proceeding seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up or reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or seeking the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, or that is not generally paying its debts as they become due or has admitted in writing its inability to pay its debts generally or has made a general assignment for the benefit of creditors, (i) that is evidenced by a promissory note or other instrument, (j) that is subordinate or junior in right or priority of payment to any other obligation or claim, or (k) that for any other reason is at any time reasonably deemed by the Agent to be ineligible.

"Eligible Inventory" shall mean, as of any date, that inventory owned by the Company that constitutes raw materials, work-in-process or finished goods, valued at the lower of cost or market on a FIFO basis, but shall not include any such inventory (a) that does not constitute finished goods or raw materials readily salable or usable in the business of the Company or work-in-process, (b) that is located outside the United States (which shall not be deemed to include any territories of the United States), (c) that is subject

to, or any accounts or other proceeds resulting from the sale or other disposition thereof will be subject to, any Lien, including any sale on approval or sale or return transaction or any consignment, (d) that is not in the possession of the Company, except for inventory owned by the Company that is on consignment at independent dealer locations and the book value of which on a FIFO basis does not exceed \$2,000,000 in the aggregate, (e) that is held for lease or is the subject of any lease, (f) that is subject to any trademark, trade name or licensing arrangement, or any law, rule or regulation, that could limit or impair the ability of a person holding a Lien on such inventory to promptly exercise all rights of such lienholder, (g) if such inventory is located on premises not owned by the Company, or (h) that for any other reason is at any time reasonably deemed by the Agent to be ineligible.

"Environmental Certificate" shall mean an Environmental Certificate in substantially the form annexed hereto as Exhibit F.

"Environmental Laws" at any date shall mean all provisions of law, statutes, ordinances, rules, regulations, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by the government of the United States of America or any foreign government or by any state, province, municipality or other political subdivision thereof or therein or by any court, agency, instrumentality, regulatory authority or commission of any of the foregoing concerning the protection of, or regulating the discharge of substances into, the environment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended time to time, and the regulations thereunder.

"ERISA Affiliate" shall mean, with respect to any person, any trade or business

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(whether or not incorporated) which, together with such person or any Subsidiary of such person, would be treated as a single employer under Section 414 of the Code.

"Eurodollar Interest Period" shall mean, with respect to any Eurodollar Rate Loan, the period commencing on the day such Eurodollar Rate Loan is made or converted to a Eurodollar Rate Loan and ending on the date one, two or three months thereafter, as the Company may elect under Article II, and, with respect to any continuation of such Loan as a Eurodollar Rate Loan, each subsequent period commencing on the last day of the immediately preceding Eurodollar Interest Period and ending on the date one, two or three months thereafter, as the Company may elect under Article II, provided, however, that (a) any Eurodollar Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month, (b) each Eurodollar Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day, and (c) no Eurodollar Interest Period which would end after the Maturity Date (or the Termination Date with respect to any Revolving Credit Loans) shall be permitted.

"Eurodollar Rate" shall mean, with respect to any Eurodollar Rate

Loan and the related Eurodollar Interest Period, the per annum rate that is equal to the sum of:

(a) the Applicable Eurodollar Rate Margin, plus

(b) the rate per annum obtained by dividing (i) the per annum rate of the interest at which deposits in Dollars for such Eurodollar Interest Period and in an aggregate amount comparable to the amount of such Eurodollar Rate Loan are offered to the Agent by other prime banks in the London interbank market, selected in the Agent's discretion, at approximately 11:00 a.m. London time on the second Eurodollar Business Day prior to the first day of such Eurodollar Interest Period by (ii) an amount equal to one minus the stated maximum rate (expressed as a decimal) of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) that is specified on the first day of such Eurodollar Interest Period by the Board of Governors of the Federal Reserve System (or any successor agency thereto) for determining the maximum reserve requirement with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board) maintained by a member bank of such System;

all as conclusively determined by the Agent, such sum to be rounded up, if necessary, to the nearest whole multiple of one one-hundredth of one percent (1/100 of 1%).

"Eurodollar Rate Loan" shall mean any Loan which bears interest at the Eurodollar Rate.

"Event of Default" shall mean any of the events or conditions described in Section 6.1.

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"Federal Funds Rate" shall mean the per annum rate established and announced by the Agent from time to time as the opening federal funds rate paid by the Agent in its regional federal funds market for overnight borrowings from other banks, which Federal Funds Rate shall change simultaneously with any change in such announced rate.

"Fifth Third Borrowings" shall mean, as of any date, the aggregate outstanding principal amount of Indebtedness of the Company to The Fifth Third Bank.

"Fixed Rate Loan" shall mean any Eurodollar Rate Loan or Negotiated Rate Loan.

"Floating Rate" shall mean the per annum rate equal to the sum of (a) the Applicable Floating Rate Margin, plus (b) the greater of (i) the Prime Rate in effect from time to time or (ii) the sum of one percent (1%) per annum plus the Federal Funds Rate in effect from time to time; which Floating Rate shall change simultaneously with any change in such Prime Rate or Federal Funds Rate, as the case may be.

"Floating Rate Loan" shall mean any Loan which bears interest at the Floating Rate.

"Generally accepted accounting principles" shall mean generally accepted accounting principles applied on a basis consistent with that reflected

in the financial statements referred to in Section 4.6.

"Indebtedness" of any person shall mean, as of any date, (a) all obligations of such person for borrowed money, (b) all obligations of such person as lessee under any Capital Lease, (c) all obligations which are secured by any Lien existing on any asset or property of such person whether or not the obligation secured thereby shall have been assumed by such person, (d) the unpaid purchase price for goods, property or services acquired by such person, except for trade accounts payable arising in the ordinary course of business that are not past due, (e) all obligations of such person to purchase goods, property or services where payment therefor is required regardless of whether delivery of such goods or property or the performance of such services is ever made or tendered (generally referred to as "take or pay contracts"), (f) all liabilities of such person in respect of Unfunded Benefit Liabilities under any plan of such person or of any member of a controlled group (as that term is defined in the Code) of which such person is a member, (g) all obligations of such person in respect of any interest rate or currency swap, rate cap or other similar transaction (valued in an amount equal to the highest termination payment, if any, that would be payable by such person upon termination for any reason on the date of determination), and (h) all obligations of others similar in character to those described in clauses (a) through (g) of this definition for which such person is contingently liable, as obligor, guarantor, surety or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of letters of credit, surety bonds or similar obligations and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person.

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"Interest Expense" of any person shall mean, for any period, the interest expense of such person for such period determined in accordance with generally accepted accounting principles.

"Interest Payment Date" shall mean (a) with respect to any Fixed Rate Loan, the last day of each Interest Period with respect to such Fixed Rate Loan and, in the case of any Interest Period exceeding three months or ninety days, as the case may be, those days that occur during such Interest Period at intervals of three months or ninety days, as the case may be, after the first day of such Interest Period, and (b) in all other cases, the last Business Day of each March, June, September and December occurring after the date hereof, commencing with the first such Business Day occurring after the date of this Agreement.

"Interest Period" shall mean any Eurodollar Interest Period or Negotiated Interest Period.

"Letter of Credit" shall mean a standby letter of credit issued by the Agent on behalf of the Banks for the account of the Company under an application and related documentation acceptable to the Agent requiring, among other things, immediate reimbursement by the Company to the Agent in respect of all drafts or other demand for payment honored thereunder and all expenses paid or incurred by the Agent relative thereto.

"Letter of Credit Advance" shall mean any issuance of a Letter of Credit under Section 2.4 made pursuant to Section 2.1(a) in which each Bank acquires a pro rata risk participation pursuant to Section 2.4(e).

"Letter of Credit Documents" shall have the meaning ascribed thereto in Section 3.9(b).

"Lien" shall mean any pledge, assignment, hypothecation, mortgage, security interest, deposit arrangement, option, conditional sale or title retaining contract, sale and leaseback transaction, financing statement filing, lessor's or lessee's interest under any lease, subordination of any claim or right, or any other type of lien, charge, encumbrance, preferential arrangement or other similar claim or right.

"Loan" shall mean any Revolving Credit Loan or the Term Loan or any portion of any Revolving Credit Loan or the Term Loan. Any such Loan may also be denominated as a Floating Rate Loan or a Fixed Rate Loan (which may be further denominated as a Eurodollar Rate Loan or Negotiated Rate Loan) and such Floating Rate Loans and Fixed Rate Loans (including such Eurodollar Rate Loans and Negotiated Rate Loans) are referred to herein as "types" of Loans.

"Maturity Date" shall mean with respect to the Term Loan, the second anniversary of the date the Term Loan is made, which in any event shall be no later than May 29, 2003.

"Multiemployer Plan" shall mean any "multiemployer plan" as defined in Section

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4001(a)(3) of ERISA or Section 414(f) of the Code.

"Negotiated Rate" shall mean, with respect to any Negotiated Rate Loan, the rate per annum offered by the Banks in their sole discretion for such Negotiated Rate Loan and accepted by the Company at the time such Negotiated Rate Loan is made.

"Negotiated Interest Period" shall mean, with respect to any Negotiated Rate Loan, the period commencing on the day such Negotiated Rate Loan is made or converted to a Negotiated Rate Loan and ending on the date agreed upon between the Company and the Banks at the time such Negotiated Rate Loan is made, provided, however, that no Negotiated Interest Period which would end after the Maturity Date (or the Termination Date with respect to any Revolving Credit Loans) shall be permitted.

"Negotiated Rate Loan" shall mean any Loan which bears interest at the Negotiated Rate.

"Net Income" of any person shall mean the net income of such person (after deduction for income and other taxes of such person determined by reference to income or profits of such person).

"Notes" shall mean the Revolving Credit Notes and the Term Notes; and "Note" shall mean any one of the Notes.

"Overdue Rate" shall mean (a) in respect of principal of Floating Rate Loans, a rate per annum that is equal to the sum of three percent (3%) per

annum plus the Floating Rate, (b) in respect of principal of Fixed Rate Loans, a rate per annum that is equal to the sum of three percent (3%) per annum plus the per annum rate in effect thereon until the end of the then current Interest Period for such Loan and, thereafter, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Floating Rate, and (c) in respect of other amounts payable by the Company hereunder (other than interest), a per annum rate that is equal to the sum of three percent (3%) per annum plus the Floating Rate.

"PBGC" shall mean the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Permitted Liens" shall mean Liens permitted by Section 5.2(d) hereof.

"Person" or person" shall include an individual, a corporation, an association, a partnership, a trust or estate, a joint stock company, an unincorporated organization, a joint venture, a trade or business (whether or not incorporated), a government (foreign or domestic) and any agency or political subdivision thereof, or any other entity.

"Plan" shall mean, with respect to any person, any pension plan (other than a Multiemployer Plan) subject to Title IV of ERISA or to the minimum funding standards of Section 412 of the Code which has been established or maintained by such person, any Subsidiary of such person or any ERISA Affiliate, or by any other person if such person, any

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Subsidiary of such person or any ERISA Affiliate could have liability with respect to such pension plan.

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

"Prohibited Transaction" shall mean any transaction involving any Plan which is proscribed by Section 406 of ERISA or Section 4975 of the Code.

"Pro Rata Share" shall mean, with respect to each Bank and any amount, the portion of such amount that bears the same relation to the whole of such amount as the amount of such Bank's outstanding Revolving Credit Advances bears to the aggregate amount of the outstanding Revolving Credit Advances of all the Banks (or, if no Revolving Credit Advances are outstanding, as the amount of such Bank's Revolving Credit Commitment bears to the aggregate Revolving Credit Commitment of all the Banks).

"Reportable Event" shall mean a reportable event as described in Section 4043(b) of ERISA including those events as to which the thirty (30) day notice period is waived under Part 2615 of the regulations promulgated by the PBGC under ERISA.

"Required Banks" shall mean Banks holding not less than (i) one hundred percent (100%) of the Advances then outstanding or (ii) one hundred percent (100%) of the Revolving Credit Commitments if no Advances are then

outstanding.

"Revolving Credit Advance" shall mean any Revolving Credit Loan and any Letter of Credit Advance.

"Revolving Credit Commitment" shall mean, with respect to each Bank, the commitment of each such Bank to make Revolving Credit Loans and to participate in Letter of Credit Advances made through the Agent pursuant to Section 2.1(a) in amounts not exceeding in aggregate principal amount outstanding at any time the respective commitment amount for each such Bank set forth next to the name of each such Bank in the signature pages hereof, as such amounts may be reduced from time to time pursuant to Section 2.2.

"Revolving Credit Loan" shall mean any borrowing under Section 2.4 other than the Term Loan.

"Revolving Credit Note" shall mean any promissory note of the Company evidencing the Revolving Credit Loans, in substantially the form annexed hereto as Exhibit A-1, as amended or modified from time to time and together with any promissory note or notes issued in exchange or replacement therefor.

"Star Bank" shall mean Star Bank, N.A., a national banking association.

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"Subsidiary" of any person shall mean any other person (whether now existing or hereafter organized or acquired) in which (other than directors qualifying shares required by law) at least a majority of the securities or other ownership interests of each class having ordinary voting power or analogous right (other than securities or other ownership interests which have such power or right only by reason of the happening of a contingency), at the time as of which any determination is being made, are owned, beneficially and of record, by such person or by one or more of the other Subsidiaries of such person or by any combination thereof. Unless otherwise specified, reference to "Subsidiary" shall mean a Subsidiary of the Company.

"Tangible Net Worth" of any person shall mean, as of any date, (a) the amount of any capital stock, paid in capital and similar equity accounts plus (or minus in the case of a deficit) the capital surplus and retained earnings of such person and the amount of any foreign currency translation adjustment account shown as a capital account of such person, less (b) the net book value of all items of the following character which are included in the assets of such person: (i) goodwill, including without limitation, the excess of cost over book value of any asset, (ii) organization expenses, (iii) unamortized debt discount and expense, (iv) patents, trademarks, trade names and copyrights, (v) treasury stock (to the extent not already deducted in such equity accounts), (vi) franchises, licenses and permits, and (vii) other assets which are deemed intangible assets under generally accepted accounting principles.

"Term Loan" shall mean the borrowing under Section 2.4 evidenced by the Term Notes.

"Term Loan Commitment" shall mean, with respect to each Bank, the commitment of each such Bank to make the Term Loan pursuant to Section 2.1(b).

"Term Note" shall mean any promissory note of the Company evidencing

the Term Loan, in substantially the form annexed hereto as Exhibit A-2, as amended or modified from time to time and together with any promissory note or notes issued in exchange or replacement therefor.

"Termination Date" shall mean the earliest to occur of (a) May 29, 2001 and (b) the date on which the Commitments shall be terminated pursuant to Section 2.2 or 6.2.

"Total Liabilities" of any person shall mean, as of any date, all obligations which, in accordance with generally accepted accounting principles, are or should be classified as liabilities on a balance sheet of such person and all Contingent Liabilities of such person.

"Unfunded Benefit Liabilities" shall mean, with respect to any Plan as of any date, the amount of the unfunded benefit liabilities determined in accordance with Section 4001(a)(18) of ERISA.

1.2 Other Definitions: Rules of Construction. As used herein, the terms "Agent", "Bank", "Banks", "Company", "NBD", "1995 Credit Agreement" and "this Agreement" shall have the respective meanings ascribed thereto in the introductory paragraphs of this Agreement. Such terms, together with the other terms defined in Section 1.1, shall include both

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the singular and the plural forms thereof and shall be construed accordingly. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with generally accepted accounting principles unless such principles are inconsistent with the express requirements of this Agreement. Use of the terms "herein", "hereof", and "hereunder" shall be deemed references to this Agreement in its entirety and not to the Section or clause in which such term appears. References to "Sections" and "subsections" shall be to Sections and subsections, respectively, of this Agreement unless otherwise specifically provided.

ARTICLE II. THE COMMITMENTS AND THE ADVANCES

2.1 Commitments of the Banks.

(a) Revolving Credit Commitment. Each Bank agrees, for itself only, subject to the terms and conditions of this Agreement, to make Revolving Credit Loans to the Company under Section 2.4 and 3.9 and to participate in Letter of Credit Advances to the Company pursuant to Section 2.4, from time to time from the Effective Date to but excluding the Termination Date, in an aggregate principal amount outstanding not to exceed the lesser of (i) the amount of such Bank's Revolving Credit Commitment, as such amount may be reduced from time to time pursuant to Section 2.2, and (ii) such Bank's Pro Rata Share of the Borrowing Base; provided, however, that the aggregate principal amount of Letter of Credit Advances outstanding at any time shall not exceed \$[5,000,000].

(b) Term Loan Commitment. Each Bank, for itself only, further agrees, subject to the terms and conditions of this Agreement, to make its Pro Rata Share of a single Term Loan to the Company on the Termination Date in an amount not exceeding the Dollar Equivalent of the aggregate principal amount of

the Revolving Credit Loans outstanding on the Termination Date.

2.2 Termination and Reduction of Revolving Credit Commitments. (a) The Company shall have the right to terminate or reduce the Revolving Credit Commitments at any time and from time to time at its option, provided that (i) the Company shall give notice of such termination or reduction to the Agent (with sufficient executed copies for each Bank) specifying the amount and effective date thereof, (ii) each partial reduction of the Revolving Credit Commitments shall be in a minimum amount of \$1,000,000 and in an integral multiple of \$100,000 and shall reduce the Commitments of all of the Banks proportionately in accordance with their Pro Rata Shares, (iii) no such termination or reduction shall be permitted with respect to any portion of the Revolving Credit Commitments as to which a request for a Revolving Credit Advance pursuant to Section 2.4 is then pending, and (iv) the Revolving Credit Commitments may not be terminated if any Revolving Credit Advances are then outstanding and may not be reduced below the principal amount of the Revolving Credit Advances then outstanding. The Revolving Credit Commitments or any portion thereof terminated or reduced pursuant to this Section 2.2 may not be reinstated.

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(b) For purposes of this Agreement, a Letter of Credit Advance (i) shall be deemed outstanding in an amount equal to the sum of the maximum amount available to be drawn under the related Letter of Credit on or after the date of determination and on or before the stated expiry date thereof plus the amount of any draws under such Letter of Credit that have not been reimbursed as provided in Section 3.9 and (ii) shall be deemed outstanding at all times on and before such stated expiry date or such earlier date on which all amounts available to be drawn under such Letter of Credit have been fully drawn, and thereafter until all related reimbursement obligations have been paid pursuant to Section 3.9. As provided in Section 3.9, upon each payment made by the Agent in respect of any draft or other demand for payment under any Letter of Credit, the amount of any Letter of Credit Advance outstanding immediately prior to such payment shall be automatically reduced by the amount of each Revolving Credit Loan deemed advanced in respect of the related reimbursement obligation of the Company.

2.3 Fees.

(a) Commitment Fee. The Company agrees to pay to each Bank a commitment fee on the daily average unused amount of such Bank's Revolving Credit Commitment for each month or portion thereof during the period from the Effective Date to but excluding the Termination Date, at a rate equal to the Applicable Commitment Fee Rate for such month. Accrued commitment fees shall be payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing on the first such Business Day occurring after the date of this Agreement, and on the Termination Date.

(b) Agency Fee. The Company further agrees to pay to the Agent a fee for its services as Agent under this Agreement in the amount of \$10,000 per annum, payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing on the first such day occurring after the date of this Agreement.

(c) Letter of Credit Fees. On or before the date of issuance of any Letter of Credit, the Company agrees to pay to the Banks a fee, computed at the Applicable L/C Fee Rate for the month during which such Letter of Credit is

issued, of the maximum amount available to be drawn from time to time under such Letter of Credit for the period from and including the date of issuance of such Letter of Credit to and including the stated expiry date of such Letter of Credit. Such fees are nonrefundable and the Company shall not be entitled to any rebate of any portion thereof if such Letter of Credit does not remain outstanding through its stated expiry date or for any other reason. The Company further agrees to pay to the Agent, on demand, such other customary administrative fees, charges and expenses of the Agent in respect of the issuance, negotiation, acceptance, amendment, transfer and payment of each such Letter of Credit or otherwise payable pursuant to the application and related documentation under which such Letter of Credit is issued.

2.4 Disbursement of Advances.

(a) Requests for Advances. The Company shall give the Agent notice of its request for each Loan in substantially the form of Exhibit B hereto not later than (i) 10:00 a.m. Indianapolis time three Business Days prior to the date such Loan is requested to be made if such

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Loan is to be made as a Eurodollar Rate Loan, (ii) 10:00 a.m. Indianapolis time one Business Day prior to the date such Loan is requested to be made if such Loan is to be made as a Negotiated Rate Loan, and (iii) 11:00 a.m. Indianapolis time on the date such Loan is requested to be made if such Loan is to be made as a Floating Rate Loan. The Company shall give the Agent notice of its request for each Letter of Credit Advance in substantially the form of Exhibit B hereto not later than 10:00 a.m. Indianapolis time five Business Days prior to the date any Letter of Credit Advance is requested to be made. Each such notice shall specify whether a Eurodollar Rate Loan, Negotiated Rate Loan or Floating Rate Loan or Letter of Credit Advance is requested and, in the case of each requested Fixed Rate Loan, the Interest Period to be initially applicable to such Loan and, in the case of each Letter of Credit Advance, such information as may be necessary for the issuance thereof by the Agent. The Agent shall promptly provide notice of each such requested Advance to each Bank. Subject to the terms and conditions of this Agreement, the proceeds of each such requested Loan shall be made available to the Company by depositing the proceeds thereof, in immediately available funds, in an account maintained and designated by the Company at the principal office of the Agent; provided, however, that the proceeds of the Term Loan shall be applied to the outstanding principal amount of and accrued Interest on the Revolving Credit Loans. Subject to the terms and conditions of this Agreement, the Agent shall, on the date any Letter of Credit is requested to be made, issue the related Letter of Credit on behalf of the Banks for the account of the Company. Notwithstanding anything herein to the contrary, the Agent may decline to issue any requested Letter of Credit on the basis that the beneficiary, the purpose of issuance or the terms or the conditions of drawing are unacceptable to it in its discretion.

(b) Currencies and Interest Rates. Subject to the terms and conditions of this Agreement, the Term Loan shall be in Dollars, each Revolving Credit Loan shall be in Dollars, and each Letter of Credit Advance shall be in Dollars. All Loans shall bear interest at the Eurodollar Rate, Floating Rate or Negotiated Rate.

(c) Pro Rata Shares. Each Bank, on the date any Loan is requested to be made, shall make its Pro Rata Share of such Loan available in immediately available funds for disbursement to the Company pursuant to the terms and

conditions of this Agreement at the principal office of the Agent. Unless the Agent shall have received notice from any Bank prior to the date such Loan is requested to be made under this Section 2.4 that such Bank will not make available to the Agent such Bank's pro rata portion of such Loan, the Agent may assume that such Bank has made such portion available to the Agent on the date such Loan is requested to be made in accordance with this Section 2.4. If and to the extent such Bank shall not have so made such pro rata portion available to the Agent, the Agent may (but shall not be obligated to) make such amount available to the Company, and such Bank and the Company severally agree to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date such amount is made available to the Company by the Agent until the date such amount is repaid to the Agent, at a rate per annum equal to the interest rate applicable to such Loan during such period. If such Bank shall pay such amount to the Agent together with interest, such amount so paid shall constitute a Loan by such Bank as a part of such the related Loan for purposes of this Agreement. The failure of any Bank to make its pro rata portion of any such Loan available to the Agent shall not relieve any other Bank of its obligations to make available its pro rata portion of such Loan on the date such Loan is requested to be made, but no Bank

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shall be responsible for failure of any other Bank to make such pro rata portion available to the Agent on the date of any such Loan.

(d) The Notes. All Revolving Credit Loans made under this Section 2.4 shall be evidenced by the Revolving Credit Notes in the aggregate nominal amount of \$15,000,000, and the Term Loan made under this Section 2.4 shall be evidenced by the Term Notes, and all such Loans shall be due and payable and bear interest as provided in Article III. Each Bank is hereby authorized by the Company to record on the schedule attached to its Revolving Credit Note and Term Note, or in its books and records, the date, and amount and type of each Loan and the duration of the related Interest Period (if applicable), the amount of each payment or prepayment of principal thereon, and the other information provided for on such schedule, which schedule or books and records, as the case may be, shall constitute prima facie evidence of the information so recorded, provided, however, that failure of any Bank to record, or any error in recording, any such information shall not relieve the Company of its obligation to repay the outstanding principal amount of the Loans, all accrued interest thereon and other amounts payable with respect thereto in accordance with the terms of the Notes and this Agreement. Subject to the terms and conditions of this Agreement, the Company may borrow Revolving Credit Loans under this Section 2.4, prepay Revolving Credit Loans and the Term Loan pursuant to Section 3.1 and reborrow Revolving Credit Loans, but not the Term Loan, under this Section 2.4.

(e) Participation in Letters of Credit. Nothing in this Agreement shall be construed to require or authorize any Bank to issue any Letter of Credit, it being recognized that the Agent has the sole obligation under this Agreement to issue Letters of Credit on behalf of the Banks, and the Revolving Credit Commitment of each Bank with respect to Letter of Credit Advances is expressly conditioned upon the Agent's performance of such obligations. Upon such issuance by the Agent, each Bank shall automatically acquire a pro rata risk participation interest in such Letter of Credit Advance based on the amount of its respective Revolving Credit Commitment. If the Agent shall honor a draft or other demand for payment presented or made under any Letter of Credit, the Agent shall provide notice thereof to each Bank on the date such draft or demand is honored unless the Company shall have satisfied its reimbursement obligation

under Section 3.9 by payment to the Agent on such date. Each Bank, on such date, shall make its pro rata share of the amount paid by the Agent available in immediately available funds at the principal office of the Agent for the account of the Agent. If and to the extent such Bank shall not have made such pro rata portion available to the Agent, such Bank and the Company severally agree to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date such amount was paid by the Agent until such amount is so made available to the Agent at a per annum rate equal to the Federal Funds Rate. If such Bank shall pay such amount to the Agent together with such interest, such amount so paid shall constitute a Revolving Credit Loan by such Bank as part of the borrowing of Revolving Credit Loans disbursed in respect of the reimbursement obligation of the Company under Section 3.9 for purposes of this Agreement. The failure of any Bank to make its pro rata portion of any such amount paid by the Agent available to the Agent shall not relieve any other Bank of its obligation to make available its pro rata portion of such amount, but no Bank shall be responsible for failure of any other Bank to make such pro rata portion available to the Agent.

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2.5 Conditions for First Disbursement. The obligation of the Banks to make the first Advance hereunder is subject to receipt by each Bank and the Agent of the following documents and completion of the following matters, in form and substance satisfactory to each Bank and the Agent:

(a) Charter Documents. Certificates of recent date of the appropriate authority or official of the Company's state of incorporation listing all charter documents of the Company on file in that office and certifying as to the good standing and corporate existence of the Company, together with copies of such charter documents of the Company, certified as of a recent date by such authority or official and certified as true and correct as of the Effective Date by a duly authorized officer of the Company; or bring-down certifications by such an officer with respect to such items previously delivered by the Company to NBD;

(b) Code of Regulations and Corporate Authorizations. Copies of the code of regulations of the Company together with all authorizing resolutions and evidence of other corporate action taken by the Company to authorize the execution, delivery and performance by the Company of this Agreement and the Notes and the consummation by the Company of the transactions contemplated hereby, certified as true and correct as of the Effective Date by a duly authorized officer of the Company; or bring-down certifications by such officer with respect to such items previously delivered by the Company to NBD;

(c) Incumbency Certificate. A certificate of incumbency of the Company containing, and attesting to the genuineness of, the signatures of those officers authorized to act on behalf of the Company in connection with this Agreement and the Notes and the consummation by the Company of the transactions contemplated hereby, certified as true and correct as of the Effective Date by a duly authorized officer of the Company:

(d) Revolving Credit Notes. A Revolving Credit Note duly completed and executed on behalf of the Company for each Bank:

(e) Legal Opinion. The favorable written opinion of Thompson, Hine and Flory, counsel for the Company, in substantially the form of Exhibit C hereto;

(f) Consents, Approvals, Etc. Copies of all governmental and nongovernmental consents, approvals, authorizations, declarations, registrations or filings, if any, required on the part of the Company in connection with the execution, delivery and performance of this Agreement, the Notes, or the transactions contemplated hereby or as a condition to the legality, validity or enforceability of this Agreement or the Notes, certified as true and correct and in full force and effect as of the Effective Date by a duly authorized officer of the Company, or, if none is required, a certificate of such officer to that effect; and

(g) Other Loan Documents. The Environmental Certificate and such other instruments and documents, duly executed by the Company, deemed necessary, customary or appropriate by the Agent in its sole discretion, to properly document any Loans or other obligations hereunder.

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2.6 Further Conditions for Disbursement. The obligation of the Banks to make any Advance (including the first Advance), or any continuation or conversion under Section 2.7, is further subject to the satisfaction of the following conditions precedent:

(a) The representations and warranties contained in Article IV hereof shall be true and correct on and as of the date such Advance is made or the date of such continuation or conversion (both before and after such Advance is made or such continuation or conversion is done) as if such representations and warranties were made on and as of such date;

(b) No Default or Event of Default shall exist or shall have occurred and be continuing on the date such Advance is made or the date of such continuation or conversion (whether before or after such Advance is made or such continuation or conversion is done);

(c) In the case of the Term Loan, the Company shall have delivered to each Bank a Term Note in the principal amount of such Bank's Pro Rata Share of the Term Loan, appropriately completed and duly executed on behalf of the Company;

(d) The Agent shall have received the most recent Borrowing Base Certificate required pursuant to Section 5.1(d)(iv); and

(e) In the case of any Letter of Credit Advance, the Company shall have delivered to the Agent an application for the related Letter of Credit and other related documentation requested by and acceptable to the Agent appropriately completed and duly executed on behalf of the Company.

The Company shall be deemed to have made a representation and warranty to the Banks at the time of the making of, and the continuation or conversion of, each Advance to the effects set forth in clauses (a) and (b) of this Section 2.6. For purposes of this Section 2.6, the representations and warranties contained in Section 4.6 hereof shall be deemed made with respect to both the financial statements referred to therein and the most recent financial statements delivered pursuant to Section 5.1.

2.7 Subsequent Elections as to Loans. Notwithstanding any provision of this Agreement to the contrary, the Company may elect to continue or convert

any Negotiated Rate Loan only with the prior consent of each Bank. Subject to the foregoing, the Company may elect (a) to continue a Fixed Rate Loan of one type, or a portion thereof, as a Fixed Rate Loan of the then existing type or (b) to convert a Fixed Rate Loan of one type, or a portion thereof, to a Loan of another type or (c) to convert a Floating Rate Loan, or a portion thereof, to a Fixed Rate Loan, in each case by giving notice thereof to the Agent (with sufficient executed copies for each Bank) in substantially the form of Exhibit D hereto not later than (i) 10:00 a.m. Indianapolis time three Business Days prior to the date any such continuation of or conversion to a Eurodollar Rate Loan is to be effective, (ii) 10:00 a.m. Indianapolis time one Business Day prior to the date any such continuation of or conversion to a Negotiated Rate Loan is to be effective and (iii) 2:00 p.m. Indianapolis time on the date any such continuation or conversion is to be effective in all other cases; provided that an outstanding Fixed Rate Loan may only be converted on the last day of the then current Interest Period with respect to such Loan, and provided, further, if a continuation of

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a Loan as, or a conversion of a Loan to, a Eurodollar Rate Loan is requested, such notice shall also specify the Interest Period to be applicable thereto upon such continuation or conversion. The Agent shall promptly provide notice of such election to the Banks. If the Company shall not timely deliver such a notice with respect to any outstanding Fixed Rate Loan, the Company shall be deemed to have elected to convert such Fixed Rate Loan to a Floating Rate Loan on the last day of the then current Interest Period with respect to such Loan.

2.8 Limitation of Requests and Elections. (a) Notwithstanding any other provision of this Agreement to the contrary, if, upon receiving a request for a Fixed Rate Loan pursuant to Section 2.4, or a request for a continuation of a Fixed Rate Loan as a Fixed Rate Loan of the then existing type, or a request for conversion of a Fixed Rate Loan of one type to a Fixed Rate Loan of another type, or a request for a conversion of a Floating Rate Loan to a Fixed Rate Loan pursuant to Section 2.7, (i) in the case of any Eurodollar Rate Loan, deposits in Dollars for periods comparable to the Interest Period elected by the Company are not available to any Bank in the relevant interbank market, or (ii) the Eurodollar Rate will not adequately and fairly reflect the cost to any Bank of making, funding or maintaining the related Eurodollar Rate Loan, or (iii) by reason of national or international financial, political or economic conditions or by reason of any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect, or the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Bank with any guideline, request or directive of such authority (whether or not having the force of law), including without limitation exchange controls, it is impracticable, unlawful or impossible for any Bank (A) to make or fund the relevant Fixed Rate Loan or (B) to continue such Fixed Rate Loan as a Fixed Rate Loan of the then existing type or (C) to convert a Loan to such a Fixed Rate Loan, then the Company shall not be entitled, so long as such circumstances continue, to request a Fixed Rate Loan of the affected type pursuant to Section 2.4 or a continuation of or conversion to a Fixed Rate Loan of the affected type pursuant to Section 2.7. In the event that such circumstances no longer exist, the Banks shall again consider requests for Fixed Rate Loans of the affected type pursuant to Section 2.4, and requests for continuations of and conversions to Fixed Rate Loans of the affected type pursuant to Section 2.7.

(b) Notwithstanding any other provision of this Agreement to the

contrary and in order to give effect to the provisions of Section 3.1(b), the Company shall make requests for Fixed Rate Loans pursuant to Section 2.4, and requests for continuations of and conversions to Fixed Rate Loans pursuant to Section 2.7, such that, on each date that any scheduled principal payment is due with respect to the Term Loan pursuant to Section 3.1(a), either Floating Rate Loans, or Fixed Rate Loans having an Interest Period ending on such date, or any combination thereof, are outstanding on such date in an aggregate outstanding principal amount not less than the amount of such principal payment.

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2.9 Minimum Amounts; Limitations on Advances. Except for conversions or payments required pursuant to Section 3.1(c) or 3.7, each Fixed Rate Loan and each continuation of or conversion to a Fixed Rate Loan pursuant to Section 2.7 and each prepayment thereof shall be in a minimum amount of \$1,000,000 and in an integral multiple of \$100,000 (or, in the case of the Term Loan, in integral multiples of the quarterly installments of, principal thereon). Each Letter of Credit Advance shall be in a minimum amount of \$100,000. No Letter of Credit shall have a stated expiry date earlier than 90 days after the date of issuance or later than the fifth Business Day before the Termination Date. Notwithstanding anything in this Agreement to contrary, the Company shall not be permitted to request that any Letter of Credit Advance be denominated in a currency other than Dollars.

ARTICLE III.

PAYMENTS AND PREPAYMENTS OF ADVANCES

3.1 Principal Payments.

(a) Unless earlier payment is required under this Agreement (i) the Company shall pay to the Banks on the Termination Date the entire outstanding principal amount of all Revolving Credit Loans, and (ii) the Company shall pay to the Banks the outstanding principal amount of the Term Loan in eight (8) equal quarterly installments, each in the amount of one eighth (1/8) of the original principal amount of the Term Loan, payable on the last day of each March, June, September and December, commencing on the first such day occurring after the date the Term Loan is made, to and including the Maturity Date, when the entire outstanding principal amount of the Term Loan shall be due and payable.

(b) The Company may at any time and from time to time prepay all or a portion of the Loans, without premium or penalty in the case of the Revolving Credit Loans, provided that (i) the Company may not prepay any portion of any Loan as to which an election for a continuation of or a conversion to a Fixed Rate Loan is pending pursuant to Section 2.7, (ii) unless earlier payment is required under this Agreement, any Fixed Rate Loan may only be prepaid on the last day of the then current Interest Period with respect to such Loan, and (iii) such prepayment of the Term Loan shall only be permitted if the Company shall have given not less than two Business Days' notice thereof specifying the Term Loan or portion thereof to be so prepaid and shall have paid to the Banks, together with such prepayment of principal, all accrued interest to the date of payment on the Term Loan or portion thereof so prepaid and all amounts owing, to the Banks under Section 3.8 in connection with such prepayment. Upon the giving of such notice, the aggregate principal amount of the Term Loan or portion thereof so specified in such notice, together with such accrued interest and

other amounts, shall become due and payable on the specified prepayment date.

(c) If at any time the aggregate outstanding principal amount of the Advances shall exceed the then Borrowing Base, the Company shall forthwith pay to the Banks the amount of such excess for application to the outstanding principal amount of the Loans, as selected by

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the Banks in their sole discretion (if practicable, to Loans that are Floating Rate Loans or Fixed Rate Loans whose Interest Periods are then ending), or provide to the Banks cash collateral in respect of outstanding Letters of Credit in an amount, such that the aggregate amount of such payments and such cash collateral is not less than the amount of such excess.

(d) All prepayments of the Term Loan, whether optional or mandatory, shall be applied to installments of principal of the Term Loan in the inverse order of their maturities and no partial prepayment of the Term Loan shall reduce the amount or defer the date of the scheduled installments of principal required to be paid thereon.

3.2 Interest Payments. The Company shall pay interest to the Banks on the unpaid principal amount of each Loan, for the period commencing on the date such Loan is made until such Loan is paid in full, on each Interest Payment Date and at maturity (whether at stated maturity, by acceleration or otherwise), and thereafter on demand, at the following rates per annum:

(a) During such periods that such Loan is a Floating Rate Loan, the Floating Rate.

(b) During such periods that such Loan is a Eurodollar Rate Loan, the Eurodollar Rate applicable to such Loan for each related Eurodollar Interest Period.

(c) During such periods that such Loan is a Negotiated Rate Loan, the Negotiated Rate applicable to such Loan for each related Negotiated Interest Period.

Notwithstanding the foregoing paragraphs (a) through (c), the Company shall pay interest on demand by the Agent at the Overdue Rate on the outstanding principal amount of any Loan and any other amount payable by the Company hereunder (other than interest) which is not paid in full when due (whether at stated maturity, by acceleration or otherwise) for the period commencing on the due date thereof until the same is paid in full,

3.3 Payment Method. (a) All payments to be made by the Company hereunder will be made in Dollars and in immediately available funds to the Agent for the account of the Banks at its address set forth on the signature pages hereof not later than 1:00 p.m. Indianapolis time on the date on which such payment shall become due. Payments received after 1:00 p.m. Indianapolis time shall be deemed to be payments made prior to 1:00 p.m. Indianapolis time on the next succeeding Business Day. The Company hereby authorizes the Agent to charge its account with the Agent in order to cause timely payment of amounts due hereunder to be made (subject to sufficient funds being available in such account for that purpose).

(b) At the time of making each such payment, the Company shall,

subject to the other terms and conditions of this Agreement, specify to the Agent that Advance or other obligation of the Company hereunder to which such payment is to be applied. In the event that the Company fails to so specify the relevant obligation or if an Event of Default shall have occurred and be continuing, the Agent may apply such payments as it may determine in its sole discretion to obligations of the Company to the Banks arising under this Agreement or otherwise.

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(c) On the date such payments are deemed received, the Agent shall remit to the Banks their Pro Rata Shares of such payments in immediately available funds at their respective address in the United States specified for notices on the signature pages hereof.

3.4 No Setoff or Deduction. All payments of principal of and interest on the Advances and other amounts payable by the Company hereunder shall be made by the Company without setoff or counterclaim, and free and clear of, and without deduction or withholding for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments, or other charges of whatever nature, imposed by any governmental authority, or by any department, agency or other political subdivision or taxing authority.

3.5 Payment on Non-Business Day: Payment Computations. Except as otherwise provided in this Agreement to the contrary, whenever any installment of principal of, or interest on, any Advance or any other amount due hereunder becomes due and payable on a day which is not a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of any installment of principal, interest shall be payable thereon at the rate per annum determined in accordance with this Agreement during such extension. Computations of interest and other amounts due under this Agreement, including without limitation the commitment fee under Section 2.3, shall be made on the basis of a year of 360 days for the actual number of days elapsed, including the first day but excluding the last day of the relevant period.

3.6 Additional Costs. In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Bank or the Agent, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Bank or the Agent with any guideline, request or directive of any such authority (whether or not having the force of law), including any risk based capital guidelines, (a) affects or would affect the amount of capital required or expected to be maintained by such Bank or the Agent (or any corporation controlling such Bank or the Agent) and such Bank or the Agent determines that the amount of such capital is increased by or based upon the existence of such Bank's or the Agent's obligations hereunder and such increase has the effect of reducing the rate of return on such Bank's or the Agent's (or such controlling corporation's) capital as a consequence of such obligations hereunder to a level below that which such Bank or the Agent (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank or the Agent to be material, or (b) shall affect the basis of taxation of payments to such Bank or the Agent of any amounts payable by the Company under this Agreement (other than taxes imposed on the overall net income of such Bank or the Agent, by the jurisdiction, or by such political subdivision or taxing authority of any such jurisdiction, in which such Bank or the Agent has its principal office), or

(c) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by such Bank or the Agent, or (d) shall impose any other condition with respect to this Agreement, the Commitments, the Notes or the Advances and, with respect to any of the foregoing clauses (b), (c) and (d), the result is to increase the cost to such Bank or the Agent, as the case may be, of

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making, funding or maintaining any Fixed Rate Loan or Letter or Credit Advance or to reduce the amount of any sum receivable by such Bank or the Agent, as the case may be, thereon, then the Company shall pay to such Bank or the Agent, as the case may be, from time to time, upon request by such Bank (with a copy of such request to be provided to the Agent) or the Agent, additional amounts sufficient to compensate such Bank or the Agent, as the case may be, (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which such Bank or the Agent reasonably determines to be allocable to the existence of such Bank's or the Agent's obligations hereunder or for such increased cost or reduced sum receivable to the extent, in the case of any Fixed Rate Loan, such Bank or the Agent is not compensated therefor in the computation of the interest rate applicable to such Fixed Rate Loan. A statement as to the amount of such compensation or increased cost or reduced sum receivable, as the case may be, prepared in good faith and in reasonable detail by such Bank or the Agent, as the case may be, and submitted by such Bank or the Agent, as the case may be, to the Company, shall be, conclusive and binding for all purposes absent manifest error in computation.

3.7 Illegality and Impossibility. In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Bank, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Bank with any guideline, request or directive of such authority (whether or not having the force of law), including without limitation exchange controls, shall make it unlawful or impossible for any Bank to maintain any Fixed Rate Loan under this Agreement, the Company shall upon receipt of notice thereof from such Bank, repay in full the then outstanding principal amount of each Fixed Rate Loan so affected, together with all accrued interest thereon to the date of payment and all amounts owing to such Bank under Section 3.8, (a) on the last day of the then current Interest Period applicable to such Loan if such Bank may lawfully continue to maintain such Loan to such day, or (b) immediately if such Bank may not continue to maintain such Loan to such day.

3.8 Indemnification. If the Company makes any payment of principal with respect to any Fixed Rate Loan on any other date than the last day of an Interest Period applicable thereto (whether pursuant to Section 3.1(b), Section 3.1(c), Section 3.7, Section 6.2 or otherwise), or if the Company fails to borrow any Fixed Rate Loan after notice has been given to the Banks in accordance with Section 2.4, or if the Company fails to make any payment of principal or interest in respect of a Fixed Rate Loan when due, the Company shall reimburse each Bank on demand for any resulting loss or expense incurred by each such Bank, including without limitation any loss incurred in obtaining, liquidating or employing deposits from third parties, whether or not such Bank shall have funded or committed to fund such Loan. A statement as to the amount of such loss or expense, prepared in good faith and in reasonable detail by such Bank and submitted by such Bank to the Company, shall be conclusive and binding for all purposes absent manifest error in computation. Calculation of all

amounts payable to such Bank under this Section 3.8 shall be made as though such Bank shall have actually funded or committed to fund the relevant Fixed Rate Loan through the purchase of an underlying deposit in an amount equal to the amount of such Loan and having a maturity comparable to the related Interest Period and, in the case of any Eurodollar Rate Loan, through the transfer of such deposit from an off shore office of such Bank to a domestic office of such

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Bank in the United States of America; provided, however, that such Bank may fund any Fixed Rate Loan in any manner it sees fit and the foregoing assumption shall be utilized only for the purpose of calculation of amounts payable under this Section 3.8.

3.9 Letter of Credit Reimbursement Payments. (a) (i) The Company agrees to pay to the Banks, on the day on which the Agent shall honor a draft or other demand for payment presented or made under any Letter of Credit, an amount equal to the amount paid by the Agent in respect of such draft or other demand under such Letter of Credit and all expenses paid or incurred by the Agent relative thereto. Unless the Company shall have made such payment to the Banks on such day, upon each such payment by the Agent, the Agent shall be deemed to have disbursed to the Company, and the Company shall be deemed to have elected to satisfy its reimbursement obligation by, a borrowing of Revolving Credit Loans bearing interest at the Floating Rate for the account of the Banks in an amount equal to the amount so paid by the Agent in respect of such draft or other demand under such Letter of Credit. Such Revolving Credits Loans shall be disbursed notwithstanding any failure to satisfy any conditions for disbursement of any Loan set forth in Article II hereof and, to the extent of the Revolving Credit Loans so disbursed, the reimbursement obligation of the Company under this Section 3.9 shall be deemed satisfied; provided, however, that nothing in this Section 3.9 shall be deemed to constitute a waiver of any Default or Event of Default caused by the failure to satisfy the conditions for disbursement or otherwise.

(ii) If, for any reason (including without limitation as a result of the occurrence of an Event of Default with respect to the Company pursuant to Section 6.1(h)), Floating Rate Loans may not be made by the Banks as described in Section 3.9(a)(i), then (A) the Company agrees that each reimbursement amount not paid pursuant to the first sentence of Section 3.9(a)(i) shall bear interest, payable on demand by the Agent, at the interest rate then applicable to Floating Rate Loans, and (B) effective on the date each such Floating Rate Loan would otherwise have been made, each Bank severally agrees that it shall unconditionally and irrevocably, without regard to the occurrence of any Default or Event of Default, in lieu of deemed disbursement of loans, to the extent of such Bank's Revolving Credit Commitment, purchase a participating interest in each reimbursement amount. Each Bank will immediately transfer to the Agent, in same day funds, the amount of its participation. Each Bank shall share on a pro rata basis (calculated by reference to its Revolving Credit Commitment) in any interest which accrues thereon and in all repayments thereof. If and to the extent that any Bank shall not have so made the amount of such participating interest available to the Agent, such Bank and the Company severally agree to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Agent until the date such amount is paid to the Agent, at (1) in the case of the Company, the interest rate then applicable to Floating Rate Loans and (2) in the case of such Bank, the Federal Funds Rate.

(b) The reimbursement obligation of the Company under this Section 3.9 shall be absolute, unconditional and irrevocable and shall remain in full force and effect until all obligations of the Company to the Banks hereunder shall have been satisfied, and such obligations of the Company shall not be affected, modified or impaired upon the happening of any event, including, without limitation, any of the following, whether or not with notice to, or the consent of, the Company:

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

(ii) Any amendment, modification, waiver, consent, or any substitution, exchange or release of or failure to perfect any interest in collateral or security, with respect to any of the Letter of Credit Documents;

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

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

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

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

(vii) Any other event or circumstance that would, in the absence of this clause, result in the release or discharge by operation of law or otherwise of the Company from the performance or observance of any obligation, covenant or agreement contained in this Section 3.9.

No setoff, counterclaim, reduction or diminution of any obligation or any defense of any kind or nature which the Company has or may have against the beneficiary of any Letter of Credit shall be available hereunder to the Company against the Agent or any Bank. Nothing in this Section 3.9 shall limit the liability, if any, of the Banks to the Company pursuant to Section 8.5.

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ARTICLE IV.
REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Banks and the Agent that:

4.1 Corporate Existence and Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio and is duly qualified to do business, and is in good standing, in all additional jurisdictions where such qualification is necessary under applicable law, except those jurisdictions in which the failure to qualify would not have a material adverse effect on its business. The Company has all requisite corporate power to own or lease the properties used in its business and to carry on its business as now being conducted and as proposed to be conducted, and to execute and deliver this Agreement and the Notes and to engage in the transactions contemplated by this Agreement.

4.2 Corporate Authority. The execution, delivery and performance by the Company of this Agreement and the Notes have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms of the Company's charter or code of regulations, or of any contract or undertaking to which the Company is a party or by which the Company or its property may be bound or affected and will not result in the imposition of any Lien except for Permitted Liens.

4.3 Binding Effect. This Agreement is, and the Notes when delivered hereunder will be, legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by general principles of equity.

4.4 Subsidiaries. Schedule 4.4 hereto correctly sets forth the corporate name, jurisdiction of incorporation and ownership of each Subsidiary of the Company. Each such Subsidiary and each corporation becoming a Subsidiary of the Company after the date hereof is and will be a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is and will be duly qualified to do business in each additional jurisdiction where such qualification is or may be necessary under applicable law, except those jurisdictions in which the failure to qualify would not have a material adverse effect on its business. Each Subsidiary of the Company has and will have all requisite corporate power to own or lease the properties used in its business and to carry on its business as now being conducted and as proposed to be conducted. All outstanding shares of capital stock of each class of each Subsidiary of the Company have been and will be validly issued and are and will be fully paid and nonassessable and, except as otherwise indicated in Schedule 4.4 hereto or disclosed in writing to the Agent and the Banks from time to time, are and will be owned, beneficially and of record, by the Company or another Subsidiary of the Company free and clear of any Liens. The corporations described in Schedule 4.4 hereto constitute all persons in which the Company or any of its Subsidiaries has an ownership interest.

4.5 Litigation. Except as set forth in Schedule 4.5 hereto, there is no action, suit or proceeding pending or, to the best of the Company's knowledge, threatened against or affecting the Company or any of its Subsidiaries before or by any court, governmental authority or arbitrator, which if adversely decided might result in any material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company or of, in the aggregate, any of its Subsidiaries or in any material adverse effect on the legality, validity or enforceability of this Agreement or the Notes.

4.6 Financial Condition. The consolidated balance sheet of the Company and its Subsidiaries and the consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for the fiscal year ended December 31, 1997 and reported on by Coopers & Lybrand, independent certified public accountants, copies of which have been furnished to the Banks, fairly present, and the financial statements of the Company and its Subsidiaries delivered pursuant to Section 5.1(d) will fairly present, the consolidated financial position of the Company and its Subsidiaries as at the respective dates thereof, and the consolidated results of operations of the Company and its Subsidiaries for the respective periods indicated, all in accordance with generally accepted accounting principles consistently applied (subject, in the case of said interim statements, to year-end audit adjustments). There has been no material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company or any of its Subsidiaries since December 31, 1997. There is no material Contingent Liability of the Company that is not reflected in such financial statements or in the notes thereto.

4.7 Use of Advances. The Company will use the proceeds of the Advances for its general corporate purposes. Neither the Company nor any of its Subsidiaries extends or maintains, in the ordinary course of business, credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used for the purpose, whether immediate, incidental, or ultimate, of buying or carrying any such margin stock or maintaining or extending credit to others for such purpose. After applying the proceeds of each Advance, such margin stock will not constitute more than 25% of the value of the assets (either of the Company alone or of the Company and its Subsidiaries on a consolidated basis) that are subject to any provisions of this Agreement that may cause the Advances to be deemed secured, directly or indirectly, by margin stock.

4.8 Consents, Etc. No consent, approval or authorization of or declaration, registration or filing with any governmental authority or any nongovernmental person or entity, including without limitation any creditor, lessor or stockholder of the Company or any of its Subsidiaries, is required on the part of the Company in connection with the execution, delivery and performance of this Agreement, the Notes or the transactions contemplated hereby or as a condition to the legality, validity or enforceability of this Agreement or the Notes.

4.9 Taxes. The Company and its Subsidiaries have filed all tax returns (federal, state and local) required to be filed and have paid all taxes shown thereon to be due, including interest and penalties, or have established adequate financial reserves on their respective books and records for payment thereof, Neither the Company nor any of its

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Subsidiaries knows of any actual or proposed tax assessment or any basis therefor, and no extension of time for the assessment of deficiencies in any federal or state tax has been granted by the Company or any Subsidiary.

4.10 Title to Properties. Except as otherwise disclosed in the latest balance sheet delivered pursuant to Section 4.6 or 5.1(d) of this Agreement, the Company or one or more of its Subsidiaries have good and marketable fee simple title to all of the real property, and a valid and indefeasible ownership interest in all of the other properties and assets, reflected in said balance sheet or subsequently acquired by the Company or any Subsidiary. All of such properties and assets are free and clear of any Lien, except for Permitted Liens.

4.11 ERISA. The Company, its Subsidiaries, their ERISA Affiliates and their respective Plans are in compliance in all material respects with those provisions of ERISA and of the Code which are applicable with respect to any Plan. No Prohibited Transaction and no Reportable Event has occurred with respect to any such Plan. None of the Company, any of its Subsidiaries or any of their ERISA Affiliates is an employer with respect to any Multiemployer Plan. The Company, its Subsidiaries and their ERISA Affiliates have met the minimum funding requirements under ERISA and the Code with respect to each of their respective Plans, if any, and have not incurred any liability to the PBGC or any Plan. The execution, delivery and performance of this Agreement and the Notes does not constitute a Prohibited Transaction. There is no material unfunded benefit liability, determined in accordance with Section 4001(a)(18) of ERISA, with respect to any Plan of the Company, its subsidiaries or their ERISA Affiliates.

4.12 Disclosure. No report or other information furnished in writing or on behalf of the Company to the Bank in connection with the negotiation or administration of this Agreement contains any material misstatement of fact or omits to state any material fact or any fact necessary to make the statements contained therein not misleading. Neither this Agreement or the Notes, nor any other document, certificate, or report or statement or other information furnished to the Bank by or on behalf of the Company in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact known to the Company which materially and adversely affects, or which in the future may (so far as the Company can now foresee) materially and adversely affect, the business, properties, operations or condition, financial or otherwise, of the Company or any Subsidiary, which has not been set forth in this Agreement or in the other documents, certificates, statements, reports and other information furnished in writing to the Bank by or on behalf of the Company in connection with the transactions contemplated hereby.

4.13 Environmental Certificate. The representations and warranties contained in the Environmental Certificate are true and correct.

4.14 Borrowing Base. All trade accounts receivable and inventory of the Company represented or reported by the Company to be, or are otherwise included in, Eligible Accounts Receivable and Eligible Inventory comply in all respects with the requirements therefor set forth in the definition thereof, and the computation of the Borrowing Base set forth in each

Borrowing Base Certificate is true and correct.

ARTICLE V.
COVENANTS

5.1 Affirmative Covenants. The Company covenants and agrees that, until the Termination Date and thereafter until payment in full of the principal of and accrued interest on the Notes and the performance of all other obligations, of the Company under this Agreement, unless the Required Banks shall otherwise consent in writing, it shall, and shall cause each of its Subsidiaries to:

(a) Preservation of Corporate Existence, Etc. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and its qualification as a foreign corporation in good standing in each jurisdiction in which such qualification is necessary under applicable law, except those jurisdictions in which the failure to qualify would not have a material adverse effect on its business, and the rights, licenses, permits (including those required under Environmental Laws), franchises, patents, copyrights, trademarks and trade names material to the conduct of its businesses; and defend all of the foregoing against all claims, actions, demands, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority.

(b) Compliance with Laws, Etc. Comply in all material respects with all applicable laws, rules, regulations and orders of any governmental authority, whether federal, state, local or foreign (including without limitation ERISA, the Code and Environmental Laws), in effect from time to time; and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income, revenues or property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise, which, if unpaid, might give rise to Liens upon such properties or any portion thereof, except to the extent that payment of any of the foregoing is then being contested in good faith by appropriate legal proceedings and with respect to which adequate financial reserves have been established on the books and records of the Company or such Subsidiary.

(c) Maintenance of Properties; Insurance. Maintain, preserve and protect all property that is material to the conduct of the business of the Company or any of its Subsidiaries and keep such property in working order and from time to time make, or cause to be made all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times in accordance with customary and prudent business practices for similar businesses; and maintain in full force and effect insurance with responsible and reputable insurance companies or associations in such amounts, on such terms and covering such risks, including fire and other risks insured against by extended coverage, as is usually carried by companies engaged in similar businesses and owning similar properties similarly situated and maintain in full force and effect public liability insurance, insurance against claims for personal injury or death or property damage occurring in connection with any of its activities or any of any properties owned, occupied or controlled by it, in such amount as it shall reasonably deem

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necessary, and maintain such other insurance as may be required by law or as may be reasonably requested by the Required Banks for purposes of assuring compliance with this Section 5.1(c).

(d) Reporting Requirements. Furnish to the Banks and the Agent the following:

(i) Promptly and in any event within three Business Days after becoming aware of the occurrence of (A) any Event of Default or any event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, (B) the commencement of any material litigation against, by or affecting the Company or any of its Subsidiaries, and any material developments therein, (C) entering into any material contract or undertaking that is not entered into in the ordinary course of business or (D) any development in the business or affairs of the Company or any of its Subsidiaries which has resulted in or which is likely in the reasonable judgment of the Company, to result in a material adverse change in the business, properties, operations or condition, financial or otherwise of the Company or any of its Subsidiaries, a statement of the chief financial officer of the Company setting forth details of such Event of Default or such event or condition or such litigation and the action which the Company or such Subsidiary, as the case may be, has taken and proposes to take with respect thereto;

(ii) As soon as available and in any event within 60 days after the end of each fiscal quarter of the Company, the consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter, and the related period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding date or period of the preceding fiscal year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officer of the Company as having been prepared in accordance with generally accepted accounting principles, together with a certificate of the chief financial officer of the Company stating (A) that no Event of Default or event or condition which, with notice or lapse of time, or both, would constitute an Event of Default, has occurred and is continuing or, if an Event of Default or such an event or condition has occurred and is continuing, a statement setting forth the details thereof and the action which the Company has taken and proposes to take with respect thereto, and (B) that a computation (which computation shall accompany such certificate and shall be in reasonable detail) showing compliance with Section 5.2(a), (b), (c) and (q) hereof is in conformity with the terms of this Agreement;

(iii) As soon as available and in any event within 120 days after the end of each fiscal year of the Company, a copy of the consolidated and consolidating balance sheet of the Company and its Subsidiaries as of the end of such fiscal year and the related consolidated and consolidating statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such fiscal year, with a customary audit report of Coopers & Lybrand or other independent certified public accountants selected by the Company and acceptable to the Required Banks (which acceptance will not unreasonably be withheld), without qualifications unacceptable to the Required Banks, together with a certificate of such accountants stating (A) that they have reviewed this Agreement and stating further whether, in the course of their review of such financial statements, they have become aware of any Event of Default or any

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which, with notice or lapse of time, or both, would constitute an Event of Default, and, if such an Event of Default or such an event or condition then exists and is continuing, a statement setting forth the nature and status thereof, and (B) that a computation by the Company (which computation shall accompany such certificate and shall be in reasonable detail) showing compliance with Section 5.2 (a), (b), (c) and (q) hereof is in conformity with the terms of this Agreement;

(iv) No later than the 30th calendar day following the end of each month, a Borrowing Base Certificate prepared as of the close of business on the last day of such month, together with supporting schedules, in form and detail satisfactory to the Agent, setting forth such information as the Agent may request with respect to the aging, value, location and other information relating to the computation of the Borrowing Base and the eligibility of any property or assets included in such computation, certified as true and correct by the chief financial officer of the Company;

(v) Promptly after the sending or filing thereof, copies of all reports, proxy statements and financial statements which the Company or any of its Subsidiaries sends to or files with any of their respective security holders or any securities exchange or the Securities and Exchange Commission or any successor agency thereof;

(vi) On the same day, telephonic notice, followed immediately by written confirmation, of all borrowings from time to time by the Company from The Fifth Third Bank and all repayments thereof from time to time;

(vii) As soon as available and in any event within 30 days after the end of each month (other than those months which correspond to fiscal quarter ends of the Company, which are covered by subpart (ii) above), the consolidated balance sheet of the Company and its Subsidiaries as of the end of such month, and the related consolidated statements of income, retained earnings and cash flow of the Company and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such month, setting forth in each case in comparative form the corresponding figures for the corresponding date or period of the preceding fiscal year, all in reasonable detail; and

(viii) Promptly, such other information respecting the business, properties, operations or condition, financial or otherwise, of the Company or any of its Subsidiaries as the Agent or any Bank may from time to time reasonably request.

(e) Accounting; Access to Records; Books, Etc. Maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in accordance with generally accepted accounting principles and to comply with the requirements of this Agreement and, at any reasonable time and from time to time, (i) permit any Bank or the Agent or any agents or representatives thereof to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and its Subsidiaries, and to discuss the affairs, finances and accounts of the Company and its Subsidiaries with their respective directors, officers, employees and independent auditors, and by this provision

discuss such affairs, finances and accounts with any Bank or the Agent, and (ii) permit any Bank or the Agent or any of its agents or representatives to conduct a comprehensive field audit of its books, records, properties and assets.

(f) Taxes. Pay in full, except to the extent being contested in good faith by appropriate proceedings and as to which adequate financial reserves have been established on the Company's or such Subsidiary's, as the case may be, books and records, (i) in each case prior to the date when penalties for the nonpayment thereof would attach, all taxes, assessments and governmental charges and levies for which it may be or become subject and all lawful claims which, if unpaid, might become a lien or charge upon its property, and (ii) all stamp taxes and similar taxes, if any, including interest and penalties, if any, payable in respect of any Loans or the Notes. The efficacy of this subsection 5.1(f) shall survive the payment in full of the Notes.

5.2 Negative Covenants. Until the Termination Date and thereafter until payment in full of the principal of and accrued interest on the Notes and the performance of all other obligations of the Company under this Agreement, the Company agrees that, unless the Required Banks shall otherwise consent in writing it shall not, and shall not permit any of its Subsidiaries to:

(a) Current Ratio. Permit or suffer the ratio of Consolidated Current Assets of the Company and its Subsidiaries to Consolidated Current Liabilities of the Company and its Subsidiaries to be less than 1.25 to 1.00 at any time.

(b) Tangible Net Worth. Permit or suffer (i) Consolidated Tangible Net Worth of the Company and its Subsidiaries to be less than (ii) the sum of (A) \$40,000,000 plus (B) 50% of Consolidated Cumulative Net Income of the Company and its Subsidiaries after December 31, 1997 plus (C) for each fiscal year end of the Company, the amount, if any, by which \$500,000 exceeds the aggregate amount added pursuant to the foregoing clause (B) attributable to each such fiscal year; such covenant to be tested as of the end of each fiscal quarter of the Company.

(c) Total Liabilities to Tangible Net Worth. Permit or suffer the ratio of Consolidated Total Liabilities of the Company and its Subsidiaries to Consolidated Tangible Net Worth of the Company and its Subsidiaries to be greater than 1.25 to 1.00 at any time.

(d) Liens. Create, incur or suffer to exist any Lien on any of the assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired, of the Company or any of its Subsidiaries, other than:

(i) Liens for taxes not delinquent or for taxes being contested in good faith by appropriate proceedings and as to which adequate financial reserves have been established on its books and records;

(ii) Liens (other than any Lien imposed by ERISA) created and maintained in the ordinary course of business which are not material in the aggregate, and which would not have a material adverse effect on the business or operations of the Company or any of

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its Subsidiaries and which constitute (A) pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation, (B) good faith deposits in connection with bids, tenders, contracts or leases to which the Company or any of its Subsidiaries is a party for a purpose other than borrowing money or obtaining credit, including rent security deposits, (C) liens imposed by law, such as those of carriers, warehousemen and mechanics, if payment of the obligation secured thereby is not yet due, (D) Liens securing taxes, assessments or other governmental charges or levies not yet subject to penalties for nonpayment, and (E) pledges or deposits to secure public or statutory obligations of the Company or any of its Subsidiaries, or surety, customs or appeal bonds to which the Company or any of its Subsidiaries is a party;

(iii) Each Lien described in Schedule 5.2(d) hereto, which may be suffered to exist upon the same terms as those existing on the date hereof, but no extension or renewal thereof shall be permitted;

(iv) Any Lien created to secure payment of a portion of the purchase price of any tangible fixed asset acquired by the Company or any of its Subsidiaries may be created or suffered to exist upon such fixed asset if the outstanding principal amount of the indebtedness secured by such Lien does not at any time exceed ninety percent of the purchase price paid by the Company or such Subsidiary for such fixed asset and the aggregate principal amount of all indebtedness secured by all such Liens does not exceed \$5,000,000, provided that such Lien does not encumber any other asset at any time owned by the Company or such Subsidiary, and provided, further, that not more than one such Lien shall encumber such fixed asset at any one time; and

(v) The interest or title of a lessor under any lease otherwise permitted under this Agreement with respect to the property subject to such lease to the extent performance of the obligations of the Company or its Subsidiary thereunder are not delinquent.

(e) Merger; Acquisitions; Etc. Purchase or otherwise acquire, whether in one or a series of transactions, all or a substantial portion of the business assets, rights, revenues or property, real, personal or mixed, tangible or intangible, of any person, or all or a substantial portion of the capital stock of or other ownership interest in any other person, provided that this Section 5.2(e) shall not prohibit any such purchase or acquisition (the "Subject Transaction") if the aggregate consideration paid by the Company for all such purchases and acquisitions after December 31, 1997, including, without limitation, the Subject Transaction, is less than the amount equal to 20% of the Consolidated Tangible Net Worth of the Company its Subsidiaries as of the date the Subject Transaction is consummated; nor merge or consolidate or amalgamate with any other person or take any other action having a similar effect, nor enter into any joint venture or similar arrangement with any other person in which the Company is required to make an equity contribution having a similar effect.

(f) Disposition of Assets; Etc. Sell, lease, license, transfer, assign or otherwise dispose of all or a substantial portion of its business, assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether in one or a series of transactions, other than inventory sold in the ordinary course of business upon customary credit terms and sales of

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5.2(f) shall not prohibit any such sale, lease, license, transfer, assignment or other disposition if the aggregate book value (disregarding any write downs of such book value other than ordinary depreciation and amortization) of all of the business, assets, rights, revenues and property disposed of after the date of this Agreement is not greater than \$1,000,000 in the aggregate during any 12-month period and if, immediately after such transaction, no Default or Event of Default shall exist or shall have occurred and be continuing.

(g) Nature of Business. Make any material change in the nature of its business from that engaged in on the date of this Agreement or engage in any other businesses other than those in which it is engaged on the date of this Agreement.

(h) Dividends and Other Restricted Payments. Make, pay, declare or authorize any dividend, payment or other distribution in respect of any class of its capital stock or any dividend, payment or distribution in connection with the redemption, purchase, retirement or other acquisition, directly or indirectly, of any shares of its capital stock other than such dividends, payments or other distributions to the extent payable solely in shares of the capital stock of the Company, provided, however, that, if no Default or Event of Default shall exist or shall have occurred and be continuing, (i) any Subsidiary of the Company may make, pay, declare or authorize dividends, payments and other such distributions collectively, "Distributions") to the Company, and (ii) the Company may make Distributions during each fiscal year ending after the Effective Date which, together with all other Distributions made during any such fiscal year, in the aggregate do not exceed the sum of (A) Net Income of the Company for such fiscal year plus (B) the difference of (1) \$3,750,000 minus (2) the aggregate amount of Excess Distributions for all previous fiscal years since December 31, 1994. For purposes of this Section 5.2(h), (i) "capital stock" shall include capital stock and any securities exchangeable for or convertible into capital stock and any warrants, rights or other options to purchase or otherwise acquire capital stock or such securities, and (ii) "Excess Distributions" shall mean, with respect to any fiscal year of the Company, the portion of the aggregate amount of Distributions made by the Company during such fiscal year that exceeds the Net Income of the Company for such fiscal year.

(i) Capital Expenditures. Acquire any fixed asset or make any other capital expenditure (collectively, "Capital Expenditures") if the aggregate purchase price and other acquisition costs of all such Capital Expenditures made by the Company or any of its Subsidiaries during any fiscal year of the Company ending after the Effective Date would exceed, on a consolidated basis, an amount equal to the sum of (i) the consolidated depreciation expense relating to fixed assets ("Depreciation Expense") of the Company and its Subsidiaries for such fiscal year plus (ii) the difference of (A) \$7,500,000 minus (B) the aggregate amount of Excess Capital Expenditures for all previous fiscal years after December 31, 1997. For purposes of this Section 5.2(i), "Excess Capital Expenditures" shall mean, with respect to any fiscal year of the Company, the portion of the aggregate amount of consolidated Capital Expenditures of the Company and its Subsidiaries made during such fiscal year that exceeds the consolidated Depreciation Expense of the Company and its Subsidiaries for such fiscal year.

(j) Transactions with Affiliates. Enter into, become a party to, or

become liable in respect of, any contract or undertaking with any Affiliate except in the ordinary course

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of business and on terms not less favorable to the Company or such Subsidiary than those which could be obtained if such contract or undertaking were an arms length transaction with a person other than an Affiliate.

(k) Investments, Loans and Advances. Purchase or otherwise acquire any capital stock of or other ownership interest in, or debt securities of or other evidences of indebtedness of, any other person; nor make any loan or advance of any of its funds or property or make any other extension of credit to, or make any investment or acquire any interest whatsoever in, any other person; other than (i) extensions of trade credit made in the ordinary course of business on customary credit terms and commission, travel and similar advances made to officers and employees in the ordinary course of business, and (ii) commercial paper of any United States issuer having the highest rating then given by Moody's Investors Service, Inc., or Standard & Poor's Corporation, direct obligations of and obligations fully guaranteed by the United States of America or certificates of deposit of any commercial bank which is a member of the Federal Reserve System and which has capital, surplus and undivided profit (as shown on its most recently published statement of condition) aggregating not less than \$100,000,000, provided, however, that each of the foregoing investments has a maturity date not later than 180 days after the acquisition thereof by the Company or any of its Subsidiaries, (iii) investments permitted by Section 5.2(e), and (iv) those investments, loans, advances and other transactions described in Schedule 5.2(k) hereto, having the same terms as existing on the date of this Agreement, but no extension or renewal thereof shall be permitted.

(l) Contingent Liabilities. Create, incur, assume, or in any manner become liable in respect of, or suffer to exist, Contingent Liabilities in excess of \$5,000,000 for the Company and its Subsidiaries on a consolidated basis.

(m) Negative Pledge Limitation. Enter into any agreement, with any person other than the Banks pursuant hereto, which prohibits or limits the ability of the Company or any Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired; provided that this Section 5.2(m) shall not prohibit the Company from entering into such an agreement with The Fifth Third Bank, so long as the aggregate principal amount of Indebtedness of the Company to The Fifth Third Bank does not at any time exceed \$7,500,000.

(n) Restrictions on Payments by Subsidiaries. Enter into any agreement, contract or arrangement restricting the ability of any Subsidiary of the Company to pay dividends or make cash advances or other payments of any nature to the Company or to any Subsidiary of the Company of which such Subsidiary is also a Subsidiary.

(o) Inconsistent Agreements. Enter into any agreement containing any provision which would be violated or breached by this Agreement or any of the transactions contemplated hereby or by performance by the Company or any of its Subsidiaries of its obligations in connection therewith.

(p) Fiscal Year. Change its fiscal year from beginning January 1 and ending

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December 31.

(q) Interest Coverage Ratio. Permit or suffer the ratio of (i) Consolidated EBIT of the Company and its Subsidiaries to (ii) Consolidated Interest Expense of the Company and its Subsidiaries to be less than 3.00 to 1.00; such ratio to be determined as of the end of each fiscal quarter of the Company for the period of four fiscal quarters of the Company then ending or, if less, the number of fiscal quarters of the Company from January 1, 1998 through the date of determination.

ARTICLE VI.

DEFAULT

6.1 Events of Default. The occurrence of any one of the following events or conditions shall be deemed an "Event of Default" hereunder unless waived by the Required Banks pursuant to Section 7.1:

(a) Nonpayment. The Company shall fail to pay when due any principal of the Notes or any reimbursement obligation under Section 3.9 (whether by deemed disbursement of Revolving Credit Loans or otherwise), or the Company shall fail to pay within 10 days of the due date thereof any interest on the Notes or any fees or any other amount (other than principal of the Notes or such reimbursement obligations) payable hereunder; or

(b) Misrepresentation. Any representation or warranty made by the Company in Article IV hereof or in any other certificate, report, financial statement or other document furnished by or on behalf of the Company in connection with this Agreement, shall prove to have been incorrect in any material respect when made or deemed made; or

(c) Certain Covenants. The Company shall fail to perform or observe any term, covenant or agreement contained in Article V hereof; or

(d) Other Defaults. The Company shall fail to perform or observe any other term, covenant or agreement contained in this Agreement, and any such failure shall remain unremedied for 30 calendar days after notice thereof shall have been given to the Company by the Agent; or

(e) Cross Default. (i) Any default or event of default shall occur under any other agreement, instrument or document evidencing or otherwise relating to any indebtedness (other than indebtedness hereunder) of the Company or any of its Subsidiaries to any Bank; or (ii) the Company or any of its Subsidiaries shall fail to pay any part of the principal of, the premium, if any, or the interest on, or any other payment of money due under any of its indebtedness (other than indebtedness hereunder or described in clause (i) above), beyond any period of grace provided with respect thereto, which individually or together with other such indebtedness as to which any such failure exists has an aggregate outstanding principal amount in excess of \$100,000; or (iii) the Company or any of its Subsidiaries shall fail to perform or

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observe any other term, covenant or agreement contained in any agreement, document or instrument evidencing or securing any indebtedness (other than indebtedness hereunder or described in clause (i) above) having such aggregate outstanding principal amount, or under which any such indebtedness was issued or created, beyond any period of grace, if any, provided with respect thereto if the effect of such failure is either (A) to cause, or permit the holders of such Indebtedness (or a trustee on behalf of such holders) to cause, any payment in respect of such Indebtedness to become due prior to its due date or (ii) to permit the holders of such Indebtedness (or a trustee on behalf of such holders) to elect a majority of the board of directors of the Company; or

(f) Judgments. One or more judgments or orders for the payment of money in an aggregate amount of \$1,000,000 or more shall be rendered against the Company or any of its Subsidiaries, or any other judgment or order (whether or not for the payment of money) shall be rendered against or shall affect the Company or any of its Subsidiaries which causes or could cause a material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company or any of its Subsidiaries or which does or could have a material adverse effect on the legality, validity or enforceability of this Agreement or the Notes, and either (i) such judgment or order shall have remained unsatisfied and the Company or such Subsidiary shall not have taken action necessary to stay enforcement thereof, by reason of pending appeal or otherwise, prior to the expiration of the applicable period of limitations for taking such action or, if such action shall have been taken, a final order denying such stay shall have been rendered, or (ii) enforcement proceedings shall have been commenced by any creditor upon any such judgment or order; or

(g) ERISA. The occurrence of a Reportable Event that results in or there is a reasonable possibility that it could result in material liability of the Company, any Subsidiary of the Company or their ERISA Affiliates to the PBGC or to any Plan and such Reportable Event is not corrected within thirty (30) days after the occurrence thereof; or the occurrence of any Reportable Event which there is a reasonable possibility could constitute grounds for termination of any Plan of the Company, its Subsidiaries or their ERISA Affiliates by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer any such Plan and such Reportable Event is not corrected within thirty (30) days after the occurrence thereof; or the filing by the Company, any Subsidiary of the Company or any of their ERISA Affiliates of a notice of intent to terminate a Plan or the institution of other proceedings to terminate a Plan; or the Company, any Subsidiary of the Company or any of their ERISA Affiliates shall fail to pay when due any material liability to the PBGC or to a Plan; or the PBGC shall have instituted proceedings to terminate, or to cause a trustee to be appointed to administer, any Plan of the Company, its Subsidiaries or their ERISA Affiliates; or any person engages in a Prohibited Transaction with respect to any Plan which results in or there is a reasonable possibility could result in material liability of the Company, any Subsidiary of the Company, any of their ERISA Affiliates, any Plan of the Company, its Subsidiaries or their ERISA Affiliates or fiduciary of any such Plan; or failure by the Company, any Subsidiary of the Company or any of their ERISA Affiliates to make a required installment or other payment to any Plan within the meaning of Section 302(f) of ERISA or Section 412(n) of the Code that results in or there is a reasonable possibility could result in liability of the Company, any Subsidiary of the Company or any of their ERISA Affiliates to the PBGC or any Plan; or the withdrawal of the Company, any

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of its Subsidiaries or any of their ERISA Affiliates from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001 (9a) (2) of ERISA; or the Company, any of its Subsidiaries or any of their ERISA Affiliates becomes an employer with respect to any Multiemployer Plan without the prior written consent of the Bank; or

(h) Insolvency, Etc. The Company or any of its Subsidiaries shall be dissolved or liquidated (or any judgment, order or decree therefor shall be entered), or shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or shall institute, or there shall be instituted against the Company or any of its Subsidiaries, any proceeding or case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or seeking the entry of an order for relief, or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its assets, rights, revenues or property, and, if such proceeding is instituted against the Company or such Subsidiary and is being contested by the Company or such Subsidiary, as the case may be, in good faith by appropriate proceedings, such proceeding shall remain undismissed or unstayed for a period of 60 days; or the Company or such Subsidiary shall take any action (corporate or other) to authorize or further any of the actions described above in this subsection.

6.2 Remedies.

(a) Upon the occurrence and during the continuance of any Event of Default, the Agent may and, upon being directed to do so by the Required Banks, shall by notice to the Company (i) terminate the Commitments, or (ii) declare the outstanding principal of, and accrued interest on, the Notes, all unpaid reimbursement obligations in respect of drawings under Letters of Credit and all other amounts owing under this Agreement to be immediately due and payable, or (iii) demand immediate delivery of cash collateral, and the Company agrees to deliver such cash collateral upon demand, in an amount equal to the maximum amount that may be available to be drawn at any time prior to the stated expiry of all outstanding Letter of Credit, or any one or more of the foregoing, whereupon the Commitments shall terminate forthwith and all such amounts, including such cash collateral, shall become immediately due and payable, provided that in the case of any event or condition described in Section 6.1(h) with respect to the Company, the Commitments shall automatically terminate forthwith and all such amounts, including such cash collateral, shall automatically become immediately due and payable without notice; in all cases without demand, presentment, protest, diligence, notice of dishonor or other formality, all of which are hereby expressly waived. Such cash collateral delivered in respect of outstanding Letters of Credit shall be deposited in a special cash collateral account to be held by the Agent as collateral security for the payment and performance of the Company's obligation under this Agreement to the Banks and the Agent.

(b) The Agent may and, upon being directed to do so by the Required Banks, shall, in addition to the remedies provided in Section 6.2(a), exercise and enforce any and all other rights and remedies available to it or the Banks, whether arising under this Agreement, the Notes or under applicable law, in any

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equity, action at law, or other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Agreement or in the Notes or in aid of the exercise of any power granted in this Agreement or the Notes.

(c) Upon the occurrence and during the continuance of any Event of Default, each Bank may at any time and from time to time, without notice to the Company (any requirement for such notice being expressly waived by the Company) set off and apply against any and all of the obligations of the Company now or hereafter existing under this Agreement, whether owing to such Bank or any other Bank or the Agent, any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Company and any property of the Company from time to time in possession of such Bank, irrespective of whether or not such Bank shall have made any demand hereunder and although such obligations may be contingent and unmatured. The Company hereby grants to such Bank a lien on and security interest in all such deposits, indebtedness and property as collateral security for the payment and performance of the obligations of the Company under this Agreement. The rights of each Bank under this Section 6.2(c) are in addition to other rights and remedies (including, without limitation, other rights of setoff) which the Banks may have.

(d) In addition to other amounts payable pursuant to this Agreement, the Company confirms that it shall further pay, together with any payment of the Term Loan hereunder after the occurrence and during the continuance of any Event of Default, all amounts required to be paid pursuant to Section 3.8.

ARTICLE VII.
THE AGENT AND THE BANKS

7.1 Appointment and Authorization. Each Bank hereby irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto. The provisions of this Article VII are solely for the benefit of the Agent and the Banks, and the Company shall not have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Company.

7.2 Agent and Affiliates. NBD Bank, N.A. in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise or refrain from exercising the same as though it were not the Agent, NBD Bank, N.A. and its Affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to, and generally engage in any kind of banking, trust, financial advisory or other business with the Company or any of its Subsidiaries as if it were not acting as Agent hereunder, and may accept fees and other consideration therefor without having to account for the same to the Banks.

7.3 Scope of Agent's Duties. The Agent shall have no duties or responsibilities except those expressly set forth herein, and shall not, by reason of this Agreement, have a fiduciary relationship with any Bank, and no implied covenants, responsibilities, duties, obligations or liabilities shall be read into this Agreement or shall otherwise exist against the Agent. As to any matters not expressly provided for by this Agreement (including, without limitation, collection and enforcement actioned under the Notes), the Agent shall not be required to exercise any discretion or take any action, but the Agent shall take such action or omit to take any action pursuant to the reasonable written instructions of the Required Banks and may request instructions from the Required Banks. The Agent shall in all cases be fully protected in acting, or in refraining from acting, pursuant to the written instructions of the Required Banks, which instructions and any action or omission pursuant thereto shall be binding upon all of the Banks; provided, however, that the Agent shall not be required to act or omit to act if, in the judgment of the Agent, such action or omission may expose the Agent to personal liability or is contrary to this Agreement or the Notes or applicable law.

7.4 Reliance by Agent. The Agent shall be entitled to rely upon any certificate, notice, document or other communication (including any cable, telegram, telex, facsimile transmission or oral communication) believed by it to be genuine and correct and to have been sent or given by or on behalf of a proper person. The Agent may treat the payee of any Note as the holder thereof unless and until the Agent receives written notice of the assignment thereof pursuant to the terms of this Agreement signed by such payee and the Agent receives the written agreement of the assignee that such assignee is bound hereby to the same extent as if it had been an original party hereto, The Agent may employ agents (including without limitation collateral agents) and may consult with legal counsel (who may be counsel for the Company), independent public accountants and other experts selected by it and shall not be liable to the Banks, except as to money or property received by it or its authorized agents, for the negligence or misconduct of any such agent selected by it with reasonable care or for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

7.5 Default. The Agent shall not be deemed to have knowledge of the occurrence of any Default or Event of Default, unless the Agent has received written notice from a Bank or the Company specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice, the Agent shall give written notice thereof to the Banks.

7.6 Liability of Agent. Neither the Agent nor any of its directors, officers, agents, or employees shall be liable to the Banks for any action taken or not taken by it or them in connection herewith with the consent or at the request of the Required Banks or in the absence of its or their own gross negligence or willful misconduct. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any recital, statement, warranty or representation contained in this Agreement or any Note, or in any certificate, report, financial statement or other document furnished in connection with this

Agreement, (ii) the performance or observance of any of the covenants or agreements of the Company, (iii) the satisfaction of any condition specified in Article II hereof, or (iv) the validity, effectiveness, legal enforceability, value or genuineness of this Agreement, the Notes or any other instrument or document furnished in connection herewith.

7.7 Nonreliance on Agent and Other Banks. Each Bank acknowledges and agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Company and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decision in taking or not taking action under this Agreement. The Agent shall not be required to keep itself informed as to the performance or observance by the Company of this Agreement, the Notes or any other documents referred to or provided for herein or to inspect the properties or books of the Company and, except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any information concerning the affairs, financial condition or business of the Company or any of its Subsidiaries which may come into the possession of the Agent or any of its Affiliates.

7.8 Indemnification. The Banks agree to indemnify the Agent (to the extent not reimbursed by the Company, but without limiting any obligation of the Company to make such reimbursement), ratably according to their Pro Rata Shares, from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or the transactions contemplated hereby or any action taken or omitted by the Agent under this Agreement, provided, however, that no Bank shall be liable for any portion of such claims, damages, losses, liabilities, costs or expenses resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including, without limitation, fees and expenses of counsel) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Company, but without limiting the obligation of the Company to make such reimbursement. Each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any amounts owing to the Agent by the Banks pursuant to this Section. If the indemnity furnished to the Agent under this Section shall, in the judgment of the Agent, be insufficient or

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become impaired, the Agent may call for additional indemnity from the Banks and cease, or not commence to take, any action until such additional indemnity is furnished.

7.9 Successor Agent. The Agent may resign as such at any time upon ten days' prior written notice to the Company and the Banks. In the event of any such resignation, the Required Banks shall, by an instrument in writing

delivered to the Company and the Agent, appoint a successor, which shall be a commercial bank organized under the laws of the United States or any State thereof and having a combined capital and surplus of at least \$500,000,000. If a successor is not so appointed or does not accept such appointment before the Agent's resignation becomes effective, the retiring Agent may appoint a temporary successor to act until such appointment by the Required Banks is made and accepted or if no such temporary successor is appointed as provided above by the retiring Agent, the Required Banks shall thereafter perform all the duties of the Agent hereunder until such appointment by the Required Banks is made and accepted. Any successor to the Agent shall execute and deliver to the Company and the Banks an instrument accepting such appointment and thereupon such successor Agent, without further act, deed, conveyance or transfer shall become vested with all of the properties, rights, interests, powers, authorities and obligations of its predecessor hereunder with like effect as if originally named as Agent hereunder. Upon request of such successor Agent, the Company and the retiring Agent shall execute and deliver such instruments of conveyance, assignment and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Agent all such properties, rights, interest, powers, authorities and obligations, The provisions of this Article VII shall thereafter remain effective for such retiring Agent with respect to any actions taken or omitted to be taken by such Agent while acting as the Agent hereunder.

7.10 Sharing of Payments. The Banks agree among themselves that, in the event that any Bank shall obtain payment in respect of any Advance or any other obligation owing to the Banks under this Agreement through the exercise of a right of set-off, banker's lien, counterclaim or otherwise in excess of its Pro Rata Share of payments received by all of the Banks on account of the Advances and other obligations, such Bank shall promptly purchase from the other Banks participation in such Advances and other obligations in such amounts, and make such other adjustments from time to time, as shall be equitable to the end that all of the Banks share such payment in accordance with their Pro Rata Shares. The Banks further agree among themselves that if payment to a Bank obtained by such Bank through the exercise of a right of set-off, banker's lien, counterclaim or otherwise as aforesaid shall be rescinded or must otherwise be restored, each Bank which shall have shared the benefit of such payment shall, by repurchase of participation theretofore sold, return its share of that benefit to each Bank whose payment shall have been rescinded or otherwise restored, The Company agrees that any Bank so purchasing such a participation may, to the fullest extent permitted by law, exercise all rights of payment, including set-off, banker's lien or counterclaim with respect to such Advance or other obligation in the amount of such participation. The Banks further agree among themselves that, in the event that amounts received by the Banks and the Agent hereunder are insufficient to pay all such obligations or insufficient to pay all such obligations when due, the fees and other amounts owing to the Agent in such capacity shall be paid therefrom before payment of obligations owing to the Banks under this Agreement. Except as otherwise expressly provided in this Agreement, if any Bank or the Agent shall fail to remit to the Agent or any other Bank an

amount payable by such Bank or the Agent to the Agent or such other Bank pursuant to this Agreement on the date when such amount is due, such payment shall be made together with interest thereon for each date from the date such amount is due until the date such amount is paid to the Agent or such other Bank at a rate per annum equal to the rate at which borrowings are available to the

payee in its overnight federal funds market. It is further understood and agreed among the Banks and the Agent that if the Agent shall engage in any other transactions with the Company and shall have the benefit of any collateral or security therefor which does not expressly secure the obligations arising under this Agreement except by virtue of a so-called dragnet clause or comparable provision, the Agent shall be entitled to apply any proceeds of such collateral or security first in respect of the obligations arising in connection with such other transaction before application to the obligations arising under this Agreement.

ARTICLE VIII.

MISCELLANEOUS

8.1 Amendments, Etc. (a) No amendment, modification, termination or waiver of any provision of this Agreement nor any consent to any departure therefrom shall be effective unless the same shall be in writing and signed by the Required Banks and, to the extent any rights or duties of the Agent may be affected thereby, the Agent. Any such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b) Notwithstanding anything herein to the contrary, no Bank that is in default of any of its obligations, covenants or agreements under this Agreement shall be entitled to vote (whether to consent or to withhold its consent) with respect to any amendment, modification, termination or waiver of any provision of this Agreement or any departure therefrom or any direction from the Banks to the Agent, and, for purposes of determining the Required Banks at any time when any Bank is in default under this Agreement, the Commitments and Advances of such defaulting Banks shall be disregarded.

8.2 Notices. (a) Except as otherwise provided in Section 8.2(c) hereof, all notices and other communications hereunder shall be in writing and shall be delivered or sent to the Company at 2600 Kettering Tower, Dayton, Ohio, 45423. Attention: Mr. Karl A. Frydryk, Chief Financial Officer, Facsimile No. (937) 910-9305, and to the Agent and the Banks at their respective addresses for notices set forth on the signature pages hereof, or to such other address as may be designated by the Company, the Agent or any Bank by notice to the other parties hereto. All notices and other communications shall be deemed to have been given at the time of actual delivery thereof to such address, or if sent by certified or registered mail, postage prepaid, to such address, on the third day after the date of mailing, or in the case of telex notice, upon receipt of the appropriate answerback, provided, however, that notices to the Agent shall not be effective until received.

(b) Notices by the Company to the Agent with respect to terminations or reductions of the Revolving Credit Commitments pursuant to Section 2.2, requests for Advances

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pursuant to Section 2.4, requests for continuations or conversions of Loans pursuant to Section 2.7 and notices of prepayment pursuant to Section 3.1 shall be irrevocable and binding on the Company.

(c) Any notice to be given by the Company to the Agent pursuant to

Sections 2.4, 2.7 or 3.1 and any notice to be given by the Agent or any Bank hereunder, may be given by telephone, and all such notices given by the Company must be immediately confirmed in writing in the manner provided in Section 8.2(a). Any such notice given by telephone shall be deemed effective upon receipt thereof by the party to whom such notice is to be given.

8.3 No Waiver By Conduct; Remedies Cumulative. No course of dealing on the part of the Agent or any Bank, nor any delay or failure on the part of the Agent or any Bank in exercising any right, power or privilege hereunder shall operate as a waiver of such right, power or privilege or otherwise prejudice the Agent's or any Bank's rights and remedies hereunder; nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. No right or remedy conferred upon or reserved to the Agent or any Bank under this Agreement or the Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy granted thereunder or now or hereafter existing under any applicable law. Every right and remedy granted by this Agreement or the Notes or by applicable law to the Agent or any Bank may be exercised from time to time and as often as may be deemed expedient by the Agent or any Bank and, unless contrary to the express provisions of this Agreement or the Notes, irrespective of the occurrence or continuance of any Default or Event of Default.

8.4 Reliance on and Survival of Various Provisions. All terms, covenants, agreements, representations and warranties of the Company made herein or in any certificate, report, financial statement or other document furnished by or on behalf of the Company in connection with this Agreement shall be deemed to be material and to have been relied upon by the Banks, notwithstanding any investigation heretofore or hereafter made by any Bank or on such Bank's behalf, and those covenants and agreements of the Company set forth in Section 3.6, 3.7, 3.8, 3.9 and 8.5 hereof shall survive the repayment in full of the Advances and the termination of the Commitments.

8.5 Expenses and Indemnification. (a) The Company agrees to pay, or reimburse the Agent for the payment of, on demand, (i) the reasonable fees and expenses of counsel to the Agent, including without limitation the fees and expenses of Dickinson Wright PLLC in connection with the preparation, execution, delivery and administration of this Agreement and the Notes and the consummation of the transactions contemplated hereby, and in connection with advising the Agent as to its rights and responsibilities with respect thereto, and in connection with any amendments, waivers or consents in connection therewith, and (ii) all reasonable costs and expenses of the Agent and the Banks (including reasonable fees and expenses of counsel and whether incurred through negotiations, legal proceedings or otherwise) in connection with any Default or Event of Default or the enforcement of, or the exercise or preservation of any rights under, this Agreement or the Notes or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement.

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(b) The Company agrees to indemnify and hold harmless the Banks and the Agent, and their respective officers, directors, employees and agents, and each person who controls any of them, from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever which the Banks or the Agent or any such person may incur or which may be claimed against any of them with respect to or in connection with the execution, delivery, enforcement, performance and administration of this Agreement or the

Notes or the Company's use or proposed use of the proceeds of any Advance.

(c) Without limiting the foregoing, the Company hereby indemnifies and agrees to hold harmless the Banks and the Agent, and their respective officers, directors, employees and agents, from and against any and all claims, damages, losses, liabilities, costs or expenses of any kind or nature whatsoever which the Banks or the Agent or any such person may incur or which may be claimed against any of them by reason of or in connection with any Letter of Credit, and neither any Bank nor the Agent or any of their respective officers, directors, employees or agents shall be liable or responsible for: (i) the use which may be made of any Letter of Credit or for any acts or omissions of any beneficiary in connection therewith; (ii) the validity, sufficiency or genuineness of documents or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (iii) payment by the Agent to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the terms of any Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; (iv) any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit; or (v) any other event or circumstance whatsoever arising in connection with any Letter of Credit; provided, however, that the Company shall not be required to indemnify the Banks and the Agent and such other persons, and the Banks shall be liable to the Company to the extent, but only to the extent, of any direct, as opposed to consequential or incidental, damages suffered by the Company which were caused by (A) the Agent's wrongful dishonor of any Letter of Credit after the presentation to it by the beneficiary thereunder of a draft or other demand for payment and other documentation strictly complying with the terms and conditions of such Letter of Credit, or (B) the Agent's payment to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the terms of the Letter of Credit to the extent, but only to the extent, that such payment constitutes gross negligence or willful misconduct of the Agent. It is understood that in making any payment under a Letter of Credit the Agent will rely on documents presented to it under such Letter of Credit as to any and all matters set forth therein without further investigation and regardless of any notice or information to the contrary, and such reliance and payment against documents presented under a Letter of Credit substantially complying with the terms thereof shall not be deemed gross negligence or willful misconduct of the Agent in connection with such payment. It is further acknowledged and agreed that the Company may have rights against the beneficiary or others in connection with any Letter of Credit with respect to which the Banks are alleged to be liable and it shall be a precondition of the assertion of any liability of the Banks under this Section that the Company shall first have exhausted all remedies in respect of the alleged loss against such beneficiary and any other parties obligated or liable in connection with such Letter of Credit and any related transactions.

8.6 Successors and Assigns. (a) This Agreement shall be binding upon and

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inure to the benefit of the parties hereto and their respective successors and assigns, provided that the Company may not, without the prior written consent of the Banks, assign its rights or obligations hereunder or under the Notes and the Banks shall not be obligated to make any Advance hereunder to any entity other than the Company.

(b) The Agent from time to time in its sole discretion may appoint agents for the purpose of servicing and administering this Agreement and the transactions contemplated hereby and enforcing or exercising any rights or remedies of the Agent provided under this Agreement, the Notes or otherwise. In furtherance of such agency, the Agent may from time to time direct that the Company provide notices, reports and other documents contemplated by this Agreement (or duplicates thereof) to such agent. The Company hereby consents to the appointment of such agent and agrees to provide all such notices, reports and other documents and to otherwise deal with such agent acting on behalf of the Agent in the same manner as would be required if dealing with the Agent itself. No Bank may assign or sell any of its rights or obligations under this Agreement or the Notes without the prior written consent of the Company and each of the other Banks.

8.7 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

8.8 Governing Law. This Agreement is a contract made under, and shall be governed by and construed in accordance with, the law of the State of Indiana applicable to contracts made and to be performed entirely within such State and without giving effect to choice of law principles of such State. Each of the Company and the Banks further agrees that any legal action or proceeding with respect to this Agreement, the Notes or the transactions contemplated hereby may be brought in any court of the State of Indiana, or in any court of the United States of America sitting in Indiana, and each of the Company and the Banks hereby submits to and accepts generally and unconditionally the jurisdiction of those courts with respect to its person and property, and irrevocably consents to the service of process in connection with any such action or proceeding by personal delivery to the Company or by the mailing thereof by registered or certified mail, postage prepaid to the Company at its address set forth in Section 8.2 or in the signature pages hereof. Nothing in this paragraph shall affect the right of the Banks and the Agent to serve process in any other manner permitted by law or limit the right of the Banks or the Agent to bring any such action or proceeding against the Company or property in the courts of any other jurisdiction. Each of the Company and the Banks hereby irrevocably waives any objection to the laying of venue of any such suit or proceeding in the above described courts.

8.9 Table of Contents and Headings. The table of contents and the headings of the various subdivisions hereof are for the convenience of reference only and shall in no way modify any of the terms or provisions hereof.

8.10 Construction of Certain Provisions. If any provision of this Agreement refers to any action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person, whether or not expressly specified in such provision.

8.11 Integration and Severability. This Agreement embodies the entire agreement and understanding between the Company and the Agent and the Banks, and supersedes all prior agreements and understandings, relating to the subject matter hereof. In case any one or more of the obligations of the Company

under this Agreement or the Notes shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Company shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of the Company under this Agreement or the Notes in any other jurisdiction.

8.12 Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by an exception to, or could be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default or any event or condition which with notice or lapse of time, or both, could become such a Default or an Event of Default if such action is taken or such condition exists.

8.13 Interest Rate Limitation. Notwithstanding any provisions of this Agreement or the Notes, in no event shall the amount of interest paid or agreed to be paid by the Company exceed an amount computed at the highest rate of interest permissible under applicable law. If, from any circumstances whatsoever, fulfillment of any provision of this Agreement or the Notes, at the time performance of such provision shall be due, shall involve exceeding the interest rate limitation validly prescribed by law which a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to an amount computed at the highest rate of interest permissible under applicable law, and if for any reason whatsoever any Bank shall ever receive as interest an amount which would be deemed unlawful under such applicable law such interest shall be automatically applied to the payment of principal of the Loans outstanding hereunder (whether or not then due and payable) and not to the payment of interest, or shall be refunded to the Company if such principal and all other obligations of the Company to the Banks have been paid in full

8.14 Special Procedures for Disbursement of First Loans. The Revolving Credit Notes of the Banks are being issued in substitution and replacement for the revolving credit notes previously issued by the Company to the Banks under the 1995 Credit Agreement (the "Replaced Revolving Credit Notes"). On the Effective Date, the principal balance of the Replaced Revolving Credit Notes, as well as all other information which has been endorsed on the schedules attached to the Replaced Revolving Credit Notes or elsewhere on the books and records of the Banks with respect to the Replaced Revolving Credit Notes, shall be endorsed on the schedules attached to the Revolving Credit Notes or elsewhere on the books and records of the Banks with respect to the Revolving Credit Notes, in accordance with the Banks' Pro Rata Shares. The execution and delivery by the Company of the Revolving Credit Notes shall not in any circumstances be deemed a novation or to have terminated, extinguished or discharged the Company's indebtedness evidenced by the Replaced Revolving Credit Notes, all of which indebtedness shall continue under and be evidenced and governed by the Revolving Credit Notes and this Agreement.

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8.15 Year 2000 Problem. The Company and its Subsidiaries have reviewed the areas within their business and operations which could be adversely affected by, and have developed or are developing a program to address on a timely basis, the "Year 2000 Problem" (that is, the risk that computer applications used by the Company and its Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to

and any date after December 31, 1999). Based on such review and program, the Company reasonably believes that the "Year 2000 Problem" will not have a material adverse effect on the business, properties, operations or condition, financial or otherwise, of the Company or any of its Subsidiaries.

8.16 WAIVER OF JURY TRIAL. THE BANKS AND THE AGENT AND THE COMPANY, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY RELATED INSTRUMENT OR AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY OF THEM. NEITHER THE BANKS, THE AGENT NOR THE COMPANY SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY EITHER THE BANKS, THE AGENT OR THE COMPANY EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

THE MONARCH MACHINE TOOL COMPANY

By: _____

Its: _____

Address for Notices:
One Indiana Square, Suite 308
Indianapolis, Indiana 46266
Attn: Edward C. Hathaway
Facsimile: 317/266-6042
Commitment Amount: \$9,750,000

NBD BANK, N.A., as a Bank and as the Agent

By: _____

Its: _____

Address for Notices:
425 Walnut Street, M.L. 8160
Cincinnati, OH 42501-1038
Attention: Commercial Lending
Facsimile: 513/632-2068
Commitment Amount: \$5,250,000

STAR BANK, N.A.

By: _____

Its: _____

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THE MONARCH MACHINE TOOL COMPANY

Mr. Richard E. Clemens
November 3, 1998
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November 3, 1998

Mr. Richard E. Clemens
79 Governors Club Drive
Beavercreek, OH 45385

Dear Mr. Clemens:

The Monarch Machine Tool Company, an Ohio corporation ("Monarch"), considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of Monarch and its shareholders. In this connection, Monarch recognizes that, as is the case with many publicly-held corporations, the mere possibility of a change in control can raise distracting and disrupting uncertainties and questions among management personnel, can interfere with their whole-hearted attention and devotion to the performance of their duties, and can even lead to their departure, all to the detriment of the best interests of Monarch and its shareholders. Accordingly, the Board of Directors of Monarch (the "Board") has determined that the best interests of Monarch and its shareholders would be served by assuring to certain executives of Monarch and its Affiliates, including yourself, the protection provided by an agreement which defines the respective rights and obligations of Monarch and the executive in the event of termination of employment subsequent to a change in control.

In order to induce you to remain in the employ of Monarch or an Affiliate of Monarch, this letter agreement sets forth the severance benefits which Monarch agrees will be provided to you in the event your employment with Monarch or an Affiliate of Monarch is terminated subsequent to a "change in control" under the circumstances described below.

Except where the context otherwise indicates, (i) the term "Monarch" hereinafter includes Monarch and any Successor to Monarch and (ii) the term "Affiliate of Monarch" when used herein with reference to your employment means any entity in which Monarch has, directly or indirectly, a 20% or more equity interest.

1. OPERATION AND TERM OF AGREEMENT. This agreement, although effective immediately, shall not become operative unless and until there has been a Change in Control (as defined at Paragraph 2). None of the provisions of this agreement shall be applicable

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THE MONARCH MACHINE TOOL COMPANY

Mr. Richard E. Clemens

November 3, 1998

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to any termination of your employment, however occurring, which is effective prior to a Change in Control. This agreement shall continue until the later of December 31, 2001 or two years after the occurrence of a Change in Control, provided such Change in Control occurs on or before December 31, 2001, subject to extension beyond that date by mutual consent. Monarch will review this agreement with you between January 1, 2001 and July 31, 2001, for the purpose of determining whether or not an extension beyond December 31, 2001 is mutually agreeable and, if so, on what basis and for how long.

2. CHANGE IN CONTROL. No benefits shall be payable hereunder unless there shall have been a Change in Control, as set forth below, and your employment with Monarch or an Affiliate of Monarch shall thereafter have been terminated in accordance with paragraph 3 below. For purposes of this agreement, a "Change in Control" shall mean and be deemed to have occurred if (i) any "person," as such term is defined in Section 13(d) of the Securities Exchange Act of 1934 (the "Act"), other than Monarch or an entity then controlled by Monarch is or becomes the beneficial owner, directly or indirectly, of securities of Monarch representing 20% or more of the combined voting power of Monarch's then outstanding securities except, however, in determining whether the 20% threshold has been attained by a particular person, any voting securities of Monarch which such person acquires directly from Monarch (other than pursuant to a stock dividend or split) shall not be taken into consideration in calculating such person's percentage of ownership of the voting power of Monarch; (ii) any "person" (as such term is defined at Section 13(d) of the Act) other than Monarch or an entity then controlled by Monarch is or becomes the beneficial owner, directly or indirectly, of securities of Monarch representing 35% or more of the combined voting power of Monarch's then outstanding securities, including securities such person may have acquired directly from Monarch; (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of Monarch (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for the election by Monarch's shareholders, of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period; (iv) Monarch merges or consolidates with another corporation and an entity controlled by Monarch immediately prior to the merger or consolidation is not the surviving entity or if Monarch is the surviving entity, holders of 80% or more of the voting power of Monarch immediately prior

to the merger or consolidation do not own, immediately after the merger or consolidation, 65% or more of the voting power of the surviving entity; or (v) a sale, lease, exchange, or other disposition of all or substantially all of the assets of Monarch takes place.

3. TERMINATION FOLLOWING CHANGE IN CONTROL.

(A) If any of the events described in paragraph 2 constituting a Change in Control shall have occurred, then upon any subsequent termination of your employment with Monarch or an Affiliate of Monarch at any time within two years following the occurrence of

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THE MONARCH MACHINE TOOL COMPANY

Mr. Richard E. Clemens

November 3, 1998

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such event, you shall be entitled to the benefits provided by this agreement, as set forth in paragraph 5, unless such termination is (i) directed by Monarch for Cause or because of your Disability, or (ii) because of your Retirement, or (iii) by you other than for Good Reason, or (iv) because of your death.

(B) As used in this agreement, the terms "Cause," "Retirement," "Good Reason," and "Disability" shall have the meanings set forth below:

(i) Cause. "Cause" shall mean (a) the willful and continued failure by you to substantially perform your duties with Monarch or an Affiliate of Monarch (other than any such failure resulting from your physical or mental illness or other physical or mental incapacity), after a demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or (b) the willful engaging by you in gross misconduct which is materially and demonstrably injurious to Monarch or an Affiliate of Monarch resulting or intended to result, directly or indirectly, in substantial personal gain or substantial personal enrichment at the expense of Monarch or an Affiliate of Monarch. For purposes of this subparagraph, no act, or failure to act, on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of Monarch. Notwithstanding the foregoing, Cause shall not be deemed to exist unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths of the number of Directors then in office at a meeting of the Board called and held for that purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (a) or (b) of the first sentence of this subparagraph and specifying the

particulars thereof in detail.

(ii) Retirement. "Retirement" shall mean cessation of your employment in accordance with Monarch's or an Affiliate of Monarch's retirement policy (including early retirement) generally applicable to salaried employees, or in accordance with any retirement arrangement with respect to you established with your consent.

(iii) Good Reason. "Good Reason" shall mean:

(a) The assignment to you of any duties inconsistent with your position, duties, responsibilities and status with Monarch or an Affiliate of Monarch immediately prior to a Change in Control or a change in your responsibilities, as in effect immediately prior to a Change in Control, which materially diminishes your responsibilities with Monarch or an Affiliate of Monarch when considered as a whole, or any removal of you from or any failure

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to re-elect you to any of such positions or offices; provided, however, that the foregoing shall not constitute Good Reason if done in connection with termination of your employment by Monarch or an Affiliate of Monarch for Cause or because of your Disability, or by you other than for Good Reason.

(b) A reduction by Monarch or an Affiliate of Monarch of your then current annual base salary or, if higher, your annual base salary as in effect at the time of the Change in Control.

(c) Failure by Monarch or an Affiliate of Monarch to continue in effect any benefit, incentive compensation, pension, employee stock ownership, stock option, life insurance, medical, health and accident, or disability plan in which you are participating at the time of a Change in Control or plans providing you with substantially similar benefits, or the taking of any action by Monarch or an Affiliate of Monarch which would adversely affect your participation in or materially reduce your benefits under any of such plans or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control, or the failure by Monarch or an Affiliate of Monarch to provide you with the number of paid vacation days to which you would then be entitled in accordance with Monarch's or an Affiliate of Monarch's vacation policy in effect at the time of the Change in Control.

(d) The relocation of Monarch's principal executive offices to a location outside Montgomery County, Ohio, if at the time of a Change in Control you are based at Monarch's principal executive offices.

(e) Monarch's or an Affiliate of Monarch's requiring you to be based anywhere other than the location where you are based at the time of a Change in Control, if the same requires you to relocate your principal residence; or, in the event you consent to being based anywhere other than such location, the failure by Monarch or an Affiliate of Monarch to pay (or reimburse you for) all reasonable moving expenses incurred by you relating to a change of your principal residence in connection with such relocation and to indemnify you against any loss [defined as the difference between the higher of (1) your aggregate investment in such residence or (2) the fair market value of such residence, as determined by a real estate appraiser designated by you and reasonably satisfactory to Monarch, and the actual sale price of such residence after the deduction of all real estate brokerage charges and related selling expenses] realized upon the sale of such residence in connection with any such change of residence.

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(f) The failure of Monarch to obtain the assumption of this agreement by any Successor as provided in paragraph 7 hereof.

(g) Monarch's or an Affiliate of Monarch's termination of your employment without satisfying any applicable requirements of paragraph 4 and subparagraph B(i) above.

(iv) Disability. "Disability" shall mean your inability to perform the duties required of you on a full-time basis for a period of six consecutive months because of physical or mental illness or other physical or mental disability or incapacity, followed by Monarch giving you thirty days' written notice of its intention to terminate your employment by reason thereof, and your failure because of physical or mental illness or other physical or mental disability or incapacity to resume the full-time performance of your duties within such period of thirty days and thereafter perform the same for a period of two consecutive months.

(C) During any period of time subsequent to a Change in Control, if you fail to perform your duties as a result of physical or mental illness or other physical or mental disability or incapacity, you shall continue to receive your full salary at your annual base salary rate then in effect, together with

all incentive compensation until you return to work or your employment with Monarch or an Affiliate of Monarch is terminated; provided, however, that any amount otherwise payable for any period of time pursuant to this subparagraph (C) shall be reduced by any payment or payments you receive for such period of time under any employee salary continuation plan or employee disability insurance plan maintained by Monarch or an Affiliate of Monarch no part of the cost of which was paid or is payable by you.

(D) If subsequent to a Change in Control, your employment is terminated by Monarch or an Affiliate of Monarch for Cause, Monarch shall pay you your full salary through the Date of Termination at your annual base salary rate in effect at the time Notice of Termination is given, and you shall also receive all accrued or vested benefits of any kind to which you are, or would otherwise have been, entitled through the Date of Termination (as defined in paragraph 4), and Monarch or an Affiliate of Monarch shall thereupon have no further obligation to you under this agreement.

4. NOTICE AND DATE OF TERMINATION.

(A) Any termination of your employment subsequent to a Change in Control shall be consummated by written Notice of Termination given to the other party. For purposes of this agreement, "Notice of Termination" shall mean a notice which indicates the specific termination provision or provisions in this agreement relied upon, if any, and sets forth in

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reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment.

(B) "Date of Termination" shall mean (i) if your employment is terminated by Monarch or an Affiliate of Monarch for Cause, the date specified in the Notice of Termination or the date on which the meeting of the Board referred to in subparagraph 3(B)(i) is concluded, whichever date is the later; or (ii) if your employment is terminated for any other reason, the date on which Notice of Termination is given or the effective date specified in the Notice, whichever is later. For purposes of this agreement, termination of your employment shall be deemed to have occurred within two years following the occurrence of a Change in Control if the Date of Termination is within such two year period.

5. COMPENSATION UPON TERMINATION.

(A) The compensation and benefits to be provided to you pursuant to paragraph 3 of this agreement upon termination of your employment with Monarch

or an Affiliate of Monarch under specified circumstances within two years following a Change in Control include the following:

(i) Subject to the provisions of paragraph 8 hereof, Monarch shall pay to you as severance pay in a lump sum in cash on the fifteenth day following the Date of Termination, the following amounts:

(a) Your full salary through the Date of Termination at your annual base salary rate in effect at the time Notice of Termination is given; and also the amount of the award or awards, if any, with respect to any completed period or periods which has been earned by or awarded to you pursuant to any incentive compensation plan or arrangement of Monarch or an Affiliate of Monarch but which has not yet been paid to you.

(b) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, an amount (the "Additional Compensation Payment") equal to two hundred percent (200%) of the greater of (i) the sum of your annual base salary at the rate in effect as of the Date of Termination (or, if higher, at the rate in effect at the time of the Change in Control) plus an amount equal to the average annual amount awarded to you under any incentive compensation plan or arrangement for the two years immediately preceding the year during which the Date of Termination occurs (whether or not fully paid) or (ii) your average annual compensation for the five calendar years preceding the calendar year in which the Change in Control occurred (it being understood that for purposes of this clause (b) (ii), "compensation" means your actual salary plus

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any amount awarded to you under any incentive compensation plan or arrangement).

(c) An amount in cash equal to the aggregate spread between the exercise prices of all options granted to you under Monarch's existing stock option plans or any stock option plan adopted by Monarch subsequent to the date hereof ("Options") which are then outstanding, whether or not then fully exercisable, and the higher of (a) the Fair Market Value of share of Common Stock of Monarch ("Monarch Shares") on the Date of Termination or (b) the average price per Monarch Share actually paid by the acquiring party in connection with any Change in Control. As used in this subparagraph, "Fair Market Value" shall mean (1) in the event

Monarch Shares are listed on any exchange or in the NASD National Market System, the last sale price on such exchange or System on the Date of Termination (or last trading date prior thereto) or, if there are no sales on such date, the mean between the representative bid and asked prices for Monarch Shares on such exchange or System at the close of business on such date or (2) in the event that there is then no public market for Monarch Shares or that trading in Monarch Shares is sporadic and the mean between any bid and asked prices is not representative of fair market value, the fair market value of Monarch Shares determined in accordance with Section 2031-2(f) of the Treasury Regulations or any successor provision thereto. Any Option for which payment is made as prescribed in this subparagraph (c) shall be canceled effective upon the making of such payment. In lieu of having your Options canceled and being paid the "spread" on such canceled Options in cash as set forth in this subparagraph 5(A)(i)(c), you may elect to continue to hold any part, or all, of the Options and exercise such Options, if you so choose, in accordance with their terms. Any such election to continue to hold Options shall be made by giving written notice of this election to Monarch within 10 days of your Date of Termination, which notice shall specify the date of grant, number of Shares subject to the options and option exercise price of the options you elect to continue to hold.

(d) All legal fees and expenses reasonably incurred by you in good faith as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this agreement).

(ii) Monarch shall, at its expense, maintain in full force and effect for your continued benefit all life insurance, medical, health and accident plans, programs and arrangements in which you were entitled to participate at the time of the Change in Control, provided that your continued participation is possible under the terms of such plans, programs and arrangements. In the event that the terms of any such plan, program

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or arrangement do not permit your continued participation or that any such plan, program or arrangement has been or is discontinued or the benefits thereunder have been or are materially reduced, Monarch shall arrange to provide, at its expense, benefits to you which are substantially similar to those which you were entitled to receive under such plan, program or arrangement at the time of the Change in Control. Monarch's obligation

under this subparagraph (ii) shall terminate on the earliest of the following dates: (a) the month in which you become age 65, (b) the date an essentially equivalent and no less favorable benefit is made available to you at no cost by a subsequent employer, or (c) the date which is 24 months after the Date of Termination.

(iii) In the event that because of their relationship to you, members of your family or other individuals are covered by any plan, program, or arrangement described in subparagraph (ii) above immediately prior to the Date of Termination, the provisions set forth in subparagraph (ii) shall apply equally to require the continued coverage of such persons; provided, however, that if under the terms of any such plan, program or arrangement, any such person would have ceased to be eligible for coverage during the period in which Monarch is obligated to continue coverage for you, nothing set forth herein shall obligate Monarch to continue to provide coverage for such person beyond the date such coverage would have ceased even if you had remained an employee of Monarch or an Affiliate of Monarch.

(iv) Monarch shall enable you to purchase the automobile, if any, which Monarch or an Affiliate of Monarch was providing for your use at the time Notice of Termination was given at the wholesale value of such automobile at such time or if the automobile was leased, then at any buy-out price provided for in the lease.

(B) If an event constituting Good Reason shall occur, you shall be entitled to the compensation and benefits described in (A) above only if you give a Notice of Termination with respect thereto within 120 days after the occurrence of such event, regardless of whether there has been an intervening termination of your employment by Monarch or an Affiliate of Monarch or otherwise.

(C) You shall not be required to mitigate the amount of any payment provided for in this paragraph 5 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this paragraph 5 be reduced by any compensation earned by you after the Date of Termination as the result of employment by another employer or otherwise, except, however, the amount of payments provided for in paragraph 5 shall be reduced by the amount of any severance benefits which you are entitled to receive under any other agreement with, or plan of, Monarch or an Affiliate of Monarch.

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6. RIGHTS AS FORMER EMPLOYEE. Nothing contained in this agreement shall be construed as preventing you, and shall not prevent you, following any termination of your employment whether pursuant to this agreement or otherwise,

from thereafter participating in any benefit or insurance plans, programs or arrangements (including without limitation, any retirement plans or programs) in the same manner and to the same extent that you would have been entitled to participate as a former employee of Monarch or an Affiliate of Monarch had this agreement not have been executed, except, however, you shall not be entitled to any severance payments under any severance pay programs of Monarch or an Affiliate of Monarch (other than this agreement) if you are paid the benefits provided for under this agreement.

7. SUCCESSORS. Monarch shall require any Successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Monarch, by agreement in form and substance satisfactory to you, to expressly assume and agree to perform this agreement in the same manner and to the same extent that Monarch would be required to perform it if no such succession had taken place. Failure of Monarch to obtain such agreement prior to the effectiveness of such succession shall be a breach of this agreement and shall entitle you to compensation from Monarch in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

This agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid to such beneficiary or beneficiaries as you shall have designated by written notice delivered to Monarch prior to your death or, failing such written notice, to your estate.

8. SAVINGS CLAUSE.

(A) The Deficit Reduction Act of 1984 added Section 280G to the Internal Revenue Code of 1954, as amended (the "Code"). Section 280G imposes a 20% excise tax on excessive compensation received by, and denies a deduction to the corporation for the amount of excess compensation paid to, employees who are officers, shareholders, or highly compensated individuals as a result of a change in the ownership or effective control of the corporation or in the ownership of a substantial portion of the assets of the corporation. In general, payments to an individual that are contingent on a Change in Control will not be treated as excessive if such payments do not exceed three times the average annual compensation received by such individual over the five years preceding the Change in Control. The provisions in subparagraph (B) of this paragraph 8 are designed to maximize the amounts payable to you pursuant to this agreement or otherwise which are contingent upon a change of control.

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(B) In the event that it is determined that any payment by Monarch to or for your benefit (whether paid or payable pursuant to the terms of this agreement or otherwise) would be subject to the 20% tax pursuant to Section 4999 of the Code, then the aggregate present value of amounts payable to or for your benefit pursuant to this agreement (such payments pursuant to this agreement are hereinafter referred to as "Agreement Payments") shall be reduced to the Reduced Amount. For purposes of this subparagraph, the "Reduced Amount" shall be defined as an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any payments to be subject to the 20% tax pursuant to Section 4999 of the Code.

9. NOTICES. All notices required or permitted to be given under this agreement shall be in writing and shall be mailed (postage prepaid by either registered or certified mail) or delivered, if to Monarch, addressed to:

The Monarch Machine Tool Company
2600 Kettering Tower
Dayton, Ohio 45423
Attention: Corporate Secretary

and if to you, addressed to:

Mr. Richard E. Clemens
79 Governors Club Drive
Beavercreek, OH 45385

Either party may change the address to which notices to such party are to be directed by giving written notice of such change to the other party in the manner specified in this paragraph. All notices, including without limitation, any Notice of Termination, shall be deemed to have been given upon the date of actual receipt by the recipient party.

10. ARBITRATION. Any dispute or controversy arising out of or relating to this agreement shall be settled by arbitration in Dayton, Ohio, in accordance with the rules then obtaining of the American Arbitration Association, and judgment may be entered on the arbitrator's award in any court having jurisdiction.

11. MISCELLANEOUS. No provision of this agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by you and such officer of Monarch as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance by such other party with, any condition or provision of this agreement to be

performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this agreement.

12. GOVERNING LAW. The validity, interpretation, construction and performance of this agreement shall be governed by the laws of the State of Ohio, without giving effect to the principles of conflicts of law thereof.

13. VALIDITY. The invalidity or unenforceability of any provision of this agreement shall not affect the validity or enforceability of any other provision, which shall remain in full force and effect.

If this letter correctly sets forth our agreement on the subject matter hereof, please so confirm by signing and returning the enclosed copy.
Very truly yours,

The Monarch Machine Tool Company

By /s/ William A. Enouen

William A. Enouen
Chairman, Compensation Committee

CONFIRMED AND AGREED TO:

/s/ Richard E. Clemens

Richard E. Clemens

Dated:

Mr. Karl A. Frydryk
November 3, 1998
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November 3, 1998

Mr. Karl A. Frydryk
9506 Lindner Lane
Dayton, Ohio 45458

Dear Mr. Frydryk:

The Monarch Machine Tool Company, an Ohio corporation ("Monarch"), considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of Monarch and its shareholders. In this connection, Monarch recognizes that, as is the case with many publicly-held corporations, the mere possibility of a change in control can raise distracting and disrupting uncertainties and questions among management personnel, can interfere with their whole-hearted attention and devotion to the performance of their duties, and can even lead to their departure, all to the detriment of the best interests of Monarch and its shareholders. Accordingly, the Board of Directors of Monarch (the "Board") has determined that the best interests of Monarch and its shareholders would be served by assuring to certain executives of Monarch and its Affiliates, including yourself, the protection provided by an agreement which defines the respective rights and obligations of Monarch and the executive in the event of termination of employment subsequent to a change in control.

In order to induce you to remain in the employ of Monarch or an Affiliate of Monarch, this letter agreement sets forth the severance benefits which Monarch agrees will be provided to you in the event your employment with Monarch or an Affiliate of Monarch is terminated subsequent to a "change in control" under the circumstances described below.

Except where the context otherwise indicates, (i) the term "Monarch" hereinafter includes Monarch and any Successor to Monarch and (ii) the term "Affiliate of Monarch" when used herein with reference to your employment means any entity in which Monarch has, directly or indirectly, a 20% or more equity interest.

1. OPERATION AND TERM OF AGREEMENT. This agreement, although effective immediately, shall not become operative unless and until there has

been a Change in Control (as defined at Paragraph 2). None of the provisions of this agreement shall be applicable

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to any termination of your employment, however occurring, which is effective prior to a Change in Control. This agreement shall continue until the later of December 31, 2001 or two years after the occurrence of a Change in Control, provided such Change in Control occurs on or before December 31, 2001, subject to extension beyond that date by mutual consent. Monarch will review this agreement with you between January 1, 2001 and July 31, 2001, for the purpose of determining whether or not an extension beyond December 31, 2001 is mutually agreeable and, if so, on what basis and for how long.

2. CHANGE IN CONTROL. No benefits shall be payable hereunder unless there shall have been a Change in Control, as set forth below, and your employment with Monarch or an Affiliate of Monarch shall thereafter have been terminated in accordance with paragraph 3 below. For purposes of this agreement, a "Change in Control" shall mean and be deemed to have occurred if (i) any "person," as such term is defined in Section 13(d) of the Securities Exchange Act of 1934 (the "Act"), other than Monarch or an entity then controlled by Monarch is or becomes the beneficial owner, directly or indirectly, of securities of Monarch representing 20% or more of the combined voting power of Monarch's then outstanding securities except, however, in determining whether the 20% threshold has been attained by a particular person, any voting securities of Monarch which such person acquires directly from Monarch (other than pursuant to a stock dividend or split) shall not be taken into consideration in calculating such person's percentage of ownership of the voting power of Monarch; (ii) any "person" (as such term is defined at Section 13(d) of the Act) other than Monarch or an entity then controlled by Monarch is or becomes the beneficial owner, directly or indirectly, of securities of Monarch representing 35% or more of the combined voting power of Monarch's then outstanding securities, including securities such person may have acquired directly from Monarch; (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of Monarch (the "Board") cease for any reason to constitute at least a majority thereof unless the election, or the nomination for the election by Monarch's shareholders, of each new Director was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of the period; (iv) Monarch merges or consolidates with another corporation and an entity controlled by Monarch immediately prior to the merger or consolidation is not the surviving entity or if Monarch is the surviving entity, holders of 80% or more of the voting power of Monarch immediately prior to the merger or consolidation do not own, immediately after the merger or consolidation, 65% or more of the voting power of the surviving entity; or (v) a

sale, lease, exchange, or other disposition of all or substantially all of the assets of Monarch takes place.

3. TERMINATION FOLLOWING CHANGE IN CONTROL.

(A) If any of the events described in paragraph 2 constituting a Change in Control shall have occurred, then upon any subsequent termination of your employment with Monarch or an Affiliate of Monarch at any time within two years following the occurrence of

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such event, you shall be entitled to the benefits provided by this agreement, as set forth in paragraph 5, unless such termination is (i) directed by Monarch for Cause or because of your Disability, or (ii) because of your Retirement, or (iii) by you other than for Good Reason, or (iv) because of your death.

(B) As used in this agreement, the terms "Cause," "Retirement," "Good Reason," and "Disability" shall have the meanings set forth below:

(i) Cause. "Cause" shall mean (a) the willful and continued failure by you to substantially perform your duties with Monarch or an Affiliate of Monarch (other than any such failure resulting from your physical or mental illness or other physical or mental incapacity), after a demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, or (b) the willful engaging by you in gross misconduct which is materially and demonstrably injurious to Monarch or an Affiliate of Monarch resulting or intended to result, directly or indirectly, in substantial personal gain or substantial personal enrichment at the expense of Monarch or an Affiliate of Monarch. For purposes of this subparagraph, no act, or failure to act, on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of Monarch. Notwithstanding the foregoing, Cause shall not be deemed to exist unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths of the number of Directors then in office at a meeting of the Board called and held for that purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (a) or (b) of the first sentence of this subparagraph and specifying the particulars thereof in detail.

(ii) Retirement. "Retirement" shall mean cessation of your employment in accordance with Monarch's or an Affiliate of Monarch's retirement policy (including early retirement) generally applicable to salaried employees, or in accordance with any retirement arrangement with respect to you established with your consent.

(iii) Good Reason. "Good Reason" shall mean:

(a) The assignment to you of any duties inconsistent with your position, duties, responsibilities and status with Monarch or an Affiliate of Monarch immediately prior to a Change in Control or a change in your responsibilities, as in effect immediately prior to a Change in Control, which materially diminishes your responsibilities with Monarch or an Affiliate of Monarch when considered as a whole, or any removal of you from or any failure

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to re-elect you to any of such positions or offices; provided, however, that the foregoing shall not constitute Good Reason if done in connection with termination of your employment by Monarch or an Affiliate of Monarch for Cause or because of your Disability, or by you other than for Good Reason.

(b) A reduction by Monarch or an Affiliate of Monarch of your then current annual base salary or, if higher, your annual base salary as in effect at the time of the Change in Control.

(c) Failure by Monarch or an Affiliate of Monarch to continue in effect any benefit, incentive compensation, pension, employee stock ownership, stock option, life insurance, medical, health and accident, or disability plan in which you are participating at the time of a Change in Control or plans providing you with substantially similar benefits, or the taking of any action by Monarch or an Affiliate of Monarch which would adversely affect your participation in or materially reduce your benefits under any of such plans or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control, or the failure by Monarch or an Affiliate of Monarch to provide you with the number of paid vacation days to which you would then be entitled in accordance with Monarch's or an Affiliate of Monarch's vacation policy in effect at the time of the Change in Control.

(d) The relocation of Monarch's principal executive offices to a location outside Montgomery County, Ohio, if at the

time of a Change in Control you are based at Monarch's principal executive offices.

(e) Monarch's or an Affiliate of Monarch's requiring you to be based anywhere other than the location where you are based at the time of a Change in Control, if the same requires you to relocate your principal residence; or, in the event you consent to being based anywhere other than such location, the failure by Monarch or an Affiliate of Monarch to pay (or reimburse you for) all reasonable moving expenses incurred by you relating to a change of your principal residence in connection with such relocation and to indemnify you against any loss [defined as the difference between the higher of (1) your aggregate investment in such residence or (2) the fair market value of such residence, as determined by a real estate appraiser designated by you and reasonably satisfactory to Monarch, and the actual sale price of such residence after the deduction of all real estate brokerage charges and related selling expenses] realized upon the sale of such residence in connection with any such change of residence.

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(f) The failure of Monarch to obtain the assumption of this agreement by any Successor as provided in paragraph 7 hereof.

(g) Monarch's or an Affiliate of Monarch's termination of your employment without satisfying any applicable requirements of paragraph 4 and subparagraph B(i) above.

(iv) Disability. "Disability" shall mean your inability to perform the duties required of you on a full-time basis for a period of six consecutive months because of physical or mental illness or other physical or mental disability or incapacity, followed by Monarch giving you thirty days' written notice of its intention to terminate your employment by reason thereof, and your failure because of physical or mental illness or other physical or mental disability or incapacity to resume the full-time performance of your duties within such period of thirty days and thereafter perform the same for a period of two consecutive months.

(C) During any period of time subsequent to a Change in Control, if you fail to perform your duties as a result of physical or mental illness or other physical or mental disability or incapacity, you shall continue to receive your full salary at your annual base salary rate then in effect, together with all incentive compensation until you return to work or your employment with Monarch or an Affiliate of Monarch is terminated; provided, however, that any

amount otherwise payable for any period of time pursuant to this subparagraph (C) shall be reduced by any payment or payments you receive for such period of time under any employee salary continuation plan or employee disability insurance plan maintained by Monarch or an Affiliate of Monarch no part of the cost of which was paid or is payable by you.

(D) If subsequent to a Change in Control, your employment is terminated by Monarch or an Affiliate of Monarch for Cause, Monarch shall pay you your full salary through the Date of Termination at your annual base salary rate in effect at the time Notice of Termination is given, and you shall also receive all accrued or vested benefits of any kind to which you are, or would otherwise have been, entitled through the Date of Termination (as defined in paragraph 4), and Monarch or an Affiliate of Monarch shall thereupon have no further obligation to you under this agreement.

4. NOTICE AND DATE OF TERMINATION.

(A) Any termination of your employment subsequent to a Change in Control shall be consummated by written Notice of Termination given to the other party. For purposes of this agreement, "Notice of Termination" shall mean a notice which indicates the specific termination provision or provisions in this agreement relied upon, if any, and sets forth in

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reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment.

(B) "Date of Termination" shall mean (i) if your employment is terminated by Monarch or an Affiliate of Monarch for Cause, the date specified in the Notice of Termination or the date on which the meeting of the Board referred to in subparagraph 3(B)(i) is concluded, whichever date is the later; or (ii) if your employment is terminated for any other reason, the date on which Notice of Termination is given or the effective date specified in the Notice, whichever is later. For purposes of this agreement, termination of your employment shall be deemed to have occurred within two years following the occurrence of a Change in Control if the Date of Termination is within such two year period.

5. COMPENSATION UPON TERMINATION.

(A) The compensation and benefits to be provided to you pursuant to paragraph 3 of this agreement upon termination of your employment with Monarch or an Affiliate of Monarch under specified circumstances within two years following a Change in Control include the following:

(i) Subject to the provisions of paragraph 8 hereof, Monarch shall pay to you as severance pay in a lump sum in cash on the fifteenth day following the Date of Termination, the following amounts:

(a) Your full salary through the Date of Termination at your annual base salary rate in effect at the time Notice of Termination is given; and also the amount of the award or awards, if any, with respect to any completed period or periods which has been earned by or awarded to you pursuant to any incentive compensation plan or arrangement of Monarch or an Affiliate of Monarch but which has not yet been paid to you.

(b) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, an amount (the "Additional Compensation Payment") equal to two hundred percent (200%) of the greater of (i) the sum of your annual base salary at the rate in effect as of the Date of Termination (or, if higher, at the rate in effect at the time of the Change in Control) plus an amount equal to the average annual amount awarded to you under any incentive compensation plan or arrangement for the two years immediately preceding the year during which the Date of Termination occurs (whether or not fully paid) or (ii) your average annual compensation for the five calendar years preceding the calendar year in which the Change in Control occurred (it being understood that for purposes of this clause (b)(ii), "compensation" means your actual salary plus

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any amount awarded to you under any incentive compensation plan or arrangement).

(c) An amount in cash equal to the aggregate spread between the exercise prices of all options granted to you under Monarch's existing stock option plans or any stock option plan adopted by Monarch subsequent to the date hereof ("Options") which are then outstanding, whether or not then fully exercisable, and the higher of (a) the Fair Market Value of share of Common Stock of Monarch ("Monarch Shares") on the Date of Termination or (b) the average price per Monarch Share actually paid by the acquiring party in connection with any Change in Control. As used in this subparagraph, "Fair Market Value" shall mean (1) in the event Monarch Shares are listed on any exchange or in the NASD National Market System, the last sale price on such exchange or System on the

Date of Termination (or last trading date prior thereto) or, if there are no sales on such date, the mean between the representative bid and asked prices for Monarch Shares on such exchange or System at the close of business on such date or (2) in the event that there is then no public market for Monarch Shares or that trading in Monarch Shares is sporadic and the mean between any bid and asked prices is not representative of fair market value, the fair market value of Monarch Shares determined in accordance with Section 2031-2(f) of the Treasury Regulations or any successor provision thereto. Any Option for which payment is made as prescribed in this subparagraph (c) shall be canceled effective upon the making of such payment. In lieu of having your Options canceled and being paid the "spread" on such canceled Options in cash as set forth in this subparagraph 5(A)(i)(c), you may elect to continue to hold any part, or all, of the Options and exercise such Options, if you so choose, in accordance with their terms. Any such election to continue to hold Options shall be made by giving written notice of this election to Monarch within 10 days of your Date of Termination, which notice shall specify the date of grant, number of Shares subject to the options and option exercise price of the options you elect to continue to hold.

(d) All legal fees and expenses reasonably incurred by you in good faith as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this agreement).

(ii) Monarch shall, at its expense, maintain in full force and effect for your continued benefit all life insurance, medical, health and accident plans, programs and arrangements in which you were entitled to participate at the time of the Change in Control, provided that your continued participation is possible under the terms of such plans, programs and arrangements. In the event that the terms of any such plan, program

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or arrangement do not permit your continued participation or that any such plan, program or arrangement has been or is discontinued or the benefits thereunder have been or are materially reduced, Monarch shall arrange to provide, at its expense, benefits to you which are substantially similar to those which you were entitled to receive under such plan, program or arrangement at the time of the Change in Control. Monarch's obligation under this subparagraph (ii) shall terminate on the earliest of the following dates: (a) the month in which you become age 65, (b) the date an

essentially equivalent and no less favorable benefit is made available to you at no cost by a subsequent employer, or (c) the date which is 24 months after the Date of Termination.

(iii) In the event that because of their relationship to you, members of your family or other individuals are covered by any plan, program, or arrangement described in subparagraph (ii) above immediately prior to the Date of Termination, the provisions set forth in subparagraph (ii) shall apply equally to require the continued coverage of such persons; provided, however, that if under the terms of any such plan, program or arrangement, any such person would have ceased to be eligible for coverage during the period in which Monarch is obligated to continue coverage for you, nothing set forth herein shall obligate Monarch to continue to provide coverage for such person beyond the date such coverage would have ceased even if you had remained an employee of Monarch or an Affiliate of Monarch.

(iv) Monarch shall enable you to purchase the automobile, if any, which Monarch or an Affiliate of Monarch was providing for your use at the time Notice of Termination was given at the wholesale value of such automobile at such time or if the automobile was leased, then at any buy-out price provided for in the lease.

(B) If an event constituting Good Reason shall occur, you shall be entitled to the compensation and benefits described in (A) above only if you give a Notice of Termination with respect thereto within 120 days after the occurrence of such event, regardless of whether there has been an intervening termination of your employment by Monarch or an Affiliate of Monarch or otherwise.

(C) You shall not be required to mitigate the amount of any payment provided for in this paragraph 5 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this paragraph 5 be reduced by any compensation earned by you after the Date of Termination as the result of employment by another employer or otherwise, except, however, the amount of payments provided for in paragraph 5 shall be reduced by the amount of any severance benefits which you are entitled to receive under any other agreement with, or plan of, Monarch or an Affiliate of Monarch.

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6. RIGHTS AS FORMER EMPLOYEE. Nothing contained in this agreement shall be construed as preventing you, and shall not prevent you, following any termination of your employment whether pursuant to this agreement or otherwise, from thereafter participating in any benefit or insurance plans, programs or arrangements (including without limitation, any retirement plans or programs) in

the same manner and to the same extent that you would have been entitled to participate as a former employee of Monarch or an Affiliate of Monarch had this agreement not have been executed, except, however, you shall not be entitled to any severance payments under any severance pay programs of Monarch or an Affiliate of Monarch (other than this agreement) if you are paid the benefits provided for under this agreement.

7. SUCCESSORS. Monarch shall require any Successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Monarch, by agreement in form and substance satisfactory to you, to expressly assume and agree to perform this agreement in the same manner and to the same extent that Monarch would be required to perform it if no such succession had taken place. Failure of Monarch to obtain such agreement prior to the effectiveness of such succession shall be a breach of this agreement and shall entitle you to compensation from Monarch in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

This agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid to such beneficiary or beneficiaries as you shall have designated by written notice delivered to Monarch prior to your death or, failing such written notice, to your estate.

8. SAVINGS CLAUSE.

(A) The Deficit Reduction Act of 1984 added Section 280G to the Internal Revenue Code of 1954, as amended (the "Code"). Section 280G imposes a 20% excise tax on excessive compensation received by, and denies a deduction to the corporation for the amount of excess compensation paid to, employees who are officers, shareholders, or highly compensated individuals as a result of a change in the ownership or effective control of the corporation or in the ownership of a substantial portion of the assets of the corporation. In general, payments to an individual that are contingent on a Change in Control will not be treated as excessive if such payments do not exceed three times the average annual compensation received by such individual over the five years preceding the Change in Control. The provisions in subparagraph (B) of this paragraph 8 are designed to maximize the amounts payable to you pursuant to this agreement or otherwise which are contingent upon a change of control.

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(B) In the event that it is determined that any payment by Monarch to or for your benefit (whether paid or payable pursuant to the terms of this agreement or otherwise) would be subject to the 20% tax pursuant to Section 4999 of the Code, then the aggregate present value of amounts payable to or for your benefit pursuant to this agreement (such payments pursuant to this agreement are hereinafter referred to as "Agreement Payments") shall be reduced to the Reduced Amount. For purposes of this subparagraph, the "Reduced Amount" shall be defined as an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any payments to be subject to the 20% tax pursuant to Section 4999 of the Code.

9. NOTICES. All notices required or permitted to be given under this agreement shall be in writing and shall be mailed (postage prepaid by either registered or certified mail) or delivered, if to Monarch, addressed to:

The Monarch Machine Tool Company
2600 Kettering Tower
Dayton, Ohio 45423
Attention: Corporate Secretary

and if to you, addressed to:

Mr. Karl A. Frydryk
9506 Lindner Lane
Dayton, Ohio 45458

Either party may change the address to which notices to such party are to be directed by giving written notice of such change to the other party in the manner specified in this paragraph. All notices, including without limitation, any Notice of Termination, shall be deemed to have been given upon the date of actual receipt by the recipient party.

10. ARBITRATION. Any dispute or controversy arising out of or relating to this agreement shall be settled by arbitration in Dayton, Ohio, in accordance with the rules then obtaining of the American Arbitration Association, and judgment may be entered on the arbitrator's award in any court having jurisdiction.

11. MISCELLANEOUS. No provision of this agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by you and such officer of Monarch as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance by such other party with, any condition or provision of this agreement to be

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performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this agreement.

12. GOVERNING LAW. The validity, interpretation, construction and performance of this agreement shall be governed by the laws of the State of Ohio, without giving effect to the principles of conflicts of law thereof.

13. VALIDITY. The invalidity or unenforceability of any provision of this agreement shall not affect the validity or enforceability of any other provision, which shall remain in full force and effect.

If this letter correctly sets forth our agreement on the subject matter hereof, please so confirm by signing and returning the enclosed copy.
Very truly yours,

The Monarch Machine Tool Company

By /s/ William A. Enouen

William A. Enouen
Chairman, Compensation Committee

CONFIRMED AND AGREED TO:

/s/ Karl A. Frydryk

Karl A. Frydryk

Dated:

EXHIBIT 21
 SUBSIDIARIES OF THE REGISTRANT

Monarch has the following consolidated subsidiaries, each of which is wholly-owned. The German subsidiaries are in liquidation.

Name -----	Jurisdiction -----
Monarch Werkzeugmaschinen GmbH	Germany
Stamco Depiereux GmbH	Germany
Monarch Busch GmbH	Germany
Stamco (U.K.), Ltd.	United Kingdom
Monarch Machine Tool International, Inc. (FSC)	Barbados, West Indies
GFG Corporation	Wisconsin
GFG International Corporation (FSC)	Virgin Islands
GFG Peabody Ltd.	United Kingdom

CONSENT OF INDEPENDENT ACCOUNTANTS

March 26, 1999

We consent to the incorporation by reference in the registration statement of The Monarch Machine Tool Company and Subsidiaries on Forms S-8 (File No. 2-92311 and File No. 33-80332) of our report dated February 11, 1999, on our audits of the consolidated financial statements and financial statement schedule of The Monarch Machine Tool Company and Subsidiaries as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997 and 1996, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Dayton, Ohio

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