SECURITIES AND EXCHANGE COMMISSION

FORM PRE13E3

Preliminary information statement of going private transaction by certain issuers

Filing Date: **1994-08-02**
SEC Accession No. 0000950109-94-001345

(HTML Version on secdatabase.com)

SUBJECT COMPANY

KETEMA INC

CIK:**838224**| IRS No.: **232511128** | State of Incorp.:**DE** | Fiscal Year End: **0228**
Type: **PRE13E3** | Act: **34** | File No.: **005-39903** | Film No.: **94541297**
SIC: **3350** Rolling drawing & extruding of nonferrous metals

Mailing Address	Business Address
501 SOUTH CHERRY STREET	*501 SOUTH CHERRY STREET*
DENVER CO 80222	*DENVER CO 80222*
	3033310940

FILED BY

KETEMA INC

CIK:**838224**| IRS No.: **232511128** | State of Incorp.:**DE** | Fiscal Year End: **0228**
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13E-3
RULE 13E-3 TRANSACTION STATEMENT

(PURSUANT TO SECTION 13(E) OF THE SECURITIES EXCHANGE ACT OF 1934)

KETEMA, INC.
(NAME OF THE ISSUER)

KETEMA, INC.
KTM HOLDINGS CORP.
KTM ACQUISITION CORP.
(NAME OF PERSON(S) FILING STATEMENT)

COMMON STOCK ONE DOLLAR ($1.00) PAR VALUE
(TITLE OF CLASS OF SECURITIES)

492653100
(CUSIP NUMBER OF CLASS OF SECURITIES)

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Denver, Colorado 80222
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New York, New York 10022
(212) 735-3000

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF PERSON(S) FILING STATEMENT)

This statement is filed in connection with (check the appropriate box):

a. [X] The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C, or Rule 13e-3(c) under the

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Securities Exchange Act of 1934.

b. [_] The filing of a registration statement under the Securities Act of 1933.

c. [_] A tender offer.

d. [_] None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies. [X]

CALCULATION OF FILING FEE

TRANSACTION VALUATION(1)	AMOUNT OF FILING FEE
$46,837,920.00	$9,367.59

(1) For purposes of calculating the filing fee only. This amount is based upon the purchase of 3,122,528 shares of common stock of the Issuer at $15.00 in cash per share. The amount of the filing fee, calculated in accordance with Rule O-11(c)(1) of the Securities Exchange Act of 1934, equals 1/50th of one percent of the proposed cash payment to the holders of the common stock.

[X]Check box if any part of the fee is offset as provided by Rule O-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Amount previously paid: $9,367.59 Filing party: Ketema, Inc.

Form or Registration no.: Schedule 14A Date Filed:August 2, 1994

Exhibit Index Appears on Page 16

This Rule 13E-3 Transaction Statement (the "Statement") relates to an Agreement and Plan of Merger dated as of June 21, 1994 (the "Merger Agreement") among Ketema, Inc., a Delaware corporation (the "Company"), KTM Holdings Corp., a Delaware corporation ("Holdings Corp."), and KTM Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Holdings Corp. ("Acquisition Corp."), pursuant to which, among other things, (a) Acquisition Corp. will be merged with and into the Company with the Company being the surviving corporation (the "Surviving Corporation"), (b) each outstanding share of common stock, par value $1.00 per share together with a right (a "Right") associated therewith entitling the holder thereof to purchase one one-hundredth

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of a share of Series A Junior Participating Preferred Stock of the Company (each such share and associated Right being referred to herein as a "Common Share" and collectively, the "Common Shares"), of the Company (except those Common Shares held by the Company as treasury stock, owned by Holdings Corp. and/or Acquisition Corp. or held by persons who perfect their dissenters' rights under Delaware law) will be converted into the right to receive $15.00 in cash, without interest, (c) each outstanding Common Share held by Holdings Corp. and/or Acquisition Corp. or by the Company as treasury stock will be cancelled without consideration, (d) each outstanding share of 7% Cumulative Convertible Voting Preferred Stock, par value $1.00 per share, of the Company owned by Holdings Corp. and/or Acquisition Corp. will be cancelled without consideration, and (e) each outstanding share of Acquisition Corp. common stock will be converted into one share of common stock of the Surviving Corporation. This Statement is being filed by the Company, Holdings Corp. and Acquisition Corp.

A copy of the Company's Proxy Statement filed with the Securities and Exchange Commission contemporaneously herewith in connection with the Company's special meeting of stockholders called for the purpose of considering and voting upon the proposal to approve and adopt the Merger Agreement (the "Proxy Statement") is attached hereto as Exhibit (c)(1). The cross reference sheet below is being supplied pursuant to Instruction F to Schedule 13E-3 and shows the location in the Proxy Statement of the information required to be included in response to the items of this Statement. The information in the Proxy Statement, including all annexes thereto, is hereby expressly incorporated herein by reference.

CROSS REFERENCE SHEET

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Item 1(f).....	"PURCHASES OF VOTING SHARES BY CERTAIN PERSONS"
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SCHEDULE 13E-3 ITEM	LOCATION IN PROXY STATEMENT
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	Financial Advisor," "SPECIAL FACTORS--Report of Financial Advisor of the American Securities Group," "SPECIAL FACTORS--Certain Projections" and ANNEX C--"OPINION OF BEAR, STEARNS & CO. INC."
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	the Merger; Conflicts of Interest," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "THE MERGER AGREEMENT--Consideration to be Received by Stockholders of the Company," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP.," "SECURITY OWNERSHIP OF THE COMPANY" and ANNEX A--"MERGER AGREEMENT"
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* Information is contained in this Statement

** Not applicable

ITEM 1. ISSUER AND CLASS OF SECURITY SUBJECT TO THE TRANSACTION.

(a) The issuer of the class of equity securities which is the subject of the Rule 13e-3 transaction is the Company. The address of the Company's principal executive offices is Suite 600, One Cherry Center, 501 South Cherry Street, Denver, Colorado 80222.

(b) The information set forth in "INTRODUCTION," "MARKET PRICES FOR THE COMMON SHARES" and "DIVIDENDS" in the Proxy Statement is incorporated herein by reference.

(c) The information set forth in "MARKET PRICES FOR THE COMMON SHARES" in the

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Proxy Statement is incorporated herein by reference.

(d) The information set forth in "DIVIDENDS" in the Proxy Statement is incorporated herein by reference.

(e) Not applicable.

(f) The information set forth in "PURCHASES OF VOTING SHARES BY CERTAIN PERSONS" in the Proxy Statement is incorporated herein by reference.

ITEM 2. IDENTITY AND BACKGROUND.

(a)-(d) and (g) This statement is being filed by the Company, the issuer of the class of equity securities which is the subject of the Rule 13e-3 transaction, by Holdings Corp. and by Acquisition Corp. The information set forth in "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP." and "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION" in the Proxy Statement is incorporated herein by reference.

(e)-(f) None of the Company, Holdings Corp., Acquisition Corp., KTM Partners or KTM GP Corp. or, to the best of their knowledge, any of the persons listed under "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION" in the Proxy Statement, has during the last five years (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

ITEM 3. PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS.

(a)(1) The information set forth in "SPECIAL FACTORS--Certain Relationships and Related Transactions" of the Proxy Statement is incorporated herein by reference.

(a)(2) The information, set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--THE MERGER AGREEMENT," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "THE MERGER AGREEMENT" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting, "INTRODUCTION--Voting Rights; Vote Required for Approval," "SUMMARY--GENERAL--Purpose of the Meeting; Quorum; Vote Required," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of

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the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP." and "SECURITY OWNERSHIP OF THE COMPANY" of the Proxy Statement is incorporated herein by reference.

ITEM 4. TERMS OF THE TRANSACTION.

(a) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--THE MERGER AGREEMENT," "SPECIAL FACTORS--Purpose and Structure of the Merger," "THE MERGER AGREEMENT" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--GENERAL--Certain Effects of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest", "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Certain Effects of the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "THE MERGER AGREEMENT--General," "THE MERGER AGREEMENT--Consideration to be Received by Stockholders of the Company," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP.," "SECURITY OWNERSHIP OF THE COMPANY" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

ITEM 5. PLANS OR PROPOSALS OF THE ISSUER OR AFFILIATE.

(a)-(g) The information set forth in "SUMMARY--GENERAL--Certain Effects of the Merger," "SUMMARY--FINANCING OF THE MERGER," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Plans for the Company After the Merger," "SPECIAL FACTORS--Certain Effects of the Merger," "THE MERGER AGREEMENT--The Surviving Corporation," "FINANCING OF THE MERGER," "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of the Surviving Corporation" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

ITEM 6. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

(a)-(c) The information set forth in "SUMMARY--FINANCING OF THE MERGER," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Plans for the Company After the Merger," "THE MERGER AGREEMENT--Covenants" and "FINANCING OF THE MERGER" of the Proxy Statement is incorporated herein by reference.

(d) Not applicable.

ITEM 7. PURPOSE(S), ALTERNATIVES, REASONS AND EFFECTS.

(a) and (c) The information set forth in "SUMMARY--GENERAL--Certain Effects of the Merger," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger" and "SPECIAL FACTORS--Certain Effects of

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the Merger" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Report of Financial Advisor of the American Securities Group" and "SPECIAL FACTORS--Purpose and Structure of the Merger" of the Proxy Statement is incorporated herein by reference.

(d) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--GENERAL--Certain Effects of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest," "SUMMARY--GENERAL--Federal Income Tax Consequences," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Plans for the Company After the Merger," "SPECIAL FACTORS--Certain Effects of the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "SPECIAL FACTORS--Certain Federal Income Tax Consequences," "THE MERGER AGREEMENT--General," "THE MERGER AGREEMENT--The Surviving Corporation," "THE MERGER AGREEMENT--Consideration to be Received by Stockholders of the Company," "FINANCING OF THE MERGER," "SECURITY OWNERSHIP OF THE COMPANY," "DIRECTORS AND OFFICERS OF THE COMPANY, HOLDINGS AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of the Surviving Corporation" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

ITEM 8. FAIRNESS OF THE TRANSACTION.

(a)--(b) The information set forth in "SUMMARY--GENERAL--Determination of Special Committee; Recommendation of Board of Directors" and "SPECIAL FACTORS--Recommendations of the Special Committee, the Board and the Acquiring Group; Fairness of the Merger" of the Proxy Statement is incorporated herein by reference.

(c) The information set forth in "INTRODUCTION--Voting Rights; Vote Required for Approval," "SUMMARY--GENERAL--Purpose of the Meeting; Quorum; Vote Required," "SUMMARY--THE MERGER AGREEMENT--Conditions to Consummation of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "THE MERGER AGREEMENT--Conditions to Consummation of the Merger" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

(d) The information set forth in "SUMMARY--GENERAL--Opinion of Financial Advisor," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Opinion of Special Committee's Financial Advisor" and ANNEX C--"OPINION OF BEAR, STEARNS & CO. INC." of the Proxy Statement is incorporated herein by reference.

(e) The information set forth in "SUMMARY--GENERAL--Determination of Special Committee; Recommendation of Board of Directors," "SPECIAL FACTORS--Background of the Merger" and "SPECIAL FACTORS--Recommendations of the Special Committee, the Board and the Acquiring Group; Fairness of the Merger--The Board" of the Proxy Statement is incorporated herein by reference.

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(f) Not applicable.

ITEM 9. REPORTS, OPINIONS, APPRAISALS AND CERTAIN NEGOTIATIONS.

(a)--(c) The information set forth in "SUMMARY--GENERAL--Opinion of Financial Advisor," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Opinion of Special Committee's Financial Advisor," "SPECIAL FACTORS--Report of Financial Advisor of the American Securities Group," "SPECIAL FACTORS--Other Valuations," "SPECIAL FACTORS--Certain Projections" and ANNEX C--"OPINION OF BEAR, STEARNS & CO. INC." of the Proxy Statement is incorporated herein by reference.

ITEM 10. INTEREST IN SECURITIES OF THE ISSUER.

(a) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "INTRODUCTION--Voting Rights; Vote Required for Approval; "SUMMARY--GENERAL

- --Purpose of the Meeting; Quorum; Vote Required," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP." and "SECURITY OWNERSHIP OF THE COMPANY" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "PURCHASES OF VOTING SHARES BY CERTAIN PERSONS" of the Proxy Statement is incorporated herein by reference.

ITEM 11. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO THE ISSUER'S SECURITIES.

The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "INTRODUCTION--Voting Rights; Vote Required for Approval," "SUMMARY--GENERAL--Purpose of the Meeting; Quorum; Vote Required," "SUMMARY--General--Structure of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest," "SUMMARY--FINANCING OF THE MERGER," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Plans for the Company After the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "SPECIAL FACTORS--Certain Litigation," "FINANCING THE MERGER," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP." and "SECURITY OWNERSHIP OF THE COMPANY" of the Proxy Statement is incorporated herein by reference.

ITEM 12. PRESENT INTENTION AND RECOMMENDATION OF CERTAIN PERSONS WITH REGARD TO THE TRANSACTION.

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(a) The information set forth in "INTRODUCTION--Proposal to be Considered at the Special Meeting," "INTRODUCTION--Voting Rights; Vote Required for Approval," "SUMMARY--GENERAL--Purpose of the Meeting; Quorum; Vote Required," "SUMMARY--GENERAL--Structure of the Merger," "SUMMARY--GENERAL--Interests of Certain Persons in the Merger; Conflicts of Interest," "SPECIAL FACTORS--Background of the Merger," "SPECIAL FACTORS--Purpose and Structure of the Merger," "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "THE MERGER AGREEMENT--Consideration to be Received by Stockholders of the Company," "CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP.," "SECURITY OWNERSHIP OF THE COMPANY" and ANNEX A--"MERGER AGREEMENT" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "SUMMARY--GENERAL--Determination of Special Committee; Recommendation of Board of Directors," "SPECIAL FACTORS--Recommendations of the Special Committee, the Board and Acquiring Group; Fairness of the Merger" and "SECURITY OWNERSHIP OF THE COMPANY" of the Proxy Statement is incorporated herein by reference.

ITEM 13. OTHER PROVISIONS OF THE TRANSACTION.

(a) The information set forth in "INTRODUCTION--Voting Rights; Vote Required for Approval," "SUMMARY--DISSENTERS' RIGHTS," "SPECIAL FACTORS--Purpose and Structure of the Merger," "DISSENTERS' RIGHTS" and ANNEX B--"APPRAISAL RIGHTS UNDER SECTION 262 OF THE DELAWARE GENERAL CORPORATION LAW" of the Proxy Statement is incorporated herein by reference.

(b)--(c) Not applicable.

ITEM 14. FINANCIAL INFORMATION.

(a) The information set forth in "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE," "SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY," "EXPERTS" and "INDEX TO FINANCIAL STATEMENTS" of the Proxy Statement is incorporated herein by reference.

(b) Not applicable.

ITEM 15. PERSONS AND ASSETS EMPLOYED, RETAINED OR UTILIZED.

(a) The information set forth in "SPECIAL FACTORS--Plans for the Company After the Merger" of the Proxy Statement is incorporated herein by reference.

(b) The information set forth in "INTRODUCTION--Proxies" of the Proxy Statement is incorporated herein by reference.

ITEM 16. ADDITIONAL INFORMATION.

The information set forth in the Proxy Statement is incorporated herein by

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reference in its entirety.

ITEM 17. MATERIAL TO BE FILED AS EXHIBITS.

(a)(1) Commitment Letter dated May 5, 1994 to KTM Holdings Corp. from The Chase Manhattan Bank, N.A.

(a)(2) Amendment to Commitment Letter dated June 21, 1994.

(b)(1) Form of Opinion of Bear, Stearns & Co. Inc. (attached as Annex C to the Proxy Statement).

(b)(2) Report of The Bridgeford Group dated May 2, 1994.

(b)(3) Report of Bear, Stearns & Co. Inc.

(b)(4) Optimistic Growth Case Projections

(c)(1) Agreement and Plan of Merger dated as of June 21, 1994 among the Company, Holdings Corp. and Acquisition Corp. (attached as Annex A to the Proxy Statement).

(c)(2) Agreement dated May 5, 1994 between Holdings Corp. and Hugh H. Williamson, III.

(c)(3) Letter Option Agreement dated June 28, 1994 between American Securities Capital Partners, L.P. and Danaher Corporation.

(c)(4) Confidentiality Agreement dated June 28, 1994 between American Securities Capital Partners, L.P. and Danaher Corporation.

(c)(5) Form of Memorandum of Understanding.

(d)(1) Preliminary Proxy Statement dated August 2, 1994.

(d)(2) Form of Notice of Special Meeting of Stockholders (included in Proxy Statement).

(d)(3) Form of Proxy Card.

(d)(4) Press Release issued by the Company on April 28, 1994.

(d)(5) Press Release issued by the Company on June 13, 1994.

(d)(6) Press Release issued by the Company on June 21, 1994.

(d)(7) President's Letter to Stockholders (included in Proxy Statement).

(e) Text of Section 262 of the Delaware General Corporation Law (attached as Annex B to the Proxy Statement).

(f) Not Applicable.

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SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

Ketema, Inc.

/s/ Hugh H. Williamson, III

By: _____

Hugh H. Williamson, III,
President and Chief Executive Officer

August 2, 1994

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

KTM Holdings Corp.

/s/ Michael G. Fisch

By: _____

Michael G. Fisch,
Vice President

August 2, 1994

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

KTM Acquisition Corp.

/s/ Michael G. Fisch

By: _____

Michael G. Fisch,
Vice President

August 2, 1994

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INDEX TO EXHIBITS

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EXHIBIT NUMBER	DESCRIPTION	
<C>	<S>	<C>
(a)(1)	Commitment Letter dated May 5, 1994 to Holdings Corp. from The Chase Manhattan Bank, N.A.	
(a)(2)	Amendment to Commitment Letter dated June 21, 1994.	
(b)(1)	Form of Opinion of Bear, Stearns & Co. Inc. (attached as Annex C to the Proxy Statement).	
(b)(2)	Report of The Bridgeford Group dated May 2, 1994.--(P)	
(b)(3)	Report of Bear, Stearns & Co. Inc.--(P)	
(b)(4)	Optimistic Growth Case Projections.--(P)	
(c)(1)	Agreement and Plan of Merger dated as of June 21, 1994 among the Company, Holdings Corp. and Acquisition Corp. (attached as Annex A to the Proxy Statement).	
(c)(2)	Agreement dated May 5, 1994 between Holdings Corp. and Hugh H. Williamson, III.	
(c)(3)	Letter Option Agreement dated June 28, 1994 between American Securities Capital Partners, L.P. and Danaher Corporation.	
(c)(4)	Confidentiality Agreement dated June 28, 1994 between American Securities Capital Partners, L.P. and Danaher Corporation.	
(c)(5)	Form of Memorandum of Understanding.	
(d)(1)	Preliminary Proxy Statement dated August 2, 1994.	
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EXHIBIT (A)(1)

THE CHASE MANHATTAN BANK, N.A.
1 CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10081

May 5, 1994

KTM Holdings Corp.
c/o American Securities Capital Partners, L.P.
122 East 42nd Street
24th Floor
New York, NY 10168-0002

Attention: Mr. Michael G. Fisch

Re: Acquisition Financing for: Ketema, Inc.

Ladies and Gentlemen:

You have advised The Chase Manhattan Bank, N.A. (the "Bank"; together with its affiliates, "Chase") that affiliates of American Securities Capital Partners, L.P. ("Amseco") propose to acquire (the "Acquisition") Ketema, Inc. ("Ketema") through a transaction in which a wholly-owned subsidiary (the "Borrower") of KTM Holdings Corp. ("KTM"), a special purpose corporation wholly-owned by affiliates of Amseco, would be merged with and into Ketema, Inc. (the "Merger"). Following the Merger, KTM will own 100% of the capital stock of Ketema.

You have requested that senior acquisition financing of up to $45,000,000 ("Senior Facilities") be made available to the Borrower to provide financing for the Acquisition and certain related purposes.

The Bank is pleased to commit to provide the full amount of the Senior Facilities, all subject to the terms and conditions set forth herein, in the Senior Facilities Term Sheet annexed hereto and in the letter of even date herewith addressed by Chase to you relating to certain fees (the "Fee Letter"). Chase reserves the right to syndicate all or a portion of the Senior Facilities to a group of banks and/or other financial institutions acceptable to Chase (including the Bank, the "Lenders") and to you (with your consent not to be unreasonably withheld). As reflected in the Senior Facilities Term Sheet, Chase reserves the right to structure the Term Loan Facility portion of the Senior Facilities as a single tranche term loan or as a two tranche term loan facility. The terms of the Senior Facilities will differ, as reflected in the Senior Facilities Term Sheet, depending on which structure Chase selects.

Chase may terminate its obligations under the preceding paragraph to arrange and provide the Senior Facilities if: (i) the terms of the proposed transaction

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described herein are changed in any respect reasonably determined by Chase to be material, (ii) any information submitted to Chase is inaccurate, incomplete or misleading in any respect reasonably determined by Chase to be material, (iii) any change occurs, or any additional information is disclosed to or discovered by Chase, which Chase deems materially adverse in respect of the Borrower's or Ketema's condition (financial or otherwise), business, operations, results of operations, assets, nature of assets or liabilities, (iv) any of the fees provided for in the Fee Letter are not paid or delivered when due, (v) a material adverse change has occurred in the financial markets generally after the date of delivery of this letter or (vi) at the time of the syndication of the Senior Facilities, the loan syndication market is not clear of competing transactions sponsored by, or on behalf of, Ketema or Amseco.

By the acceptance below by each of KTM and Amseco, each of KTM and Amseco hereby jointly and severally agrees to indemnify and hold harmless each of Chase and the other Lenders and each director, officer, employee agent and affiliate thereof (each, an "indemnified person") from and against any and all losses, claims, damages, liabilities (or actions or other proceedings commenced or threatened in respect thereof) and expenses that arise out of, result from or in any way relate to this letter, the Senior Facilities Term Sheet or the Fee Letter, the Acquisition or the other transactions contemplated hereby or the syndication of the Senior Facilities, and to reimburse each indemnified person, upon its demand, for any legal or other expenses incurred in connection with investigating, defending or participating in any such action or other proceeding (whether or not such indemnified person is a party to any action or proceeding out of which any such expenses arise), other than any of the foregoing claimed by any indemnified person to the extent determined by final judgment of a court of competent jurisdiction to have been incurred by reason of the gross negligence or willful misconduct of such person. Neither Chase nor any other Lender shall be responsible or liable to the Borrower, KTM, Amseco, Ketema, or any other person for any consequential damages which may be alleged as a result of this letter or any other transaction referred to herein. In addition, each of KTM and Amseco hereby agrees to reimburse Chase from time to time upon demand for Chase's reasonable out-of-pocket costs and expenses (including, without limitation, legal fees and expenses, appraisal and audit fees, and printing, reproduction and document delivery costs) incurred in connection with the syndication of the Senior Facilities and the preparation, review, negotiation, execution and delivery of this letter, the Senior Facilities Term Sheet, the Fee Letter, the definitive financing agreements and the other documents relating to the Senior Facilities and/or the Acquisition. The obligations of KTM and Amseco under this paragraph shall survive any termination of this letter and shall be effective regardless of whether the definitive financing agreements are executed, provided that the obligations of Amseco under this paragraph shall terminate on the date of the incurrence of the initial loans under the Senior Facilities.

This letter is delivered to you upon the condition that, prior to your acceptance of this offer, neither the existence of this letter, the Senior Facilities Term Sheet nor any of their contents shall be disclosed by you except (i) as may be compelled to be disclosed in a judicial or administrative

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proceeding or as otherwise required by law and (ii) on a confidential and "need to know" basis, to your directors, officers, employees, advisors and agents. In no event shall you show the Fee Letter or its contents thereof to anyone except (i) as may be compelled to be disclosed in a judicial or administrative proceeding or as otherwise required by law and (ii) on a confidential and "need to know" basis, to your directors, officers, employees, advisors and agents.

In accordance with market practice, an Information Package containing certain relevant information about the Borrower, KTM, Amseco, and Ketema will be provided, on a strictly confidential basis, to potential Lenders and participants consented to by you (such consent not to be unreasonably withheld). Chase shall be pleased to assist in the preparation by you of such a package. You agree to cooperate, and to cause the management of Ketema to cooperate, with Chase in effecting the syndication of the Senior Facilities (including participating in a reasonable number of meetings with potential Lenders and participants).

You acknowledge that Chase may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which you or your affiliates may have conflicting interests. Chase will not use confidential information obtained from you or any of your affiliates by virtue of the transactions contemplated by this letter or their other relationships with you and your affiliates in connection with the engagements of Chase with other companies, and Chase will not furnish any such information to such other companies. You also acknowledge that Chase has no obligation to use in connection with the transactions contemplated by this letter, or to furnish to you or any of your affiliates, confidential information obtained from other companies.

Chase shall have the right to review and approve all public announcements and filings relating to the Acquisition which refer to Chase or the other Lenders by name before they are made, subject to KTM's obligation to make prompt public announcements and filings under applicable securities laws.

You acknowledge that Chase may share with any of its affiliates (including Chase Securities, Inc.) any information relating to KTM, Amseco, the Borrower, Ketema, or any of Ketema's subsidiaries and affiliates or the contemplated transactions. The provisions of this paragraph shall survive any termination of this letter.

Chase's offer set forth in this letter will terminate at 5:00 p.m. on May 5, 1994, unless you and Amseco accept this letter and the Fee Letter at or prior to that time by (i) signing and returning to Chase counterparts of this letter and the Fee Letter and (ii) paying to Chase the Engagement Fee referred to in the Fee Letter. Chase's commitment under this letter, if accepted by you, will in any event terminate at 5:00 p.m. on October 31, 1994, if the initial borrowing under the Senior Facilities shall not have occurred on or prior to such date, provided that if such initial borrowing has not occurred by such

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time but by such time Ketema has mailed definitive proxy materials in respect of the Merger to its stockholders, then the time at which Chase's commitment under this letter shall terminate unless such initial borrowing shall have occurred shall be extended automatically to 5:00 p.m. on November 30, 1994 (the date on which Chase's commitment shall terminate pursuant to this sentence, the "Commitment Expiration Date").

This letter and the Fee Letter may be executed in any number of counterparts, each of which shall be an original and all of which, when taken together, shall constitute one agreement, and this letter, the Senior Facilities Term Sheet and the Fee Letter may not be assigned by you without the prior written consent of Chase and may not be amended or any provision hereof or thereof waived or modified except by an instrument in writing signed by each of the parties hereto. This letter, the Senior Facilities Term Sheet and the Fee Letter shall be governed by and construed in accordance with the law of the State of New York.

We look forward to working with you to complete this transaction.

Very truly yours,

The Chase Manhattan Bank, N.A.

/s/ Edward McNulty
By: _____
Name: Edward McNulty
Title: Managing Director

DATE: May 5, 1994

AGREED TO AND ACCEPTED:

KTM Holdings, Corp.

/s/ Michael G. Fisch
By: _____
Name: Michael G. Fisch
Title: Vice President

American Securities Capital
Partners, L.P.

By: American Securities Capital
Partners GP Corp., as General
Partner

/s/ Michael G. Fisch
By: _____
Name: Michael G. Fisch
Title: President

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KETEMA, INC.

SENIOR FACILITIES TERM SHEET

(CAPITALIZED TERMS USED HEREIN AND NOT DEFINED HEREIN HAVE THE MEANINGS SET FORTH IN THE LETTER (THE "COMMITMENT LETTER") TO WHICH THIS SENIOR FACILITIES TERM SHEET IS ANNEXED)

Borrower:	Prior to the Merger, a newly-formed, wholly-owned subsidiary of KTM; after the Merger, Ketema, as the surviving corporation of the Merger.
Agent:	The Chase Manhattan Bank, N.A.
Purpose:	To provide part of the financing required to consummate the Acquisition, to refinance certain existing indebtedness of Ketema, to pay related fees, commissions and expenses, and to finance the ongoing working capital requirements of the Borrower and its subsidiaries.
Types and Amounts of Senior Facilities:	Term Loan Facility: A. Single Term Loan Facility: $25,000,000 term loan facility, subject to reductions as set forth below. OR B. Two Tranche Term Loan Facility: Term Loan A: $15,000,000 term loan facility, subject to reductions as set forth below. Term Loan B: $10,000,000 term loan facility, subject to reductions as set forth below. Revolving Credit Facility: $20,000,000 revolving credit facility, with a $5,000,000 sub-limit for letters of credit.
Closing Date:	The date of the initial borrowing under the Senior Facilities, which shall occur on or before the Commitment Expiration Date.
Final Maturity:	Term Loan Facility:

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A. Single Term Loan Facility: 7 years from the Closing Date.

B. Two Tranche Term Loan Facility:

Term Loan A: 5 years from the Closing Date.

Term Loan B: 7 years from the Closing Date.

Revolving Credit Facility: 5 years from the Closing Date.

Amortization: Term Loan Facility: The term loans shall be repaid in a schedule to be mutually agreed upon.

Revolving Credit Facility: The revolving credit loans shall be repaid in full at final maturity.

Availability: Term Loan Facility: A single drawing may be made on the Closing Date, the proceeds of which will be applied to finance the costs of the Acquisition payable on the Closing Date.

Revolving Credit Facility: Drawings may be made at any time from the Closing Date to but excluding the Final Maturity of the Revolving Credit Facility, except that the Term Loan Facility must be fully utilized before any drawings may be made under this Facility. At no time shall the sum of the aggregate principal amount of loans outstanding under the Revolving Credit Facility plus the aggregate amount of letter of credit exposure (such sum being the "Total Utilization of Revolving Credit Facility") exceed the lesser of (i) the Revolving Credit Facility or (ii) the Borrowing Base referred to below, in each case as then in effect.

Borrowing Base: An amount equal to 85% of Eligible Accounts Receivable (to be defined in a manner satisfactory to Agent and the Borrower) plus 50% of Eligible Inventory (to be defined in a manner satisfactory to Agent and the Borrower). Borrowing Base advance rate percentages are subject to review by Agent upon receipt of the collateral review referred to below.

Interest: Base Rate and at the Borrower's option from the 90th day after the closing date, LIBOR loans will be available, as follows:

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A. Base Rate Option

Interest shall be at the Base Rate of the Agent plus the applicable interest margin, calculated on the basis of the actual number of days elapsed in a year of 360 days, payable quarterly in arrears. The Base Rate is defined as the higher of the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of 1%, or the prime commercial lending rate of the Agent, as announced from time to time at its head office.

Base Rate drawings shall require one business day's prior notice and shall be in minimum amounts of $500,000 and incremental multiples of $100,000.

B. LIBOR

Interest shall be determined for periods ("Interest Periods") of one, two (in each case subject to availability to each Lender) three or six months (as selected by the Borrower) and shall be at an annual rate equal to the London Interbank Offered Rate ("LIBOR") for the corresponding deposits of U.S. Dollars plus the appropriate interest margin. LIBOR will be determined by the Reference Lenders at the start of each Interest Period. Interest will be paid at the end of each Interest Period or quarterly, whichever is earlier, and will be calculated on the basis of the actual number of days elapsed in a year of 360 days. LIBOR will be adjusted for maximum statutory Regulation D reserve requirements (if any). LIBOR drawings shall require three business days' prior notice and shall be in minimum amounts of $1,000,000 and incremental multiples of $250,000.

Reference Lenders: A representative sample of mutually acceptable Lenders will be selected as Reference Lenders to establish LIBOR.

Interest Margins: The applicable interest margins shall be as follows:

A. With Single Term Loan Facility

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	BASE RATE LOANS	LIBOR LOANS
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Term Loan Facility.....	1.75%	3.00%
Revolving Credit Facility.....	1.50%	2.75%

</TABLE>

B. With Two Tranche Term Loan Facility

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	BASE RATE LOANS	LIBOR LOANS
<S>	<C>	<C>
Term Loan A.....	1.50%	2.75%
Term Loan B.....	2.00%	3.25%
Revolving Credit Facility.....	1.50%	2.75%

</TABLE>

Default Interest: Interest on any amount payable under the Senior Facilities which is not paid when due will accrue at a rate which is 2% per annum in excess of the Base Rate plus the applicable interest margin or, if higher, 2% in excess of the interest rate otherwise applicable to such amount.

Letter of Credit Fees: 2.50% per annum in the case of standby letters of credit and 1.50% per annum in the case of commercial letters of credit, in each case for the account of each Lender plus a 1/4% fronting fee per annum for the account of Chase, in each case, on the aggregate amount available for drawing under all letters of credit and calculated on the basis of a 360 day year, plus customary administrative fees.

Commitment Fees: Commitment fees to the date of the execution of the Credit Agreement shall be payable in accordance with the Fee Letter. Commitment fees of 1/2 of 1% per annum on the unused amounts of the commitments under the Senior Facilities shall be payable to the Agent, for the account of the Lenders, from and after the date of the execution of the Credit Agreement. Accrued commitment fees will be payable quarterly in arrears (calculated on a 360 day basis).

Mandatory Prepayments: An amount equal to (i) 100% of the net after-tax proceeds received from the sale or disposition of all

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or any part of the assets of the Borrower or any of its subsidiaries (other than in the ordinary course of business or for a consideration not to exceed an amount to be agreed upon in any fiscal year of the Borrower, and in the aggregate, an amount to be agreed upon), (ii) 100% of the net proceeds received from the issuance of debt or equity by the Borrower or any of its subsidiaries after the Closing Date, (iii) 100% of all insurance recoveries (other than key-man life insurance recoveries used to locate and compensate a replacement executive) not promptly applied toward repair or replacement of the damaged property, (iv) 100% of the net proceeds received from the reversion of pension plans, and (v) for each fiscal year of the Borrower commencing with the Closing Date, 75% of Excess Cash Flow (to be defined in a manner satisfactory to the Agent and the Borrower) of the Borrower and its subsidiaries, computed on the basis of its audited annual financial statements, shall be applied to repay without penalty or premium (except for LIBOR breakage costs, if any): first, outstanding loans under the Term Loan Facility pro rata among the remaining scheduled amortization

installments thereof (and, if a two tranche Term Loan Facility structure is used, pro rata to Term Loan A and Term Loan B), and, second, outstanding loans or to provide cash collateral for letter of credit exposure (to reduce permanently commitments) under the Revolving Credit Facility. Notwithstanding the foregoing, (i) if a portion of the net after-tax proceeds of any asset sale are attributable to a sale of inventory and/or receivables, an amount of such proceeds equal to the value of such inventory and/or receivables reflected in the Borrowing Base immediately prior to such asset sale may, at the Borrower's option, be applied as a mandatory prepayment of Revolving Loans (with no corresponding reduction to the commitments under the Revolving Credit Facility) rather than as specified above and (ii) on and after the first date on which the ratio of (x) total funded debt of the Borrower and its subsidiaries to (y) EBITDA of the Borrower and its subsidiaries for the then most recently ended period of four consecutive fiscal quarters is less than 2.75 to 1 (in the case of both of clauses (x) and (y), calculated on a pro forma basis as if all assets theretofore sold, and all debt repaid as a result of such asset sales, had been sold and repaid prior to the beginning of such

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	four consecutive fiscal quarter period), then, with respect to any asset sale yielding net after-tax proceeds of $1,000,000 or more, the net after-tax proceeds of such asset sale otherwise applicable as set forth above shall be applied as follows: (1) 25% of such net after-tax proceeds shall be applied as set forth above and (2) 75% of such net after-tax proceeds shall be applied as a prepayment of the Revolving Loans (with no corresponding reduction to the commitments under the Revolving Credit Facility but with a corresponding block on availability under the Revolving Credit Facility until such time as such amount is used to consummate an acquisition), provided that (A) if immediately prior to any such asset sale the lesser of (I) the total commitment under the Revolving Credit Facility and (II) the Borrowing Base, minus the sum of (X) outstanding Revolving Loans, (Y) outstanding letters of credit and (Z) the blocked portion of the Revolving Credit Facility, if any, is less than $5,000,000 (or such lesser amount as the Borrower and Requisite Lenders shall mutually agree), then 100% of such net after-tax proceeds shall be applied as set forth in the first sentence above and (B) if the net after-tax proceeds otherwise applicable pursuant to clause (2) above exceed the Revolving Loans outstanding at such time, then the excess shall be applied as set forth in the first sentence above. Finally, mandatory prepayments of Revolving Loans shall also be required to maintain compliance with the Borrowing Base.
Voluntary Prepayments:	Permitted in whole or in part, with prior notice but without premium or penalty, subject to limitations as to minimum amounts of prepayments. Partial prepayments of loans under the Term Loan facility shall be applied to reduce future amortization payments on a pro-rata basis.
Security:	The Senior Facilities and any interest rate protection required below provided by a Lender will be secured by (i) perfected first priority pledges of the stock of Borrower and all of the direct and indirect subsidiaries of the Borrower and (ii) security interests in and liens upon (except as otherwise agreed by the Agent) substantially all other assets now or hereafter owned by the Borrower or such subsidiaries, including, but not limited to, all accounts receivable, inventory, general intangibles and real property of the Borrower, and such subsidiaries.

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Guarantees: The Senior Facilities and any interest rate protection required below provided by a Lender will be guaranteed, on a joint and several basis, by KTM and all of the direct and indirect subsidiaries of Borrower. Such guarantees will provide for a complete waiver by the guarantors thereunder of any rights to subrogation, reimbursement or indemnification, and (except as otherwise agreed by the Agent) will be secured by substantially all assets owned by such guarantors.

Documentation: The Senior Facilities will be subject to the negotiation, execution and delivery of a definitive credit agreement (including schedules, exhibits and ancillary documentation) and related security agreements, guarantees and other supporting documentation satisfactory to the Lenders and the Borrower. Such credit agreement will contain representations and warranties, funding and yield protection provisions (including, without limitation, a requirement for compensation for the cost of compliance by the Lenders with capital adequacy and similar requirements), conditions precedent, covenants, events of default and other provisions determined by the Lenders to be appropriate and customary for transactions of this type, including (without limitation) the following:

A. Conditions Precedent: Conditions precedent to the initial borrowings under the Senior Facilities will include (without limitation):

(i) The Lenders review of and satisfaction with (a) the final terms and conditions of, and the documentation relating to, the Acquisition and the other transactions contemplated hereby, (b) the ownership, capital, corporate, organizational and legal structure of the Borrower, its parent and its subsidiaries, and any options, warrants or other securities issued in connection with the Acquisition, (c) the Borrower's tax assumptions relating to the Acquisition, and (d) the Borrower's material contracts.

(ii) The Lenders' receipt of and review of and satisfaction with any requested projected, historical and/or pro forma financial statements reflecting the forecasted or historical financial condition, income and expenses of Borrower and its subsidiaries, before or after giving effect to the

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Acquisition, the borrowings under the Senior Facilities, and the other transactions contemplated hereby; and there shall have occurred no material adverse change in the condition (financial or otherwise), business, operations, results of operations, assets, nature of assets or liabilities of the Borrower and its subsidiaries.

(iii) Prior to the initial borrowing under the Senior Facilities, the Borrower shall have received contributions of at least $15,000,000 consisting of (w) Ketema common stock (valued on the basis of the price per share of Ketema common stock paid in the Acquisition), (x) Ketema convertible debentures (valued at their redemption price, 103% of face), (y) Ketema convertible preferred stock (valued as set forth in clause (x) above as if the conversion of debentures into preferred stock had not occurred) and/or (z) cash, in each case on terms and conditions satisfactory to the Agent.

(iv) The Agent's satisfaction that the aggregate amount of the funds available to the Borrower in the form of equity contributions and the Senior Facilities shall be sufficient to consummate the Acquisition, pay all fees, commissions and expenses payable in connection with the

Acquisition and the other transactions contemplated hereby, which fees, commissions and expenses shall not exceed $4,000,000 without the Agent's consent.

(v) Immediately after the Closing Date the sum of the amount of cash held by the Borrower and the amount the Borrower is permitted to borrow under the Revolving Credit Facility, subject to the Borrowing Base, shall equal or exceed $5,000,000.

(vi) All conditions to the Borrower's obligations under the Merger Agreement shall have been met or waived with the concurrence of the Agent.

(vii) The Agent's review of and satisfaction with, at the option of the Agent either a certificate of an appropriate officer of the Borrower or an opinion of an independent appraiser, in either case supporting the conclusions that, after giving

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effect to the Acquisition, the borrowings under the Senior Facilities and the other transactions contemplated hereby, none of the entities liable to the Lenders is insolvent or will be rendered insolvent thereby, will be left with unreasonably small capital with which to engage in its business or will have incurred debts beyond its ability to pay such debts as they mature, in each case by a margin satisfactory to the Agent.

(viii) The Agent's satisfaction that (1) the borrowings under the Senior Facilities and other funding for the Acquisition shall be in full compliance with all legal requirements, including (without limitation) Regulations G, T, U and X of the Board of Governors of the Federal Reserve System and (2) all necessary governmental and third party approvals in connection with such borrowings and the Acquisition shall have been obtained and remain in effect.

(ix) Evidence satisfactory to the Agent of compliance with all applicable U.S. federal, state and local laws and regulations, including all applicable environmental laws and regulations.

(x) The Lender's review of and satisfaction with an environmental risk assessment (including the potential levels of environmental liability set forth therein) from Clayton Environmental with respect to Borrower and its subsidiaries.

(xi) The Agent's review of and satisfaction with favorable written opinions of counsel as to the Acquisition, the definitive documentation related to the Senior Facilities, and the other transactions contemplated hereby.

(xii) No litigation by any entity (private or governmental) shall be pending or threatened (i) with respect to the Senior Facilities or any other documentation executed in connection herewith or therewith or the transactions contemplated hereby (including, without limitation, the Acquisition) or (ii) which the Agent shall reasonably determine could have a materially adverse effect on the business, property, assets, natures of assets, liabilities, condition (financial or otherwise), operations or results of operations of the Borrower after giving effect to the Acquisition.

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(xiii) The Agent's review of and satisfaction with the insurance program of the Borrower and its subsidiaries.

(xiv) The Agent, for the benefit of Lenders, shall have a perfected security interest in all assets as required above under the heading "Security".

(xv) All costs, fees, expenses (including, without limitation, legal fees and expenses) and other compensation payable to the Lenders or the Agent shall have been paid to the extent due.

(xvi) The Agent's reasonable satisfaction with all material agreements (including without limitation all collective bargaining agreements) covering, and all employee savings, retirement and benefit plans relating to the employees of the Borrower and its subsidiaries.

(xvii) The Agent's review of and satisfaction with an audit of the accounts receivable and inventory of the Borrower and its subsidiaries to be conducted by a person or persons, and in form and substance, satisfactory to the Agent. The Agent shall have received a Borrowing Base Certificate prepared as of a recent date prior to the Closing Date, in form acceptable to the Agent.

(xviii) The Agent's satisfaction with appraisal(s) of Borrower's and its subsidiaries' real estate, machinery and equipment.

(xix) The Agent's review of and satisfaction with employment and other arrangements between Borrower and its subsidiaries and certain key personnel.

(xx) The per share purchase price of the Acquisition shall in no case exceed $13.125.

The conditions to the funding of each subsequent extension of credit under the Senior Facilities shall include all conditions which, in the opinion of the Agent are appropriate and customary for this type of transaction, including, without limitation, the absence of a material adverse change of any type, the absence

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of a default or unmatured default and the continued accuracy of representations and warranties.

B. Covenants: Will include (without limitation):

(i) Financial and other information: certified (by the Borrower's Chief Financial Officer) monthly, and audited annual financial statements, monthly Borrowing Base reports, and such other reports and compliance certificates as the Agent shall specify.

(ii) Limitation on dispositions of assets and changes of business.

(iii) Limitations on mergers and acquisitions.

(iv) Limitation on capital expenditures.

(v) Limitations on dividends and other restricted payments.

(vi) Limitation on indebtedness (including guarantees and other contingent obligations).

(vii) Limitation on loans and investments.

(viii) Negative pledge.

(ix) Limitation on transactions with affiliates.

(x) Certain financial covenants including, without limitation, covenants with respect to working capital, leverage, net worth, interest coverage and fixed charge coverage.

(xi) An interest rate protection program acceptable to the Agent shall be in place not later than 30 days after the Closing Date (currently anticipated to cover $20,000,000 of debt for a period of three years).

(xii) No modifications of Acquisition agreements, charter documents of the Borrower and its subsidiaries and other material documents to be mutually agreed upon (if any) without the consent of the Requisite Lenders.

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(xiii) Maintenance of adequate insurance coverage.

(xiv) Material compliance with all applicable laws and regulations, including, without limitation, environmental matters, taxation and ERISA.

(xv) Consummation of the Merger immediately following the initial borrowing under the Senior Facilities, and in any event on the Closing Date.

C. Events of Default: Will include (without limitation) nonpayment, misrepresentation, breach of covenant, cross-defaults, bankruptcy, ERISA, judgements and change of ownership or control.

Assignments and Participation: Each Lender may assign all or a portion of its loans and commitments under the Senior Facilities (which shall not have to be pro rata among the Senior Facilities), or sell participations therein, to another person or persons (with notice to the Agent and the Borrower in the case of participations and with the consent of the Agent and the Borrower in the case of assignments, such consent not to be unreasonably withheld) provided that (i) each such assignment shall be in a minimum amount equal to $5,000,000 and shall be subject to certain conditions and (ii) no purchaser of a participation shall have the right to exercise or cause the selling Lender to exercise voting rights in respect of the Senior Facilities (except as to certain basic issues).

Expenses and Indemnification: As specified in the Commitment Letter (with appropriate additions and other modifications for inclusion in the definitive financing agreements).

Requisite Lenders: Lenders holding 66 2/3% of total commitments or exposure under the Senior Facilities.

Governing Law: The law of the State of New York. Each party to the credit documentation will waive the right to trial by jury.

Agent's New York Counsel: White & Case.

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EXHIBIT (A)(2)

THE CHASE MANHATTAN BANK, N.A.
ONE CHASE MANHATTAN PLAZA
NEW YORK, NEW YORK 10081

June 21, 1994

KTM Holdings Corp.
c/o American Securities Capital Partners, L.P.
122 East 42nd Street
24th Floor
New York, NY 10168-0002

RE KETEMA, INC. ACQUISITION FINANCING

Ladies and Gentlemen:

Reference is made to our letter to you dated May 5, 1994 (the "Commitment Letter") concerning the financing of the proposed Acquisition described therein. Terms defined in the Commitment Letter shall have the same meaning when used herein.

The purpose of this letter is to amend the Commitment Letter as set forth below. We hereby agree that the Commitment Letter (and the Senior Facilities Term Sheet attached thereto) shall be amended as follows:

The amount of the Senior Facilities shall be $50,000,000, comprised of a $25,000,000 Term Loan Facility and a $25,000,000 Revolving Credit Facility.

Clause (xx) under the heading "A. Conditions Precedent" appearing in the Senior Facilities Term Sheet is hereby amended to read in its entirety as follows:

"(xx) The per share purchase price of the Acquisition shall in no case exceed $15.00."

Except to the extent modified hereby, the terms of the Commitment Letter shall remain in full force and effect.

If you are in agreement with the foregoing, please sign and return to us the enclosed copy of this letter. This letter may be executed in any number of counterparts, and by different parties hereto on separate counterparts, each of which when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

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Very truly yours,

The Chase Manhattan Bank, N.A.

/s/ Edward McNulty
By: _____
Title: Managing Director

Agreed and Accepted this 21st day of June, 1994:

KTM Holdings Corp.

/s/ Michael G. Fisch
By: _____
Title: Executive Vice President

American Securities Capital
Partners, L.P.

By: American Securities Capital
Partners GP Corp.

/s/ Michael G. Fisch
By: _____
Title: President

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EXHIBIT (B)(2)

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EXHIBIT (B)(3)

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EXHIBIT (B)(4)

[Filed under cover of Form SE pursuant to a continuing hardship exemption]

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EXHIBIT (C)(2)

KTM HOLDINGS CORP.
C/O AMERICAN SECURITIES CAPITAL PARTNERS, L.P.
122 EAST 42ND STREET
NEW YORK, NEW YORK 10168

May 5, 1994

Mr. Hugh H. Williamson, III
Ketema, Inc.
Suite 600
One Cherry Center
501 South Cherry Street
Denver, Colorado 80222

Dear Hugh:

Reference is made to the proposal made by KTM Holdings Corp. ("KTM") for the merger (the "Merger") of a subsidiary of KTM with and into Ketema, Inc. ("Ketema") as set forth in KTM's letter dated April 28, 1994 (the "Merger Proposal") to the Board of Directors of Ketema. KTM's Merger Proposal is subject to, among other things, KTM reaching satisfactory arrangements for your continued services as Chief Executive Officer of Ketema following the Merger. This letter sets forth such arrangements and certain compensation matters and the treatment of existing Ketema stock options and stock appreciation rights for you and other key executives of Ketema. All of the obligations of KTM contained in this letter are subject to the consummation of the Merger.

A. Options and Equity Interests in KTM.

1. Outstanding Ketema stock options and stock appreciation rights held by employees other than the Chief Executive Officer will be vested and cashed out, as though the options and stock appreciation rights were exercised, based on the per share purchase price that will be paid to all other Ketema stockholders in connection with the Merger.

2. Non-qualified options to purchase shares of KTM common stock will be granted to the Chief Financial Officer, Vice President-Human Resources and Controller, representing 1.8%, 1.2% and .9%, respectively, of the outstanding stock of KTM on a fully diluted basis. The term of each option will be ten years. Each option will become exercisable (i.e., vested) on the seventh anniversary of the date of grant; however, the options will have accelerated vesting provisions if certain pre-determined earnings and/or debt reduction goals are met. Annual and cumulative goals will be established. If the goals are met, up to 20% of the shares subject to the option will become vested on or after each of the first, second, third, fourth and fifth fiscal years following consummation of the Merger. In the event of an involuntary termination of

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employment other than for "cause" (as defined in the form of Non-Qualified Stock Option Agreement referred to below), the option shall vest and become exercisable as to the lesser of an additional 25% of the shares subject to the option or all of the then unvested portion of the option. Each option will expire on the earliest of the expiration of its term, one year after the optionee's death, disability or retirement, or three months after the optionee's termination of employment for any other reason, except that in the event of an involuntary termination of employment for "cause," the option will terminate immediately. As a condition to exercising the option, the optionee will be required to execute a Stockholders' Agreement with KTM and other stockholders (in the same form as the agreement referred to in paragraph 7 below). The Non-Qualified Stock Option Agreement which will be utilized will be substantially in the form attached hereto as Exhibit A, with such changes therein as are mutually agreed to by you and KTM.

3. Subject to compliance with applicable securities laws (including state blue sky laws), officers (other than the Chief Executive Officer) and General Managers will be offered the opportunity to invest in KTM equity securities at the same per share purchase price as other KTM stockholders. A maximum of 5% of the outstanding shares, in the aggregate, may be purchased pursuant to this paragraph.

4. KTM non-qualified stock options will be issued to you, as Chief Executive Officer, in substitution for your outstanding Ketema stock options and stock appreciation rights. Your options will cover the same unit of KTM equity securities as are issued to members of the American Securities Group as referred to and described in paragraph 5 below. The exercise price of the KTM options will be such that the aggregate spread between the value of the KTM equity securities covered by the options (based on the per share purchase price paid by the other KTM stockholders) and the aggregate exercise price of the options will equal the aggregate spread of your existing Ketema ISO's and non-qualified options and SAR's based on the cash per share price paid to the public stockholders of Ketema in the Merger. The KTM options will otherwise be on the same terms and conditions as the form of Non-Qualified Stock Option Agreement attached hereto as Exhibit A (modified to cover units of KTM equity securities as contemplated in paragraph 5 below), with such changes therein as are mutually agreed to by you and KTM.

5. Your existing public convertible debentures (or Ketema common or convertible preferred shares issued upon conversion thereof) are to be contributed to the capital of KTM in exchange for shares of KTM equity securities on the same basis as the debentures (or Ketema common or convertible preferred shares issued upon conversion thereof) contributed by members of the American Securities Group referred to in the Merger Proposal (the "Schedule 13D Group"). Your private convertible debentures (or shares of Ketema common stock issued upon conversion thereof) also will be contributed for KTM equity securities on the same basis, but based on their lower conversion price. It is contemplated that KTM will issue a unit of Common Stock and Preferred Stock to you and the members of the American Securities Group in exchange for the Ketema securities so contributed to the capital of KTM with the Preferred Stock

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representing approximately two-thirds of the value of each unit.

6. A restricted stock award for such units of KTM equity securities having a value of $600,000 will be granted to you, as Chief Executive Officer. The par value of the stock (i.e., $.01 per share) will have to be paid by you. Thirty percent of the shares will become vested on the first anniversary of the date of their issuance and an additional 10% of the shares will become vested on each annual anniversary date thereafter, with full vesting occurring on the anniversary date in 2002. In the event of any termination of employment (other than involuntary termination by the Company other than for "cause"), all restricted stock not previously vested will be forfeited and the amount paid by you will be returned. The Restricted Stock Agreement which will be utilized will be substantially in the form attached hereto as Exhibit B (modified to reflect the issuance of units of KTM equity securities as contemplated in paragraph 5 above), with such changes therein as are mutually agreed to by you and KTM. The grant of restricted stock will be in lieu of any supplemental retirement benefit.

7. You and any purchasers of KTM equity securities pursuant to paragraph 3 above will enter into a Stockholders' Agreement with KTM, in a form to be mutually agreed upon by you and KTM and attached as Annex II to the Non-Qualified Stock Option Agreement attached as Exhibit A hereto, providing for customary restrictions on sales or transfers of shares, rights of first refusal on sales, piggy-back registration rights, and rights of KTM or other stockholders to purchase shares held by employees upon termination of employment.

B. Board of Directors

1. The Board of Directors of KTM will consist of four members, one of which will be from management. It currently is anticipated that the Board will consist of Charles Klein, Elizabeth Varet, Michael Fisch and you.

2. Board meetings, involvement and levels of authority will remain unchanged from current practice. It is expected that one Board meeting each year will be held in Denver, one at a Ketema plant location, and all others in New York City.

3. The annual directors' fees will be $20,000 for each member of the Board.

C. Fees

1. American Securities Capital Partners, L.P. will receive an annual fee of $250,000 for investment banking and consulting services rendered to KTM.

2. Upon closing of the Merger, American Securities Capital Partners, L.P. will receive a fee in an amount equal to approximately 1% of KTM's

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capitalization.

D. Remuneration

1. Current salaries of management will remain in place and management will be eligible for annual merit increases commensurate with individual performance at the discretion of the Board.

2. An appropriate cash incentive bonus plan for management will be adopted by the Board of Directors containing the existing incentive target percentages.

You understand that upon execution and delivery of this letter, you may be deemed to have become a member of the Schedule 13D Group and agree to join with the other members thereof in promptly filing an Amendment to the Group's Schedule 13D to disclose the arrangements set forth in this letter, a copy of which will be filed as an exhibit thereto.

Please confirm that the foregoing serves as a satisfactory basis for your participation in KTM and service as Chief Executive Officer of Ketema, subject, of course, to consummation of the Merger.

Very truly yours,

KTM Holdings Corp.

By: /s/ Michael G. Fisch
_____

Confirmed this 5th day of May, 1994

/s/ Hugh H. Williamson, III
_____
Hugh H. Williamson, III

EXHIBIT A

NON-QUALIFIED STOCK OPTION AGREEMENT

Agreement, dated as of , 1994, between KTM HOLDINGS CORP., a Delaware corporation (the "Company"), and (the "Optionee").

W I T N E S S E T H:

Whereas, the Company, acting through its Board of Directors (the "Board"), has granted to the Optionee, effective as of the date of this Agreement, an option to purchase shares of common stock, $.01 par value per share, of the Company (the "Common Stock"), on the terms and subject to the conditions set forth in this Agreement;

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Now, Therefore, in consideration of the premises and of the mutual agreements contained in this Agreement, the parties hereto agree as follows:

Section 1. Definitions. As used in this Agreement, the following terms have the meanings set forth below:

"Affiliate" of any Person means any other Person directly or indirectly controlled by, controlling, or under common control with such Person.

"Annual Debt Reduction" means, as of the end of any fiscal year of the Company, the amount by which the Debt as of the end of the immediately preceding fiscal year has been reduced.

"Board" means the Board of Directors of the Company.

"Cause" means action by the Optionee that constitutes gross misconduct, dishonesty, gross mismanagement, a deliberate and premeditated act against the Company or its Affiliates or the commission of a felony.

"Change of Control" means the event that is deemed to occur if (i) any Person (except the Company or any employee benefit plan of the Company or of any Affiliate), together with all Affiliates of such Person, shall become the beneficial owner in the aggregate of 30% or more of the Common Stock then outstanding or (ii) during any 24-month period, individuals who at the beginning of such period constituted the Board cease for any reason to constitute a majority thereof.

"Cumulative Debt Reduction" means, with respect to any fiscal year of the Company set forth on Annex I to this Agreement, the aggregate amount of Annual Debt Reduction for all years during the period beginning on [ ] and ending on the last day of such fiscal year.

"Cumulative Debt Reduction Target" means, with respect to any fiscal year of the Company set forth on Annex I to this Agreement, the applicable amount set forth opposite such fiscal year on Annex I.

"Cumulative EBITDA" means, with respect to any fiscal year of the Company set forth on Annex I to this Agreement, the actual aggregate amount of EBITDA of the Company and its consolidated subsidiaries for the period commencing on [ ], and ending on the last day of such fiscal year (with such period being treated as one accounting period for such purposes).

"Cumulative EBITDA Target" means, with respect to any fiscal year of the Company set forth on Annex I to this Agreement, the applicable amount set forth opposite such fiscal year on Annex I.

"Debt" means, without duplication, the obligations of the Company and its consolidated subsidiaries in respect of [designation of debt to be added].

"Debt Reduction Target" means, with respect to any fiscal year of the

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Company set forth on Annex I to this Agreement, the applicable amount set forth opposite such fiscal year on Annex I.

"EBITDA" means the [earnings of the Company and its consolidated subsidiaries before (i) interest expense, (ii) provision for income taxes, (iii) depreciation and (iv) amortization].

"EBITDA Target" means, with respect to any fiscal year of the Company set forth on Annex I to this Agreement, the applicable amount set forth opposite such fiscal year on Annex I.

"Option" has the meaning ascribed to such term in Section 2 of this Agreement.

"Option Shares" has the meaning ascribed to such term in Section 2 of this Agreement.

"Person" means any individual, partnership, corporation, group, trust or other legal entity.

"Shares" means, collectively, the shares of Common Stock subject to the Option, whether such shares are Option Shares or Vested Shares.

"Vested Shares" means the Option Shares with respect to which the Option is exercisable at any particular time.

Section 2. Option; Option Price. On the terms and subject to the conditions of this Agreement, the Optionee shall have the option (the "Option") to purchase up to shares (the "Option Shares") of Common Stock at the price of $217 per Option Share (the "Option Price").

Section 3. Term. The term of the Option (the "Option Term") shall commence on the date hereof and expire on the tenth anniversary of the date hereof, unless the Option shall theretofore have been terminated in accordance with the terms of the Plan or this Agreement.

Section 4. Time of Exercise.

(a) Unless accelerated as otherwise provided in Sections 4(b), 4(d) or 4(e) of this Agreement, the Option shall become exercisable as to 100% of the Option Shares on the seventh anniversary of the date hereof.

(b)(i) On each of the first, second, third, fourth and fifth anniversaries of the date hereof (each, an "Accelerated Vesting Date"), if the Company's Annual Debt Reduction at the end of the fiscal year immediately prior to such Accelerated Vesting Date is equal to or exceeds the Debt Reduction Target for such prior fiscal year, then the Option shall immediately become exercisable as to 10% of the Option Shares.

(ii) On each Accelerated Vesting Date, if the Company's EBITDA for the fiscal

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year immediately prior to such Accelerated Vesting Date is equal to or exceeds the EBITDA Target for such prior fiscal year, then the Option shall immediately become exercisable as to 10% of the Option Shares.

(iii) Notwithstanding any failure by the Company to meet the Debt Reduction Target for any fiscal year, the portion of the Option which would have become exercisable pursuant to subsection (i) above on the applicable Accelerated Vesting Date shall become exercisable on a subsequent Accelerated Vesting Date if, with respect to such subsequent Accelerated Vesting Date, the Company's Cumulative Debt Reduction at the end of the fiscal year immediately prior to such Accelerated Vesting Date is equal to or greater than the Cumulative Debt Reduction Target for such fiscal year.

(iv) Notwithstanding any failure by the Company to meet the EBITDA Target for any fiscal year, the portion of the Option which would have become exercisable pursuant to subsection (ii) above on the applicable Accelerated Vesting Date shall become exercisable on a subsequent Accelerated Vesting Date if, with respect to such subsequent Accelerated Vesting Date, the Company's Cumulative EBITDA for the fiscal year immediately prior to such Accelerated Vesting Date is equal to or greater than the Cumulative EBITDA Target for such fiscal year.

(c) In the event the Company makes any capital expenditures not contemplated by the projections upon which the Annual Debt Reduction, Cumulative Debt Reduction Targets, EBITDA and Cumulative EBITDA Targets are based, or consummates any mergers or acquisitions or divestitures (whether of assets or stock or

other interests) or other extraordinary transactions, the Board will determine in good faith appropriate adjustments to the Annual Debt Reduction, Cumulative Debt Reduction Targets, EBITDA and Cumulative EBITDA Targets, which adjustments shall be final and binding.

(d) Notwithstanding the other provisions of this Section 4, the Option shall become exercisable as to 100% of the Option Shares in the event of a Change of Control.

(e) Notwithstanding the other provisions of this Section 4, in the event of the Optionee's involuntary termination of employment with the Company and all of its Affiliates for any reason other than Cause, the Option shall become exercisable as to the lesser of an additional 25% of the Option Shares or all of the then unvested Option Shares.

(f) Except as otherwise provided in Section 6, the Option shall remain exercisable as to all such Vested Shares until the expiration of the Option Term.

Section 5. Procedure for Exercise.

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(a) The Option may be exercised with respect to Vested Shares, from time to time, in whole or in part (but for the purchase of whole shares only), by delivery of a written notice (the "Exercise Notice") from the Optionee to the Company, which Exercise Notice shall:

(i) state that the Optionee elects to exercise the Option;

(ii) state the number of Vested Shares with respect to which the Optionee is exercising the Option;

(iii) include any representations of the Optionee required under Section 8 hereof;

(iv) in the event that the Option shall be exercised by the representative of the Optionee's estate pursuant to Section 6, include appropriate proof of the right of such Person to exercise the Option;

(v) state the date upon which the Optionee desires to consummate the purchase of such Vested Shares (which date must be prior to the termination of the Option); and

(vi) comply with such further provisions as the Company may reasonably require.

(b) Payment of the Option Price for the Vested Shares to be purchased on the exercise of the Option shall be made by certified or bank cashier's check payable to the order of the Company.

(c) As a condition to the exercise of the Option and prior to the issuance of any Vested Shares, the Optionee (or the representative of his estate) shall be required to execute a Stockholders' Agreement (the "Stockholders' Agreement") among the Company, the Optionee (or representative) and the other stockholders of the Company, in the form attached hereto as Annex II.

(d) The Company shall be entitled to require as a condition of delivery of the Vested Shares that the Optionee agree to remit when due an amount in cash sufficient to satisfy all current or estimated future federal, state and local withholding and employment taxes relating thereto.

Section 6. Termination of Employment. All or any part of the Option, to the extent unexercised, shall terminate immediately upon the Optionee's termination of employment with the Company or any of its Affiliates, except that the Optionee shall have until the end of the third month following the date of such termination of employment to exercise any portion of the Option that he could have exercised on the date of such termination of employment; provided, however, that such exercise must be accomplished prior to the expiration of the Option Term. Notwithstanding the foregoing, if the Optionee's termination of employment is due to his early or normal retirement under the Employees' Retirement Plan of Ketema, Inc. or total and permanent disability (as determined by the Board) or death, the Optionee, or the representative of the estate of the Optionee, as the case may be, may exercise any portion of the

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Option which the Optionee could have exercised on the date of such termination of employment for a period of one year thereafter; provided,

however, that such exercise must be accomplished prior to the expiration of the Option Term. Notwithstanding the foregoing, in the event of a termination of the Optionee's employment with the Company or any of its Affiliates for Cause, the unexercised portion of the Option shall terminate immediately and the Optionee shall have no right thereafter to exercise any part of the Option.

Section 7. No Rights as a Stockholder. The Optionee shall not have any rights or privileges of a stockholder with respect to any Shares until the date of acceptance by the Company of payment for such Shares pursuant to the exercise of the Option.

Section 8. Additional Provisions Related to Exercise. In the event of the exercise of the Option at a time when there is not in effect a registration statement under the Securities Act of 1933, as amended, relating to the Shares, the Optionee hereby represents and warrants, and by virtue of such exercise shall be deemed to represent and warrant, to the Company that the Optioned Shares are being acquired for investment only and not with a view to the distribution thereof, and the Optionee shall provide the Company with such further representations and warranties as the Committee may reasonably require in order to ensure compliance with applicable federal and state securities, "blue sky" and other laws. No Shares shall be purchased upon the exercise of the Option unless and until the Company and/or the Optionee shall have complied with all applicable federal or state registration, listing and/or qualification requirements and all other requirements of law or of any regulatory agencies having jurisdiction.

Section 9. Restriction on Transfer.

(a) The Option may not be transferred, pledged, assigned, hypothecated or otherwise disposed of in any way by the Optionee and may be exercised during the lifetime of the Optionee only by the Optionee. If the Optionee dies, the Option shall thereafter be exercisable, during the period specified in Section 6, by the representative of his estate to the full extent to which the Option was exercisable by the Optionee at the time of his death. The Option shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Option contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the Option, shall be null and void and without effect.

(b) Any shares issued to the Optionee upon exercise of the Option shall be subject to the restrictions contained in the Stockholders' Agreement and shall be deemed Stock (as defined in the Stockholders' Agreement) for all purposes thereunder.

Section 10. Restrictive Legend. All stock certificates representing shares

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issued upon exercise of the Option shall, unless otherwise determined by the Board, have affixed thereto a legend substantially in the following form:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE SHARES HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SHARES UNDER THE ACT OR AN OPINION OF COUNSEL TO THE ISSUER THAT SUCH REGISTRATION IS NOT REQUIRED. IN ADDITION, THE TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE IS RESTRICTED PURSUANT TO THE TERMS OF A STOCKHOLDERS' AGREEMENT AMONG THE ISSUER, THE ORIGINAL HOLDER OF SUCH SHARES AND THE OTHER PARTIES NAMED THEREIN. COPIES OF THE STOCKHOLDERS' AGREEMENT MAY BE OBTAINED WITHOUT CHARGE FROM THE SECRETARY OF THE ISSUER."

Section 11. Optionee's Employment. Nothing in the Option shall confer upon the Optionee any right to continue in the employ of the Company or any of its Affiliates or interfere in any way with the right of the

Company or its Affiliates or stockholders, as the case may be, to terminate the Optionee's employment or to increase or decrease the Optionee's compensation at any time.

Section 12. Adjustment.

(a) Subject to Section 9(b), if the Common Stock is changed by reason of a stock split, reverse stock split, stock dividend or recapitalization, or converted into or exchanged for other securities as a result of a merger, consolidation or reorganization, the Board shall make such adjustments in the number and class of shares of stock subject to the Option, and such adjustments to the Option Price, as shall be equitable and appropriate in order to make the Option as nearly as may be practicable equivalent to the Option immediately prior to such change.

(b) The following rules shall apply in connection with the dissolution or liquidation of the Company, a reorganization, merger or consolidation in which the Company is not the surviving corporation, or a sale of all or substantially all of the assets of the Company to another person or entity (a "Corporate Transaction"):

(i) the Optionee shall be given (A) written notice of such Corporate Transaction at least 20 days prior to its proposed effective date (as specified in such notice) and (B) an opportunity, during the period commencing with delivery of such notice and ending 10 days prior to such proposed effective date, to exercise the Option to the full extent to which the Option would have been exercisable by the Optionee at the expiration of such 20-day period; provided, however, that upon the occurrence of a Corporate Transaction, the Option, to the extent not so exercised, shall

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automatically terminate; and

(ii) notwithstanding anything contained in Section 9(b)(i), Section 9(b)(i) shall not be applicable if provision shall be made in connection with such Corporate Transaction for the assumption of the Option by, or the substitution for the Option of new options covering the stock of, the surviving, successor or purchasing corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number, kind and option price of shares subject to the Option.

(c) The following rules shall apply in connection with Section 9(a) and (b) above:

(i) no fractional shares shall be issued as a result of any such adjustment, and any fractional shares resulting from the computations pursuant to Section 9(a) or (b) shall be eliminated without consideration from the Option;

(ii) no adjustment shall be made for cash dividends or the issuance to stockholders of rights to subscribe for additional shares of Common Stock or other securities; and

(iii) any adjustments referred to in Section 9(a) or (b) shall be made by the Board in its sole discretion and shall be conclusive and binding on the Optionee.

Section 13. Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given and delivered if personally delivered or if sent by nationally recognized overnight courier by telecopy or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

(a) if to the Company, to it at:

KTM Holdings Corp.
c/o American Securities Capital Partners, L.P.
Room 2400
122 E. 42nd Street
New York, New York 10168
Telecopy: (212) 697-5524
Attention: Michael G. Fisch

with a copy to:

Stroock & Stroock & Lavan
7 Hanover Square
New York, New York 10004
Telecopy: (212) 806-6006

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Attention: David L. Finkelman, Esq.

(b) if to the Optionee, to him at:

or to such other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) in the case of personal delivery, on the date of such delivery (or if such date is not a business day, on the next business after the date sent), (ii) in the case of nationally-recognized overnight courier, on the next business day after the date sent, (iii) in the case of telecopy transmission, when received (or if not sent on a business day, on the next business day after the date sent), and (iv) in the case of mailing, on the third business day following the date on which the piece of mail containing such communication is posted.

Section 14. Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement must be in writing and shall not operate or be construed as a waiver of any other or subsequent breach.

Section 15. Optionee's Undertaking. The Optionee hereby agrees to take whatever additional actions and execute whatever additional documents the Company may in its reasonable judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Optionee pursuant to the express provisions of this Agreement.

Section 16. Amendment. This Agreement may not be amended, terminated, suspended or otherwise modified except in a written instrument, duly executed by both parties.

Section 17. Governing Law. Except to the extent required by Delaware corporate law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of New York (without giving effect to principles of conflicts of laws).

Section 18. Counterparts. This Agreement may be executed in one or more counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts together shall constitute but one agreement.

Section 19. Entire Agreement. This Agreement (and the other writings referred to herein) constitute the entire agreement between the parties with respect to the subject matter hereof and thereof and supersede all prior written or oral negotiations, commitments, representations and agreements with respect thereto.

Section 20. Severability. In the event any one or more of the provisions of this Agreement should be held invalid, illegal or unenforceable in any respect in any jurisdiction, such provision or provisions shall be automatically deemed amended, but only to the extent necessary to render such provision or provisions valid, legal and enforceable in such jurisdiction, and the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

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In Witness Whereof, the parties hereto have executed this Non-Qualified Stock Option Agreement as of the date first written above.

KTM Holdings Corp.

By: _____
Name:
Title:

_____
[Optionee]

ANNEX I

PERFORMANCE TARGETS

<TABLE>
<CAPTION>

FOR FISCAL YEAR ENDING [FEBRUARY 28 OR 29]:	DEBT REDUCTION TARGET	CUMULATIVE DEBT REDUCTION TARGET	EBITDA TARGET	CUMULATIVE EBITDA TARGET
<S>	<C>	<C>	<C>	<C>
1995.....	$	N/A	$	N/A
1996.....	$	$	$	$
1997.....	$	$	$	$
1998.....	$	$	$	$
1999.....	$	$	$	$

</TABLE>

ANNEX II

[FORM OF STOCKHOLDERS' AGREEMENT--
TO BE ADDED]

EXHIBIT B

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RESTRICTED STOCK AGREEMENT

Agreement, dated as of , 1994, by and between KTM Holdings Corp., a Delaware corporation (the "Company"), and Hugh H. Williamson, III (the "Recipient").

W I T N E S S E T H:

Whereas, the Company, acting through its Board of Directors (the "Board") has awarded to the Recipient a restricted stock award with respect to a certain number of shares of the Company's common stock, $.01 par value per share ("Shares"), subject to certain terms, conditions and restrictions; and

Whereas, it is intended that this Agreement shall set forth the terms, conditions and restrictions imposed with respect to said restricted stock award;

Now, Therefore, in consideration of the mutual covenants herein contained and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

First: The Company has awarded to the Recipient as of the date written above a restricted stock award with respect to Shares [$600,000 of value at the Amseco Group's per share purchase price] (the "Restricted Stock Award"), subject to the terms, conditions and restrictions set forth in this Agreement.

Second: The Restricted Stock Award entitles the Recipient to purchase the Shares subject thereto for a purchase price of $.01 per Share, payable in cash, or by check to the order of the Company, delivered to the office of the Treasurer of the Company no later than 30 days after the date of execution hereof. The Company shall have the right to condition the issuance of a stock certificate or certificates representing the Shares subject to the Restricted Stock Award upon the receipt by the Company of said purchase price as described in this Paragraph SECOND.

Third: The Recipient hereby represents and warrants to the Company that the Shares subject to the Restricted Stock Award are being acquired for investment only and not with a view to the distribution thereof, and the Recipient shall provide the Company with such further representations and warranties as the Board may reasonably require in order to ensure compliance with applicable federal and state securities, "blue sky" and other laws. No Shares shall be purchased pursuant to this Agreement unless and until the Company and/or the Recipient shall have complied with all applicable federal or state registration, listing and/or qualification requirements and all other requirements of law or of any regulatory agencies having jurisdiction.

Fourth: Shares subject to the Restricted Stock Award shall be forfeitable unless and until the Recipient continues in employment with the Company for the periods hereinafter specified. Such Shares shall become nonforfeitable after the end of each successive 12-month period of employment following the date of

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this Agreement, as determined in accordance with the schedule set forth below:

<TABLE>
<CAPTION>

ANNUAL ANNIVERSARY OF DATE OF THIS AGREEMENT	CUMULATIVE PERCENTAGE OF SHARES WHICH BECOME VESTED
<S>	<C>
1	30%
2	40%
3	50%
4	60%
5	70%
6	80%
7	90%
8	100%

</TABLE>

Restrictions shall be imposed on any transfer of the Shares subject to the Restricted Stock Award until such time as the Shares shall become nonforfeitable in accordance with this Paragraph FOURTH. Prior to the date on which the Shares subject to the Restricted Stock Award become nonforfeitable, the Recipient shall have all other rights and privileges of a beneficial and record owner with respect thereto, including, without limitation, voting rights and the right to receive dividends, distributions and adjustments with respect thereto; provided, however, that such dividends, distributions and adjustments shall be retained by the Company for the Recipient's account and for delivery to the Recipient, together with the stock certificate or certificates representing such Shares, as and when such Shares become nonforfeitable. If the Recipient's employment with the Company terminates for any reason prior to the date on which the Shares become nonforfeitable, any Shares (and any dividends, distributions and adjustments) which were not theretofore vested shall be forfeited and the purchase price paid therefor shall be returned to the Recipient.

Fifth: If, with respect to the Restricted Stock Award, the Company shall be required to withhold amounts under applicable federal, state or local tax laws, rules or regulations, the Company shall be entitled, at its option, to (i) deduct and withhold such amounts from any cash payment to be made by the Company to the Recipient or to such other person with respect to whom such withholding may arise; (ii) require the Recipient (or such other person) to make payment to the Company in such amount as is required to be withheld; or (iii) retain and withhold such number of Shares subject to the Restricted Stock Award as shall have a fair market value, valued on the date on which such withholding requirement arises, equal to such amount as is required to be withheld. For purposes of this Paragraph FIFTH, the fair market value of the Shares shall be established pursuant to procedures determined by the Board; provided, however, that if any dispute arises between the Board and the Recipient with respect to the determination of such fair market value, such

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dispute shall be settled by means of binding arbitration under the rules and procedures of the American Arbitration Association.

Sixth: As of the first date on which any Shares subject to the Restricted Stock Award become nonforfeitable, the Recipient shall execute a Stockholders' Agreement (the "Stockholders' Agreement") among the Recipient, the Company and the other stockholders of the Company, in the form attached hereto as Annex I. The Shares subject to the Restricted Stock Award which become nonforfeitable as of such date and any Shares subject to the Restricted Stock Award which subsequently become nonforfeitable shall be deemed Stock, as defined in the Stockholders' Agreement, for all purposes thereunder, as of the respective dates on which such Shares become nonforfeitable.

Seventh: Each certificate representing Shares issued pursuant to this Agreement shall bear a legend making appropriate references to the restrictions imposed by this Agreement. At such time as Shares become nonforfeitable pursuant to this Agreement, a new certificate representing such Shares shall be issued (in substitution for the prior certificate) which shall bear a legend making appropriate references to any restrictions, including those imposed by the Stockholders' Agreement.

Eighth: Any notices or other communications given in connection with this Agreement shall be mailed, and shall be sent by registered or certified mail, return receipt requested, to the indicated address as follows:

If to the Company:

KTM Holdings Corp.
c/o American Securities Capital Partners, L.P.
Room 2400
122 E. 42nd Street
New York, New York 10168
Attention: Michael G. Fisch

If to the Recipient:

or to such changed address as to which either party has given notice to the other party in accordance with this Paragraph EIGHTH. All notices shall be deemed given when so mailed, except that a notice of a change of address shall be deemed given when received.

Ninth: This Agreement and the Stockholders' Agreement constitute the whole agreement between the parties hereto with respect to the Restricted Stock Award.

Tenth: This Agreement shall not be construed as creating any contract of employment between the Company and the Recipient, and the Company shall have the same control over the Recipient as if this Agreement had never been

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executed.

Eleventh: This Agreement shall inure to the benefit of, and be binding on, the Company and its successors and assigns, and shall inure to the benefit of, and be binding on, the Recipient and his heirs, executors, administrators and legal representatives. This Agreement shall not be assignable by the Recipient.

Twelfth: This Agreement may not be amended, terminated, suspended or otherwise modified except in a written instrument, duly executed by both parties.

Thirteenth: Except as required by Delaware corporate law, this Agreement shall be subject to, and construed in accordance with, the laws of the State of New York without giving effect to principles of conflicts of law.

In Witness Whereof, the parties hereto have executed this Agreement as of the date first written above.

KTM Holdings Corp .

By: _____

_____
Hugh H. Williamson, III

ANNEX I

[FORM OF STOCKHOLDERS' AGREEMENT--TO BE ADDED]

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EXHIBIT (C)(3)

June 28, 1994

Danaher Corporation
Washington, D.C.

Gentlemen:

Reference is made to the Confidentiality Agreement, dated this day (the "Confidentiality Agreement"), between Danaher Corporation ("D Co.") and the undersigned, American Securities Capital Partners, L.P. ("Amseco"). In order to induce D Co. to enter into the Confidentiality Agreement, Amseco hereby agrees that D Co., or an affiliate thereof, shall have the exclusive option for the period of 45 days from the date hereof to commit to purchase for cash up to a $5 million limited partnership interest in KTM Partners, L.P. (representing not less than a 33 1/3% interest in KTM Partners, L.P.), a New York limited partnership, which has been formed by affiliates of Amseco and currently owns 100% of the Common Stock of KTM Holdings Corp., a Delaware corporation ("KTM"), which is a party to the Merger Agreement with Ketema, Inc. (the "Company"). It is understood that the Investment will be made on a pari passu per unit value basis with the other limited partners based on the amount of cash and/or value of securities of the Company contributed by such limited partners, with such securities being valued at the Merger Consideration of $15.00 per share provided for in the Merger Agreement or the redemption price thereof in the case of Convertible Debentures other than the privately issued Debentures held by Hugh H. Williamson, III. If the option is exercised by D Co. and the Merger is consummated by Amseco, it is agreed that upon consummation of the Merger so long as D Co. maintains at least a 25% interest in KTM Partners, L.P. (i) any corporate action to be taken by KTM Holdings Corp. or the Company regarding (a) any sale, lease, mortgage, transfer or other disposition of any material assets outside of the ordinary course of business, (b) any dividends or other distributions to stockholders, (c) any liquidation, dissolution, merger, consolidation, spin-off or other reorganization, (d) any issuance or sale of securities or other interests, (e) any transactions with affiliates or (f) any change to its charter or by-laws will require the unanimous consent of D Co. and Amseco, (ii) D Co. or an affiliate thereof shall have the right to designate two members of the board of directors of KTM Holdings Corp., one of which shall be George M. Sherman and the other of which shall initially be Patrick W. Allender, and (iii) other mutually satisfactory corporate governance provisions regarding major corporate activities and transactions of KTM or the Company shall be effectuated provided that D Co. may not unreasonably withhold its consent to any of the above actions so long as they are on an arms' length basis with unaffiliated parties. Notwithstanding anything contained herein to the contrary D Co. shall consent to (and does hereby consent to) both KTM Holdings Corp. and the Company taking all necessary actions to perform their obligations under the letter agreement between Hugh H. Williamson, III and KTM Holdings Corp. dated May 5, 1994 and the various transactions contemplated

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therein (a copy of which has been filed as an Exhibit to Schedule 13-D).

Amseco also agrees that D Co. shall be released from its obligations under the ninth paragraph of the Confidentiality Agreement, and shall be entitled to use the Confidential Information under the Confidentiality Agreement in connection with alternative transactions involving the Company, at and after the time of the first to occur of any of the following:

(i) the fifth business day after the public announcement of (a) the commencement by a third party of, or an intention of a third party to commence, a tender or exchange offer for at least a majority of the shares of voting stock of the Company for consideration having a value per share greater than $15.00, or (b) a written bona fide proposal or offer by a third party to enter into a transaction with the Company which would result, directly or indirectly, in (x) a change in control of the Company, including, without limitation, any merger, consolidation, acquisition of beneficial ownership of voting stock or sale, lease, exchange or other transfer of all or substantially all of the assets and business of the Company, for

consideration per share of the Company's common stock greater than $15.00 or (y) the sale, lease, exchange or other disposition by the Company, directly or indirectly, of all or any material portion of its assets and business, unless, in each case referred to in this clause (i), KTM Holdings Corp. and its affiliates shall have notified D Co., within five business days (two business days in the case of a Tender Offer) of any such announcement, of their intention to match or increase such proposal or offer and shall have publicly matched or increased such proposal or offer within ten business days (five business days in the case of a Tender Offer) following such announcement, and

(ii) the existence of a right to terminate the Merger Agreement pursuant to Section 9.01(v) thereof or the termination of the Merger Agreement pursuant to any other provision of Section 9.01 thereof.

The occurrence of any of the events described in clause (i) or (ii) above shall be deemed to be an abandonment by Amseco for the purposes of paragraph 10 of the Confidentiality Agreement.

In no event shall this agreement or the Confidentiality Agreement operate to prohibit D Co. from competing with an Tender Offer commenced for 51% or more of the common stock of the Company by a third party, which Tender Offer has not been approved by the Special Committee of the Board of Directors (or the Board of Directors if the Special Committee does not then exist).

If the foregoing reflects our agreement, kindly sign and return this letter to us.

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Sincerely,

American Securities Capital
Partners, L.P.

By Its General Partners:
American Securities Capital
Partners GP Corp.

/s/ Michael G. Fisch
By: _____
Michael G. Fisch
President

Accepted and Agreed:

Danaher Corporation

/s/ George M. Sherman
By:_____
George M. Sherman
President/Chief Executive Officer

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EXHIBIT (C)(4)

June 28, 1994

American Securities Capital Partners, L.P.
122 East 42nd Street
Suite 2400
New York, New York 10168

CONFIDENTIALITY AGREEMENT

Gentlemen:

We understand that an affiliate of American Securities Capital Partners, L.P. ("Amseco") has entered into a Merger Agreement dated as of June 21, 1994 with Ketema, Inc. (the "Company"). In accordance with the Merger Agreement, Amseco is prepared to furnish Danaher Corporation ("D Co.") with certain information to assist D Co. in making an evaluation of the business and prospects of the Company in connection with a possible investment in the vehicle to be used by Amseco in effecting the acquisition of the Company (the "Investment").

As used herein, "Confidential Information" means all data, reports, interpretations, forecasts and records containing or otherwise reflecting information concerning the Company or Amseco, their affiliates and subsidiaries which is not available to the general public and which Amseco or the Company will provide to D Co., including but not limited to any information obtained by meetings with representatives or personnel of the Company or its subsidiaries or Amseco, together with analysis, compilations, studies or other documents, whether prepared by the D Co. or others, which contain or otherwise reflect such information.

In consideration of Amseco providing D Co. with Confidential Information, by its signature hereto, D Co. agrees that all Confidential Information will be held and treated by D Co., its agents, its employees, investors, advisors and its representatives in confidence and will not, except as expressly permitted by this letter, without the prior written consent of Amseco, be disclosed by D Co. or its agents, its employees, investors, advisors and its representatives, in any manner whatsoever, in whole or in part, and will not be used by D Co. or its agents, its employees and its representatives other than in connection with D Co.'s consideration of the Investment. Moreover, D Co. further agrees (i) to disclose Confidential Information only to its agents, its employees, advisors and its representatives who need to know the Confidential Information for purposes of evaluating the Investment and who agree to be bound by the terms of this Agreement, (ii) that D Co. will be satisfied that such agents, employees and representatives will act in accordance herewith and be bound by this letter agreement and (iii) that, in any event, D Co. shall be responsible for any breach of this letter agreement by itself or any of its agents, employees and representatives.

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Notwithstanding the foregoing, the following will not constitute "Confidential Information" for purposes of this agreement:

I. Information which was already in D Co.'s possession prior to the date hereof and which was not acquired or obtained, directly or indirectly, from the Company or Amseco.

II. Information which is obtained by D Co. from a third person who, insofar as is known to D Co. after reasonable inquiry, is not prohibited from transmitting the information to D Co. by a contractual, legal or fiduciary obligation to the Company or Amseco and

III. Information which is or becomes generally available to the public other than as a result of a disclosure by D Co. or any of its agents, employees, affiliates or representatives.

The written Confidential Information, except for that portion of the Confidential Information that may be found in analysis, compilations, studies or other documents prepared by D Co., its agents and its employees

and advisors will be returned to Amseco promptly upon the earlier to occur of D Co.'s conclusion of its evaluation of a possible Investment or the request of Amseco. That portion of the Confidential Information that may be found in analysis, compilations, studies or other documents prepared by D Co., its agents or employees and advisors (whether in writing, stored on computer discs or other electronic means or otherwise), oral Confidential Information and any written Confidential Information not so requested and returned will be destroyed or, in the case of oral Confidential Information, held by D Co. and kept subject to the terms of this letter agreement.

In the event that D Co. is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena, Civil Investigative Demand or other process or by any other legal or regulatory requirement) to disclose any Confidential Information, D Co. will provide the Company and Amseco with notice of any such request or requirement a reasonable period of time prior to making any disclosure so that the Company or Amseco may seek an appropriate protective order or waive the D Co.'s compliance with the provisions of this letter agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder, D Co. is, in the opinion of its counsel, compelled to disclose Confidential Information, D Co. may disclose only that portion of the Confidential Information which its counsel advises it that D Co. is compelled to disclose. In any event, D Co. will not oppose action by the Company or Amseco to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Confidential Information.

D Co. acknowledges that it is aware, and that it will advise such of its employees, directors, agents, advisors or representatives who are informed as to the matters which are the subjects of this letter, that the Federal and

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state securities laws prohibit any person who has received from an issuer material, non-public information concerning the matters which are the subject of this letter from purchasing or selling securities of such issuer or from communicating such information to any other person under circumstances under which it is reasonably foreseeable that such person is likely to purchase or sell such securities.

D Co. acknowledges that neither Amseco, the Company nor any of their respective affiliates, employees, agents or representatives makes any express or implied representation or warranty as to the accuracy or completeness of the Confidential Information, and each such party expressly disclaims any and all liability that may be based on the Confidential Information, errors therein or omissions therefrom. D Co. agrees that it is not entitled to rely on the accuracy or completeness of the Confidential Information.

D Co. further agrees that it will direct all inquiries and any requests for information concerning the Company to Amseco. D Co. further agrees not to contact any members of management or employees of the Company without the prior consent of Amseco. D Co. further agrees that for a period of two years from the date hereof, it will not hire any of the employees of the Company or its subsidiaries with whom it has contact during the period of D Co.'s investigation of an Investment in the Company.

D Co. has informed Amseco that it is interested only in making the Investment and is not interested in making a proposal directly to the Special Committee of the Board of Directors of the Company. D Co. agrees so long as Amseco is seeking to complete an acquisition of the Company pursuant to the Merger Agreement or otherwise it shall not (i) in any manner acquire, agree to acquire or make any proposal to acquire any securities of the Company, (ii) propose to enter into any business combination involving the Company or any material portion of its assets, (iii) make, or participate in any solicitation of proxies to vote securities of the Company, (iv) form or join a "group" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any voting securities of the Company, (v) disclose any intention, plan or arrangement inconsistent with the foregoing, or (vi) advise or encourage any other person in connection with any of the foregoing. In the event Amseco abandons its efforts to acquire the Company, thereafter D Co. agrees that, without the prior written approval of the Special Committee of the Board of Directors of the Company (or the Board of Directors if the Special Committee does not then exist), it will not take any action referred to in clauses (i)--(vi) above.

It is understood and agreed that money damages would not be a sufficient remedy for any breach of this letter agreement by D Co. and that Amseco and the Company shall be entitled to specific performance as a remedy for any such breach. Such remedy shall not be deemed to be the exclusive remedy for D Co.'s breach of this letter agreement but shall be in addition to all other remedies available at law or equity to Amseco and the Company.

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It is further understood and agreed that no failure or delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

This agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the principles of conflict of laws thereof.

This agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute the same agreement.

If the foregoing reflects our agreement, kindly sign and return this letter to us.

Sincerely,

Danaher Corporation

/s/ George M. Sherman
By:_____
George M. Sherman
President/Chief Executive Officer

Agreed to as of the date set forth above:

American Securities Capital Partners, L.P.

By Its General Partners:

American Securities Capital Partners
GP Corp.

/s/ Michael G. Fisch
By:_____
Michael G. Fisch
President

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EXHIBIT (C)(5)

MEMORANDUM OF UNDERSTANDING

WHEREAS, on or about September 28, 1993, Hugh H. Williamson, III, President and Chief Executive Officer of Ketema, Inc. ("Ketema"), advised the board of directors of Ketema that he would be interested in proposing a transaction pursuant to which all outstanding publicly owned common shares would be acquired for cash, but that he would proceed with such a transaction but only if certain persons affiliated with American Securities Corporation (together with Mr. Williamson, "the Acquiring Group"), including three directors of Ketema, would join in proposing such a transaction; and

WHEREAS, the board of directors designated a Special Committee comprised of William J. Catacosinos and Alan R. Gruber, to evaluate any proposal made by the Acquiring Group, with the assistance of legal and financial advisors which the Committee thereafter retained; and

WHEREAS, on or about April 28, 1994, the Acquiring Group offered to purchase all of the outstanding common stock of Ketema for $13.125 per share in cash ("the Initial Proposal"); and

WHEREAS, after the announcement of that proposal, plaintiffs filed actions in the Court of Chancery of the State of Delaware in and for New Castle County (the "Chancery Court") entitled Freiman v. Williamson, et al., C.A. No. 13485, Croyden Associates v. Ketema, et al., C.A. No. 13487, Raab v. Anagnos, et al., C.A. No. 13489, Fried v. Williamson, et al., C.A. No. 13490, Greenfield v. Williamson, et al., C.A. No. 13491, Dunn v. Williamson, et al., C.A. No. 13494, and William Klein II P.C. Pension Trust, et al. v. Ketema, et al., C.A. No. 13504 (the "Actions"); and

WHEREAS, the Special Committee rejected the Acquiring Groups' offer, finding it to be inadequate; and

WHEREAS, the Special Committee entered into negotiations with the Acquiring Group and thereafter entered into a merger agreement pursuant to which, if approved by shareholders of Ketema, shareholders of Ketema would receive $15 per share, in cash ("the Revised Proposal") which the Special Committee's financial advisor found to be within the range of fairness; and

WHEREAS, as a result of the pendency and prosecution of the Actions and negotiations among counsel, and without defendants admitting any wrongdoing or plaintiffs admitting the merits of any defense in any of the Actions, the parties, by their undersigned attorneys, have reached an agreement in principle providing for the settlement of the Actions, on the terms and subject to the conditions set forth below:

1. The parties hereto agree that the settlement outlined herein is fair,

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reasonable and adequate and in the best interest of Ketema's stockholders who are not affiliated with the Acquiring Group.

2. The defendants in the actions acknowledge that the pendency and prosecution of the Actions was one of the factors contributing to the improvement in the terms from the Initial Proposal to the Revised Proposal, and provided a substantial benefit to Ketema's stockholders who are not affiliated with the Acquiring Group.

3. In connection with the Proposed Merger, Ketema will disseminate to its stockholders a proxy statement making complete and accurate disclosures regarding the valuation analysis performed by Bear Stearns on behalf of the Special Committee, the deliberations of the Special Committee, the Actions and this Memorandum of Understanding. Prior to its filing with the Securities and Exchange Commission, lead counsel for the plaintiffs will be provided with a draft of the proxy statement to review and comment upon as to its completeness and accuracy.

4. The parties to the actions will use their best efforts and will attempt in good faith to agree upon and execute, on or before September 15, 1994, an appropriate Stipulation of Settlement and such other

documentation as may be required in order to obtain approval of the Chancery Court of this settlement. The Stipulation of Settlement will describe plaintiffs' claims and the contribution of that litigation and will expressly provide:

(i) for the certification of the Delaware Actions, for settlement purposes only, as a class action pursuant to Rule 23(b)(2) of the Chancery Court Rules; and

(ii) for a release of all claims, rights or causes of action that have been or could have been asserted by or on behalf of plaintiff or any member of the class in the Actions against any of the defendants (and any of their affiliates, officers, directors, employees and agents) arising out of the facts set forth in the complaints in the Actions, or in the proxy statement or any disclosure documents pertaining to matters set forth in the complaints in the Actions.

5. The consummation of the settlement is subject to the completion and evaluation of discovery, and the approval of the Chancery Court. The parties agree to use their best efforts to complete all discovery in the Actions by August 31, 1994, which discovery shall include the depositions of a representative of the Acquiring Group and a representative of Bear Stearns, and such other reasonable discovery as plaintiffs' attorneys in good faith determine is necessary. The settlement contemplated by this Memorandum of Understanding will not be binding upon plaintiffs should plaintiffs' counsel determine, based upon such discovery or subsequent events, that the settlement is not fair or reasonable. If the settlement contemplated herein is not consummated or approved by the Court, this

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Memorandum of Understanding (except for paragraph 7) shall be null and void and of no force and effect, and neither it nor any description of matters pertaining to the Actions in the proxy statement or other disclosure documents shall be deemed, used or offered to prejudice in any way the positions of the parties with respect to the Actions.

6. In connection with the settlement contemplated by this Memorandum of Understanding, plaintiffs' counsel will apply to the Chancery Court for an award of attorneys' fees and litigation expenses in the amount of $345,000. Defendants will not oppose plaintiffs' application for payment of fees and expenses in that amount, and such sums as may be awarded by the Chancery Court up to that amount will be paid by KTM Holdings Corp. Provided no objection is made in the Chancery Court to the settlement or to plaintiffs' application for an award of fees and expenses, KTM Holdings Corp. shall pay such fees and expenses to plaintiffs' counsel within ten business days of the entry of the Chancery Court's order and final judgment approving plaintiffs' application for an award of fees and expenses. If there is an objection to either the settlement or plaintiffs' application for fees and expenses, payment shall be made within forty (40) days of the entry of the final order and judgment of the Chancery Court if no appeal has been taken or within ten (10) business days of the final resolution of any appeal. If there is an appeal from any objection, plaintiffs' counsel shall be entitled to interest upon the fee award, if such award is upheld, at a rate of 7% per annum (but no event at a rate higher than the statutory rate of interest on judgments) from the date appellant's initial brief is filed to the date of payment.

7. In addition to the payment of plaintiffs' reimbursable expenses, Ketema shall pay all costs and expenses related to identifying and notifying class members and such other persons as are required to be notified in conjunction with any hearing on the settlement of the actions. Ketema shall be responsible for these identification and notice costs even if the settlement is not approved.

8. The undersigned plaintiffs' counsel represent that they are authorized to enter into this Memorandum of Understanding on behalf of all plaintiffs and their attorneys in all for the Actions.

9. This Memorandum of Understanding may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

Dated:New York, New York
August 1, 1994

BERNSTEIN LIEBHARD & LIFSHITZ

STROOCK & STROOCK & LAVAN

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By: _____
Stanley Bernstein

WECHSLER SKIRNICK HARWOOD HALEBIAN & FEFFER

By: _____

WOLF POPPER ROSS WOLF & JONES

By: _____
Lead Counsel for Plaintiffs on behalf of all Plaintiffs in All Actions

By: _____
Bruce H. Schneider
Attorneys for the Acquiring Group Defendants the Acquiring Group, KTM Holdings Corp. and American Securities Corporation

SKADDEN, ARPS, SLATE, MEAGHER & FLOM

By: _____
Attorneys for Defendants Ketema, Catacosinos and Gruber

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Exhibit (D)(1)

EXPLANATORY NOTE

For purposes of the attached Proxy Statement, it was assumed that, prior to the record date for the Special Meeting, members of the Acquiring Group (as defined in the Proxy Statement) shall convert in the aggregate approximately $7,725,826 principal amount of Debentures (as defined in the Proxy Statement) into an aggregate of approximately 495,881 Preferred Shares (as defined in the Proxy Statement) and none of the remaining Debentures shall be converted into Preferred Shares or Common Shares (as defined in the Proxy Statement).

PRELIMINARY COPY DATED AUGUST 2, 1994

KETEMA, INC.
SUITE 600
ONE CHERRY CENTER
501 SOUTH CHERRY STREET
DENVER, COLORADO 80222

, 1994

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders (including any adjournment or postponement thereof, the "Special Meeting") of Ketema, Inc. (the "Company") to be held at , New York, New York on , , 1994 at , local time.

At the Special Meeting, you will be asked to consider and vote upon a proposal to approve and adopt an Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 21, 1994, among the Company, KTM Holdings Corp., a Delaware corporation ("Holdings Corp."), and KTM Acquisition Corp., a Delaware corporation ("Acquisition Corp.") and a wholly-owned subsidiary of Holdings Corp., pursuant to which Acquisition Corp. will be merged (the "Merger") with and into the Company, with the Company continuing as the surviving corporation. Holdings Corp. and Acquisition Corp. were organized by certain clients of American Securities BD Co., L.P. (the "American Securities Group") who, together with Hugh H. Williamson, III, President and Chief Executive Officer of the Company (collectively, the "Acquiring Group"), are the proponents of the Merger. The members of the Acquiring Group are the beneficial owners of an aggregate of approximately 21.66% of the Company's outstanding voting stock (exclusive of shares held as fiduciaries for persons or entities who are not proponents of the Merger and shares issuable upon exercise of employee stock options held by Mr. Williamson).

Pursuant to the terms of the Merger Agreement, all stockholders of the Company, other than Holdings Corp., Acquisition Corp. and those stockholders who chose to exercise their dissenters' rights, will be entitled to receive $15.00 per share in cash in exchange for each share of the Company's common stock, par value $1.00 per share together with a right (a "Right") associated therewith entitling the holder thereof to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company (each such share and associated Right being referred to herein as a "Common Share" and collectively, the "Common Shares"), held by them at the effective time of the Merger. Members of the Acquiring Group have entered into agreements to vote all of their Common Shares and shares of the Company's 7% Cumulative Convertible Voting Preferred Stock (the "Preferred Shares") in favor of the Merger Agreement and have agreed to contribute or cause to be contributed to Acquisition Corp. prior to the effective time of the Merger a sufficient number of their Common Shares and Preferred Shares (valued on the basis of $15.00 per Common Share and the redemption price of Preferred Shares) which, together with any cash contributed by the Acquiring Group or by third party investors, if any, will result in Acquisition Corp. having contributed equity of not less than $15 million.

Following the Merger, all of the capital stock of the Company will be held by Holdings Corp. and the present holders of the Common Shares (other than Holdings Corp., Acquisition Corp. or members of the Acquiring Group) will no

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longer have any equity interest in the Company. Therefore, following the Merger, the Company's public stockholders will no longer share in the future earnings and growth of the Company, the risks associated with achieving such earnings and growth, or the potential to realize greater value for their Common Shares through divestitures, strategic acquisitions or other corporate opportunities that may be pursued by the Company in the future. Instead, if the Merger is approved and consummated, each such holder of Common Shares will have the right to receive $15.00 in cash for each Common Share held or to pursue appraisal rights as described in the accompanying Proxy Statement.

The Company's Board of Directors appointed a Special Committee, consisting of the two directors of the Company who are not employees of the Company and who are not affiliated with the Acquiring Group. The Special Committee has, among other things, reviewed and considered the proposed Merger. In connection with its review and consideration of the proposed Merger, the Special Committee retained Bear, Stearns & Co. Inc. to act as its financial advisor. The Company's Board of Directors and the Special Committee have unanimously approved the Merger as being in the best interests of the Company and the stockholders of the Company who are not the members of the Acquiring Group. Accordingly, the Company's Board of Directors and the Special Committee recommend that you vote FOR adoption of the Merger Agreement.

Attached is a Notice of Special Meeting of Stockholders and a Proxy Statement containing a discussion of the Merger. We urge you to read this material carefully. Your vote is important. Whether or not you plan to attend the Special Meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope as soon as possible. If you attend the Special Meeting, you may vote in person if you wish, even if you have previously returned your proxy card. Your prompt cooperation will be greatly appreciated.

Very truly yours,

HUGH H. WILLIAMSON, III
President and Chief Executive Officer

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

KETEMA, INC.
SUITE 600
ONE CHERRY CENTER
501 SOUTH CHERRY STREET
DENVER, COLORADO 80222

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 1994

To the Stockholders of
Ketema, Inc.

A Special Meeting of Stockholders (the "Special Meeting") of Ketema, Inc. (the "Company") will be held at , New York, New York on , , 1994 at , local time, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 21, 1994 (the "Merger Agreement"), among the Company, KTM Holdings Corp. ("Holdings Corp."), a Delaware corporation, and KTM Acquisition Corp. ("Acquisition Corp."), a Delaware corporation and a wholly-owned subsidiary of Holdings Corp., pursuant to which, among other things, (a) Acquisition Corp. will be merged (the "Merger") into the Company with the Company being the surviving corporation (the "Surviving Corporation") and the separate existence of Acquisition Corp. will cease, (b) each outstanding share of common stock,

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par value $1.00 per share together with a right (a "Right") associated therewith entitling the holder thereof to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company (each such share and associated Right being referred to herein as a "Common Share" and collectively, the "Common Shares") of the Company (except Common Shares held by the Company as treasury stock or owned by Holdings Corp. and/or Acquisition Corp. or by persons who perfect their dissenters' rights under Delaware law) will be converted into the right to receive $15.00 in cash, without interest, (c) each outstanding Common Share owned by Holdings Corp. and/or Acquisition Corp. or held by the Company as treasury stock will be cancelled without consideration, (d) each outstanding share of 7% Cumulative Convertible Voting Preferred Stock, par value $1.00 per share (the "Preferred Shares") of the Company owned by Holdings Corp. and/or Acquisition Corp. will be cancelled without consideration, and (e) each outstanding share of Acquisition Corp. common stock will be converted into one share of common stock of the Surviving Corporation; and

2. To transact such other business as may properly come before the Special Meeting or any adjournment or postponement thereof.

A copy of the Merger Agreement is included as Annex A to the accompanying Proxy Statement. Only holders of record of Common Shares and Preferred Shares (collectively, the "Voting Shares") at the close of business on , 1994, the record date for the Special Meeting, will be entitled to notice of and to vote at the Special Meeting and at any adjournment or postponement thereof.

If the Merger is consummated, holders of Common Shares who do not vote in favor of the Merger Agreement and who perfect their statutory appraisal rights under Section 262 of the Delaware General Corporation Law ("DGCL") will have the right to seek appraisal of their Common Shares. See "DISSENTERS' RIGHTS" in the accompanying Proxy Statement for a statement of the rights of such stockholders and a description of the procedures required to be followed by stockholders to obtain appraisal of their Common Shares. A copy of Section 262 of the DGCL is attached as Annex B to the accompanying Proxy Statement.

Stockholders of the Company are cordially invited to attend the Special Meeting. To assure that your interest will be represented regardless of whether you plan to attend the Special Meeting in person, please complete, date and sign the enclosed proxy card and return it promptly in the enclosed, postage paid return envelope. Your proxy may be revoked in the manner described in the accompanying Proxy Statement at any time before it has been voted at the Special Meeting.

YOUR VOTE IS IMPORTANT. PLEASE EXECUTE AND RETURN THE ENCLOSED PROXY PROMPTLY, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING. PLEASE DO NOT SEND IN ANY CERTIFICATES FOR YOUR SHARES AT THIS TIME.

By order of the Company's Board of Directors,

Robert L. Welty
Secretary

KETEMA, INC.
SUITE 600
ONE CHERRY CENTER
501 SOUTH CHERRY STREET
DENVER, COLORADO 80222

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 1994

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INTRODUCTION

This Proxy Statement is being furnished to the holders of common stock, $1.00 par value per share (together with a right (a "Right") associated therewith entitling the holder thereof to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company (each such share and associated Right being referred to herein as a "Common Share" and collectively, the "Common Shares")) and 7% Cumulative Convertible Voting Preferred Stock, $1.00 par value per share (the "Preferred Shares" and, together with the Common Shares, the "Voting Shares"), of Ketema, Inc., a Delaware corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company for use at a special meeting of the stockholders of the Company to be held on , , 1994, at , New York, New York at , local time, and at any adjournment or postponement thereof (the "Special Meeting"). This Proxy Statement and the attached Notice of Special Meeting of Stockholders and the proxy card are first being mailed to stockholders of the Company on or about , 1994.

PROPOSAL TO BE CONSIDERED AT THE SPECIAL MEETING

At the Special Meeting, the stockholders of the Company will consider and vote upon a proposal to approve and adopt an Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 21, 1994, among the Company, KTM Holdings Corp. ("Holdings Corp."), a Delaware corporation, and KTM Acquisition Corp. ("Acquisition Corp."), a Delaware corporation and a wholly-owned subsidiary of Holdings Corp. Holdings Corp. and Acquisition Corp. were recently organized by certain persons (the "American Securities Group") who are clients of American Securities BD Co., L.P. ("American Securities") (formerly known as American Securities Partners, L.P. and the successor to American Securities Corporation).

The Merger Agreement provides, subject to the approval of stockholders at the Special Meeting, for the merger (the "Merger") of Acquisition Corp. into the Company, with the Company being the surviving corporation (the "Surviving Corporation"). Following the Merger, the Company would be a wholly-owned subsidiary of Holdings Corp. Pursuant to the Merger, (i) each outstanding Common Share, other than Common Shares held by the Company as treasury stock, owned by Holdings Corp. and/or Acquisition Corp. or owned by stockholders who do not vote in favor of the Merger Agreement and who perfect their appraisal rights under Section 262 of the General Corporation Law of the State of Delaware (the "DGCL"), will be converted into the right to receive $15.00 per share in cash, without interest (the "Merger Consideration"), (ii) each outstanding Common Share owned by Holdings Corp. and/or Acquisition Corp. or held by the Company as treasury stock will be cancelled without consideration, (iii) each outstanding Preferred Share owned by Holdings Corp. and/or Acquisition Corp. will be cancelled without consideration and (iv) each outstanding share of Acquisition Corp. common stock, $.01 par value per share, will be converted into one share of common stock of the Surviving Corporation. A copy of the Merger Agreement is attached as Annex A to this Proxy Statement.

Holdings Corp. and Acquisition Corp. were organized by the American Securities Group for the purpose of enabling the American Securities Group and Hugh H. Williamson, III, President and Chief Executive Officer of the Company (collectively, the "Acquiring Group"), to acquire pursuant to the Merger Agreement

the entire equity interest in the Company. As a result of the Merger, stockholders of the Company who are not members of the Acquiring Group will no longer have any equity interest in the Company. Members of the Acquiring Group, who are the beneficial owners of an aggregate of approximately 21.66% of the outstanding Voting Shares (exclusive of Common Shares held as fiduciaries for persons or entities who are not proponents of the Merger, and Common Shares issuable upon exercise of employee stock options held by Mr. Williamson), have agreed to contribute or cause to be contributed to Acquisition Corp. prior to the Effective Time of the Merger a sufficient number of their Voting Shares (valued on the basis of $15.00 per Common Share and the redemption price of Preferred Shares) which, together with any cash contributed by the Acquiring Group or by third party investors, if any, will result in Acquisition Corp.

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having contributed equity of not less than $15 million. Under the terms of the Merger Agreement, all of the Voting Shares so contributed to Acquisition Corp. will be cancelled, without consideration, upon consummation of the Merger. Members of the Acquiring Group have entered into agreements to vote all of the Voting Shares held by them in favor of the Merger Agreement. See "INTRODUCTION--Voting Rights; Votes Required for Approval" and "SPECIAL FACTORS--Purpose and Structure of the Merger."

Equity interests in Holdings Corp. will be held directly or indirectly by Mr. Williamson and indirectly by the members of the American Securities Group through KTM Partners, L.P., a New York limited partnership ("KTM Partners"), which was organized by the members of the American Securities Group to hold their equity interests in Holdings Corp. Equity interests in Holdings Corp. may also be held directly or indirectly by one or more third party investors.

VOTING RIGHTS; VOTES REQUIRED FOR APPROVAL

The Board of Directors of the Company has fixed the close of business on , 1994 (the "Record Date") as the date for the determination of stockholders entitled to notice of and to vote at the Special Meeting and any adjournment or postponement thereof. Accordingly, only holders of record of Voting Shares at the close of business on that date will be entitled to notice of and to vote at the Special Meeting. At the close of business on the Record Date, there were [3,490,202] Common Shares (held by stockholders of record) and [495,881] Preferred Shares outstanding and entitled to vote at the Special Meeting. All of such Preferred Shares were beneficially owned by certain members of the Acquiring Group.

Each holder of record of Voting Shares on the Record Date is entitled to cast one vote per share in person or by proxy at the Special Meeting and any adjournment or postponement thereof, with the Common Shares and Preferred Shares voting together as a single class. The presence, in person or by proxy, at the Special Meeting of the holders of a majority of the total outstanding Voting Shares entitled to vote is necessary to constitute a quorum at the Special Meeting. Abstentions and broker non-votes (where a broker or other record holder submits a proxy but does not have authority to vote a customer's Voting Shares) will be considered present for purposes of establishing a quorum.

Under the DGCL, the Merger Agreement must be approved by the holders of at least a majority of the outstanding Voting Shares. Pursuant to the terms of the Merger Agreement, members of the Acquiring Group who as of the Record Date were the beneficial owners in the aggregate of approximately 876,167 Voting Shares entitled to vote at the Special Meeting (including the approximately 12,612 outstanding Common Shares held as fiduciaries for persons or entities who are not proponents of the Merger), representing approximately 21.98% of the outstanding Voting Shares, have entered into agreements to vote in favor of the Merger Agreement. In addition to the members of the American Securities Group, other clients of American Securities owned beneficially as of the Record Date approximately 121,388 outstanding Common Shares, constituting approximately 3.04% of the outstanding Voting Shares entitled to vote at the Special Meeting and approximately 71,374 Common Shares issuable upon conversion of Debentures.

Holders of Common Shares who do not vote in favor of, or abstain from voting on, the Merger Agreement and who comply with the provisions of Section 262 of the DGCL will have the right to receive cash payment for the "fair value" of their Common Shares. Any stockholder contemplating the exercise of dissenters' rights should carefully review Section 262 of the DGCL, particularly the procedural steps required to perfect dissenters' rights, a description of which is provided under "DISSENTERS' RIGHTS." A

stockholder who fails to comply with such procedural requirements will lose such holder's dissenter's rights and will receive the Merger Consideration for the Common Shares held by such stockholder. See "DISSENTERS' RIGHTS" and Annex B, "Section 262 of the Delaware General Corporation Law."

PROXIES

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All Voting Shares represented by properly executed proxies received prior to or at the Special Meeting and not revoked will be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated, such proxies will be voted FOR the proposal to approve and adopt the Merger Agreement and, in the discretion of the persons named in the proxy, on such other matters as may properly be presented at the Special Meeting. Abstentions and broker non-votes will have the effect of a vote against the Merger Agreement.

A stockholder may revoke his or her proxy at any time prior to its use by delivering to the Secretary of the Company a signed notice of revocation or a later dated and signed proxy or by attending the Special Meeting and voting in person. Attendance at the Special Meeting will not in itself constitute the revocation of a proxy.

The cost of solicitation of proxies will be paid by the Company. In addition to solicitation by mail, directors, officers and regular employees of the Company may solicit proxies by telephone, telegram or by personal interviews. Such persons will receive no additional compensation for such services. The Company will reimburse brokers and certain other persons for their charges and expenses in forwarding proxy material to the beneficial owners of Voting Shares held of record by such persons. [In addition, the Company has retained to assist in soliciting proxies and to provide proxy materials to banks, brokerage firms, nominees, fiduciaries and other custodians. For such services, the Company will pay to a fee of approximately $ plus expenses.]

All information appearing in this Proxy Statement concerning the Company has been supplied by the Company, and all information appearing in this Proxy Statement concerning Holdings Corp., Acquisition Corp. and the Acquiring Group has been supplied by Holdings Corp., Acquisition Corp. and the Acquiring Group, respectively.

The date of this Proxy Statement is , 1994.

AVAILABLE INFORMATION

The Company, Holdings Corp. and Acquisition Corp. have filed with the Securities and Exchange Commission (the "Commission") a Rule 13e-3 Transaction Statement (including any amendments thereto, the "Schedule 13E-3") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to the Merger. This Proxy Statement does not contain all the information set forth in the Schedule 13E-3 and the exhibits thereto, certain parts of which are omitted in accordance with the rules and regulations of the Commission.

The Company is subject to the informational requirements of the Exchange Act and, in accordance therewith, files reports, proxy statements and other information with the Commission.

The Schedule 13E-3 and the respective exhibits thereto, as well as such reports, proxy statements and other information filed by the Company, can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at Suite 1300, Seven World Trade Center, New York, New York 10048, and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such materials also can be obtained at prescribed rates from the Public Reference Section of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. The Common Shares are traded on the American Stock Exchange (the "AMEX") and certain of the Company's reports, proxy materials and other information are available for inspection at the offices of the AMEX, 86 Trinity Place, New York, New York 10006.

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SUMMARY

The following is a summary of certain information contained elsewhere in this Proxy Statement. The following summary is not intended to be a complete description of the matters covered in this Proxy Statement and is subject to

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and qualified in its entirety by reference to the more detailed information contained elsewhere in this Proxy Statement, including the Annexes hereto. Stockholders are urged to read carefully the entire Proxy Statement, including the Annexes.

GENERAL

Time, Place and Date of the Special Meeting.....	The Special Meeting of stockholders of the Company will be held at , New York, New York on , , 1994, at , local time.
Record Date.....	Any holders of record of Voting Shares at the close of business on , 1994 are entitled to notice of and to vote at the Special Meeting. On that date, there were [3,490,202] Common Shares and [495,881] Preferred Shares outstanding, with each such Voting Share entitled to cast one vote, voting together as a single class, with respect to the Merger at the Special Meeting. See "INTRODUCTION--General" and "--Voting Rights; Vote Required for Approval."
Purpose of the Special Meeting; Quorum; Vote Required.....	At the Special Meeting, stockholders will consider and vote upon a proposal to approve and adopt the Merger Agreement, a copy of which is attached as Annex A to this Proxy Statement. See "INTRODUCTION--Proposal to be Considered at the Special Meeting." The presence at the Special Meeting, in person or by proxy, of the holders of a majority of the outstanding Voting Shares is necessary to constitute a quorum at the Special Meeting. Under Delaware law, approval of the Merger Agreement requires the affirmative vote of the holders of a majority of the outstanding Voting Shares. Members of the Acquiring Group, who as of the Record Date were the beneficial owners of approximately 21.98% of the Voting Shares entitled to vote at the Special Meeting (including shares held as fiduciaries for persons or entities who are not proponents of the Merger), have agreed to vote all of the Voting Shares held by them in favor of the Merger Agreement. See "INTRODUCTION--Voting Rights; Vote Required for Approval."
Structure of the Merger.....	Pursuant to the Merger Agreement, Acquisition Corp. will merge into the Company, with the Company being the Surviving Corporation as a wholly-owned subsidiary of Holdings Corp. Each outstanding Common Share (except those Common Shares held by the Company as treasury stock, or owned by Holdings Corp. and/or Acquisition Corp. or by stockholders who perfect their dissenters' rights under the DGCL) will be converted into the right to receive $15.00 in cash, without interest. Each outstanding Common Share and Preferred Share

owned by Holdings Corp. and/or Acquisition Corp. or held by the Company as treasury stock will be cancelled without consideration. Each outstanding share of common stock, par value $.01 per share, of Acquisition Corp. will be converted into one share of common stock of the

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	Surviving Corporation. Holdings Corp. and Acquisition Corp. were organized by the American Securities Group. Each of the members of the Acquiring Group have agreed to contribute or cause to be contributed to Holdings Corp. a sufficient number of their Voting Shares (valued on the basis of $15.00 per Common Share and the redemption price of Preferred Shares) which, together with any cash contributed by the Acquiring Group or by third party investors, if any, will result in Holdings Corp. having contributed equity of not less than $15 million. Holdings Corp., in turn, will contribute all of such Voting Shares and cash, if any, to Acquisition Corp. prior to the Effective Time of the Merger. See "SPECIAL FACTORS--Purpose and Structure of the Merger," "--Interests of Certain Persons in the Merger; Certain Relationships" and "THE MERGER AGREEMENT."
Certain Effects of the Merger.....	As a result of the Merger, the entire equity interest in the Company will be owned by Holdings Corp. Therefore, following the Merger, the present holders of the Common Shares (other than Holdings Corp., Acquisition Corp. or the Acquiring Group) will no longer have an equity interest in the Company and will no longer share in future earnings and growth of the Company, the risks associated with achieving such earnings and growth, or the potential to realize greater value for their Common Shares through divestitures, strategic acquisitions or other corporate opportunities that may be pursued by the Company in the future. Instead, each such holder of Common Shares will have only the right to receive the Merger Consideration for each Common Share held or to seek appraisal rights as described under the caption "DISSENTERS' RIGHTS." See "SPECIAL FACTORS--Certain Effects of the Merger."
Opinion of Financial Advisor..	Bear, Stearns & Co. Inc. ("Bear Stearns"), an internationally-recognized investment banking firm, has rendered its written opinion to the Special Committee of the Company's Board of Directors to the effect that the Merger is fair, from a financial point of view, to holders of Common Shares who are unaffiliated with the Acquiring Group. The full text of Bear Stearns' written opinion, dated as of the date of this Proxy Statement, which sets forth the assumptions made, procedures followed, matters considered and limits of its review, is attached hereto as Annex C. HOLDERS OF COMMON SHARES ARE URGED TO READ SUCH OPINION IN ITS ENTIRETY. For additional information relating to the opinion of Bear Stearns, see "SPECIAL FACTORS--Opinion of the Special Committee's Financial Advisor."

Determination of Special Committee; Recommendation of Company's Board of Directors.....	A special committee of the Board of Directors, consisting of the two directors of the Company who are not employed by or affiliated with ei-

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	ther the Company (except in their capacity as directors), any of its subsidiaries, KTM Partners, Holdings Corp. or Acquisition Corp., who are not members of the Acquiring Group and who do not hold and will not acquire any equity interest in KTM Partners, Holdings Corp. or Acquisition Corp. (the "Special Committee"), has unanimously determined, based in part upon the opinion of Bear Stearns, that the Merger and the Merger Consideration are fair from a financial point of view to, and in the best interests of, the stockholders of the Company who are not members of the Acquiring Group. After considering the recommendation of the Special Committee, the Board of Directors has unanimously approved the Merger Agreement and recommends that stockholders vote FOR the proposal to approve and adopt the Merger Agreement. See "SPECIAL FACTORS--Background of the Merger" and "--Recommendations of the Special Committee, the Board and the Acquiring Group; Fairness of the Merger."
Interests of Certain Persons in the Merger; Conflicts of Interest.....	Members of the Acquiring Group beneficially own an aggregate of approximately 21.66% of the outstanding Voting Shares (exclusive of shares held as fiduciaries for persons or entities who are not proponents of the Merger and shares issuable upon exercise of stock options held by Mr. Williamson) and may be deemed to control the Company. Alexander G. Anagnos, Charles D. Klein, Elizabeth R. Varet and Hugh H. Williamson, III, all members of the Acquiring Group, serve on the Company's Board of Directors and Mr. Williamson is also the Company's President and Chief Executive Officer. Because the DGCL requires a merger agreement to be approved by a majority of a Delaware corporation's board of directors, such directors, who constitute four of the six member Board of Directors of the Company, participated in the vote of the Board of Directors concerning the Merger and the Merger Agreement. An agreement between Holdings Corp. and Mr. Williamson provides, among other things, that (i) Mr. Williamson is to receive options to acquire equity securities of Holdings Corp. in substitution for his existing options to acquire Common Shares and also shares of restricted stock of Holdings Corp. having a value of $600,000 in lieu of certain supplemental retirement benefits, (ii) three other executive officers of the Company are to receive options to acquire an aggregate of 3.9% of the common stock of Holdings Corp., (iii) the Company's officers (other than Mr. Williamson) and general managers are to be offered the right to invest in up to an aggregate of 5% of the equity securities of Holdings Corp. at the same purchase price

as other stockholders and (iv) American Securities Capital Partners, L.P. ("Capital Partners"), an affiliate of American Securities, is

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to receive certain fees upon consummation of the Merger and for future investment banking and consulting services.

Holdings Corp. has agreed that all rights to indemnification arising at or prior to the Effective Time in favor of the directors or officers of the Company (including the members of the Special Committee) as provided in the Company's certificate of incorporation or by-laws, as in effect on the date of the Merger Agreement, or in contractual indemnification agreements, will, for a period of six years after the Effective Time, with respect to matters occurring prior to the Effective Time, survive the Merger and continue in full force and effect.

See "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships" and "THE MERGER AGREEMENT--Covenants."

Federal Income Tax Consequences..... The receipt of cash for Common Shares pursuant to the Merger will be a taxable transaction for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), and also may be a taxable transaction under applicable state, local, foreign and other tax laws. See "SPECIAL FACTORS--Certain Federal Income Tax Consequences."

THE MERGER AGREEMENT

Effective Time of the Merger.. The Merger will become effective upon the filing of a Certificate of Merger with the Secretary of State of the State of Delaware or at such later time as is specified in such Certificate of Merger (the "Effective Time"). The filing will occur after all conditions to the Merger contained in the Merger Agreement have been satisfied or waived. The Company, Holdings Corp. and Acquisition Corp. anticipate that the Merger will be consummated as promptly as practicable following the Special Meeting. See "THE MERGER AGREEMENT--General" and "--Effective Time of the Merger."

Conditions to Consummation of the Merger..... The respective obligations of the Company, on the one hand, and Holdings Corp. and Acquisition Corp., on the other hand, to consummate the Merger are subject to the satisfaction or waiver at or prior to the Effective Time of the following conditions, among others: (a) approval and adoption of the Merger Agreement and the Merger by the holders of a majority of the outstanding Voting Shares at the Special Meeting; (b) the absence of any statute, rule, injunction or similar order prohibiting or restricting the consummation of the Merger; (c) the

receipt of all other required authorizations, consents and approvals of governmental authorities; (d) the compliance by all parties with their obligations under the Merger Agreement;

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	and (e) the material truth and correctness of all representations and warranties of the parties to the Merger Agreement. The obligation of Holdings Corp. and Acquisition Corp. to consummate the Merger is further subject to the satisfaction or waiver of, among other conditions, the condition that Acquisition Corp. receive financing pursuant to a bank financing commitment in an amount which, together with the Company's cash and marketable securities, is sufficient to pay the Merger Consideration, to effect the refinancing of the $45 million principal amount of the Company's outstanding Senior Notes due October 31, 2003 (the "Senior Notes") and to pay related fees and expenses. See "THE MERGER AGREEMENT--Conditions to Consummation of the Merger."
Termination of the Merger Agreement.....	The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding approval of the Merger Agreement by the stockholders of the Company): (a) by mutual written consent of the Company and Holdings Corp.; (b) by either the Company or Holdings Corp. if the Merger has not been consummated by December 31, 1994; (c) by either the Company or Holdings Corp., if there has been any law or regulation that makes consummation of the Merger illegal or otherwise prohibited or if any judgment, injunction, order or decree enjoining Holdings Corp. or the Company from consummating the Merger is entered and becomes final and nonappealable; (d) by either the Company or Holdings Corp. if the Merger Agreement and the Merger fail to receive the requisite vote for approval and adoption by the stockholders of the Company at the Special Meeting; (e) by Holdings Corp. or the Company (such determination to be made on behalf of the Company by the Special Committee in its sole discretion), if (i) the Board of Directors of the Company or the Special Committee withdraws, modifies or changes its recommendation of the Merger Agreement or the Merger in a manner adverse to Holdings Corp. or Acquisition Corp. or resolves to do any of the foregoing or the Board of Directors of the Company or the Special Committee recommends to the stockholders of the Company any Competing Transaction, as defined herein under "THE MERGER AGREEMENT--Other Potential Bidders," or resolves to do so, or (ii) any person acquires beneficial ownership of 50% or more of the Voting Shares or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder and not including the Acquiring Group) is formed which beneficially owns 50% or more of the Voting Shares. See "THE MERGER AGREEMENT--Termination."

Expenses.....	The Company has agreed to reimburse Holdings Corp. for certain out-of-pocket expenses incurred in connection with the Merger, up to a maximum of $1.5 million, if the Merger is not consummated under certain circumstances. See "THE MERGER AGREEMENT--Expenses."

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Amendments to the Merger Agreement.....	The Merger Agreement may not be amended prior to the Effective Time except by action of the Company, Holdings Corp. and Acquisition Corp. set forth in a written instrument signed on behalf of each of the parties; provided that any such amendment by the Company must be approved by the Board of Directors of the Company, acting on the recommendation of the Special Committee. After approval of the Merger Agreement by the stockholders of the Company at the Special Meeting and without the further approval of such stockholders, no amendment to the Merger Agreement may be made which will change (i) the Merger Consideration or (ii) any other terms and conditions of the Merger Agreement if any of such changes would adversely affect the stockholders of the Company. See "THE MERGER AGREEMENT--Amendments."
Dissenters' Rights.....	Under the DGCL, the Company's stockholders will be entitled to appraisal rights in connection with the Merger. See "DISSENTERS' RIGHTS" and Annex B, "Section 262 of the Delaware General Corporation Law."
Source of Funds; Financing of the Merger.....	The total amount of funds required to pay the Merger Consideration to holders of all outstanding Common Shares on a fully diluted basis (including Common Shares beneficially owned by the Acquiring Group), to refinance the Company's Senior Notes and to pay related Company fees and expenses in connection with the Merger is expected to be approximately $130 million. These funds will be provided (i) out of the Company's cash balances and cash equivalents, including marketable securities, (ii) from bank financing to be obtained pursuant to a commitment received from The Chase Manhattan Bank, N.A. ("Chase") to provide up to $50 million in financing, (a portion of which will be used for the Company's working capital needs) and (iii) equity contributions of not less than $15 million. See "FINANCING OF THE MERGER." Holdings Corp. and Acquisition Corp. have represented in the Merger Agreement that the equity to be provided to Acquisition Corp. will be not less than $15 million consisting of cash contributed by members of the Acquiring Group or by third party investors, if any, and/or Voting Shares (valued on the basis of $15.00 per Common Share and the redemption price of Preferred Shares) contributed by members of the Acquiring Group. See "SPECIAL FACTORS--Purpose and Structure of the Merger" and "FINANCING OF THE MERGER."

SPECIAL FACTORS

BACKGROUND OF THE MERGER

The members of the American Securities Group are clients of American Securities and are the beneficial owners of an aggregate of approximately 21.3% of the outstanding Voting Shares. The members of the American Securities Group acquired their initial ownership of Common Shares of the Company on November

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30, 1988 when the Company became publicly owned by means of the pro rata distribution by Ametek, Inc. ("Ametek"), the former parent of the Company, of all of the Company's outstanding Common Shares to the stockholders of Ametek. Concurrently with such distribution, the Company commenced a rights offering which resulted in the issuance of $17,500,000 principal amount of the Company's 8% Convertible Subordinated Debentures due 2003 (the "Debentures"). Certain members of the American Securities Group acquired Debentures through the exercise of rights and pursuant to a standby purchase agreement with the Company. In addition, certain members of the American Securities Group acquired additional Common Shares and Debentures from time to time in open market transactions. On , 1994, the members of the American Securities Group converted the Debentures beneficially owned by them (exclusive of those held as fiduciaries for persons or entities who are not proponents of the Merger) into Preferred Shares, each of which is convertible into one Common Share and is entitled to one vote per share, voting together with the Common Shares as a single class, on the Merger. The members of the American Securities Group are primarily members of the family of William Rosenwald, trusts for the benefit of such persons, certain senior executives of American Securities, its affiliate American Securities, L.P. and other affiliated entities and members of their families and philanthropic foundations established by such persons. Members of the American Securities Group include three of the Company's six-member Board of Directors.

In May 1993, representatives of the American Securities Group met with Hugh H. Williamson, III, the President and Chief Executive Officer of the Company, and discussed the low market price for the Common Shares. Mr. Williamson expressed his reservations as to the Company's ability to successfully implement its then current strategic plan and, in particular, its ability to make appropriate acquisitions of other businesses to utilize its substantial excess cash. Mr. Williamson suggested to the American Securities Group that he review the strategic options available to the Company and its stockholders, including possible merger or business combination transactions. The representatives of the American Securities Group informed Mr. Williamson that they also would be reviewing their options regarding the American Securities Group's investment in the Company. Thereafter, the American Securities Group began to review what actions, if any, it should take in order to enhance shareholder value. In August 1993, representatives of the American Securities Group discussed with several potential institutional lenders the feasibility of obtaining financing for a merger transaction of the type now proposed. During August and September 1993, representatives of the American Securities Group also had general discussions with Mr. Williamson regarding such a transaction. In September 1993, Mr. Williamson advised representatives of the American Securities Group that he was interested in proceeding with such a transaction.

At the regular meeting of the Board of Directors of the Company held on September 28, 1993, Mr. Williamson advised the Board of his interest in proposing, as a strategic alternative for the Company, a business combination transaction in which all outstanding publicly owned Common Shares would be acquired for cash. Mr. Williamson stated that he would proceed with such a transaction only if the American Securities Group would join with him in proposing the transaction. At Mr. Williamson's request, the Board established a Special Committee consisting of Messrs. William J. Catacosinos and Alan R. Gruber, the two members of the Board of Directors who are not employed by the Company and who are not affiliated with the American Securities Group, to consider the request of Mr. Williamson that the Board approve Mr. Williamson and the American Securities Group or certain members thereof becoming an "interested stockholder" within the meaning of Section 203 of the DGCL ("Section 203") and a similar provision in the Company's Certificate of Incorporation. Mr. Williamson made this request so that he and the American Securities Group could explore such a possible business combination transaction without such transaction becoming subject to the restrictions

that might otherwise be applicable under Section 203 or the Certificate of Incorporation. At a special meeting of the Board of Directors held on October 19, 1993, the Board of Directors, based on the recommendation of the Special Committee made after consultation with independent legal counsel selected by the Special Committee, approved Mr. Williamson and the American Securities Group or certain members thereof becoming an "interested stockholder" solely as

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a result of any agreement, arrangement or understanding which may be reached by them with respect to a proposal for a business combination between the Company and an entity formed by them, provided that a written proposal for such a business combination was submitted to the Board of Directors prior to six months from the date of the meeting or such longer period as the Board, acting upon the recommendation of the Special Committee, may approve.

In Amendment No. 12 to its Schedule 13D Statement which was filed with the Commission on October 21, 1993, the members of the American Securities Group stated that they were considering various options with regard to their investment in the Company, including initiating or responding to proposals regarding (i) a merger or other business combination transaction pursuant to which the members of the American Securities Group or certain of them, together with current members of senior management or certain of them, would acquire the equity interest in the Company not held by them, (ii) the sale of certain of the Company's business units, (iii) the sale of the Company as a whole or (iv) the sale of all or a portion of the American Securities Group's investment in the Company. The Amendment also stated that Mr. Williamson had suggested that the American Securities Group consider a merger or business combination of the type referred to in clause (i) of the preceding sentence and had discussed the concept generally with certain members of the American Securities Group. The Amendment further stated that while the members of the American Securities Group intended to explore such a transaction with Mr. Williamson, they had no agreement, arrangement or understanding with him with respect thereto at that time.

Thereafter, on November 1, 1993 the American Securities Group retained The Bridgeford Group ("Bridgeford") as its financial advisor in connection with its investment in the Company. During November 1993, representatives of the American Securities Group, together with Mr. Williamson, began to explore the availability of debt financing from various institutional lenders for a merger transaction in which the members of the Acquiring Group, together with certain members of the Company's senior management, would acquire the equity interest in the Company not owned by them. In connection with such a merger, the members of the Acquiring Group would contribute as equity all or a portion of the Common Shares and Debentures (or Preferred Shares issuable upon conversion thereof) owned by them and arrange for borrowings which, together with the cash and marketable securities of the Company, would be used to pay the cash merger consideration for the Common Shares not already owned by members of the Acquiring Group, to refinance the Company's outstanding $45 million of Senior Notes held by institutional investors and to pay related transaction expenses and provide for ongoing working capital needs. In early December 1993, the American Securities Group received preliminary proposals from two institutional lenders specializing in asset-based transactions to explore financing, with the due diligence expenses of such institutional lenders being borne by the American Securities Group. In accordance with these proposals, third parties selected by the lending institutions were engaged to prepare appraisals of the Company's machinery and equipment assets and real property assets and to perform an environmental compliance analysis. The Special Committee was advised of the retention of Bridgeford and these discussions and arrangements with potential lenders and it was suggested that the Special Committee retain an investment banking firm to act as financial advisor to the Special Committee in connection with any proposal which may be made by the American Securities Group for such a transaction.

The members of the Special Committee met with representatives of two investment banking firms and, based on those meetings, selected Bear Stearns as their financial advisor, and retained Bear Stearns in such capacity pursuant to an engagement letter, dated December 13, 1993. Bear Stearns was instructed by the Special Committee to conduct a due diligence review of the Company so that it would be prepared to analyze any proposal which might be made by the American Securities Group. At that time, it was contemplated

that the American Securities Group might secure an acceptable financing commitment and be in a position to make a proposal by late January 1994.

During March 1994, representatives of Bear Stearns visited certain of the Company's facilities and held discussions with certain members of the Company's

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senior and operating managements to discuss the Company's operations, historical financial statements and prospects.

Despite the extensive efforts of the American Securities Group to obtain a financing commitment, during the first quarter of 1994 the American Securities Group had received only one financing commitment from an asset-based institutional lender. Such commitment was insufficient in amount to finance an all cash merger proposal at a price which the American Securities Group and Bridgeford believed would be fair to the public stockholders of the Company. Thereafter, the American Securities Group renewed its efforts to obtain an acceptable financing commitment by approaching both additional institutional lenders and certain of the institutions it had previously solicited. At the regular meeting of the Board of Directors held on April 5, 1994, at the request of the American Securities Group and based upon the recommendation of the members of the Special Committee, the Board extended from April 19, 1994 until May 26, 1994 (the date of the next regularly scheduled meeting of the Board) the period during which the American Securities Group and Mr. Williamson would be afforded the opportunity to provide a written proposal for a business combination without becoming subject to the restrictions on such a transaction which would otherwise be applicable to an "interested stockholder" under Section 203 and the Company's Certificate of Incorporation. At such meeting, the Board also adopted the Company's Key Employee Severance Plan pursuant to which the executive officers (including Mr. Williamson) and general managers of the Company would become entitled to receive severance benefits in an amount equal to 12 months salary continuation, annual bonus and certain health and welfare benefits, if their employment is terminated by the Company (other than for "cause") or by the employee for "good reason" (as defined) during the period of 24 months following a "change of control" (as defined) of the Company. For purposes of such Plan, a "change in control" is defined as the acquisition of 30% or more of the outstanding Common Shares by any person (other than the Company or any employee benefit plan or affiliate of the Company) and a change in the members of the Board of Directors, within any 24-month period, such that the individuals who at the beginning of such period constituted the Board cease to constitute a majority thereof. During the first quarter of 1994, representatives of the American Securities Group also continued to engage in negotiations with Mr. Williamson regarding his equity participation in Holdings Corp. and the other terms and conditions of his relationship and that of other members of the Company's management with such entity and the Company following the consummation of the merger transaction.

Thereafter, the American Securities Group continued its efforts to obtain acceptable financing and on April 27, 1994 obtained an oral commitment from Chase. On April 28, 1994, Holdings Corp. delivered the following letter to the Board of Directors of the Company proposing a merger transaction under which the Acquiring Group would acquire all outstanding Common Shares not already owned by the Acquiring Group at a price of $13.125 per Common Share (the "Initial Proposal").

"April 28, 1994

Board of Directors
Ketema, Inc.
One Cherry Center
501 Cherry Street
Denver, Colorado 80222

Attention: Special Committee

Dear Sirs:

As you know, certain persons and entities affiliated with American Securities Corporation (the "Amseco Group") have been considering various options with regard to their investment in Ketema, Inc. (the "Company"). After careful deliberation, the Amseco Group hereby proposes to acquire all of the outstanding Common Stock of the Company not already owned by members of the group (the "Acquisition") at a price of $13.125 per share, payable in cash (the "Merger Consideration"). The Amseco Group beneficially owns approximately 21.2% of the outstanding Common Stock of the Company (including shares issuable upon

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conversion of debentures held by them).

The Acquisition would be effected through a merger of a wholly-owned subsidiary of KTM Holdings Corp. ("Buyer") into the Company (the "Merger"). Buyer is a newly-formed Delaware company created to effect the Acquisition. Upon consummation of the Merger, the Company would become a wholly-owned subsidiary of Buyer. The Company's currently outstanding 8% Convertible Subordinated Debentures due 2003 which are not converted into Common Stock or Convertible Preferred Stock prior to the Merger would remain outstanding and, in accordance with their terms, would thereafter be convertible solely into the right to receive the cash Merger Consideration.

Buyer has obtained an oral commitment from a bank to provide financing for purposes of the Acquisition. We anticipate that such financing, together with the Company's cash balances and marketable securities, will be sufficient to refinance the Company's existing institutional indebtedness, fund the Merger Consideration, pay transaction expenses and provide for ongoing working capital needs.

Our proposal is subject only to (i) the negotiation and execution of a definitive merger agreement containing terms and conditions customary in transactions of this kind (including customary representations, warranties, covenants and conditions) (the "Merger Agreement"), (ii) approval by the holders of a majority of the outstanding shares of the Company's Common Stock, (iii) Buyer reaching satisfactory agreements with the institutional investors holding the Company's outstanding $45 million principal amount of 11.12% Senior Notes due October 31, 2003 regarding the early retirement of such Notes, (iv) the receipt of any necessary governmental approvals, (v) Buyer reaching satisfactory arrangements with Hugh H. Williamson, III, Chief Executive Officer of the Company, regarding continuation of his current operating duties and the exchange of the convertible debentures and options presently held by him for an equity participation in Buyer and (vi) the funding of the working capital and term loans pursuant to the financing commitment. Our proposal is necessarily based on current market conditions and our assessment of the Company's businesses and assets as they exist today. We will have no obligation to the Company or its shareholders with respect to this proposal unless and until the Merger Agreement is executed. After such execution, the only obligations will be those set forth in the Merger Agreement.

We are prepared to submit a draft Merger Agreement and to begin negotiating the Merger Agreement with the Special Committee of the Board and its counsel and financial advisors.

We believe, based in part on the advice of our financial advisors, that the Merger Consideration is fair to the public shareholders of the Company. The Merger Consideration represents premiums of 20% and 22% over the average closing prices for the Company's Common Stock for the 10 trading day and 60 trading day

periods, respectively, prior to October 21, 1993 when the Amseco Group filed an amendment to its Schedule 13D to disclose its consideration of, among other things, a merger of the type now proposed. The Merger Consideration also represents a multiple of 39 times net income per share of $.34 for the Company's fiscal year ended February 28, 1994.

We request that the Company's Board of Directors consider the proposal as soon as possible. Our financial advisors, The Bridgeford Group, and our legal advisors, Stroock & Stroock & Lavan, are available to meet with the Special Committee and its counsel and financial advisors to discuss and answer any questions regarding our proposal. We look forward to a response at your earliest convenience.

Very truly yours,

KTM Holdings Corp.

By: /s/ Michael G. Fisch
_____

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Upon its receipt of the Initial Proposal, on April 28, 1994, the Company issued the following press release:

"FOR IMMEDIATE RELEASE

DENVER, CO--April 28, 1994--Ketema, Inc. (Amex-KTM) announced today that its Board of Directors has received a merger proposal from a group of stockholders who are affiliated with American Securities Corporation. Under the merger proposal, such stockholders would acquire all of the Common Stock of Ketema not already owned by them at a price of $13.125 per share in cash through a merger of a newly-formed corporation owned by them into Ketema.

Ketema said that it understands that members of the American Securities group, which includes three Directors of Ketema, beneficially own approximately 21.2% of Ketema's outstanding Common Stock, including shares issuable upon conversion of debentures held by them. Ketema further said that its Board of Directors had appointed a Special Committee of Directors to consider any proposal which might be made.

The American Securities group disclosed on October 21, 1993 in a Schedule 13D filing with the Securities and Exchange Commission that the group was considering various options with regard to its investment in the Company, including a merger of the type now proposed.

Under the terms of the proposal, Ketema's 8% Convertible Subordinated Debentures due 2003 which are not converted into Common Stock prior to the merger would remain outstanding and, in accordance with their terms, would thereafter be convertible solely into the right to receive the cash merger consideration. Such Debentures are presently convertible into Ketema Common Stock at a conversion price of $15.58 per share.

Ketema said that the proposed merger would be subject to, among other things, (i) the execution of a definitive merger agreement, (ii) approval by holders of a majority of Ketema's outstanding shares, (iii) the American Securities group reaching satisfactory agreements with the institutional investors holding Ketema's $45 million principal amount of outstanding senior notes regarding the early retirement of such notes, (iv) the receipt of all necessary consents and governmental approvals, (v) the group reaching a satisfactory agreement with the chief executive officer of Ketema regarding his continuation as CEO following the merger and (vi) funding pursuant to an oral financing commitment. Ketema said the group has advised that it has obtained an oral commitment from a bank to provide financing and that the group anticipates that such financing, together with Ketema's cash balances and marketable securities, will be sufficient to refinance Ketema's existing institutional indebtedness, fund the merger, pay transaction expenses and provide for ongoing working capital needs.

Ketema said that there can be no assurance at this time as to whether or not any transaction will occur or as to the timing or terms of any transaction."

On April 28, 1994, the American Securities Group filed with the Commission Amendment No. 13 to its Schedule 13D to disclose the Initial Proposal, the terms of the oral financing commitment of Chase, and the identity of those members of the American Securities Group who are the proponents of the merger transaction. The Amendment stated, among other things, that the current members of the American Securities Group beneficially owned an aggregate of approximately 21.2% of the outstanding Common Shares after giving effect to the conversion of Debentures owned by them and that certain other clients of American Securities, including certain persons who were reporting persons in Amendment No. 12 to the Schedule 13D filed on October 21, 1993 and who beneficially owned an aggregate of approximately 5.5% of the outstanding Common Shares after giving effect to the conversion of Debentures owned by them, were not proponents of the proposed merger transaction and that the Common Shares owned by such persons would, upon consummation of the proposed merger, be converted into the right to receive the same cash payment per Share as all

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other stockholders of the Company.

Subsequent to April 28, 1994, seven class action lawsuits were commenced in the Delaware Court of Chancery relating to the Initial Proposal. See "SPECIAL FACTORS--Certain Litigation."

On May 2, 1994, Bridgeford furnished representatives of Bear Stearns with a written analysis of the Company and of the Initial Proposal (the "Bridgeford Report") which had been prepared by Bridgeford. Among the financial data included in the Bridgeford Report were (i) Five Year Projections, Fiscal Years 1995-1999 prepared by the Company's management and furnished to the Company's Board of Directors in February 1994 (the "Five Year Management Projections"); (ii) the Company's Business Plan for its fiscal year ending February 28, 1995 which had been completed on March 30, 1994 (the "Fiscal 1995 Management Budget"); and (iii) the financial model prepared by American Securities in April 1994 and provided by it to prospective financing sources, including Chase (the "American Securities Projections"). See "SPECIAL FACTORS--Report of Financial Advisor of the American Securities Group" and "--Certain Projections."

On May 5, 1994, the American Securities Group filed with the Commission Amendment No. 14 to its Schedule 13D to report, among other things, the receipt and acceptance of a written financing commitment from Chase relating to the proposed merger transaction and the inclusion of Mr. Williamson as a member of the Acquiring Group by reason of his joining with the other members thereof as a proponent of the Initial Proposal. The Amendment also reported the terms of an agreement, dated May 5, 1994, between Holdings Corp. and Mr. Williamson regarding (i) his continuation as Chief Executive Officer of the Company following consummation of the proposed merger, (ii) his equity participation in Holdings Corp., including the grant to him of restricted stock and options to purchase shares of Holdings Corp., (iii) the treatment of outstanding stock options and stock appreciation rights held by employees of the Company other than Mr. Williamson and the grant of options to purchase shares of Holdings Corp. to certain executive officers other than Mr. Williamson, (iv) the officers (other than Mr. Williamson) and general managers of the Company being offered the right to invest in equity securities of Holdings Corp. representing a maximum of up to 5% of its outstanding shares, in the aggregate, at the same purchase price paid by the other stockholders of Holdings Corp., (v) the composition of the Board of Directors of Holdings Corp., (vi) certain fees payable to an affiliate of American Securities and (vii) certain compensation matters with respect to management of the Company following consummation of the proposed merger. See "SPECIAL FACTORS--Interests of Certain Persons in the Merger."

Following the receipt of the Initial Proposal and the Bridgeford Report, the Special Committee met in person with representatives of Bear Stearns and of Skadden, Arps, Slate, Meagher & Flom, independent legal counsel to the Special Committee, on more than four occasions and held numerous telephonic conferences (both as a group and individually) throughout the period until the date of the Merger Agreement.

On May 5, 1994, Mr. Gruber, having previously consulted with Dr. Catacosinos, met with Bear Stearns and counsel in order to establish the framework for the Committee's review of the Initial Proposal. At that

meeting, the terms of the Initial Proposal were reviewed and Bear Stearns discussed the scope of its prior due diligence activities and the status of its information concerning the Company.

On May 18, 1994, the Special Committee met to review the Initial Proposal as well as to receive Bear Stearns' preliminary views of the Initial Proposal. The Special Committee reviewed the terms of the Initial Proposal, including the terms and likelihood of the receipt of its financing and the arrangements reached between the American Securities Group and Mr. Williamson. The Special Committee also reviewed the Company's recent financial performance as well as its recent restructuring activities and discussed the issues associated with whether the Company would be able to capitalize on the steps it had taken over the past two years. The Special Committee discussed the composition of the

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Company's business and the difficulties associated with analyzing the value of each of its component units. Bear Stearns did not present a detailed analysis of the Initial Proposal at this meeting but indicated its preliminary view, based primarily on its prior review of the fiscal 1995 forecasts made by the managements of the Company's individual business units (the "1995 Divisional Forecasts") that it could not conclude that the Initial Proposal was fair from a financial point of view to the Company's stockholders other than the Acquiring Group. Bear Stearns advised the Special Committee that it needed further information in order to understand the difference between the 1995 Divisional Forecasts, the Five Year Management Projections and the American Securities Projections.

Following such meeting, the Special Committee advised representatives of the American Securities Group that, based on the preliminary analysis of Bear Stearns, the Special Committee had preliminarily concluded that it could not favorably recommend the Initial Proposal, but that Bear Stearns needed to perform additional analyses and review the Bridgeford Report with Bridgeford and management of the Company. The Special Committee further advised representatives of the Acquiring Group that the Special Committee would not be in a position to render its report on the Initial Proposal until after the regular meeting of the Board of Directors scheduled to be held on May 26, 1994.

On May 20, 1994, representatives of Bear Stearns met with representatives of Bridgeford to review the Bridgeford Report. At this meeting, the representatives of Bear Stearns questioned the Five Year Management Projections which reflected no growth in revenues after fiscal 1995 and no growth in earnings before interest, taxes, depreciation and amortization ("EBITDA") after fiscal 1996 and noted that such Projections and the American Securities Projections differed significantly, in terms of sales and operating margins, from the 1995 Divisional Forecasts made by the managements of the Company's individual business units in connection with the preparation of the Fiscal 1995 Management Budget. The Bridgeford representatives explained that the Five Year Management Projections had been prepared before the Fiscal 1995 Management Budget had been completed and assumed a zero level of inflation over the five-year period solely for purposes of the projections. The Bridgeford representatives also explained that forecasts made by the managements of the Company's individual business units in prior years had consistently proved to have been significantly overly optimistic and that, therefore, the Company's current senior management had made an overall downward adjustment to such forecasts for the current fiscal year as well as the prior fiscal year when incorporating them into the consolidated budgets prepared by senior management. At this meeting, Bear Stearns suggested that the Company's management be asked to develop an additional set of financial projections based on more optimistic operating assumptions, including inflation assumptions. The Bridgeford representatives agreed to work with the Company's senior management to develop such updated projections and furnish them to Bear Stearns as soon as possible.

At the regular meeting of the Board of Directors held on May 26, 1994, the Special Committee did not report on its consideration of the Initial Proposal. At the suggestion of legal counsel for the Special Committee, the Board of Directors unanimously adopted resolutions to clarify the duties and responsibilities and the authority of the Special Committee. The Special Committee was authorized to take all plenary action it deemed necessary or appropriate to review, evaluate and reach a determination with respect to the Initial Proposal, including negotiations with respect to the terms of the Initial Proposal, and any other proposals to acquire the Company or all or substantial portions of its business or assets which may be received by the Company or the Special Committee, whether by active solicitation of such other proposals, public

dissemination of information concerning the Initial Proposal or any such other proposals or otherwise (including furnishing of information concerning the Company to third parties in connection with any such other proposals), and negotiations with respect to the terms thereof. The Board also ratified the retention by the Special Committee of Skadden, Arps, Slate, Meagher & Flom as legal counsel to assist the Special Committee in its review and evaluation of the Initial Proposal and to assist the Special Committee and the Company in connection with all other legal matters relating to the Initial Proposal and

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any other proposals, and the retention by the Special Committee of Bear Stearns as financial advisor to the Special Committee to assist it and the Board of Directors in their review and evaluation of the Initial Proposal and any other proposals and to render a written opinion as to the fairness of the terms of the Initial Proposal or any other proposals to the Company's stockholders from a financial point of view. The Board of Directors also authorized and directed the officers of the Company to fully cooperate with the Special Committee and its advisors, including supplying all information requested by the Special Committee or its advisors, and directed the officers of the Company and members of the Board and each of their advisors to refer to the Special Committee any other proposals received by them.

On June 2, 1994, Bridgeford delivered to the Special Committee and Bear Stearns the updated five-year projections (the "Optimistic Growth Case Projections") which senior management of the Company had developed with the assistance of representatives of Bridgeford. See "SPECIAL FACTORS--Report of Financial Advisor of the American Securities Group" and "--Certain Projections."

On June 9, 1994, the Special Committee met with its financial and legal advisors. The Special Committee again reviewed the terms of the Initial Proposal and received Bear Stearns' report regarding their analysis of the Initial Proposal as well as their review of the Optimistic Growth Case Projections. Bear Stearns advised the Special Committee that in its view the per share price contained in the Initial Proposal was inadequate. Based in part on such advice, the Special Committee determined that the Initial Proposal was inadequate from a financial point of view and that it would not recommend such offer to the Company's stockholders. The Special Committee discussed the possibility that the Acquiring Group might withdraw the Initial Proposal in light of such determination, as well as the circumstances surrounding another expression of interest in the Company it had received from a third party.

Following such meeting of the Special Committee, the Special Committee advised representatives of the Acquiring Group that Bear Stearns could not conclude that the Initial Proposal at $13.125 per Common Share was fair from a financial point of view to the Company's stockholders. Members of the Acquiring Group initially advised the Special Committee that they would consider their options, including possibly withdrawing the Initial Proposal, in light of such action, but subsequently advised that they planned to work at refining their analyses over the next several days until the next Board meeting, at which time they would decide whether they were prepared to submit a revised proposal. Thereafter, a special meeting of the Board of Directors was called for June 13, 1994 for the purpose of receiving the report of Bear Stearns and the recommendation of the Special Committee with regard to the Initial Proposal.

At the special meeting of the Board of Directors held by telephone conference on June 13, 1994, representatives of Bear Stearns reported that based upon their review of financial and other information to date, they had advised the members of the Special Committee that in their opinion the Initial Proposal of $13.125 per Common Share was inadequate. The members of the Special Committee advised the meeting that, after considering the Bear Stearns report and discussing their own views regarding the Company, the Special Committee had concluded the Initial Proposal was inadequate. The Special Committee also reported that a third party had expressed a preliminary interest in acquiring the Company at a price higher than $13.125. A representative of the Acquiring Group advised the meeting that the Acquiring Group might be prepared to increase its proposal to a per share amount closer to $14.00 per share than $13.00 per share if the Special Committee were to indicate that it would be inclined to favorably consider such a proposal. The representative of the Acquiring Group suggested that Bear Stearns expedite any further analysis which it believed it needed to perform in order to evaluate such a possible increase in the Acquiring Group's proposal and advise the Acquiring Group later in the week as to whether Bear Stearns could recommend such an

increased proposal, if made, to the Special Committee. The special meeting of the Board then adjourned to permit the Special Committee to meet separately with its financial and legal advisors. Thereafter, the meeting of the Board reconvened and the members of the Special Committee advised that they and the

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Special Committee's advisors were prepared to discuss an increased merger proposal with the Acquiring Group and its advisors, as well as exploring the other expression of interest it had received from a third party or any additional expressions of interest which it may thereafter receive. The Board of Directors directed management to issue promptly a press release regarding the Special Committee's determination that the Initial Proposal was inadequate.

On June 13, 1994, following the conclusion of the special meeting of the Board of Directors, the Company issued the following press release:

"FOR IMMEDIATE RELEASE

KETEMA'S SPECIAL COMMITTEE MAKES INITIAL DETERMINATION

Denver, CO, June 13, 1994--Ketema, Inc. (Amex-KTM) announced today that its Special Committee of Directors formed to review and evaluate the proposal received from the Amseco Group to acquire the shares of the Company's common stock not owned by them at $13.125 per share in cash has determined that the offer is inadequate from a financial point of view and that it would not recommend that stockholders approve the offer. The Amseco Group, which owns approximately 23% of the Company's outstanding stock, including shares issuable upon conversion of debentures held by the Group, consists of clients of American Securities Partners, L.P. and Hugh H. Williamson, III, the President and Chief Executive Officer of Ketema. Four members of the Amseco Group are directors of the Company. The Special Committee based its determination in part on the opinion of Bear, Stearns & Co. Inc., its financial advisor. The Special Committee has advised representatives of the Amseco Group of its determination and is continuing to discuss the proposal with the Amseco Group and its advisors, as well as exploring other expressions of interest which have been or may be received from third parties.

Ketema, Inc., is a diversified, multi-product manufacturer that develops, designs, manufactures, and markets, domestically and internationally, a wide group of products for industrial and commercial markets."

Later in the day on June 13, 1994, representatives of the Acquiring Group and Bridgeford met with representatives of Bear Stearns. At such meeting, the historical and projected performance of the Company on a consolidated basis and certain of the larger individual business units were discussed. The participants at the meeting also discussed the differences between the Optimistic Growth Case Projections and the American Securities Projections. It was explained that the American Securities Projections reflected greater EBITDA by reason of the assumed elimination of $500,000 of annual estimated general and administrative expenses which the Company would not incur as a privately-owned, as opposed to publicly-owned, corporation following the Merger, including the additional legal and accounting fees incurred in connection with the preparation of reports required to be filed with the Commission and annual and other reports to stockholders, certain insurance premiums and transfer agent and similar fees and expenses, and the assumption that the Company would not experience a cyclical downturn over the period of the projections. The overly optimistic nature of the forecasts historically made by the managements of the Company's individual business units, including the 1995 Divisional Forecasts and the adjustments thereto made by the Company's senior management, were explained by the representative of the Acquiring Group. In addition, the different views of the valuation of the Company by the Acquiring Group and the Bear Stearns representatives were discussed.

During the evening of June 13, 1994, legal counsel for the Acquiring Group submitted to legal counsel for the Special Committee a draft of a proposed merger agreement, copies of which were also furnished to the members of the Special Committee and its financial advisor. On June 14, 1994 counsel for the Special Committee forwarded to counsel for the Company a form of confidentiality agreement the Special Committee intended to enter into on behalf of the Company with any third party who expressed interest in acquiring the

Company and wished to receive confidential information concerning the Company.

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Between June 14 and June 17, legal counsel for the Special Committee discussed the draft merger agreement in detail with the members of the Special Committee and the respective legal advisors negotiated the provisions of the draft merger agreement. During this period, successive revised drafts of such agreement were prepared and furnished to the Special Committee and its legal and financial advisors. In addition, counsel for the Special Committee received (and later advised the Special Committee of) an inquiry from an additional third party expressing a possible interest in acquiring the Company.

On June 16, 1994, Alan R. Gruber, on behalf of the Special Committee, advised by telephone a representative of the Acquiring Group that after consideration with its financial advisor, the Special Committee believed that an increased offer by the Acquiring Group to the $14.00 per Common Share range as suggested at the June 13th meeting would, if made, be inadequate. Mr. Gruber did not indicate what price the Special Committee would determine to be adequate. Thereafter, on June 17, 1994, representatives of Bridgeford met with representatives of Bear Stearns to discuss Bear Stearns' views that a price of $14.00 per Common Share would not be adequate. Following such meeting, the Bridgeford representatives advised representatives of the Acquiring Group that Bridgeford believed Bear Stearns would be able to opine that a price of between $14.50 and $15.00 per Common Share would be in the range of fairness.

On June 20, 1994, representatives of the Acquiring Group and its financial and legal advisors met at the offices of Skadden, Arps, Slate, Meagher & Flom with Alan R. Gruber and the financial and legal advisors of the Special Committee. William J. Catacosinos participated in the meeting from time to time by telephone. At such meeting, the representatives of the Acquiring Group said it was prepared to increase its offer to $15.00 in cash per share (the "Revised Proposal"), subject to Holdings Corp. receiving an amendment to the Chase financing commitment. The making of the Revised Proposal was also conditioned on reaching agreement on certain provisions of the proposed merger agreement which remained unresolved, including the circumstances under which Holdings Corp. would be entitled to reimbursement from the Company of Holdings Corp.'s out-of-pocket expenses in the event the merger was not consummated and the maximum dollar amount of such expense reimbursement obligation of the Company.

Following such meeting, the Special Committee and its advisors met by conference telephone. Bear Stearns expressed its preliminary view that the price of $15.00 in cash per Common Share, if made, would be fair from a financial point of view to the Company's stockholders. Counsel for the Special Committee discussed the terms of the proposed merger agreement, both resolved and unresolved. The Special Committee discussed the importance of the merger agreement containing specific provisions which would allow it to negotiate with third parties who had, or might thereafter, express an interest in acquiring the Company and to terminate the merger agreement in such circumstances. Counsel also reviewed the fact that there were no other "lock up" type arrangements in the draft merger agreement. The Special Committee discussed the merger agreement, including the expense reimbursement request presented by the Acquiring Group and the circumstances under which it felt such reimbursement would be appropriate.

Thereafter, legal counsel for the Special Committee advised the Acquiring Group and its advisors that Bear Stearns had indicated to the Special Committee that Bear Stearns was prepared to advise the Special Committee that the price of $15.00 in cash per Common Share to be received by the Company's stockholders (other than the Acquiring Group) pursuant to the Revised Proposal, if made, would be fair from a financial point of view to the Company's stockholders. Counsel for the Special Committee also advised that the Special Committee had scheduled a further meeting for the following day, June 21, 1994, in anticipation of receiving the Revised Proposal and to consider such Revised Proposal and the unresolved terms of the proposed merger agreement.

On June 21, 1994, the Special Committee met by conference telephone with its financial and legal advisors to review the status of the Revised Proposal and the negotiations regarding certain terms of the merger agreement. Bear Stearns confirmed the preliminary view as to the adequacy of the Revised Proposal that it had expressed on the prior day. The Special Committee discussed the status of the Revised Proposal,

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including the likelihood that the conditions (including receipt of the required financing) to the Revised Proposal would be satisfied. Counsel reviewed with the Special Committee the status of negotiations concerning the merger agreement, including the expense reimbursement provisions. Subject to limiting further the scope of such provisions, the Special Committee determined, based in part on the advice of Bear Stearns, that the Revised Proposal was fair and in the best interests of the Company's stockholders other than the Acquiring Group and that it would recommend that the Board of Directors approve and adopt the Merger Agreement.

Thereafter, a special meeting of the Board of Directors was held by conference telephone late in the day on June 21, 1994 (Mr. Gruber joined the call toward the end of the meeting). At such meeting, the representatives of the Acquiring Group confirmed that Holdings Corp. had received and accepted an amendment to the Chase financing commitment that satisfied the condition to the Acquiring Group making the Revised Proposal. A representative of Bear Stearns then reviewed with the Board of Directors such firm's analysis of the Revised Proposal, including the methodologies which such firm had employed in its analysis. He advised that Bear Stearns, subject to approval of its valuation committee, had concluded that the Revised Proposal at a price of $15.00 in cash per Common Share was fair from a financial point of view to the Company's stockholders other than the Acquiring Group. Dr. Catacosinos then advised the Meeting that the remaining provisions of the proposed merger agreement had been resolved to the satisfaction of the Special Committee and that the Special Committee had unanimously determined, based in part on the advice of Bear Stearns, that the Revised Proposal was fair and in the best interests of the Company's stockholders other than the Acquiring Group, and that it recommended to the full Board of Directors the $15.00 per Common Share price to be paid in connection with the Merger and the other terms of the Merger Agreement. The full Board of Directors then unanimously approved the Revised Proposal and the Merger Agreement. See "SPECIAL FACTORS--Recommendations of the Special Committee, the Board, and the Acquiring Group; Fairness of the Merger."

The Company issued the following press release early on June 22, 1994:

"FOR IMMEDIATE RELEASE

KETEMA'S BOARD APPROVES REVISED MERGER PROPOSAL

Denver, CO, June 21, 1994--Ketema, Inc. (Amex-KTM) announced today that its Board of Directors, based in part upon the recommendation of a Special Committee of independent Directors, has unanimously approved a revised merger proposal from the American Securities Group under which the members of such Group would acquire all of the Common Stock of Ketema not already owned by them at a price of $15.00 per share in cash through the merger of a newly-formed corporation owned by them into Ketema. The American Securities Group, which owns approximately 23% of the Company's outstanding stock, including shares issuable upon conversion of Debentures held by the Group, consists of clients of American Securities Partners, L.P., and Hugh H. Williamson, III, the President and Chief Executive officer of Ketema. Four members of the American Securities Group are Directors of the Company.

The Special Committee based its recommendation in part upon the advice of Bear, Stearns & Co. Inc., its financial advisor, that the transaction is fair from a financial point of view to the Company's stockholders (other than the American Securities Group). As previously reported, the American Securities Group had submitted a proposal in April, 1994 for a similar transaction at a price of $13.125 per share in cash. On June 13, 1994, the Company announced that the Special Committee had determined that such prior offer was inadequate from a financial point of view and that it would not recommend that stockholders approve the offer.

Under the terms of the definitive Merger Agreement executed today, the Special Committee has the authority to continue to explore other expressions of interest which have been or may be received from

third parties. The Company, acting through the Special Committee, would

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have the right to terminate the Merger Agreement if the Board of Directors or the Special Committee recommends a competing transaction or withdraws its recommendation of the proposal of the American Securities Group.

Ketema said that under the terms of the Merger Agreement, the merger is subject to, among other things, (i) approval by holders of a majority of Ketema's outstanding shares at a Special Meeting of Stockholders to be called for the purpose of considering the merger, (ii) funding pursuant to a bank financing commitment, which financing commitment would require, among other things, the American Securities Group reaching satisfactory agreements with the institutional investors holding Ketema's $45,000,000 principal amount of outstanding Senior Notes regarding the early retirement of such Notes, and (iii) the receipt of all necessary consents and governmental approvals.

Upon consummation of the merger, Ketema's 8% Convertible Subordinated Debentures due 2003 which are not converted into Common Stock prior to the merger would remain outstanding and, in accordance with their terms, would thereafter be convertible solely into the right to receive the cash merger consideration. Such Debentures are presently convertible into Ketema Common Stock at a conversion price of $15.58 per share. However, it is the present intention of the American Securities Group to cause Ketema to redeem the Debentures at their redemption price, plus accrued interest, following consummation of the merger subject to availability of financing.

Ketema, Inc. is a diversified, multi-product manufacturer that develops, designs, manufactures, and markets, domestically and internationally, a wide group of products for industrial and commercial markets."

On June 27, 1994, the party that had initially expressed an interest in acquiring the Company advised the Special Committee in writing that it was no longer interested in pursuing its interest in the Company.

On the date of this Proxy Statement, Bear Stearns delivered a written opinion, dated the date hereof, a copy of which is attached as Annex C hereto, as to the fairness of the consideration from a financial point of view to be paid to the Company's public stockholders pursuant to the Merger. See "SPECIAL FACTORS--Recommendations of the Special Committee, the Board and the Acquiring Group; Fairness of the Merger."

RECOMMENDATIONS OF THE SPECIAL COMMITTEE, THE BOARD AND THE ACQUIRING GROUP; FAIRNESS OF THE MERGER

The Special Committee. At a meeting of the Special Committee of the Board of Directors on June 21, 1994, the Special Committee unanimously concluded that the Merger and the Merger Consideration are fair from a financial point of view to, and in the best interests of, the stockholders of the Company (other than to members of the Acquiring Group) and recommended to the Board of Directors that it approve the Merger Agreement based upon the following factors:

(i) The opinion of the Special Committee's financial advisor to the effect that the Merger is fair, from a financial point of view, to the stockholders of the Company (other than to members of the Acquiring Group);

(ii) The existing assets, financial condition and operations of the Company;

(iii) The trading history of the Common Shares with particular emphasis on the relationship between the price to be paid pursuant to the Merger and the trading history of the Common Shares, including the fact that the consideration to be received pursuant to the Merger represents a premium of approximately 34.8% over the closing sales price on the AMEX on October 20, 1993, the last trading day before the filing of Amendment No. 12 to the Schedule 13D by members of the American Securities Group (see "SPECIAL FACTORS--Background of the Merger") and a premium of approximately 11.0% over the closing sales price on the AMEX on June 21, 1994, the last trading date preceding the press release by the Company announcing the receipt and acceptance of the Acquiring Group's Revised Proposal of $15.00 per Common Share. (see "MARKET PRICE FOR THE COMMON SHARES");

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(iv) The fact that the terms of the Merger Agreement and the price to be paid were determined through arms' length negotiations between representatives of the Acquiring Group, on the one hand, and the Special Committee, on the other hand; and that as a result of these negotiations, the price to be paid was increased by the Acquiring Group on two occasions;

(v) The terms and conditions of the Revised Proposal and the Special Committee's judgment as to the likelihood of the transaction being consummated;

(vi) The fact that the Special Committee had negotiated in the Merger Agreement the ability to respond to and negotiate with third parties who had previously or might thereafter express an interest in acquiring the Company and, if appropriate, to terminate the Merger Agreement in light of such expressions of interest as well as the right to include such information in the public announcement concerning approval of the Merger Agreement; and

(vii) The risks that the Company would not be able to realize potentially greater values from various restructuring alternatives.

In view of the wide variety of factors considered in connection with its evaluation of the Merger and the Merger Consideration, the Special Committee did not find it practicable to assign relative weights to the factors considered in reaching its decision, and therefore, the Special Committee did not quantify or otherwise attach relative weights to the specific factors considered by the Special Committee.

As noted above, the Special Committee considered as an important element of its analysis, among the other factors described above, the analysis of its financial advisor as to the fairness of the Merger from a financial point of view. The Special Committee relied upon the fairness opinion of Bear Stearns for its analysis and the Special Committee expressly adopted the conclusion and analysis of Bear Stearns as its own (see "SPECIAL FACTORS--Opinion of the Special Committee's Financial Advisor"). The Special Committee and its financial advisor evaluated the fairness of the Merger Consideration following receipt of the Revised Proposal from members of the Acquiring Group and neither the Special Committee nor its financial advisor established a range of fair values for the Company. The Special Committee determined that the factors discussed above were supportive of its determination that the Merger is fair to the stockholders of the Company other than members of the Acquiring Group. In addition, in considering alternatives of strategic acquisitions or management initiatives, the Special Committee noted that the Company's President had recently decided against strategic acquisitions or divestitures. The Special Committee felt that it was unlikely that the Company would embark upon any strategic acquisition program, and that such a task would be difficult given the diverse nature of the Company's various business units. For a similar reason, it was felt that the alternative involving divestitures could not be considered a timely alternative. It was also noted by the Special Committee that the Company's defense manufacturing business was suffering from downward market conditions likely to be ongoing.

The Special Committee recognized that the interests of members of the Acquiring Group in the Merger are not the same as the interests of the other holders of Common Shares in the Merger. See "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "--Opinion of the Special Committee's Financial Advisor," "--Certain Projections" and "MARKET PRICE FOR THE COMMON SHARES."

The Board. The Board of Directors of the Company has concluded that the Merger, including the Merger Consideration and the negotiation and structure of the Merger, is fair to the stockholders of the Company (other than the members of the Acquiring Group) and recommends that stockholders vote in favor of the Merger based upon the following factors: (i) the conclusions and recommendations of the Special Committee; (ii) the opinion of the Special Committee's financial advisor to the effect that the $15.00 per Common Share to be received in the Merger is fair from a financial point of view to the stockholders of the Company (other than the members of the Acquiring Group), which opinion of Bear Stearns the Board of Directors has adopted as its own, as well as the conclusion and analysis of Bear Stearns; (iii) the factors

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referred to above as having been taken into account by the Special Committee, which the Board of Directors adopts as its own; and (iv) the fact that the Merger Consideration was the result of arm's-length negotiations between the Special Committee and members of the Acquiring Group and their respective legal and financial advisors. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the Merger Consideration, the Board of Directors did not find it practicable to assign relative weights to the factors considered in reaching its decision, and, therefore, the Board of Directors did not quantify or otherwise attach relative weights to the specific factors considered by the Board.

The Board of Directors has considered as an important element of its assessment the fairness opinion of the Special Committee's financial advisor. In its analyses, the Board of Directors recognized that adoption of the Merger Agreement does not require the affirmative vote of a majority of the Common Shares held by stockholders of the Company other than members of the Acquiring Group. The Board recognized that the interests of the members of the Acquiring Group in the Merger are not the same as the interests of the other holders of Common Shares in the Merger. Because Delaware law requires a merger agreement to be approved by a majority of the members of a Delaware corporation's board of directors, members of the Acquiring Group who serve on the Board of Directors, Alexander G. Anagnos, Charles D. Klein, Elizabeth R. Varet and Hugh H. Williamson, III, participated in the Board's vote to approve the Merger Agreement and recommend it to the Company's stockholders. See "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain Relationships," "--Opinion of the Special Committee's Financial Advisor," and "--Certain Projections."

The Acquiring Group. The Acquiring Group has concluded that the Merger, including the Merger Consideration and the negotiation and structure of the Merger, is fair to the stockholders of the Company (other than the members of the Acquiring Group) based upon the following factors: (i) the conclusions and recommendations of the Special Committee and the Company's Board of Directors; (ii) information provided to and discussed with members of the Acquiring Group in connection with the valuation analyses performed by Bridgeford; (iii) the fact that the Merger Consideration and the other terms and conditions of the Merger Agreement were the result of arm's-length good faith negotiations between the Special Committee and its advisors and the representatives of the Acquiring Group and its advisors; (iv) the fact that Bear Stearns issued a fairness opinion to the Special Committee to the effect that the Merger is fair from a financial point of view to the Company's public stockholders; (v) the fact that prior to the execution of the Merger Agreement there had been, and during the substantial period of time which would elapse between the announcement of the execution of the Merger Agreement and the consummation of the Merger following the Special Meeting of Stockholders to be held to vote upon the Merger there would be, more than sufficient time and opportunity for other persons to propose alternative transactions to the Merger and that the terms of the Merger Agreement authorize the Company to furnish information to and negotiate with third parties in response to unsolicited requests by such parties concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division thereof if the Special Committee deems such action is appropriate in light of its fiduciary obligations to the Company's stockholders after consultation with legal counsel; and (vi) the other factors referred to above as having been taken into account by the Special Committee and the Company's Board of Directors, which the members of the Acquiring Group adopt as their own (see "SPECIAL FACTORS--Background of the Merger" and "--Opinion of the Special Committee's Financial Advisor"). In view of the wide variety of factors considered in connection with its evaluation of the Merger and the Merger Consideration, the members of the Acquiring Group did not find it practicable to assign relative weights to the factors considered in reaching their decision, and, therefore, the members of the Acquiring Group did not quantify or otherwise attach relative weights to the specific factors considered by the Special Committee and the Company's Board of Directors. The members of the American Securities Group recognized that their interests in the Merger are not the same as the interests of the other holders of Common Shares in the Merger. See "SPECIAL FACTORS--Interests of Certain Persons in the Merger; Certain

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Relationships."

OPINION OF THE SPECIAL COMMITTEE'S FINANCIAL ADVISOR

The Special Committee of the Board of Directors of the Company retained Bear Stearns on December 13, 1993 to act as its financial advisor and to render an opinion to the Special Committee and the Board of Directors as to the fairness of the Merger, from a financial point of view, to the holders of Common Shares unaffiliated with the Acquiring Group. On June 21, 1994 Bear Stearns rendered its financial advice to the Special Committee and the Board of Directors that with an increase of the consideration to $15.00 per Common Share, payable in cash, the Merger was fair, from a financial point of view, to the holders of Common Shares unaffiliated with the Acquiring Group. Bear Stearns issued its formal opinion which has been updated to the date of this Proxy Statement.

The full text of Bear Stearns' opinion, which sets forth certain assumptions made, certain procedures followed and certain matters considered by Bear Stearns, is attached as Annex C to this Proxy Statement. As set forth therein, Bear Stearns relied upon the accuracy and completeness of the financial and other information provided to it by the Company and further relied upon the assurances of management that it is unaware of any facts that would make the information provided to Bear Stearns incomplete or misleading. In arriving at its opinion, Bear Stearns did not perform any independent appraisal of the assets of the Company. No limitations were imposed by the Special Committee or the Board of Directors of the Company with respect to the investigation made, or the procedures followed, by it in rendering its opinion, and the Company's management cooperated fully with Bear Stearns in connection therewith. Bear Stearns' opinion was based on market, economic and other conditions as they existed and could be evaluated at the date of the opinion. The discussion of the opinion in this Proxy Statement is qualified in its entirety by reference to the full text of such written opinion of Bear Stearns. STOCKHOLDERS ARE ENCOURAGED TO READ BEAR STEARNS' OPINION IN ITS ENTIRETY.

In conducting its analysis and arriving at its opinion, Bear Stearns, among other things: (i) reviewed this Proxy Statement; (ii) reviewed the Company's Annual Reports to Stockholders and Annual Reports on Form 10-K for the fiscal years ended February 28, 1993 and 1994 and its Quarterly Report on Form 10-Q for the period ended May 31, 1994; (iii) reviewed certain operating and financial information including projections, provided to it by management relating to the Company's business and prospects; (iv) met with certain members of the Company's senior and operating managements to discuss its operations, historical financial statements and future prospects; (v) visited the Company's facilities in Bensalem, Pennsylvania, Denver, Colorado, El Cajon, California, Grand Prairie, Texas, and Odenton, Maryland; (vi) reviewed the historical stock prices and trading volume of the Common Shares; (vii) reviewed publicly available financial data and stock market performance data of public companies which it deemed generally comparable to the Company; (viii) reviewed the terms of recent acquisitions of companies which it deemed generally comparable to the Company; and (ix) conducted such other studies, analyses, inquiries and investigations as it deemed appropriate.

In connection with its opinion, Bear Stearns performed the following analyses: (1) analysis of historical market prices of the Common Shares; (2) going-concern analysis based on comparisons with other multi-industry, publicly-traded companies serving similar markets; (3) going-concern analysis based on comparisons with acquisitions of other multi-industry, publicly-traded companies serving similar markets; (4) pro forma capitalization of fiscal year 1995 EBITDA; (5) liquidation analysis; and (6) discounted cash flow analysis.

Market Price Analysis. Bear Stearns reviewed the historical market price and volume relating to the Common Shares and noted the following: (i) during the twelve months ended June 21, 1994, the Common Shares traded between $9.875 and $15.75; (ii) the closing price on October 21, 1993, the day of the filing of Amendment No. 12 to the Schedule 13D by the members of the American Securities Group (see "SPECIAL FACTORS--Background of the Merger"), was $11.00 per Common Share; (iii) on October 22, 1993, the price per Common Shares rose to $15.75 and closed at $15.125, the highest Common Share price since 1990; (iv) on April 26, 1994, the last trading day prior to public disclosure of the Initial

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Proposal, the closing price was $13.00 per Common Share; and (v) on June 14, 1994, one day after the announcement of the Special Committee's rejection of the Initial Proposal, the closing price of the stock was $13.375 per Common Share.

Going-Concern Analysis--Comparison with Selected Publicly Traded Companies. Bear Stearns reviewed and compared the financial and market performance of the Company to the financial and market performance of Vishay Intertechnology, Inc., Ametek, Inc., Varlon Corporation, Core Industries Inc. Pacific Scientific Company and SL Industries Inc., six publicly traded multi-industry corporations that Bear Stearns believed were comparable in certain respects to the Company. Although such companies were considered similar to the Company in some respects, none of such companies possessed the same make-up, combination of businesses or other characteristics identical to those of the Company. For each company, Bear Stearns examined certain publicly available financial data, including net sales, earnings before interest and taxes ("EBIT"), EBITDA, net income, earnings per share, profit margins and compounded annual growth rates. Bear Stearns examined balance sheet items of each company, earnings forecasts (if available) and the relative trading performance of the various companies' common stock. In addition, Bear Stearns calculated the ratio of the market price of each company's stock (using the Merger Consideration of $15.00 per Common Share in the case of the Company) in relation to earnings and the ratio of the market capitalization (the total market value of the common stock outstanding plus its debt at par less cash) of each company to its net sales, EBIT and EBITDA. The Company (i) was the next to smallest company in terms of net sales; (ii) had the lowest or next to lowest profit margins; and (iii) had the lowest four-year sales growth and a negative growth rate in EBIT, which was worse than four of the comparable companies. The ratios of the Merger Consideration to the Company's latest twelve month ("LTM") earnings per share, projected 1994 earnings per share and projected 1995 earnings per share were all higher than for all of the comparable for which data was available. The ratios of market capitalization to LTM net sales, LTM EBITDA and LTM EBIT for the Company were, respectively, lower than all the comparables, lower than all the comparables but one, and above the harmonic mean of the comparables.

Going-Concern Analysis--Comparison with Selected Acquisitions. Bear Stearns reviewed and compared the financial and market performance of the Company to the financial and market performance of Fischer & Porter Company, Mark Controls Corp., Autotrol Corporation, Rexnord Corporation, Eldec Corp. and Sun Electric Corporation, six publicly traded multi-industry corporations that Bear Stearns believed were comparable in certain respects to the Company. Although such companies were considered similar to the Company in some respects, none of such companies possessed the same make-up, combination of businesses or other characteristics identical to those of the Company. For each company, Bear Stearns examined certain publicly available financial data, including net sales, EBIT, EBITDA, net income and earnings per share. Bear Stearns calculated the ratio of the acquisition price of each company's stock (using the Merger Consideration of $15.00 per Common Share in the case of the Company) in relation to LTM earnings and the ratio of the market capitalization of each company to its LTM net sales, LTM EBIT and LTM EBITDA. The Company had the highest multiple of LTM earnings, the lowest multiple of LTM sales and EBITDA, and the next to lowest multiple of EBIT.

Pro Forma Capitalization of Fiscal Year 1995 EBITDA. In this analysis, Bear Stearns imputed the going-concern value of the Common Shares by calculating the market capitalization of the Company at multiples of 4.0 times to 5.5 times projected fiscal year 1995 EBITDA and then (i) deducting $45 million principal amount of the Senior Notes plus the associated prepayment penalty of $7.0 million; and (ii) adding cash and marketable securities, the proceeds from exercise of its outstanding options, the present value of its tax benefits, the estimated market value of Pine Street Partners, L.P., a risk arbitrage partnership, and the estimated net assets of discontinued operations. The imputed value per Common Share ranged from $13.39 to $17.24. Bear Stearns believed that the 4.0 times to 5.5 times EBITDA multiple range was appropriate in light of a variety of factors, including the Company's current and expected performance and the market for companies similar to the Company and its subsidiaries.

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Liquidation Analysis. Bear Stearns estimated the net asset value of the Company assuming the liquidation of all the Company's assets and liabilities at their estimated realizable values. Bear Stearns' analysis was based in part on certain estimates of fair market values provided to Bear Stearns by the Company. Bear Stearns concluded that a liquidation of the Company would result in a net asset value that would be substantially lower than the Merger Consideration of $15.00 per Common Share.

Discounted Cash Flow Analysis. Bear Stearns' prepared two discounted cash flow analyses based upon the American Securities Projections. Both analyses: (i) used terminal value multiples of 4.0 times to 5.5 times projected fiscal year 1999 EBITDA; (ii) used discount rates of 13.0% to 17.0%; (iii) used minimum cash balances of $4.0 million, as required by the Company, but not incorporated in the American Securities Projections; (iv) assumed that the Company would continue as a public reporting entity; (v) assumed prepayment of the Senior Notes; and (vi) assumed both a larger amount and a faster use of the Company's NOLs for tax purposes. The first Bear Stearns' analysis used the growth rates and capital expenditures of the American Securities Projections, and the second increased revenue and capital expenditures to 5% for fiscal years 1996 through 1999. The imputed value of the Common Shares was between $13.22 and $17.40 per Common Share, based upon the first projection, and between $13.80 and $18.35 in the second case. Bear Stearns believed that the 4.0 times to 5.5 times EBITDA multiple range was appropriate in light of a variety of factors, including the Company's current and expected performance and the market for companies similar to the Company and its subsidiaries. Bear Stearns believed that the 13% to 17% discount rate was appropriate based upon a variety of factors including estimates of the Company's cost of equity capital based upon the capital asset pricing model and its publicly reported beta.

A copy of Bear Stearns' written presentation to the Special Committee has been filed as an Exhibit to the Schedule 13E-3. Copies will be made available for inspection and copying at the principal executive offices of the Company during regular business hours by any interested stockholder of the Company, or the representative of such stockholder who has been designated in writing as such by such stockholder. The summary set forth above of the analyses prepared by Bear Stearns does not purport to be a complete description of Bear Stearns' analyses. Bear Stearns believes that its analyses must be considered as a whole and that selecting portions of the factors considered and analyses performed by it, without considering all
factors and analyses, could create an incomplete view of the processes underlying its analyses and fairness opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In its analyses, Bear Stearns made numerous assumptions with respect to the Company's industry, general business and economic conditions and other matters, many of which are beyond the Company's control. Any estimates contained therein are not necessarily indicative of actual value, which may be significantly more or less favorable than as set forth therein. Estimates of value for companies do not purport to be appraisals or necessarily reflect the prices at which companies may actually be sold. Because such estimates are inherently subject to uncertainty, Bear Stearns assumes no responsibility for their accuracy.

Bear Stearns is an internationally recognized investment banking firm which regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions. The Special Committee chose Bear Stearns as its financial advisor based upon Bear Stearns' qualifications, expertise and reputation. For its services as financial advisor to the Special Committee, the Company has agreed to pay Bear Stearns a fee of $350,000. The Company has also agreed to indemnify Bear Stearns against certain liabilities and to reimburse Bear Stearns for its reasonable out-of-pocket expenses (including the reasonable fees and expenses of its counsel). In the ordinary course of its business, Bear Stearns may actively trade in securities of the Company for its own account and for the account of its customers and, accordingly, may at any time hold a long or short position in such securities.

REPORT OF FINANCIAL ADVISOR OF THE AMERICAN SECURITIES GROUP

American Securities has neither requested nor received any opinion from

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Bridgeford, or any other outside party, as to the fairness of the Merger Consideration to the Company's public stockholders. However, since it was retained by American Securities pursuant to a letter agreement dated November 1, 1993, Bridgeford undertook and reported the results of certain analyses relating to the value of the Common Shares to assist American Securities in connection with its deliberations as to what action, if any, it should take with respect to its interest in the Company. In preparing such analyses, Bridgeford relied on the accuracy of information provided by American Securities and senior corporate management of the Company. Bridgeford

did not independently verify such information. Following the Initial Proposal, American Securities requested that Bridgeford provide to the Special Committee, Bear Stearns and Skadden, Arps, Slate, Meagher & Flom, a report detailing certain analyses relating to the value of the Common Shares which American Securities had considered in developing the Initial Proposal. Bridgeford delivered this report (the "Bridgeford Report") on May 2, 1994. The following is a brief summary of the Bridgeford Report.

Historical Stock Trading and Financial Statement Analyses. Bridgeford reviewed and analyzed historical trading prices and volumes for the Common Shares as well as selected historical balance sheet and income statement information for the Company. The Initial Proposal represented a 20% premium over the unaffected market price of Common Shares prior to the filing of the 13D Amendment by the American Securities Group on October 21, 1993, and placed a higher value on the Common Shares than at any time since mid-1990, excluding the period from October 21, 1993 to the date of the Initial Proposal. (The Revised Proposal represents a 37% premium over the unaffected market price of the Common Shares). Such analysis also indicated that the Common Shares had significantly under-performed relevant industrial indices, including the NASDAQ Composite, Standard & Poor's Industrial and Standard & Poor's Manufacturing (Diversified Industrials). Bridgeford's analysis also noted that the Company's financial performance since it had been publicly owned had generally been inconsistent and weak on an absolute basis and relative to a group of publicly-traded companies that Bridgeford deemed to have businesses similar to those of the Company. Bridgeford further noted that the Company underperformed its fiscal year 1994 Budget.

Comparable Company Analysis. Bridgeford conducted an analysis of selected companies with diverse businesses believed to have characteristics similar to those of the Company. These companies included Arx, Inc., Curtiss-Wright Corporation, Esterline Technologies Corporation, Heico Corporation, Hi-Shear Industries Inc., Moog Inc., TransTechnology Corporation and Wyman-Gordon Company (the "Selected Companies"). Bridgeford analyzed certain multiples derived from the historical stock price, earnings and other information for the Selected Companies. Such analyses indicated that, with respect to the Selected Companies, the mean and median (excluding values deemed extreme by Bridgeford) aggregate total market capitalization (market value of equity plus total debt, preferred stock and minority interests, less cash and cash equivalents) for the Selected Companies as a multiple of their LTM operating income, operating cash flow (operating income plus depreciation and amortization), free cash flow (operating cash flow less capital expenditures) and net book capital (book value of common equity plus total debt, preferred stock and minority interests, less cash and cash equivalents) ranged from 8.6x to 9.2x, 5.4x to 6.1x, 7.4x to 8.3x and 0.9x to 1.0x, respectively. Bridgeford also analyzed equity market capitalization multiples based on earnings per share and book values, but deemed these less relevant than aggregate market capitalization multiples. Aggregate market capitalization multiples were then applied to the Company's adjusted estimated actual fiscal year 1994 results. Adjustments were determined by Bridgeford through analysis of the Company's interim monthly reports to the Board of Directors and through discussions with management, and were undertaken to reflect what Bridgeford viewed as being the Company's recurring earnings from operations. Earnings deductions included the elimination of profits in the Aerospace & Electronics division that were deemed to have been more closely associated with prior years' activities, the elimination of favorable LIFO effects and various insurance-related adjustments. Earnings add-backs included the elimination of certain losses in the American Innovations division, the elimination of losses attributable to Aldan Machining and the elimination of non-recurring consultants fees. Bridgeford determined that normalized estimated

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operating income in fiscal year 1994 was $5.0 million, compared to $5.6 million ultimately reported by the Company in its audited fiscal year 1994 Consolidated Statements of Operations. Adjusted operating cash flow and free cash flow were determined to be $11.3 million and $6.7 million, respectively. Bridgeford's Comparable Company Analysis indicated an implied value range for the Company's Common Shares on a fully-diluted basis of $11.87 to $17.67 per Common Share based on the application of mean and median aggregate market capitalization multiples for the Selected Companies to the Company's adjusted estimated fiscal year 1994 financial results.

Comparable Transaction Analysis. Bridgeford also conducted analyses of transactions involving companies with diverse businesses believed to have characteristics similar to those of the Company (the

"Selected Transactions"). As with the Comparable Company Analysis, Bridgeford analyzed certain multiples derived from the purchase price, target company earnings and other information pertaining to the Selected Transactions. Such analyses indicated that, with respect to the Selected Transactions, the mean and median (excluding values deemed extreme by Bridgeford) aggregate consideration paid as a multiple of the transaction targets' LTM operating income, operating cash flow, free cash flow and net book capital ranged from 6.2x to 6.3x, 4.7x to 4.9x, 4.6x to 4.8x, and 0.9x flat, respectively. Bridgeford's Comparable Transaction Analysis indicated an implied value range for the Company's Common Shares on a fully-diluted basis of $8.46 to $14.85 per Common Share based on the application of mean and median aggregate consideration multiples for the Selected Transactions to the Company's adjusted estimated fiscal year 1994 financial results.

Discounted Cash Flow Analysis. Bridgeford conducted a discounted cash flow ("DCF") analysis on the Five Year Management Projections for the purpose of estimating the Company's stand-alone asset value. The DCF was conducted by discounting two components: (1) the projected future unleveraged after-tax cash flows of the Company over a period from fiscal year 1995 to fiscal year 1999, and (2) the terminal asset value of the Company at the end of fiscal year 1999 based on a multiple of 1999 projected EBIT. Bridgeford discounted these components using a range of discount rates between 15.0% and 20.0%, which were deemed an appropriate reflection of the Company's weighted average cost of capital based on a review of the Company's asset beta, the historical market risk premium for small capitalization equities, and current and prospective long-term interest rates on U.S. government securities. The terminal asset value was calculated by multiplying 1999 projected EBIT by multiples of 9.0x to 10.0x, which were determined in part by a review of the Selected Companies. To the sum of the two discounted components described herein, Bridgeford added the book value of cash and marketable securities and the Company's investment in Pine Street Partners L.P., a risk arbitrage partnership, and subtracted the book values of debt and accrued interest on the Company's unaudited February 28, 1994 balance sheet. After accounting for the exercise of options and the conversion of convertible subordinated debt where appropriate, this methodology produced an estimated fully diluted equity value per Common Share ranging from $10.25 to $12.68.

Leveraged Buyout Analysis. Bridgeford undertook an analysis of the prospective equity returns to a financial investor in a leveraged acquisition of the Company assuming a per share purchase price for the Company of $13.125, an initial equity investment of $15 million, and the realization the Five Year Management Projections with the following adjustments: annual income attributable to Pine Street Partners, L.P. was deducted to reflect the fact that the liquidation of Pine Street would be required to fund the merger consideration, cost savings related to the operation of the Company as a private entity were added, and an adjustment was made to cash flows from changes in working capital to reflect the pre-funding of workers compensation claims which was being contemplated by the Acquiring Group. Terminal asset values were based on multiples of fiscal year 1999 EBIT of 7.0x to 8.0x which were determined in part by a review of the Selected Companies and Selected Transactions. Bridgeford's analysis indicated that a five-year pre-tax return to common equity investors before equity concessions to financing sources and management was expected to be in the range of 15% to 19%.

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Optimistic Growth Case Projections. During the week of May 23, Bridgeford had a series of discussions with Company management concerning the ramifications of a more optimistic set of operating assumptions than those reflected in the Five Year Management Projections on the Company's prospective financial performance. These discussions led to the development of the Optimistic Growth Case Projections. The major differences between the assumptions in the Optimistic Growth Case versus the Five Year Management Projections included the following: (a) improved revenue growth for the three core business groups in fiscal years 1996, 1997 and 1999 primarily as the result of incorporating inflation assumptions; (b) improvement in the operating margins for the Company's Process Group and Industrial Group in fiscal years 1996, 1997 and 1999; (c) corporate expense growth with inflation in all years; (d) capital expenditures projected to equal depreciation in all years; and (e) the inclusion of an estimated $7 million prepayment premium related to the prospective early retirement of Ketema's $45 million principal amount of 11.12% Senior Notes, as it was determined that this might be likely to occur if the Company continued to operate on a stand-alone basis.

Bridgeford performed a discounted cash flow analysis on the Optimistic Growth Case Projections using the same discount rate range as employed in the Bridgeford Report. With a view towards achieving greater consistency with the valuation methodology being employed by Bear Stearns, Bridgeford calculated its terminal asset value as a multiple of 1999 EBITDA. Bridgeford employed an EBITDA multiple range of 4.0x to 5.5x, based in part on a review of the Selected Companies and Selected Transactions. After accounting for net financial assets and liabilities and the exercise of options and conversion of convertible subordinated debt where appropriate, this analysis produced an estimated fully diluted equity value per Common Share ranging from $8.59 to $12.67 per share. Bridgeford provided the Optimistic Growth Case and associated DCF analysis to the Special Committee, Bear Stearns and Skadden, Arps, Slate, Meagher & Flom and its advisors on June 2, 1994.

The summary set forth above does not purport to be a complete description of the analyses conducted by Bridgeford. Bridgeford believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses, without considering all analyses, or considering the above summary, without considering all factors and analyses, could create an incomplete view of the process underlying all analyses. In performing its analyses, Bridgeford made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the Company's control, and therefore, are inherently imprecise. The analyses performed by Bridgeford are not necessarily indicative of actual values or actual future results, and results may be significantly more or less favorable than suggested by such analyses.

Copies of the Bridgeford Report (which includes the Five Year Management Projections, the Fiscal 1995 Management Budget and the American Securities Projections) and the Optimistic Growth Case Projections have been filed with the Commission as Exhibits to the Schedule 13E-3. Copies will be made available for inspection and copying at the principal executive office of the Company during regular business hours by any interested stockholder of the Company or his representative who has been so designated in writing. A copy may also be inspected and copied, and obtained by mail, in the manner specified under "AVAILABLE INFORMATION," except that copies are not available at the regional offices of the Commission.

American Securities retained Bridgeford based upon Bridgeford's reputation, experience and expertise. Bridgeford is a nationally recognized mergers & acquisitions and financial advisory firm. Bridgeford, as part of its advisory business, engages on a regular basis in the valuation of businesses and securities in connection with mergers and acquisitions, private placements and valuations for corporate and other purposes. Other than in connection with advising American Securities with respect to the Merger and providing to an affiliate of American Securities a fairness opinion in an unrelated assignment for which it received compensation customary for such type of assignment, Bridgeford has not provided any services to, or received any fees from, the Company or American Securities during the past two years.

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Pursuant to a letter agreement dated November 1, 1993 between American Securities and Bridgeford, American Securities retained Bridgeford to act as exclusive financial advisor to American Securities in connection with a possible acquisition of, or business combination with, the Company. American Securities agreed to pay Bridgeford an advisory fee of $25,000 and, based upon whether an acquisition is consummated, a transaction fee. If an acquisition (including the Merger), a share repurchase, a special dividend or other distribution is concluded and (i) Bridgeford is required to render a fairness opinion, Bridgeford will be entitled to receive a transaction fee of $100,000 or (ii) Bridgeford is not required to render a fairness opinion, Bridgeford will be entitled to receive a transaction fee in an amount as shall be mutually agreed upon by American Securities and Bridgeford.

American Securities has agreed to reimburse Bridgeford for its out-of-pocket expenses, including the fees of its legal counsel. American Securities also has agreed to indemnify Bridgeford and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Bridgeford or any of its affiliates against certain liabilities, including liabilities under federal securities laws.

CERTAIN PROJECTIONS

Set forth below are the Optimistic Growth Case Projections and the American Securities Projections. The Optimistic Growth Case Projections were developed by the senior management of the Company with the assistance of representatives of Bridgeford and were provided to the Special Committee and Bear Stearns on May 31, 1994. As discussed above, the Optimistic Growth Case Projections were prepared at the suggestion of Bear Stearns based on a more optimistic set of operating assumptions (i.e., a "best case" scenario) than those underlying the Five Year Management Projections which had previously been prepared by senior management of the Company in February 1994 and were included in the Bridgeford Report. The American Securities Projections were developed by American Securities in April 1994 and were furnished to prospective financing sources for the Merger, including Chase, and were also included in the Bridgeford Report. In preparing the American Securities Projections, representatives of American Securities utilized information contained in both the Five Year Management Projections and the Fiscal 1995 Management Budget which had been completed by the Company's senior management on March 30, 1994, with adjustments deemed appropriate by American Securities to reflect an assumed rate of inflation and the elimination of certain public company expenses and various other assumptions described below. See "SPECIAL FACTORS--Background of the Merger" and "--Report of Financial Advisor of the American Securities Group."

The Company as a matter of course does not prepare projected financial information as to future revenues or earnings that is publicly disclosed. Accordingly, neither the Optimistic Growth Case Projections nor the American Securities Projections were prepared with a view toward compliance with published guidelines of the Commission or the American Institute of Certified Public Accountants regarding forward-looking information or generally accepted accounting principles. These projections are being provided herein solely because such projections were included in the information submitted to and reviewed by the Special Committee of the Board of Directors and Bear Stearns.

Both the Optimistic Growth Case Projections and the American Securities Projections of necessity make a variety of assumptions described below, all of which are difficult to predict and many of which are beyond the control of the Company and may not have been, or may no longer be, accurate. The Optimistic Growth Case Projections reflect the continued operation of the Company as a publicly-owned corporation, but were prepared on an unleveraged basis and, accordingly, do not reflect expense or income attributable to the Company's financial liabilities or assets, such as debt, and cash, marketable securities and an investment in Pine Street Partners, L.P., respectively. The American Securities Projections were prepared on a leveraged pro forma basis giving effect to a merger of the type herein contemplated and, therefore, reflect expense and income attributable to financial liabilities and assets, respectively. Additionally, the Optimistic Growth Case Projections and the American Securities Projections were prepared in May 1994 and April 1994,

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respectively, and have not been revised to reflect, among other things, the increase in the Merger Consideration to $15.00 per Common Share and the effect thereof on various income statement and balance sheet items, actual financial results of the Company to date, revised prospects for the Company's businesses, changes in general business and economic conditions or any other transactions or events that have occurred or that may occur and that were not anticipated at the time such projections were prepared. Accordingly, the projections included herein are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than as set forth therein in the projections. There can be no assurance that the results of operations reflected in any of the projections will be realized or that actual results will not be significantly better or lower than those projected. The Company's independent accountants have not examined, reviewed or compiled any of the projections in this Proxy Statement or expressed any conclusion or provided any other form of assurance with respect to such projections and, accordingly, assume no responsibility for such projections. Because of these inherent uncertainties, none of the Company, American Securities, the Special Committee, the Acquiring Group, Holdings Corp., Acquisition Corp., Bear Stearns, Bridgeford or any other person assumes any responsibility for the accuracy of such projections and the inclusion of the projections in this Proxy Statement should not be regarded as an indication that the Company, American Securities, the Special Committee, the Acquiring Group, Holdings Corp., Acquisition Corp., Bear Stearns or Bridgeford consider such information to be accurate or reliable.

Optimistic Growth Case Projections

KETEMA, INC.
OPTIMISTIC GROWTH CASE PROJECTIONS
SUMMARY INCOME STATEMENTS
FIVE FISCAL YEARS 1995-1999
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	FISCAL YEARS ENDING LAST DAY OF FEBRUARY				
	1995	1996	1997	1998	1999
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	$ 138.2	$ 143.3	$ 148.3	$ 142.5	$ 145.7
Operating Cash Flow (EBITDA)	$ 11.3	$ 12.2	$ 12.9	$ 11.6	$ 12.0
Depreciation	5.3	5.3	5.3	5.3	5.3
Amortization	1.2	1.1	1.1	1.0	1.1
Operating Profit (EBIT)	$ 4.8	$ 5.8	$ 6.5	$ 5.3	$ 5.6
Taxes	1.9	2.3	2.5	2.1	2.2
Net Income	$ 2.9	$ 3.5	$ 4.0	$ 3.2	$ 3.4

</TABLE>

Significant Assumptions. The following assumptions apply to the foregoing Optimistic Growth Case Projections of the Company's sales and net income:

(a) The projections assume the continued operation of the Company as a publicly-owned corporation, but were prepared on an unleveraged basis and, accordingly, do not reflect expense or income attributable to the Company's financial liabilities or assets, such as debt and cash, marketable securities and the investment in Pine Street Partners, L.P.

(b) The projection for fiscal 1995 reflects the Fiscal 1995 Management Budget which forms the base year for the projections for fiscal 1996 through 1999 which assume the continuation of the Company as a public company.

(c) The Company's four business segments (the Process Group, the Aerospace Group, the Industrial Group and American Innovations) were

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projected separately with the following assumptions:

(i) Process Group: Given the cyclical nature of the businesses in this Group, the projections assume 5% revenue growth in fiscal 1996 and 1997, followed by a 6% revenue decrease to reflect a cyclical downturn in fiscal 1998 and a 3% revenue increase to reflect a cyclical rebound in fiscal 1999. Operating margins are assumed to increase by 0.2% to 11.1% in fiscal 1996 and to 11.3% in fiscal 1997; to decrease by 0.4% to 10.9% in fiscal 1998; and to rebound by 0.2% to 11.1% in fiscal 1999.

(ii) Aerospace Group: Given the generally depressed conditions in the aerospace industry, revenues are projected to decrease by 1% in fiscal 1996 followed by no revenue growth in fiscal 1997 through fiscal 1999. Operating margins are assumed to remain flat at 5.4% in all years.

(iii) Industrial Group: Given the cyclical nature of the businesses in this Group, the projections assume 5% revenue growth in each of fiscal 1996 and 1997; a revenue decrease of 6% in fiscal 1998 to reflect a cyclical downturn; and a revenue increase of 3% in fiscal 1999 to reflect a cyclical rebound. Operating margins are assumed to increase by 0.2% to 9.1% in fiscal 1996 and to 9.3% in fiscal 1997; to decrease by 0.4% to 8.9% in fiscal 1998; and to rebound by 0.2% to 9.1% in fiscal 1999.

(iv) American Innovations. This segment is projected to realize revenue growth of 74% in fiscal 1996 and 10% per year thereafter. Operating margins are assumed to nearly break even in fiscal 1996 and to increase from 5% to 8% during fiscal 1997 through fiscal 1999.

(d) Corporate expenses of $6.6 million are assumed in the Fiscal 1995 Management Budget. Of this amount, general and administrative expenses ($5.9 million) and divisional adjustments ($.4 million) are assumed to increase at 3% per annum to reflect inflation with the balance of corporate expenses remaining flat throughout the period covered by the projections.

(e) The projections reflect tax provisions at an assumed rate of 40%.

(f) The projections assume that capital expenditures will equal capital depreciation in all years and represent minimum expenditures necessary to maintain current equipment and competitive position.

(g) The projections reflect no acquisitions or divestitures.

(h) The projections reflect the elimination of $216,000 per year of amortization of debt issuance costs beginning in fiscal 1995 due to the assumed retirement of the Company's outstanding $45 million principal amount of Senior Notes.

American Securities Projections

In reviewing the American Securities projections, reference should be made to the second and third paragraphs under "--Certain Projections" above. The amounts in the following table have been rounded, creating discrepancies in some cases between the individual items and the corresponding totals.

KETEMA, INC.
AMERICAN SECURITIES PROJECTIONS
INCOME STATEMENTS
SEVEN FISCAL YEARS 1995-2001
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	FISCAL YEARS ENDING LAST DAY OF FEBRUARY						
	1995	1996	1997	1998	1999	2000	2001

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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
SALES.....	$133.5	$137.5	$141.7	$145.9	$150.3	$154.8	$159.4
Cost of Sales.....	98.8	101.8	104.8	108.0	111.2	114.5	118.0
GROSS PROFIT.....	34.7	35.8	36.8	37.9	39.1	40.2	41.5
Operating Expenses:							
S, G & A Expense.....	17.4	17.9	18.4	19.0	19.5	20.1	20.7
HQ General & Admin...	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Workers Comp. Adj....	(1.3)	(1.0)	(0.8)	(0.5)	(0.3)	(0.3)	(0.3)
Total Expenses.....	21.5	22.3	23.1	23.9	24.7	25.3	25.9
EBITDA.....	13.2	13.5	13.8	14.1	14.4	15.0	15.6
Depreciation.....	5.1	6.1	6.7	7.4	8.1	3.7	3.4
Amortization.....	0.7	0.7	0.7	0.7	0.7	0.1	0.1
EBIT.....	7.5	6.7	6.4	6.0	5.6	11.2	12.1
Interest Expense.....	2.8	2.5	2.0	1.4	0.9	0.2	0.0
Interest Income.....	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Pretax Income.....	4.7	4.3	4.4	4.5	4.8	11.0	12.3
Benefit of NOL.....	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Taxes.....	1.9	1.3	1.4	1.6	1.9	4.6	5.0
NET INCOME.....	$ 3.6	$ 3.7	$ 3.7	$ 3.7	$ 3.6	$ 7.1	$ 8.0

</TABLE>

Significant Assumptions. The following assumptions apply to the foregoing seven year American Securities Projections of the Company's sales and net income:

(a) The projections were prepared on a leveraged pro forma basis giving effect to a merger transaction of the type proposed in this Proxy Statement and, therefore, reflect expense and income attributable to financial liabilities and assets, respectively. The projections assume Merger Consideration at a price of $13.00 per Common Share and the incurrence of only $37.4 million of funded acquisition indebtedness at assumed interest rates of 7.25% to 7.5% per annum.

(b) The projections assume annual sales growth of 5% in fiscal 1995 and 3% in each year thereafter. Gross profit margins of 26% are assumed for each year.

(c) The projections assume the elimination of $500,000 per year of HQ general and administrative expenses related to estimated public company filing, proxy and other shareholder expenses and insurance premiums which the Company would not incur, or would incur in lesser amounts, as a privately-owned company.

(d) The projections reflect the elimination of workers' compensation expenses for which $5 million is assumed to be pre-funded upon consummation of the Merger.

(e) The projections reflect utilization of the Company's net operating loss carry-forwards at the rate of approximately $800,000 per year.

(f) The projections reflect no acquisitions or divestitures.

PURPOSE AND STRUCTURE OF THE MERGER

The purpose of the Merger is to enable members of the Acquiring Group to acquire the equity interest in the Company not already owned by members of the Acquiring Group while maximizing stockholder value for the Company's public stockholders. The Acquiring Group believes that the Company is more suitable to private rather than public ownership for a variety of reasons, including the Company's relatively small size and market capitalization, its numerous small and diverse business units and the relatively mature markets that most of its

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products serve. The Acquiring Group believes these factors have inhibited any significant interest in the Company's securities by the investment community since the Company first became publicly owned in 1988. In addition, the Company has encountered difficulty in pursuing its strategy of seeking suitable acquisition opportunities at attractive prices for which it had borrowed approximately $62.5 million at the time of its initial public offering, including $45 million of long-term non-callable institutional indebtedness. As a consequence, the Company has suffered and continues to suffer a negative spread between interest expense on its long-term debt and income on its excess cash and marketable securities. Moreover, operation of the Company as a privately held, as opposed to a publicly held, concern would permit the Company's management to effect strategic decisions that are in the Company's long-term interest without regard to their temporary effects on earnings and the market value of a publicly traded stock or the interests of public stockholders.

Consummation of the Merger will terminate the equity interest in the Company of the Company's stockholders other than members of the Acquiring Group. Accordingly, the Company's public stockholders will neither share in future earnings and growth of the Company nor the risks associated with achieving such earnings and growth following the Merger. The Merger will enable the Company's public stockholders to receive a cash payment of $15.00 per Common Share held or to seek appraisal rights as described under "DISSENTERS' RIGHTS" pursuant to a transaction which has been determined by the Board of Directors, as discussed above, to be fair to such stockholders. The Merger Consideration was the result of arms' length negotiations between representatives of the Acquiring Group and the Special Committee and their respective advisors following a proposal by the Acquiring Group. See "SPECIAL FACTORS--Opinion of the Special Committee's Financial Advisor," and "--Report of Financial Advisor of the American Securities Group."

In view of the increase in the Merger Consideration from the Initial Proposal of $13.125 per Common Share to the Revised Proposal of $15.00 per Common Share, the Merger Agreement contemplates that the Acquiring Group may seek additional equity financing for Holdings Corp. from third party investors,

including wealthy individuals and/or families, financial institutions, public and private pension funds, corporations and other sophisticated and substantial investors. In this connection, following execution of the Merger Agreement, Capital Partners, acting on behalf of the American Securities Group, began and is continuing to solicit potential third party investors to make cash investments in Holdings Corp. indirectly as limited partners in KTM Partners (or in other limited partnerships which may be created for the purpose of making an equity investment in Holdings Corp.). If such cash investments are made by such third parties, the members of the American Securities Group may contribute less than all of the 863,555 Voting Shares beneficially owned by them (exclusive of the approximately 12,612 outstanding Common Shares and approximately 21,885 Common Shares issuable upon conversion of Debentures held as fiduciaries for persons or entities who are not proponents of the Merger) and such Voting Shares as may be retained by them would, in the case of Common Shares, be converted in the Merger into the right to receive the cash Merger Consideration and, in the case of Preferred Shares, be redeemed by the Surviving Corporation at their redemption price following the Merger, subject to the availability of financing. See "THE MERGER AGREEMENT--The Company's 7% Cumulative Convertible Voting Preferred Stock."

In connection with its efforts to obtain additional equity financing, on June 28, 1994 Capital Partners granted to Danaher Corporation, a New York Stock Exchange listed company, or an affiliate thereof ("Danaher"), an option exercisable for a period of 45 days to commit to purchase up to $5 million in cash a limited partnership interest in KTM Partners, representing not less than a 33 1/3% interest in KTM Partners. Such investment by Danaher would be made on a pari passu per unit value basis with the other limited partners who are members of the American Securities Group based on the amount of cash and/or securities of the Company to be contributed to KTM Partners by them, with such securities being valued at the Merger Consideration of $15.00 per share provided for in the Merger Agreement or the redemption price thereof in case of the Preferred Shares. If the option is exercised by Danaher and the Merger is

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consummated, Danaher would have the right to designate two directors of Holdings Corp. and the right to approve certain major corporate activities and transactions of Holdings Corp. and the Company. In connection with the granting of such option, Danaher entered into a confidentiality/standstill agreement with Capital Partners and has been furnished certain information for due diligence purposes in considering whether to exercise the option and make the investment in KTM Partners. The foregoing summary of the agreements with Danaher are qualified in their entirety by reference to copies thereof filed as Exhibits to Amendments No. 16 and 17 to the Schedule 13D filed on June 28, 1994 by the Acquiring Group and to the Schedule 13E-3 and incorporated herein in their entirety by reference.

Following the Merger, the interest of the Acquiring Group (and any third party investors) in the Company's net book value and net income (loss) will increase to 100%. The members of the Acquiring Group and those members of the Company's senior management in addition to Hugh W. Williamson, III who invest in shares of Holdings Corp. and any other third party investors, as the only stockholders of the Company (indirectly through their interests in KTM Partners, any other partnerships which may be formed for the purposes of investing in Holdings Corp. and Holdings Corp.), will thereafter benefit from any increases in the value of the Company and also bear the risk of any decreases in the value of the Company's assets or operations. See "SPECIAL FACTORS--Plans for the Company After the Merger."

Pursuant to the Merger Agreement, upon consummation of the Merger, Acquisition Corp. will merge into the Company, with the Company being the Surviving Corporation. Each outstanding Common Share (except those Common Shares held by the Company as treasury shares, by Holdings Corp. or Acquisition Corp. or by stockholders who perfect their dissenters' rights under the DGCL) will be converted into the right to receive $15.00 in cash, without interest. Each outstanding Voting Share held by Holdings Corp. or Acquisition Corp. or by the Company as treasury shares will be cancelled without consideration. Each outstanding share of Acquisition Corp. (all of which are owned by Holdings Corp.) will be converted into one share of common stock of the Surviving Corporation.

As of the Record Date, the only Preferred Shares outstanding were the approximately 495,881 Preferred Shares beneficially owned by the members of the Acquiring Group. Until , 1994, the holders of

Debentures have the right to convert their Debentures into Preferred Shares at the Debenture conversion price of $15.58 per share. If any Debentures are so converted into Preferred Shares, such Preferred Shares outstanding at the Effective Time (other than those held by Holdings Corp. or Acquisition Corp. which, as noted above, will be cancelled without consideration) will remain outstanding and will not be converted in the Merger and, in accordance with their terms, will thereafter be convertible solely into the right to receive the Merger Consideration of $15.00 per share in cash. It is the present intention of the Acquiring Group to cause the Surviving Corporation to redeem any Preferred Shares which remain outstanding after the Merger at their redemption price plus accrued dividends, subject to the availability of financing. See "THE MERGER AGREEMENT--The Company's 7% Cumulative Convertible Voting Preferred Stock."

Members of the Acquiring Group beneficially own approximately 863,555 Voting Shares (representing approximately 21.66% of the Voting Shares outstanding) (exclusive of the approximately 12,612 outstanding Common Shares and approximately 21,885 Common Shares issuable upon conversion of Debentures held as fiduciaries for persons or entities who are not proponents of the Merger and Common Shares issuable upon exercise of employee stock options held by Mr. Williamson). Such ownership consists of approximately 367,674 currently outstanding Common Shares (representing approximately 9.22% of the currently outstanding Voting Shares) and approximately 495,881 currently outstanding Preferred Shares (representing approximately 12.44% of the currently outstanding Voting Shares). Members of the Acquiring Group have agreed to contribute or cause to be contributed such number of such currently outstanding Voting Shares to Acquisition Corp., which together with any cash contributed by the Acquiring Group or by third-party investors, if any, will result in

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Acquisition Corp. having contributed equity of not less than $15 million prior to the Effective Time of the Merger.

Under the DGCL, approval and adoption of the Merger Agreement requires the affirmative vote of the holders of a majority of the outstanding Voting Shares. In accordance with the terms of the Merger Agreement, the members of the Acquiring Group who beneficially owned on the Record Date for the Special Meeting an aggregate of approximately 21.98% of the Voting Shares entitled to vote at the Special Meeting (including approximately 12,612 outstanding Common Shares held as fiduciaries for non-proponents of the Merger) have entered into voting agreements to vote all of such Voting Shares in favor of the Merger Agreement.

The Merger Agreement does not require the approval of a majority of the public stockholders of the Company. See "INTRODUCTION--Voting Rights; Vote Required for Approval."

Members of the Acquiring Group discussed with their financial and legal advisors two alternative methods for a transaction in which the Acquiring Group could acquire the publicly held Common Shares in the Company: (i) a cash merger and (ii) a cash tender offer followed by a cash merger. The Acquiring Group sought to acquire the outstanding Common Shares not already owned by members of the Acquiring Group in the simplest possible transaction and determined that the Merger offered the most efficient and effective means of documenting and executing the transaction. This determination was based upon the timing, procedures and financing required to complete the transaction.

After the receipt of the Initial Proposal but before the execution of the Merger Agreement, the Special Committee received inquiries from representatives of two parties, each of whom expressed an interest in acquiring the Company. One party indicated that that entity was interested in acquiring the Company at a per share price higher than that contained in the Initial Proposal. Both parties had access to public information concerning the Company and were provided forms of confidentiality agreements to enter into if they were interested in receiving proprietary information concerning the Company. Both parties were contacted by the Special Committee or its counsel after the Merger Agreement was entered into to advise them of the ability of the Special Committee to negotiate a possible acquisition of the Company with third parties other than the Acquiring Group and, if appropriate, to terminate the Merger Agreement. Neither party entered into a confidentiality agreement with the Company and on June 27, 1994 one party advised the Special Committee in writing of its decision not to pursue its interest in the Company.

Holders of Common Shares have the right to demand appraisal of, and obtain payment for, the "fair value" of their shares by following the procedures prescribed in Section 262 of the DGCL, a copy of which is

attached as Annex B to this Proxy Statement, and is summarized under "DISSENTERS' RIGHTS" in this Proxy Statement. Failure to take any of the steps required under Section 262 on a timely basis could result in the loss of appraisal rights.

PLANS FOR THE COMPANY AFTER THE MERGER

Pursuant to the terms of the Merger Agreement, the Directors of Acquisition Corp. at the Effective Time of the Merger shall be the Directors of the Surviving Corporation and the officers of the Company at the Effective Time shall be the officers of the Surviving Corporation after the Merger. See "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of the Surviving Corporation." The Merger Agreement also provides that the Certificate of Incorporation and By-Laws of the Company shall remain as the Certificate of Incorporation and By-Laws of the Surviving Corporation.

The Company's strategy since becoming a public corporation in 1988 has included the making of appropriate acquisitions to utilize the Company's available cash, while at the same time continually evaluating existing business

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units with a view towards making appropriate divestitures. Upon consummation of the Merger, the Company will use its available cash to finance, in part, the payment of the Merger Consideration, the refinancing of the Company's existing Senior Notes and fees and expenses relating to the Merger and will become highly leveraged. Accordingly, it is not contemplated that the Company will make acquisitions pending the substantial reduction of its indebtedness unless it obtains additional equity and/or debt financing for such purpose. The Company will, however, continue to evaluate the possible divestiture of existing business units, with the proceeds of any such dispositions being used primarily to reduce the Company's indebtedness. At the present time, the Company has no agreements, arrangements or understandings and is not currently engaged in any negotiations regarding the possible sale of any of its individual business units.

Except as otherwise described in this Proxy Statement, the Acquiring Group has formulated no plans or proposals regarding activities or transactions which are to occur after the Merger that would relate to or would result in an extraordinary transaction such as a merger, reorganization or liquidation involving the Company or any of its subsidiaries or divisions, a sale or transfer of a material amount of assets of the Company or any of its subsidiaries or divisions, a change in any material term of the employment contract of any executive officer, or any other material change in the Company's corporate structure or business. The Acquiring Group reserves the right, however, to take such actions relating to the Company following the Merger as it deems appropriate and in its best interests, including activities and transactions of the nature discussed in this paragraph.

CERTAIN EFFECTS OF THE MERGER

Upon consummation of the Merger, each Common Share, other than shares held by the Company as treasury stock, shares owned by Holdings Corp. and/or Acquisition Corp., and shares as to which appraisal rights have been perfected in accordance with Delaware law ("Dissenting Shares"), will be converted into the right to receive the Merger Consideration. As a result, the present holders of the Common Shares (other than Holdings Corp. and Acquisition Corp. and the members of the Acquiring Group) will cease to have any ownership interest in the Company or rights as stockholders and will cease to participate in the Company's future earnings and growth, if any. Similarly, such stockholders will not face the risk of any decline in the value of the Company after the Merger. See "SPECIAL FACTORS--Purpose and Structure of the Merger" which describes certain other effects of the Merger. The Merger will be a taxable transaction to the holders of the Common Shares (other than Holdings Corp. and Acquisition Corp.) for federal income tax purposes and may be taxable for state, local, foreign and other tax purposes. See "SPECIAL FACTORS--Certain Federal Income Tax Consequences of the Merger."

INTERESTS OF CERTAIN PERSONS IN THE MERGER; CERTAIN RELATIONSHIPS

Holdings Corp. and Acquisition Corp. were organized by the American Securities Group for the purpose of enabling the Acquiring Group which includes Hugh H. Williamson, III, President and Chief Executive

Officer of the Company, who are the beneficial owners of an aggregate of approximately 21.66% of the outstanding Voting Shares, to acquire, pursuant to the Merger Agreement, the entire equity interest in the Company. As a result of the Merger, stockholders of the Company other than members of the Acquiring Group will no longer have any equity interest in the Company. See "SPECIAL FACTORS--Certain Effects of the Merger." The American Securities Group includes, among others, William Rosenwald, his children (including Elizabeth R. Varet, a Director of the Company) and their spouses, his grandchildren, certain irrevocable trusts established for the benefit of William Rosenwald's descendants, certain senior executives of American Securities and its affiliates, the spouses and children of such senior executives, certain charitable foundations controlled by members of the Rosenwald family and/or senior executives of American Securities and Lewis G. Cole, a member of the law firm of Stroock & Stroock & Lavan. Charles D. Klein, David P. Steinmann, Alexander G. Anagnos and Michael G. Fisch are all senior executives of American Securities and members of the Acquiring Group. Ms. Varet, Mr. Klein, Mr.

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Anagnos and Mr. Williamson currently serve on the Board of Directors of the Company. Mr. Klein, Mr. Steinmann and Mr. Fisch currently serve on the Boards of Directors of Holdings Corp. and Acquisition Corp.

In addition to the members of the American Securities Group, other clients of American Securities beneficially own approximately 121,388 outstanding Common Shares, constituting approximately 3.05% of the outstanding Voting Shares, and approximately 71,374 Common Shares issuable upon conversion of Debentures which are convertible at the current conversion price of $15.58 per Common Share. All of the outstanding Common Shares owned by such clients of American Securities will, upon consummation of the Merger, be converted into the right to receive the Merger Consideration.

Pursuant to an agreement, dated May 5, 1994, between Holdings Corp. and Mr. Williamson (the "Williamson Agreement"), it is contemplated that Mr. Williamson will continue as Chief Executive Officer of the Company following the Merger. The Williamson Agreement also provides for, among other things, the following: (i) the grant by Holdings Corp. to Mr. Williamson of non-qualified stock options to acquire equity securities of Holdings Corp. in substitution for the outstanding stock options and stock appreciation rights of the Company currently held by him, with the exercise price of such new options to be such that the aggregate spread between the value of the shares of Holdings Corp. covered by the new options and the aggregate exercise price of such new options will equal the aggregate spread between the Merger Consideration ($15.00 per share) that would be payable with respect to the shares subject to Mr. Williamson's existing Company options and stock appreciation rights and the aggregate exercise prices of Mr. Williamson's existing Company options and stock appreciation rights; (ii) the receipt by Mr. Williamson of a restricted stock award of Holdings Corp.'s equity securities having a value of $600,000, in lieu of certain supplemental retirement benefits, with such shares becoming vested at the rate of 30% of the shares on the first anniversary of the date of their issuance and an additional 10% of the shares on each annual anniversary date thereafter; (iii) the grant by Holdings Corp. of non-qualified stock options to purchase shares of Common Stock of Holdings Corp. to Robert L. Tomz, Vice President and Chief Financial Officer of the Company, Tom A. Sims, Vice President--Human Resources of the Company, and William E. Leisey, Controller of the Company, representing 1.8%, 1.2% and .9%, respectively, of the outstanding Common Stock of Holdings Corp. on a fully-diluted basis; (iv) officers (other than Mr. Williamson) and general managers of the Company being offered the right to invest in equity securities of Holdings Corp. representing a maximum of up to 5% of the outstanding shares of Holdings Corp., in the aggregate, at the same per share purchase price paid by the other stockholders of Holdings Corp.; (v) the payment of annual Directors' fees of $20,000 to each of the four members of the Board of Directors of the Surviving Corporation, who are expected to be Mr. Klein, Mr. Fisch, Ms. Varet and Mr. Williamson; and (vi) the payment of an annual fee of $250,000 to Capital Partners, for investment banking and consulting services to be rendered to the Company and, upon closing of the Merger, a fee in an amount equal to approximately 1% of the consolidated capitalization (funded debt and equity) of Holdings Corp. The Williamson Agreement also provides for the maintenance of the current salary levels of management of the Company and for annual merit increases commensurate with individual performance at the discretion of the Board of Directors and contemplates the adoption of a cash incentive bonus plan for management. The foregoing summary of the Williamson Agreement is qualified in its entirety

by reference to the Williamson Agreement, a copy of 13D which has been filed as an Exhibit to Amendment No. 14 to the Schedule 13D filed on May 5, 1994 by the Acquiring Group and to the Schedule 13-E.

In the Merger Agreement, Holdings Corp. has agreed that all rights to indemnification arising at or prior to the Effective Time in favor of the directors or officers of the Company (including the members of the Special Committee) as provided in the Company's certificate of incorporation or bylaws, as in effect on the date of the Merger Agreement, will, for a period of six years after the Effective Time, with respect to matters occurring prior to the Effective Time, survive the Merger and continue in full force and effect. See "THE MERGER AGREEMENT--Covenants."

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CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The receipt of cash for Common Shares pursuant to the Merger will be a taxable transaction for federal income tax purposes under the Code, and also may be a taxable transaction under applicable state, local, foreign and other tax laws.

In general, a stockholder will recognize gain or loss equal to the difference between the tax basis for the Common Shares held by such stockholder and the amount of cash received in exchange therefor. Such gain or loss will be capital gain or loss if the Common Shares are capital assets in the hands of the stockholder and will be long-term capital gain or loss if the holding period for the Common Shares is more than one year. Long-term capital gains recognized in 1994 by stockholders who are individuals are taxable at a maximum rate of 28% (as compared with a maximum rate of 39.6% on ordinary income). Corporations generally are subject to tax at a maximum rate of 35% on both capital gains and ordinary income. The distinction between capital gain and ordinary income may be relevant for certain other purposes, including the taxpayer's ability to utilize capital loss carryovers to offset any gain recognized.

The foregoing discussion may not be applicable to stockholders who acquired their Common Shares pursuant to the exercise of options or other compensation arrangements or who are not citizens or residents of the United States or who are otherwise subject to special tax treatment under the Code.

THE FOREGOING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS BASED ON EXISTING TAX LAW AS OF THE DATE OF THIS PROXY STATEMENT, WHICH MAY DIFFER ON THE DATE OF THE CONSUMMATION OF THE MERGER OR AT THE EFFECTIVE TIME. EACH STOCKHOLDER IS URGED TO CONSULT SUCH STOCKHOLDER'S OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO SUCH STOCKHOLDER OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

ACCOUNTING TREATMENT OF THE MERGER

The Merger will be accounted for as a "purchase" as that term is used under generally accepted accounting principles for accounting and financial reporting purposes.

RISK OF FRAUDULENT CONVEYANCE

If a court in a lawsuit by an unpaid creditor or representative of creditors of the Company, such as a trustee in bankruptcy or the Surviving Corporation, as debtor in possession, were to find that, at the Effective Time or at the time the Surviving Corporation distributed the Merger Consideration to the holders of Common Shares, the Surviving Corporation: (a) made such payment with fraudulent intent; or (b) received less than a reasonably equivalent value or consideration in exchange for the Merger Consideration and (i) was insolvent, (ii) was rendered insolvent by reason of such transactions or distributions, (iii) was engaged in a business, transaction or distribution for which the assets remaining with the Surviving Corporation constituted unreasonably small capital or (iv) intended to incur, or believed that it would incur, debts beyond

its ability to pay such debts as they matured, such court could (w) find that the Merger, the Merger Consideration and the financing thereof constituted fraudulent transfers or conveyances; (x) void the Merger and require that the Surviving Corporation return the assets of the Company to a fund for the benefit of the Company's creditors (including, under certain circumstances, bank lenders and other holders of debt of the Surviving Corporation); (y) void the distribution of the Merger Consideration to holders of Common Shares and require that such holders return the same (or equivalent amounts) to the Surviving Corporation or a fund for the benefit of its creditors (including, under certain circumstances, bank lenders and other holders of debt of the Surviving Corporation); and (z) void or modify the rights and obligations relating to the financing of the Merger.

The measure of insolvency for purposes of the foregoing will vary depending

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upon the law of the jurisdiction which is being applied. Generally, however, the Surviving Corporation would be considered insolvent if the sum of the Surviving Corporation's debts is greater than all of the Surviving Corporation's property at a fair valuation, or if the present fair salable value of the Surviving Corporation's assets is less than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. No assurance can be given as to what method a court would use in order to determine whether the Surviving Corporation was "insolvent" at the Effective Time or that, regardless of the method of valuation, a court would not determine that the Surviving Corporation was insolvent at the Effective Time. The avoidance of the distribution of the Merger Consideration to holders of the Common Shares as described above could result in such holders being required to return all or a portion of the Merger Consideration, thereby losing some or the entire value of their equity investment in the Company.

Management of the Company believes that the payments to be made in connection with the Merger will be made for proper purposes and in good faith, and that, based on present forecasts and other financial information, the Company is, and the Surviving Corporation will be, solvent, and that the Surviving Corporation will have sufficient capital for carrying on its businesses after the Merger and will be able to pay its debts as they mature. See "FINANCING OF THE MERGER" and "SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY."

CERTAIN LITIGATION

Between the time of the Company's public announcement on April 28, 1994 of its receipt of the Initial Proposal and the meeting of the Special Committee on May 18, 1994 to review the Initial Proposal, seven class action lawsuits were commenced in the Delaware Court of Chancery, New Castle County ("the Chancery Court") relating to the Initial Proposal. The complaints name as defendants, inter alia, all or certain of the directors of the Company (collectively, the "Individual Defendants") and, in some instances, the Company itself. These lawsuits are as follows: Phyllis Freiman v. Hugh H. Williamson, III, et al, C.A. No. 13485; Adolph Raab v. Alexander G. Anagnos, et al, C.A. No. 13489; Moshe Greenfield v. Hugh H. Williamson, III, et al, C.A. No. 13491; Robert L. Dunn v. Hugh H. Williamson, III, et al, C.A. No. 13494; William Klein II P.C. v. Ketema, Inc., et al, C.A. No. 13504; Olga Fried v. Hugh H. Williamson, III, et al, C.A. No. 13490; Croyden Associates v. Ketema, Inc., et al, C.A. No. 13487 (collectively "the Actions").

All of the complaints alleged, among other things, that the Initial Proposal, if accepted, would be inadequate and unfair to the stockholders of the Company who are not affiliated with the Acquiring Group and would constitute a breach of fiduciary duties by the defendant directors.

The principal relief sought by the complaints was a declaration that, if the merger transaction contemplated by the Initial Proposal were consummated, it would constitute a breach of fiduciary duty and the granting of a preliminary injunction to bar an acquisition at the price offered in the Initial Proposal. The complaints further sought to rescind the merger upon the terms of the Initial Proposal if implemented prior to entry of an injunction, to recover damages in an unspecified amount, reimbursement of costs, including attorneys' and experts' fees, and other equitable relief.

Although defendants have not been required to answer the complaints in the Actions, if required to answer those complaints, defendants would deny the allegations of wrongdoing and would assert various defenses, including that the claims relating to the Initial Proposal have been rendered moot by the Revised Proposal which the financial adviser to the Special Committee has found to be fair to the stockholders who are not affiliated with the Acquiring Group.

Plaintiffs' counsel reviewed various documents relating to the Company and plaintiffs' counsel were furnished by the defendants and reviewed certain documents prepared by Bear Stearns for the Special Committee in connection with its evaluation of the Initial Proposal.

Without admitting any wrongdoing in any of the Actions, in order to avoid the burden and expense of further litigation, the Company, the Acquiring Group,

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Holdings Corp. and the Individual Defendants have reached an agreement in principle with the plaintiffs which contemplates settlement of the Actions.

The Company, the Acquiring Group, Holdings Corp., the Individual Defendants and the plaintiffs have entered into a memorandum of understanding (the "Memorandum of Understanding"), pursuant to which the parties would, subject to certain facts being confirmed through discovery which remains to be taken, enter into a settlement agreement which would be subject to approval by the Chancery Court. The Memorandum of Understanding contemplates that the settlement would provide: (a) that the defendants acknowledge that the pendency and prosecution of the Actions was one of the factors contributing to the improvement in the terms from the Initial Proposal to the Revised Proposal and provided a substantial benefit to the stockholders of the Company not affiliated with the Acquiring Group (i.e., the class plaintiffs seek to represent); (b) that the Company will disseminate to its stockholders a proxy statement making complete and accurate disclosures regarding the valuation analysis performed by Bear Stearns on behalf of the Special Committee, the Actions and the Memorandum of Understanding, and that, prior to its submission to the Commission, lead counsel for plaintiffs will be provided with a draft of the proxy statement to review and comment upon as to its completeness and accuracy; and (c) for a release of all claims, rights or causes of action that have been or could have been asserted by plaintiffs or any member of the class plaintiffs seek to represent in the Actions against any of the defendants, the Acquiring Group, or any of their affiliates, directors, officers, employees or agents arising out of the facts set forth in the complaints in those Actions or in the proxy statement or any disclosure documents pertaining to matters set forth in the complaints in those Actions.

The Company, the Acquiring Group, Holdings Corp., the Individual Defendants and the plaintiffs agree that the settlement outlined above is fair, in the best interest of the Company's stockholders and confers a substantial benefit on the Company and its stockholders who are not members of the Acquiring Group. The Memorandum of Understanding contemplates that, in connection with the benefit conferred, plaintiffs' counsel will apply to the Chancery Court for an award of attorneys' fees and litigation expenses in the amount of $345,000 and Holdings Corp. has agreed to pay the fees and expenses which may be awarded by the Chancery Court up to that amount.

REGULATORY APPROVALS

No federal or state regulatory approvals are required to be obtained, nor any regulatory requirements complied with, in connection with consummation of the Merger by any party to the Merger Agreement, except for the requirements of the DGCL in connection with stockholder approvals and consummation of the Merger, and the requirements of federal securities law.

THE MERGER AGREEMENT

GENERAL

The Merger Agreement provides for the merger of Acquisition Corp. into the Company. The Company will be the Surviving Corporation of the Merger, and, as a result of the Merger, Holdings Corp. will own all of the Surviving Corporation's common stock. Holdings Corp., in turn, will continue to be controlled directly or indirectly by members of the Acquiring Group and/or any third party investors. In the Merger, the stockholders of the Company, other than Holdings Corp., Acquisition Corp. and stockholders who exercise their dissenters' rights under Delaware law, will receive the Merger Consideration described below. See "SPECIAL FACTORS--Purpose and Structure of the Merger."

EFFECTIVE TIME OF THE MERGER

The Effective Time of the Merger will occur upon the filing of a Certificate of Merger with the Secretary of State of the State of Delaware as required by the DGCL or at such later time as is specified in such Certificate of Merger. It is anticipated that such Certificate of Merger will be filed as promptly as practicable after approval and adoption of the Merger Agreement by the

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stockholders of the Company at the Special Meeting. Such filing will be made, however, only upon satisfaction or waiver of all conditions to the Merger contained in the Merger Agreement. The following discussion of the Merger Agreement is qualified in its entirety by reference to the complete text of the Merger Agreement, which is included in this Proxy Statement as Annex A and is incorporated herein by reference.

THE SURVIVING CORPORATION

The Merger Agreement provides that, at the Effective Time, the persons identified herein under "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of the Surviving Corporation" will become officers and directors of the Surviving Corporation and the Surviving Corporation will adopt as its certificate of incorporation and bylaws the certificate of incorporation and bylaws of the Company.

CONSIDERATION TO BE RECEIVED BY STOCKHOLDERS OF THE COMPANY

As a result of the Merger, each outstanding Common Share (except shares held by the Company as treasury stock, shares owned by Holdings Corp. and/or Acquisition Corp. and shares owned by stockholders who perfect their dissenters' rights under the DGCL) will be converted into the right to receive the Merger Consideration of $15.00 in cash, without interest. Each Common Share owned by Holdings Corp. and/or Acquisition Corp. or held by the Company as treasury stock will be canceled without consideration. Each Preferred Share owned by Holdings Corp. and/or Acquisition Corp. will also be canceled without consideration.

Each of the outstanding shares of common stock, par value $.01 per share, of Acquisition Corp. will automatically be converted into one share of common stock, par value $1.00 per share, of the Surviving Corporation.

As described above, upon consummation of the Merger, subject to the provisions described below, each Common Share outstanding at the Effective Time (except shares held by the Company as treasury stock, shares owned by Holdings Corp. and/or Acquisition Corp. and shares owned by stockholders who perfect their dissenters' rights under the DGCL) will be converted into the Merger Consideration. Instructions with regard to the surrender of certificates formerly representing Common Shares, together with the letter of transmittal to be used for that purpose, will be mailed to stockholders as soon as practicable after the Effective Time. The Exchange Agent (as defined in the Merger Agreement), as soon as practicable following receipt from a stockholder of a duly executed letter of transmittal, together with certificates formerly representing

Common Shares and any other items required by the letter of transmittal, shall pay to such stockholder the Merger Consideration. If payment is to be made to a person other than the person in whose name the certificate surrendered is registered, it will be a condition of payment that the certificate so surrendered be properly endorsed or otherwise in proper form for transfer and that the person requesting such payment pay to the Exchange Agent any transfer or other taxes required by reason of such payment or establish to the satisfaction of the Exchange Agent that such taxes have been paid or are not applicable.

Stockholders should NOT submit any stock certificates for Common Shares at the present time.

After the Effective Time, a holder of a certificate formerly representing Common Shares shall cease to have any rights as a stockholder of the Company, and such holder's sole right will be to receive the Merger Consideration to which such holder is entitled.

In no event will holders of Common Shares be entitled to receive any interest on the Merger Consideration to be distributed to them in connection with the Merger.

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Any funds remaining with the Exchange Agent one year following the Effective Time shall be delivered to the Surviving Corporation within one week after the end of such one year period, without further action or request, and any holder who has not exchanged Common Shares for the Merger Consideration prior to that time shall thereafter look only to the Surviving Corporation for payment of the Merger Consideration in respect of such holder's Common Shares. Notwithstanding the foregoing, neither Holdings Corp. nor the Surviving Corporation shall be liable to any holder of Common Shares for any amount paid to a public official pursuant to applicable abandoned property laws. Any amounts remaining unclaimed by holders of Common Shares two years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental entity) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation free and clear of any claims or interest of any person previously entitled thereto.

No transfer of shares outstanding immediately prior to the Effective Time will be made on the stock transfer books of the Surviving Corporation after the Effective Time. Certificates formerly representing Common Shares presented to the Surviving Corporation after the Effective Time will be canceled in exchange for the Merger Consideration.

THE COMPANY'S 8% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2003

Holders of the Debentures who convert their Debentures into Common Shares prior to the Effective Time shall have the rights of a holder of Common Shares to receive the Merger Consideration per Common Share following the Effective Time. Pursuant to the terms of the indenture governing the Company's Debentures, any Debentures not converted into Common Shares prior to the Effective Time will remain outstanding after the Merger as obligations of the Surviving Corporation. Holders of Debentures who convert their Debentures into Common Shares after the Effective Time shall be entitled to receive the Merger Consideration multiplied by the number of Common Shares into which such holders' Debentures were convertible immediately prior to the Effective Time.

Until , 1994, the holders of Debentures have the right to convert their Debentures into Preferred Shares at the Debenture conversion price of $15.58 per share. If any Debentures are so converted into Preferred Shares, such Preferred Shares outstanding at the Effective Time (other than those held by Holdings Corp. or Acquisition Corp. which, as noted above, will be cancelled without consideration) will remain outstanding and will not be converted in the Merger and, in accordance with their terms, will thereafter be convertible solely into the right to receive the Merger Consideration of $15.00 per share in cash. See "--The Company's 7% Cumulative Convertible Preferred Stock."

It is the present intention of the Acquiring Group to cause the Surviving Corporation to redeem all Debentures which remain outstanding after the Merger at their redemption price, plus accrued interest,

following the Effective Time, subject to availability of financing. The Debentures are redeemable until November 15, 1994 and thereafter until November 15, 1995 at redemption prices of 103% and 102%, respectively, of the principal amount thereof, plus accrued interest to the redemption date.

THE COMPANY'S 7% CUMULATIVE CONVERTIBLE VOTING PREFERRED STOCK

Holders of Preferred Shares (other than Holdings Corp. or Acquisition Corp.) who convert their Preferred Shares into Common Shares prior to the Effective Time shall have the rights of a holder of Common Shares to receive the Merger Consideration per Common Share following the Effective Time. Any Preferred Shares not converted into Common Shares prior to the Effective Time (other than Preferred Shares owned by Holdings Corp. or Acquisition Corp.) will remain outstanding after the Merger as equity securities of the Surviving Corporation. Holders of Preferred Shares who convert their Preferred Shares into Common Shares after the Effective Time shall be entitled to receive the Merger Consideration multiplied by the number of Common Shares into which such holders' Preferred Shares were convertible immediately prior to the Effective Time.

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It is the present intention of the Acquiring Group to cause the Surviving Corporation to redeem any Preferred Shares which remain outstanding after the Merger at their redemption price, plus accrued dividends, following the Effective Time, subject to availability of financing. The Preferred Shares are redeemable until November 15, 1994 and thereafter until November 15, 1995 at a redemption price per share of 103% and 102%, respectively, of the liquidation value thereof ($15.58 per share), plus accrued dividends to the redemption date.

REPRESENTATIONS AND WARRANTIES

The Merger Agreement contains various representations and warranties of the Company, Holdings Corp. and Acquisition Corp. relating to, among other things, the following matters (which representations and warranties are subject, in certain cases, to specified exceptions and, generally, apply only to facts and circumstances existing as of the date of the Merger Agreement): (a) due incorporation, corporate existence, good standing and power of, and similar corporate matters with respect to, each of the Company, Holdings Corp. and Acquisition Corp.; (b) corporate power and authority to enter into, and the valid and binding execution and delivery of, the Merger Agreement by each such party; (c) the absence of any governmental authorization, consent, or approval required to consummate the Merger, except as disclosed; (d) the Merger Agreement and the Merger not resulting in contraventions or conflicts with respect to the certificate of incorporation or bylaws and violations of laws, regulations, judgments, injunctions, orders or decrees relating to the Company and its subsidiaries, Holdings Corp. and Acquisition Corp.; (e) the accuracy of information supplied by the Company and Holdings Corp. included in this Proxy Statement and the Schedule 13E-3; (f) the absence of any investment banking, brokerage, finder's or other fee or commission due in connection with the Merger (except for fees payable to Bear Stearns, Capital Partners and Bridgeford, as described under "SPECIAL FACTORS").

In the Merger Agreement, the Company has made certain additional representations and warranties to Holdings Corp. and Acquisition Corp. relating to the following matters (which representations and warranties are subject, in certain cases, to specified exceptions and, generally, apply only to facts and circumstances existing as of the date of the Merger Agreement): (a) the capital structure of the Company and its subsidiaries; (b) the delivery to Holdings Corp. of certain documents filed by the Company with the Commission and the accuracy of the information contained in such documents; (c) the fair presentation of financial statements supplied by the Company to Holdings Corp.; (d) the proper filing by the Company with the Commission of all required documents and the accuracy of the information contained in such documents; and (e) the absence of any undisclosed litigation which may delay the Merger or any related transactions.

In the Merger Agreement, Holdings Corp. and Acquisition Corp. have made certain additional representations and warranties to the Company relating to the following matters (which representations and

warranties are subject, in certain cases, to specified exceptions and, generally, apply only to facts and circumstances existing as of the date of the Merger Agreement): (a) the obligations and prior activities of Acquisition Corp.; (b) that Holdings Corp. has received and furnished to the Company the commitment letter from Chase with respect to the financing of the Merger and that Holdings Corp. will, at the Effective Time, have available funds (including the Company's cash balances and cash equivalents and equity financing to be provided by the Acquiring Group and/or other investors, if any) sufficient to provide all of the requisite Merger Consideration, to effect all refinancing required in connection with the transactions contemplated by the Merger Agreement and to pay all related fees and expenses; (c) that the equity financing to be provided by the Acquiring Group and/or other investors, if any, will not be less than $15 million consisting of cash and/or Common Shares valued on the basis of the Merger Consideration or Debentures or Preferred Shares issued upon conversion thereof; (d) that the Acquiring Group, Holdings Corp. and/or Acquisition Corp. in the aggregate own beneficially not less than a specified number of Common Shares; and (e) that the Surviving Corporation will be solvent and have adequate capitalization after consummation of the

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Merger. The Surviving Corporation will be determined to be solvent if, on the date of determination, the fair valuation of its property will be greater than the total amount of liabilities of the Surviving Corporation as of such date and that the present fair saleable value of the Surviving Corporation's assets will be, on the date of determination, greater than the amount that will be required to pay the Surviving Corporation's probable liability on its existing debts as they become absolute and matured.

COVENANTS

The Company has agreed in the Merger Agreement that until consummation of the Merger the Company and its subsidiaries will conduct their businesses in the ordinary course consistent with past practice and (except for acts necessary to the Merger) will use their best efforts to preserve their business organization and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing, the Company has agreed that, without the consent of Holdings Corp., the Company will not, and, in the case of clauses (b), (c), (d) and (g), will not permit any of its subsidiaries to: (a) adopt or propose any change in its certificate of incorporation or bylaws; (b) acquire, whether by purchase of equity securities, merger or consolidation, any other person or acquire a material amount of assets of any other person; (c) sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments and (ii) in the ordinary course consistent with past practice; (d) agree or commit to do any of the foregoing; (e) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights), except upon conversion of any of the Company's convertible securities and except as required by outstanding options or stock appreciation rights under the Company's 1988 Stock Incentive Plan as in effect as of the date of the Merger Agreement, or amend any of the terms of any such securities, options or rights outstanding as of the date of the Merger Agreement, except as specifically contemplated by the Merger Agreement; (f) split, combine or reclassify shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock, or redeem or otherwise acquire any of its securities or any securities of its subsidiaries; and (g) except as may be required by law, enter into, adopt or amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase agreement, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the benefit or welfare of any director, officer or employee in any manner, or (except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company, or as required under existing agreements) increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, without limitation, the granting of stock appreciation rights or performance units).

The Company has agreed to give Holdings Corp. and its authorized representatives full access to the offices, properties, books and records of the Company and its subsidiaries and will furnish to Holdings Corp. and its authorized representatives such financial and operating data and other information as Holdings Corp. and its authorized representatives may reasonably request and will instruct the Company's employees, counsel, financial advisors and auditors to cooperate with Holdings Corp. in its investigation of the business of the Company and its subsidiaries.

Each of Holdings Corp., Acquisition Corp. and the Company have agreed to use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by the Merger Agreement.

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Holdings Corp. and the Company have agreed to cooperate (a) in determining whether any action by or in respect of, or filing with, any governmental body, agency or official, or authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the Merger and the transactions contemplated by the Merger Agreement and (b) in seeking any such actions, consents, approvals or waivers or making any such filings, furnishing information required in connection therewith or with this Proxy Statement or the Schedule 13E-3 and seeking timely to obtain any such actions, consents, approvals or waivers.

Holdings Corp. has agreed to use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to satisfy the requirements of the Senior Facilities (as defined herein under "FINANCING OF THE MERGER") or any alternative arrangements which are conditions to closing the transactions constituting the Senior Facilities.

Holdings Corp. and the Company have agreed to consult with each other before issuing any press release or otherwise making any public statements with respect to the Merger Agreement, the Merger and the transactions contemplated thereby.

Holdings Corp. has agreed that for six years after the Effective Time, Holdings Corp. will or will cause the Surviving Corporation to indemnify and hold harmless the present and former officers and directors of the Company in respect of acts or omissions occurring prior to the Effective Time to the extent provided under the Company's certificate of incorporation and bylaws in effect on the date of the Merger Agreement. Holdings Corp. has further agreed that for such six years after the Effective Time, Holdings Corp. will or will cause the Surviving Corporation to use its best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such person currently covered by the Company's officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date of the Merger Agreement, provided that if such coverage is not obtainable at a cost less than or equal to two times the amount per annum the Company paid in its last full fiscal year, Holdings Corp. will or will cause the Surviving Corporation to purchase such lesser amount of coverage, on terms as similar in coverage as practicable to such coverage in effect on the date of the Merger Agreement, as may be obtained having a cost not to exceed two times the amount per annum the Company paid in its last full fiscal year, which amount has been disclosed to Holdings Corp.

OTHER POTENTIAL BIDDERS

The Merger Agreement provides that the Company is required, directly or indirectly, to furnish information and access, in each case in response to unsolicited requests therefor, received prior to or after the date of the Merger Agreement, to any corporation, partnership, person or other entity or group pursuant to appropriate confidentiality agreements, and may participate in discussions and negotiate with any such entity or group concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company (any such transaction being referred to herein as

a "Competing Transaction"), if the Special Committee determines after consultation with counsel that such action is appropriate in light of its fiduciary obligations to the Company's stockholders. In addition, the Company is required to direct its officers and other appropriate personnel to cooperate with and be reasonably available to consult with any such entity or group. Except as set forth above, the Company has agreed that it will not solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Holdings Corp. or its affiliates or associates) concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any subsidiary or division of the Company.

CONDITIONS TO CONSUMMATION OF THE MERGER

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The respective obligations of the Company, on the one hand, and Holdings Corp. and Acquisition Corp., on the other hand, to consummate the Merger are subject to the satisfaction or waiver, at or prior to the Effective Time, of the following conditions, among others: (a) approval and adoption of the Merger Agreement and the Merger by the holders of a majority of the outstanding Voting Shares at the Special Meeting; (b) the absence of any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) enacted, issued, promulgated, enforced or entered prohibiting or restricting the consummation of the Merger; (c) the receipt of all other required authorizations, consents and approvals of governmental authorities; (d) the performance of and compliance with, in all material respects, all agreements and obligations contained in the Merger Agreement and required to be performed or complied with at or prior to the Effective Time by the respective parties to the Merger Agreement; (e) the material truth and correctness of all representations and warranties of the parties to the Merger Agreement; and (f) the furnishing of officers' certificates as to the matters covered in clauses (d) and (e) above.

The obligation of Holdings Corp. and Acquisition Corp. to consummate the Merger is further subject to the satisfaction or waiver of the following conditions, among others: (a) Holdings Corp. having obtained or being satisfied that it will obtain all material third-party consents and approvals necessary, proper and advisable to consummate the Merger or to enable the Surviving Corporation to continue to carry on the business of the Company and its subsidiaries as presently conducted; and (b) the receipt by Holdings Corp. on behalf of Acquisition Corp. of financing, which, together with the Company's cash balances and cash equivalents, including marketable securities, is sufficient to consummate the Merger, to effect the necessary refinancing of the Senior Notes and to pay related fees and expenses.

The obligation of the Company to consummate the Merger is further subject to the satisfaction or waiver of the following conditions, among others: (a) the receipt by the Company of all documents it has reasonably requested relating to the existence of Holdings Corp. and Acquisition Corp. and the authority of Holdings Corp. and Acquisition Corp. to enter into the Merger Agreement; and (b) the receipt by the Board of Directors of the Company of a certificate signed by the principal financial officer of the Company attesting to the solvency of the Surviving Corporation immediately after the Effective Time, or, alternatively, if Chase requires an opinion of an independent appraiser to such effect, receipt by the Board of Directors of such opinion.

TERMINATION

The Merger Agreement may be terminated and the Merger abandoned at any time prior to the Effective Time, notwithstanding approval of the Merger Agreement by the stockholders of the Company: (a) by mutual written consent of the Company and Holdings Corp.; (b) by either the Company or Holdings Corp. if the Merger has not been consummated by December 31, 1994; (c) by either the Company or Holdings Corp., if there shall be any law or regulation that makes consummation of the Merger illegal or otherwise prohibited or if any judgment, injunction, order or decree enjoining Holdings Corp. or the Company from consummating the Merger is entered and becomes final and nonappealable; (d) by either the Company or Holdings Corp. if the Merger Agreement and the Merger fail to receive the requisite vote for approval and adoption by the

stockholders of the Company at the Special Meeting; (e) by Holdings Corp. or the Company (acting through the Special Committee), if (i) the Board of Directors of the Company or the Special Committee withdraws, modifies or changes its recommendation of the Merger Agreement or the Merger in a manner adverse to Holdings Corp. or Acquisition Corp. or resolves to do any of the foregoing or the Board of Directors of the Company recommends to the stockholders of the Company any Competing Transaction or resolves to do so, or (ii) any person acquires beneficial ownership, or the right to acquire beneficial ownership, of 50% or more of the Voting Shares, or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder and not including the Acquiring Group) is formed which beneficially owns, or has the right to acquire beneficial ownership of, 50% or

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more of the Voting Shares.

EXPENSES

Except as otherwise specifically provided, the Merger Agreement provides that, whether or not the Merger is consummated, all costs and expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby shall be paid by the party incurring such cost or expense.

Pursuant to the terms of the Merger Agreement, Holdings Corp. is entitled to reimbursement for up to $1.5 million of out-of-pocket expenses incurred in connection with or arising out of the Merger in the event that (i) the Merger Agreement is terminated (a) by the Company or Holdings Corp. if the vote required in favor of the Merger Agreement and the Merger is not received, (b) by the Company if the Company or the Special Committee recommends to the stockholders of the Company any Competing Transaction or (c) by the Company or Holdings Corp. if any person shall have acquired beneficial ownership of 50% or more of the Voting Shares or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder and not including the Acquiring Group) shall have been formed which beneficially owns 50% or more of the Voting Shares or (ii) the Merger is not consummated and the Company is in breach in any material respect of its covenants, representations, warranties or agreements contained in the Merger Agreement, and in any of such events set forth in clause (i) or (ii) Holdings Corp. and Acquisition Corp. are not in breach in any material respect of their respective covenants, representations, warranties or agreements contained in the Merger Agreement.

AMENDMENTS

The Merger Agreement may not be amended prior to the Effective Time except by action of the Company, Holdings Corp. and Acquisition Corp. set forth in a written instrument signed on behalf of each of the parties; provided that any such amendment by the Company must be approved by the Board of Directors of the Company, acting on the recommendation of the Special Committee. After approval of the Merger Agreement by the stockholders of the Company at the Special Meeting and without the further approval of such stockholders, no amendment to the Merger Agreement may be made which will change (i) the Merger Consideration or (ii) any of the other terms and conditions of the Merger Agreement if such change would adversely affect the stockholders of the Company.

DISSENTERS' RIGHTS

Holders of record of Common Shares who comply with the applicable procedures summarized herein will be entitled to appraisal rights under Section 262 of the DGCL. A person having a beneficial interest in Common Shares held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

THE FOLLOWING DISCUSSION IS NOT A COMPLETE STATEMENT OF THE LAW PERTAINING TO APPRAISAL RIGHTS UNDER THE DGCL AND IS QUALIFIED IN ITS ENTIRETY BY THE FULL TEXT OF SECTION 262 WHICH IS REPRINTED IN ITS ENTIRETY AS ANNEX B TO THIS PROXY STATEMENT. ALL REFERENCES IN SECTION 262 AND IN THIS SUMMARY TO A "STOCKHOLDER" ARE

TO THE RECORD HOLDER OF COMMON SHARES AS TO WHICH APPRAISAL RIGHTS ARE ASSERTED. VOTING AGAINST, ABSTAINING FROM VOTING OR FAILING TO VOTE ON APPROVAL AND ADOPTION OF THE MERGER AGREEMENT WILL NOT CONSTITUTE A DEMAND FOR APPRAISAL WITHIN THE MEANING OF SECTION 262 OF THE DGCL.

Under the DGCL, holders of Common Shares who follow the procedures set forth in Section 262 will be entitled to have their Common Shares appraised by the Chancery Court and to receive payment in cash of the "fair value" of such Common Shares, exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with a fair rate of interest, if any, as determined by such court.

Under Section 262, where a proposed merger is to be submitted for approval at

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a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders who was a stockholder on the record date for such meeting with respect to shares for which appraisal rights are available, that appraisal rights are so available, and must include in such notice a copy of Section 262.

This Proxy Statement constitutes such notice to the holders of Common Shares and the applicable statutory provisions of the DGCL are attached to this Proxy Statement as Annex B. Any stockholder who wishes to exercise such appraisal rights or who wishes to preserve his right to do so should review the following discussion and Annex B carefully because failure to timely and properly comply with the procedures specified will result in the loss of appraisal rights under the DGCL.

A holder of Common Shares wishing to exercise such holder's appraisal rights (i) must not vote in favor of adoption of the Merger Agreement and (ii) must deliver to the Company prior to the vote on the Merger Agreement at the Special Meeting to be held on , 1994, a written demand for appraisal of such holder's Common Shares. A holder of Common Shares wishing to exercise such holder's appraisal rights must be the record holder of such Common Shares on the date the written demand for appraisal is made and must continue to hold such Common Shares of record until the Effective Time of the Merger. Accordingly, a holder of Common Shares who is the record holder of Common Shares on the date the written demand for appraisal is made, but who thereafter transfers such Common Shares prior to the Effective Time of the Merger, will lose any right to appraisal in respect of such Common Shares.

Only a holder of record of Common Shares is entitled to assert appraisal rights for the Common Shares registered in that holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as such holder's name appears on such holder's stock certificates. If the Common Shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the Common Shares are owned of record by more than one person as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including an agent for two or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for such owner or owners. A record holder such as a broker who holds Common Shares as nominee for several beneficial owners may exercise appraisal rights with respect to the Common Shares held for one or more beneficial owners while not exercising such rights with respect to the Common Shares held for other beneficial owners; in such case, the written demand should set forth the number of Common Shares as to which appraisal is sought and where no number of Common Shares is expressly mentioned the demand will be presumed to cover all Common Shares held in the name of the record owner. Stockholders who hold their Common Shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

All written demands for appraisal should be sent or delivered to the Company at Suite 600, One Cherry Center, 501 South Cherry Street, Denver, Colorado 80222, Attention: Corporate Secretary.

The Surviving Corporation shall within 10 days after the Effective Time of the Merger notify each stockholder who has complied with the statutory requirements summarized above that the Merger has

become effective. Within 120 days after the Effective Time of the Merger, but not thereafter, the Company or any stockholder who has complied with the statutory requirements summarized above may file a petition in the Chancery Court demanding a determination of the fair value of the Common Shares. The Company is under no obligation to and has no present intention to file a petition with respect to the appraisal of the fair value of the Common Shares. Accordingly, it is the obligation of the stockholders to initiate all necessary action to perfect their appraisal rights within the time prescribed in Section

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262.

Within 120 days after the Effective Time of the Merger, any stockholder who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from the Company a statement setting forth the aggregate number of Common Shares not voted in favor of adoption of the Merger Agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such Common Shares. Such statements must be mailed within 10 days after a written request therefor has been received by the Company.

If a petition for an appraisal is timely filed, after a hearing on such petition, the Chancery Court will determine the stockholders entitled to appraisal rights and will appraise the "fair value" of their Common Shares, exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. Stockholders considering seeking appraisal should be aware that the fair value of their Common Shares as determined under Section 262 could be more than, the same as or less than the consideration they would receive pursuant to the Merger Agreement if they did not seek approval of their Common Shares and that investment banking opinions as to fairness from a financial point of view are not necessarily opinions as to fair value under Section 262. The Delaware Supreme Court has stated that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered in the appraisal proceedings.

The Chancery Court will determine the amount of interest, if any, to be paid upon the amounts to be received by persons whose Common Shares have been appraised. The costs of the action may be determined by the Chancery Court and taxed upon the parties as the Chancery Court deems equitable. The Chancery Court may also order that all or a portion of the expenses incurred by any stockholder in connection with an appraisal, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged pro rata against the value of all of the Common Shares entitled to appraisal.

Any holder of Common Shares who has duly demanded an appraisal in compliance with Section 262 will not, after the Effective Time of the Merger, be entitled to vote the Common Shares subject to such demand for any purpose or be entitled to the payment of dividends or other distributions on those Common Shares (except dividends or other distributions payable to holders of record of Common Shares as of a record date prior to the Effective Time of the Merger).

If any stockholder who properly demands appraisal of such stockholder's Common Shares under Section 262 fails to perfect, or effectively withdraws or loses, such stockholder's right to appraisal as provided in the DGCL, the Common Shares of such stockholder will be converted into the right to receive the consideration receivable with respect to such Common Shares in accordance with the Merger Agreement. A stockholder will fail to perfect, or effectively lose or withdraw, his right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the Effective Time of the Merger, or if the stockholder delivers to the Company a written withdrawal of his demand for appraisal and acceptance of the Merger. Any such attempt to withdraw an appraisal demand more than 60 days after the Effective Time of the Merger will require the written approval of the Company.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of such rights (in which event a stockholder will be entitled to receive the Merger Consideration with respect to such Common Shares in accordance with the Merger Agreement).

Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenter's exclusive remedy. Several decisions by the Delaware courts have held that a controlling stockholder of a company involved in a merger has a fiduciary duty to the other stockholders which requires that the merger be "entirely fair" to such other stockholders. In determining whether a merger is fair to minority stockholders,

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the Delaware courts have considered, among other things, the type and amount of consideration to be received by stockholders and whether there was fair dealing among the parties. The Delaware Supreme Court stated in Weinberger v. UOP, Inc., 457 A.2d 701, 714 (1983), that although the remedy ordinarily available in a merger that is found not to be "fair" to minority stockholders is the right to appraisal described above, such appraisal remedy may not be adequate "in certain cases, particularly where fraud, misrepresentation, self-dealing, deliberate waste of corporate assets, or gross and palpable overreaching are involved," and that in such cases the Chancery Court would be free to fashion any form of appropriate relief.

FINANCING OF THE MERGER

GENERAL

Based on the Merger Consideration of $15.00 per Common Share, payable in cash without interest, the total amount of funds required to pay the Merger Consideration following the Effective Time to the holders of all outstanding Common Shares on a fully diluted basis (including Common Shares beneficially owned by the Acquiring Group), to effect the refinancing of the Company's Senior Notes and to pay related fees and expenses in connection with the Merger is estimated to be approximately $130 million. Such amount will be reduced by up to $15 million, the value of the Voting Shares which the Acquiring Group contributes or causes to be contributed to Acquisition Corp. and cash contributed by members of the Acquiring Group and/or other investors, if any.

The Merger Consideration will be provided out of the Company's cash balances and cash equivalents, including marketable securities, as well as from the bank financing described below. On , 1994, the earliest date on which the Merger may occur, the Company is expected to have approximately $[70] million in cash and cash equivalents, all of which is expected to be used to pay a portion of the Merger Consideration and related expenses.

BANK FINANCING

General. Pursuant to a commitment letter dated May 5, 1994, as amended on June 21, 1994 (the "Commitment Letter"), and subject to certain conditions, Chase committed to make available to Acquisition Corp. and, after consummation of the Merger, to the Surviving Corporation senior acquisition financing in an aggregate amount of up to $50 million (the "Senior Facilities"), subject to certain conditions described below. The Commitment Letter is filed as an exhibit to the Schedule 13E-3 and is available for inspection and copying by any holder of Voting Shares or representative of such holder who has been so designated in writing, at the principal executive offices of Acquisition Corp. The parties expect that Chase may syndicate a portion of the Senior Facilities to other banks and/or financial institutions (the "Lenders"). The following constitutes only a summary of the principal terms and conditions of the Commitment Letter and is qualified in its entirety by reference to the actual terms of the Commitment Letter. The definitive credit agreement (the "Credit Agreement") has not yet been fully negotiated and may contain more or less restrictive provisions than are contained in the Commitment Letter.

The Commitment Letter provides that Chase and the other Lenders will commit to provide up to $25 million pursuant to a term loan facility (the "Term Loan Facility") and, in addition, will provide up to $25 million pursuant to a revolving credit facility (the "Revolving Credit Facility") to provide part of the financing for the Merger, refinance the Company's Senior Notes, pay related fees, commissions and expenses, and finance ongoing working capital requirements of the Surviving Corporation.

Term Loan Facility. The Term Loan Facility is a single draw facility in the aggregate principal amount of up to $25 million. The loan to be made pursuant to the Term Loan Facility (the "Term Loan") will be incurred by the Company at the Effective Time to provide financing for the Merger. The Term Loan Facility may be either a Single Term Loan Facility or a Two Tranche Term Loan Facility consisting of "Term Loan A" and "Term Loan B." The final maturity of the Term Loan Facility will be (i) in the case of a Single Term Loan Facility, seven

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years from the Effective Time or (ii) in the case of a Two Tranche Term Loan Facility, for Term Loan A, five years from the Effective Time, and for Term Loan B, seven years from the Effective Time. The Term Loan is to be repaid in accordance with an amortization schedule to be mutually agreed upon.

Revolving Credit Facility. The Revolving Credit Facility provides for revolving credit loans (the "Revolving Loans") from time to time of up to $25 million (with a $5 million limit for letters of credit). Drawings may be made at any time from the Effective Time until the final maturity of the Revolving Credit Facility, except that the Term Loan Facility must be fully utilized before any drawings may be made under the Revolving Credit Facility. The final maturity of the Revolving Credit Facility will be five years from the Effective Time with the Revolving Loans to be repaid in full at such time.

Fees. Holdings Corp. and American Securities have jointly and severally agreed to pay a commitment fee of 3/8 of 1% per annum (calculated on a 360 day basis) of the unused amounts of the total commitments under the Senior Facilities for the period commencing June 20, 1994 until the date on which the Credit Agreement is signed. Thereafter, Acquisition Corp. and the Surviving Corporation will be required to pay a commitment fee equal to 1/2 of 1% per annum (calculated on a 360 day basis) with respect to the unused amounts of the commitments under the Senior Facilities in effect from time to time, payable quarterly in arrears for the account of the Lenders. The Lenders and Chase shall also receive a syndication fee and agency fee as have been separately agreed upon.

Holdings Corp. and American Securities have also agreed to pay a termination fee of $200,000 if the Acquiring Group abandons or terminates its efforts to consummate the Merger or the Merger is consummated with the proceeds of financing other than the Senior Facilities; provided that such fee shall only be payable to the extent that at least $200,000 of expense reimbursement is available to Holdings Corp. from the Company pursuant to the Merger Agreement. See "THE MERGER AGREEMENT--Expenses."

Interest. Amounts outstanding under the Term Loan Facility and the Revolving Credit Facility will bear interest at a rate equal to, at the Company's option, (i) the Base Rate plus the Applicable Margin (each as defined herein) ("Base Rate Loans") or (ii) the London interbank offered rate (as adjusted) for one, two (in each case subject to availability), three or six month U.S. dollar deposits (as selected by the Company) plus the Applicable Margin ("LIBOR Loans"). "Applicable Margin" shall mean a percentage per annum as shown in the following table:

<TABLE>
<CAPTION>

	BASE RATE LOANS	LIBOR LOANS
<S>	<C>	<C>
Term Loan Facility		
(a) Single	1.75%	3.00%
(b) Two Tranche		
1. Term Loan A	1.50%	2.75%
2. Term Loan B	2.00%	3.25%
Revolving Credit Facility	1.50%	2.75%

</TABLE>

"Base Rate" shall mean the higher of (i) 1/2 of 1% in excess of the rate on overnight Federal Funds transactions, as published by the Federal Reserve Bank of New York and (ii) the rate announced by Chase as its prime commercial lending rate.

In addition, fees of 2.50% per annum in the case of standby letters of credit and 1.50% per annum in the case of commercial letters of credit will be payable for the account of the Lenders, plus a 1/4% fronting

fee per annum for the account of Chase on the aggregate amount available for drawing under all letters of credit and calculated on the basis of a 360 day year, plus customary administrative fees.

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Security. The Senior Facilities and the Company's obligations under any interest rate protection agreements entered into with any Lender will be secured by (i) perfected first priority pledges of the capital stock of the Company and its subsidiaries and (ii) security interests in and liens upon substantially all other assets (including, but not limited to, all accounts receivable, inventory, general intangibles and real property) owned by the Company and its subsidiaries.

Conditions. The obligations of the Lenders to provide the initial advances under the Credit Agreement will be subject to the satisfaction of certain conditions. These conditions will include, among other things: (i) receipt by the Lenders of certain opinions, certificates, documents, appraisals, governmental and regulatory approvals, financial statements and other information, (ii) receipt by Acquisition Corp., prior to borrowings under the Senior Facilities, of at least $15 million consisting of Voting Shares, Debentures and/or cash, (iii) receipt of a solvency certificate of an appropriate officer of the Company or a solvency opinion of an independent appraiser, in either case concluding that, after giving effect to the Merger and the consummation of the related financings, neither Holdings Corp., Acquisition Corp., nor the Surviving Company and its subsidiaries is insolvent nor will any such entity be rendered insolvent thereby, (iv) satisfaction by Chase that the aggregate amount of the funds available to Acquisition Corp. in the form of equity contributions and under the Senior Facilities shall be sufficient to consummate the Merger and to pay all fees and expenses payable in connection with the Merger and the repayment of the Senior Notes, (v) all conditions to Acquisition Corp.'s obligations under the Merger Agreement shall have been met or waived, (vi) the absence of any litigation, pending or threatened (a) with respect to the Senior Facilities or (b) which, in Chase's reasonable determination, could have a material adverse effect on the business, property, assets, nature of assets, liabilities, condition (financial or otherwise), operations or results of operation of the Company after giving effect to the Merger, and (vii) nothing having occurred which could have a material adverse change in the condition (financial or otherwise), business, operations, results of operations, assets, nature of assets or liabilities of the Company and its subsidiaries.

Covenants. The Credit Agreement will contain certain restrictive covenants which, among other things and with certain exceptions, will limit the Company and its subsidiaries with respect to certain activities and require the Company to satisfy certain financial covenants.

Events of Default. The Credit Agreement will contain events of default appropriate in the context of the proposed transactions including, without limitation, a default in the event of a change of ownership of the Company.

Expenses and Indemnification. All expenses of Chase in the negotiation and closing of the Commitment Letter, the Credit Agreement and the Senior Facilities are to be paid by Holdings Corp. and American Securities. Holdings Corp. and American Securities have agreed to indemnify Chase and the Lenders against any and all costs and liabilities relating to the Commitment Letter and the Senior Facilities.

Guarantees. Borrowings under the Senior Facilities and obligations under any interest rate protection agreements with any Lender are required to be guaranteed, jointly and severally, by Holdings Corp. and all subsidiaries of the Company.

The foregoing description of the terms of the Commitment Letter is qualified in its entirety by the text of such Commitment Letter which has been filed as Exhibit (a)(1) to the Schedule 13E-3 and is incorporated herein by reference. Copies are available for inspection and may be obtained by mail as described above under "AVAILABLE INFORMATION."

ESTIMATED FEES AND EXPENSES

Estimated fees and expenses incurred or to be incurred by the Company,

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Holdings Corp., Acquisition Corp. and the Acquiring Group in connection with the Merger are approximately as follows:

Payment of Merger Consideration	$
Advisory fees(1)	
Bank financing commitment fees	
Legal fees and expenses(2)(3)	
Accounting fees and expenses	
Commission filing fees	
Printing and mailing expenses	
Exchange Agent fees and expenses	
Appraisal and environmental analysis fees	
Early retirement of Senior Notes and associated prepayment penalties	
Miscellaneous expenses	
Total	$

- --------
(1) Includes the fees and estimated expenses of Bear Stearns, Bridgeford and American Securities and its affiliates. See "SPECIAL FACTORS."
(2) Includes the estimated fees and expenses of counsel for the Special Committee and counsel for the Acquiring Group.
(3) Includes an estimated $ that may be payable to plaintiffs' counsel in the Actions. See "SPECIAL FACTORS--Certain Litigation."

See "THE MERGER AGREEMENT--Expenses" for a description of certain provisions for the reimbursement by the Company of certain out-of-pocket expenses incurred by Holdings Corp.

BUSINESS OF THE COMPANY

GENERAL

The Company is a diversified multi-product manufacturer which develops, designs, manufactures and markets a wide group of products for industrial and commercial markets.

The Company was incorporated in May 1988 in connection with a corporate restructuring of Ametek, in which certain businesses and related assets and liabilities of Ametek were transferred to the Company. On November 30, 1988, the Company became a separate, publicly held corporation by means of the pro rata distribution (the "Distribution") by Ametek of all the outstanding Common Shares to holders of record of Ametek's common stock on the close of business on that date. Concurrent with the Distribution, the Company commenced a rights offering which resulted in the issuance of $17.5 million aggregate principal amount of the Debentures for aggregate gross proceeds of $17.5 million. The Debentures are convertible into either Common Shares or, under certain circumstances, Preferred Shares, which in turn are convertible into Common Shares.

The Company consists of eleven operating units. These operating units and their major products are divided into four business segments: Process Group, Aerospace Group, Industrial Group and American Innovations, Inc. The Process Group designs and manufactures highly engineered components and equipment for the chemical process, petroleum, agriculture, power and related industries. The Aerospace Group engineers and produces parts and components for aircraft and rocket engines, missiles, satellites and other aerospace applications. The units in the Industrial Group generally manufacture products that involve fairly standard manufacturing processes and industrial applications. American Innovations, Inc. designs and produces systems for an emerging market, namely the remotely monitored meter reading segment of the utility industry.

Additional information concerning the business of the Company is included in the Company's Annual Report on Form 10-K for the year ended February 28, 1994, which is incorporated herein by reference, and its other public filings. See

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"AVAILABLE INFORMATION" and "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE."

The Company's principal executive offices are located at Suite 600, One Cherry Center, 501 South Cherry Street, Denver, Colorado 80222 and its telephone number is (303) 331-0940.

PROCESS GROUP

The Heat Transfer division manufactures Whitlock (R) shell and tube heat exchangers and Acme (R) chiller barrels designed to maintain temperature or remove or recover heat in many industrial processes. Standard heat exchangers are supplied for computer, electronic and other industrial applications, while custom-engineered heat exchangers are supplied to the refrigeration, power and process industries. The division utilizes manufacturer's representatives as well as its own personnel to market its products.

The McCrometer division produces propeller and V-Cone (TM) differential pressure flow meters, some with electronic batching and remote recording systems, used primarily for agricultural applications and, to a lesser extent, for industrial and municipal applications, both in the U.S. and in certain foreign markets. Flow meters measure and regulate the usage of water or other fluids. The division's marketing efforts are conducted primarily through manufacturer's representatives and dealers in the agricultural markets.

The Process Equipment division engineers and manufactures equipment to separate solids from liquids in numerous applications and provides maintenance, overhaul and field services for equipment manufactured by the Company and other manufacturers. It produces Tolhurst (R) and Mark III (R) centrifuges, Filtroba helical filters and helical filter dryers, Niagara filters and filtration fabrics for pharmaceutical and other process industries. Also produced are large metal fabrications made to customer specifications for use as bellows and expansion joints. Process Equipment's products are sold primarily through manufacturer's representatives.

The Schutte and Koerting division manufactures flow measurement and control devices, including the following: variable area meters and turbine meters for the aerospace, general aviation and automotive industries; steam jet apparatus and fume scrubbers for the chemical process, petrochemical and pulp and paper markets; and valves for the power generation industry. Certain high accuracy flow meters are used principally as instruments for calibration. Schutte and Koerting's products are sold primarily through manufacturer's representatives.

AEROSPACE GROUP

The Ketema A&E division (formally the Aerospace & Electronics division) produces titanium, stainless steel and other high-temperature alloy precision weldments and brazements for a large variety of jet and gas turbine aircraft engines. It also supplies components and assemblies for the rocket engine of the Space Shuttle and the fuselage of missiles. In addition, Ketema A&E designs and manufactures microelectronic fuel control systems for aerospace and missile projects. Many of Ketema A&E products have military applications and are built to customer specifications. Jet engine components produced by Ketema A&E represented approximately 25% in fiscal 1994, 18% in fiscal 1993 and 23% in fiscal 1992, of the Company's net sales. Most of Ketema A&E's sales are made under subcontracts for the U.S. government and sales are made primarily by divisional personnel.

Aldan Industrial Machining, Inc. ("Aldan"), a wholly-owned subsidiary which was acquired in the fourth quarter of fiscal 1993, designs and manufactures special-use bearings, including slot-loaded, swaged, fractured and lined bearings, rod ends and fittings. While Aldan focuses primarily on the aerospace industry, it also develops and manufactures high-precision machined components for other industries. Sales are made by Aldan personnel.

Programmed Composites, Inc., a wholly-owned subsidiary, fabricates advanced composite structures primarily for commercial satellite programs. Sales are made by Programmed Composites' personnel.

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INDUSTRIAL GROUP

The Los Angeles Die Casting division produces custom die-cast zinc and aluminum components for the automotive and recreational vehicle after-market, computer, commercial and residential lighting products, appliance manufacturers and industrial applications. These components are produced to customer design and are sold by divisional personnel and manufacturer's representatives.

The Rodan division manufactures thermistors and thermistor assemblies, which are solid-state devices that produce precise changes in electrical resistance as temperature increases or decreases. Rodan's Surge-Gard (TM), a current-limiting device, is used in computers, power supplies, motors and filament circuits. Rodan also manufactures positive temperature coefficient thermistors which function as temperature sensors to protect motors and electric circuits from over-current conditions. Sales are made by divisional personnel and by manufacturer's representatives.

The Special Filaments division produces thermoplastic monofilaments extruded from nylon, polyester and olefin resins and combinations of these materials. These products are sold primarily as monofilament fibers for industrial textile applications and bristles for paint, household, industrial, hair and cosmetic brushes. Sales are made by divisional personnel and a distributor.

AMERICAN INNOVATIONS, INC.

American Innovations, Inc., an 80% owned subsidiary which was acquired in the third quarter of fiscal 1993, designs and manufactures microprocessor driven remotely monitored meter reading systems primarily for the utility industry. Sales are made by American Innovations' personnel and manufacturer's representatives.

RESEARCH AND DEVELOPMENT

Research activities are geared toward new product development as well as improvement of existing products or manufacturing processes. The Company spent $0.7 million in fiscal 1994, $3.6 million in fiscal 1993, and $0.7 million in fiscal 1992, on research and development programs. Research and development expenditures in fiscal 1993 included research and development in process in connection with the acquisition of American Innovations, Inc., a development stage enterprise acquired in the third quarter of fiscal 1993.

COMPETITION

The Company's products are marketed on a worldwide basis. Generally, most markets in which the Company operates are highly competitive and, while generally stable in terms of demand, are subject to general economic conditions. Many of the Company's businesses have an established customer base with a known product identity. The principal elements of competition for the products manufactured in each of the Company's business segments are price, product features, distribution, product quality and service. The Company believes that, as a whole, it competes effectively with respect to all of the foregoing.

At the Special Filaments division, the Company's competition in certain extruded filaments is from some of its larger raw material suppliers and customers who are also end-product manufacturers.

In all other operations the Company faces intense competition from competitors having either greater or lesser financial and technological resources. The Company does not believe that it is a major factor in any market it serves.

CUSTOMERS

The Company, as either a prime contractor or a subcontractor, sells certain of its products and services to various agencies of the United States government. Approximately $26.8 million or 21% of the Company's fiscal year

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1994 sales were ultimately to the U.S. Government as prime contract and subcontract sales. Sales to General Electric Co. ("G.E.") in fiscal 1994 were approximately $35.1 million or 28% of net sales, of which $18.6 million were included above as subcontracts to the U.S. Government. Substantially all of these sales were made by units in the Aerospace segment. In November 1993, the Company received verbal notification from G.E. of its intention to transfer, over a several year period, certain of its business to other suppliers because the Company would not honor G.E.'s demand for additional substantial price concessions. While this continues to be a concern for the Company, no significant transfers have yet been made and the Company has received new orders from G.E. since the notification. Except for various U.S. Government agencies treated as a single customer and G.E., the Company as a whole is not dependent on any single customer or a few customers such that their loss would have a material adverse effect on its operations.

BACKLOG

The Company's backlog of unfilled orders at February 28, 1994 and 1993 by business segment was as follows (in thousands):

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Process Group	$13,500	$11,400
Aerospace Group	42,700	50,700
Industrial Group	5,000	4,300
American Innovations, Inc.	1,400	600
Total	$62,600	$67,000

</TABLE>

Backlog is not considered significant to the operations of the Industrial and Process Groups because substantially all orders are filled on a current order and shipment basis. Of the total February 28, 1994 backlog, the Company believes that all but approximately $21.0 million, primarily in the Aerospace Group, will be filled by February 28, 1995.

RAW MATERIALS

The Company's businesses obtain raw materials and supplies from a variety of sources, generally from more than one supplier. However, in the Industrial segment, certain commodities are available only from a limited number of suppliers. The Company believes that its sources and supply of raw materials are adequate for its needs.

PATENTS, LICENSES AND TRADEMARKS

The Company owns numerous unexpired U.S. trademarks, U.S. patent and trademark applications, U.S. design patents, and foreign patents, trademarks and applications therefor, including counterparts of its more important U.S. patents and trademarks, in the major free-trade industrial countries of the world. The Company is a licensor or licensee under patent agreements of various types and its products are marketed under various registered U.S. and foreign trademarks and trade names. However, the Company does not consider any one patent or trademark or any group thereof essential to its business as a whole, or to any of its business segments. The annual royalties received or paid under license agreements are not significant.

PERSONNEL

At February 28, 1994, the Company employed approximately 1,080 employees, 54% of whom were non-salaried employees. Four of the Company's units rely on union employees who comprise 32% of all non-salaried employees. Management believes that the Company's relations with its employees are satisfactory.

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SEASONAL VARIATIONS OF BUSINESS

The Company believes that its business as a whole and the business segments in which it operates are not subject to significant seasonal variations.

ENVIRONMENTAL MATTERS

The Company is subject to an expanding and evolving set of environmental laws and regulations. Compliance with these laws and regulations may require higher capital expenditures and expenses in the future. For instance, as reported in fiscal 1993, the Company had identified certain historic materials handling practices at its Bensalem, Pennsylvania manufacturing plant which may require future expenditures. The Company retained an environmental engineering firm to evaluate these conditions and develop any necessary cleanup plans. No formal remediation report has been completed at this time.

The Company has notified the appropriate state regulatory agency regarding this investigation process. No enforcement agency process has been initiated. The former site owner, Ametek, has also been notified. While it is difficult to quantify the potential financial impact of this matter, based on engineering estimates derived from currently available information, the Company reserved $1.0 million in fiscal 1993 to account for ongoing investigation costs and any cleanup work that would ultimately be required. During fiscal 1994, the Company charged investigative and engineering costs of $0.2 million to this reserve and based on available information, the Company believes that its current reserve is sufficient to account for any further investigation and cleanup costs that may become necessary at the site.

Otherwise, while it is difficult to quantify the potential impact of the evolving set of environmental laws and regulations generally pertinent to the Company's operations, the Company believes that, other than the incident discussed above, they will have no material effect on the Company's financial position or future results of operations.

WORKING CAPITAL PRACTICES

The Company does not have extraordinary working capital requirements in any of its business segments. Customers generally are billed at normal trade terms with no extended payment provisions. Under certain U.S. government contracts, shipments may be made before the contracts are finalized and invoicing is allowed. Inventories are controlled and maintained at levels responsive to normal delivery requirements of customers. However, under certain long-term contracts and programs, as to which the Company receives progress payments, inventories may be carried for longer periods.

SELECTED HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

The following table sets forth selected historical financial information for the Company and its subsidiaries for the three months ended May 31, 1993 and 1994 and for each of the five years in the period ended February 28, 1994. The following financial information should be read in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" and the Consolidated Financial Statements and related Notes included elsewhere in this Proxy Statement. The interim unaudited information for the Company and its subsidiaries for the three months ended May 31, 1993 and 1994 reflect, in the opinion of management of the Company, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the information provided for such interim periods. The results of operations of such interim periods are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole.

KETEMA, INC. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MAY 31 (A),	AS OF AND FOR THE FISCAL YEARS ENDED FEBRUARY 28 OR 29(A),

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	1994	1993	1994	1993	1992	1991	1990
			(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 30,956	$ 33,477	$ 127,109	$ 122,159	$ 133,132	$ 142,665	$ 136,848
Restructuring charge (b)	--	--	--	--	(7,385)	--	--
Operating income (loss)	131	1,020	5,550	(2,373)	(4,149)	2,510	(2,139)
Settlement charge (c)	--	--	--	--	--	(5,841)	--
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles	(832)	123	2,095	(4,915)	(4,343)	(2,930)	(1,553)
Income (loss) from continuing operations	(566)	(93)	1,541	(3,447)	(3,194)	(2,884)	1,015
Income (loss) from discontinued operations (d)	--	(250)	(305)	(342)	(21)	2,016	3,851
Cumulative effect of changes in accounting principles	--	--	--	--	208	--	--
Net income (loss)	(566)	(343)	1,236	(3,789)	(3,007)	(868)	4,866
Income (loss) per share (e):							
Continuing operations	$ (0.16)	$ (0.03)	$ 0.42	$ (0.93)	$ (0.81)	$ (0.70)	$ 0.23
Net income (loss)	$ (0.16)	$ (0.09)	$ 0.34	$ (1.02)	$ (0.77)	$ (0.21)	$ 1.10
Average common shares outstanding	3,490	3,683	3,630	3,718	3,927	4,111	4,417
Total assets	$146,856	$150,789	$ 148,973	$ 158,409	$ 156,952	$ 160,622	$ 165,997
Net working capital	$ 69,005	$ 75,291	$ 67,208	$ 75,543	$ 91,309	$ 90,016	$ 90,754
Ratio of current assets to current liabilities	3.17	3.66	3.01	3.12	4.35	4.22	4.16
Long-term debt	$ 55,692	$ 60,197	$ 55,692	$ 60,198	$ 62,044	$ 62,858	$ 62,924
Equity	$ 56,315	$ 57,502	$ 56,981	$ 57,826	$ 64,269	$ 67,382	$ 72,214

</TABLE>

- --------

(a) Prior years restated to reflect the Aluminum Extrusion Division as a discontinued operation. The division was sold effective August 31, 1993.

(b) Restructuring charge consisted primarily of the write-down of intangible and other assets related to the woven fabric composite material business, expenses related to the consolidation of various facilities and relocation costs.

(c) Costs associated with settling claims assumed when spun off by Ametek.

(d) Income (loss) associated with discontinued operations of Aluminum Extrusion Division.

(e) Fully diluted earnings per share, which assumes the conversion of the Debentures into additional Common Shares, is not presented since it is antidilutive.

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

DISCONTINUED OPERATIONS

On September 1, 1993 the Company completed the sale of the business and substantially all the assets of its Aluminum Extrusion Division, effective as of the close of business August 31, 1993. The Company's consolidated financial statements present the results of the Aluminum Extrusion Division as a discontinued operation and reported amounts for the previous years have been restated consistent with this presentation. The Division was previously included in the Industrial Group for business segment reporting. See the Notes to the Consolidated Financial Statements for further information on the Aluminum Extrusion Division. The comments in the Results of Operations and Review of Financial Condition sections, which follow, pertain to the Company's

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continuing operations.

RESULTS OF OPERATIONS

FIRST QUARTER OF FISCAL 1995 COMPARED TO THE FIRST QUARTER OF FISCAL 1994

Sales for the first quarter of fiscal 1995 were $31.0 million compared to $33.5 million in the first quarter of fiscal 1994, a decrease of $2.5 million or 7.5%. Operating income for the first quarter of fiscal 1995 was $0.1 million which was $0.9 million less than the first quarter of fiscal 1994. The changes in sales and operating income for the first quarter of fiscal 1995 compared to the same period of fiscal 1994 by business group are shown in the following table:

COMPARATIVE SALES AND OPERATING INCOME
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	FISCAL QUARTER ENDED MAY 31					
	SALES			OPERATING INCOME		
GROUP	FISCAL 1995	FISCAL 1994	INCREASE (DECREASE)	FISCAL 1995	FISCAL 1994	INCREASE (DECREASE)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Process	$14.8	$14.0	$ 0.8	$ 1.2	$ 1.7	$(0.5)
Aerospace	9.5	12.7	(3.2)	--	0.7	(0.7)
Industrial	6.4	6.8	(0.4)	0.8	0.8	--
American Innovations, Inc.	0.3	--	0.3	(0.2)	(0.4)	0.2
Corporate Expenses	NA	NA	NA	(1.7)	(1.8)	0.1
Totals	$31.0	$33.5	$(2.5)	$ 0.1	$ 1.0	$(0.9)

</TABLE>

Sales of the Process Group increased $0.8 million or 5.7% to $14.8 million compared to the prior year. Increases in shipments of heat exchangers and miscellaneous process equipment of $0.6 million each were partially offset by a decrease in shipments of flow measurement devices of $0.4 million. Operating profit for the Process Group was $1.2 million or a decrease of $0.5 million compared to the first quarter of fiscal 1994. The increased shipments and somewhat higher margins of heat exchangers favorably impacted operating profits by $0.2 million. This gain, however, was more than offset by decreased operating profits of $0.3 million resulting from reduced shipments and increased material and marketing costs related to flow measurement devices and an operating profit reduction of $0.4 million related to miscellaneous process equipment, despite an increase in sales, caused by increased marketing costs and reduced margins related to the introduction of new products in the filtration market.

The Aerospace Group recorded sales of $9.5 million in the first quarter of 1995 a decrease of $3.2 million or 25.2% compared to 1994. This decrease was caused mainly by ongoing delays and extensions of aerospace customer requirements related to defense industry cutbacks and softness in the commercial airline business which are expected to continue for some time in the future. In November 1993, the Company received verbal

notification from G.E. that it intended to transfer, over a several year period, certain of its business to other suppliers because the Company would not honor G.E.'s demand for additional substantial price reductions. G.E. accounted for approximately 28% and 21% of the Company's net sales for fiscal 1994 and the first quarter 1995, respectively. While this situation continues to be a concern for the Company, no significant transfers have yet been made and the Company has received new orders from G.E. since the notification. The operating profit of this group decreased $0.7 million compared to 1994. The decrease in sales volume was the major cause of the operating profit decrease.

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However, $0.2 million of the decrease resulted from a lesser amount of profits related to LIFO inventory liquidation than in the prior year.

The Industrial Group recorded sales of $6.4 million in the first quarter of fiscal 1995, a decrease of $0.4 million or 5.9%. Shipments of extruded monofilaments decreased $0.9 million due primarily to the loss of a large specialty monofilament customer in the fourth quarter of fiscal 1994. Recently, however, the Company was notified verbally by this customer that it would resume business with the Company beginning in July 1994 as the customer finds the Company's product to be of highest quality. It is not certain at this time what the customer's requirements will be in fiscal 1995. Sales of thermistors and die castings increased $0.1 million and $0.5 million, respectively. Despite the overall reduction in sales, the operating income of the Industrial Group did not change over the prior year. Increased shipments of thermistors and die castings resulted in increases in operating income of $0.1 million and $0.2 million, respectively, offsetting the decreased operating income that was caused by the reduced sales of extruded monofilaments.

American Innovations, Inc., which had no sales last year, reported sales of $0.3 million in the first quarter of fiscal 1995. Our efforts to penetrate this market continue to be frustrated by the lengthy buying cycle in the utility industry. Operating losses, consisting primarily of marketing and engineering costs, were $0.2 million in 1995 compared to $0.4 million in the first quarter of fiscal 1994.

Corporate expenses were $1.7 million or $0.1 million less than the first quarter of fiscal 1994 despite the recognition in the current period of $0.4 million in fees in connection with the Merger. Reductions in expenses resulted principally from reductions in staff, the discontinuance of the Supplemental Senior Executive Death Benefit Program, and decreased legal and consulting fees.

Other expense, net of other income, increased $0.1 million compared to 1994 chiefly as a result of fewer gains on sales of unused capital equipment in the first quarter of fiscal 1995. The Company continues to experience a negative interest spread on its nonprepayable (until October 1996) debt position compared to the low interest earned on its almost equal cash and marketable securities position.

Included in the 1994 tax provision was a valuation allowance for certain deferred tax assets related to 1994 losses that were, at that time, expected to be nonrecoverable; such valuation allowance was not required for 1995.

Losses from continuing operations in the first quarter of fiscal 1995 were $0.6 million or 16 cents per share, compared to a loss from continuing operations of $0.1 million or 3 cents per share in the same period of the prior year.

Net loss for the Company was $0.6 million or 16 cents per share for the first quarter of this year compared to a net loss of $0.3 million or 9 cents per share in the first quarter of fiscal 1994.

FISCAL 1994 COMPARED TO FISCAL 1993

Sales for fiscal 1994 were $127.1 million compared to $122.2 million in fiscal 1993, an increase of $4.9 million or 4.0%. Operating income for 1994 was $5.5 million compared to a $2.4 million loss in 1993. The changes in sales and operating income by business group are shown in the following table:

COMPARATIVE SALES AND OPERATING INCOME
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	SALES			OPERATING INCOME		
GROUP	FISCAL 1994	FISCAL 1993	INCREASE (DECREASE)	FISCAL 1994	FISCAL 1993	INCREASE (DECREASE)

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<S>	<C>	<C>	<C>	<C>	<C>	<C>
Process	$ 55.5	$ 50.9	$ 4.6	$ 4.6	$ 3.8	$0.8
Aerospace	46.1	46.1	--	5.8	1.3	4.5
Industrial	25.0	25.2	(0.2)	2.8	2.5	0.3
American Innovations, Inc.	0.5	--	0.5	(1.6)	(2.4)	0.8
Corporate Expenses	NA	NA	NA	(6.1)	(7.6)	1.5
Totals	$127.1	$122.2	$ 4.9	$ 5.5	$(2.4)	$7.9

</TABLE>

Sales of the Process Group increased $4.6 million or 9.0% to $55.5 million compared to the prior year. Increases in shipments of flow measurement devices of $3.5 million and miscellaneous process equipment of $3.0 million were partially offset by a decrease in shipments of heat exchangers of $1.9 million. The increase in shipments of flow measurement devices was due primarily to the acquisition of XO Technologies in the fourth quarter of last year. Most of the increase in sales of miscellaneous process equipment resulted from increased shipments of centrifuges, including several exported to China. The decline in shipments of heat exchangers was primarily due to poor economic conditions. Operating profit for the Process Group was $4.6 million, which was $0.8 million greater than fiscal 1993. The reduced shipments and lower margins of heat exchangers negatively impacted operating profits by $1.4 million; this negative impact was more than offset by increased operating profits of $0.8 million and $1.4 million resulting from the higher level of sales of flow measurement devices and miscellaneous process equipment, respectively.

The Aerospace Group recorded sales of $46.1 million in both fiscal 1994 and fiscal 1993. Sales of the group were reduced by $1.6 million as a result of the sale of several composite materials businesses in fiscal 1993, and by $2.3 million, due mostly to lower shipments of electro-mechanical devices. However, these decreases were offset by an increase of $3.2 million in sales by Aldan Industrial Machining, Inc., purchased in the fourth quarter of fiscal 1993 and by a $0.7 million increase in sales of fabricated composite structures for commercial space satellites. Delays and extensions of aerospace customer requirements related to defense industry cutbacks and softness in the commercial airlines business, which have had an adverse effect on sales and profits of aerospace components in the past, are expected to continue for some time in the future. Also, see the discussion herein under "BUSINESS OF THE COMPANY--Customers," concerning the possible loss of business from a major customer of the Aerospace Group. Operating profit of this group was $5.8 million, an improvement of $4.5 million compared to the prior year. The liquidation of LIFO inventory layers, carried at lower costs prevailing in prior years compared with the current cost of inventory, contributed $0.8 million to this improvement. The balance is principally attributable to improved productivity and cost control measures related to the manufacture of aerospace components at the Ketema A&E Division and increased sales of composite structures by Programmed Composites, Inc.

The Industrial Group recorded sales of $25.0 million in fiscal 1994, a decrease of $0.2 million or less than 1.0%. Shipments of extruded monofilaments and thermistors increased $1.0 million and $0.1 million, respectively; however, these increases were more than offset by reduced sales of die castings. The increase in extruded monofilament sales resulted from new products introduced for the household and industrial brush market, and increased demand for paint brush bristle. (The loss in the fourth quarter of fiscal 1994 of a large

specialty monofilament customer, with annual sales of approximately $2.8 million, is expected to have a substantial adverse impact on sales and profits of this group in fiscal 1995.) Despite the reduction in sales, the operating profit of the Industrial Group increased by $0.3 million over the prior year. Increased shipments of extruded monofilaments resulted in an increase in operating profit of $0.3 million; and increased volume, cost control measures and new production techniques used in the manufacture of thermistors increased operating profit by $0.5 million. On the other hand, reduced sales of die castings caused a reduction in operating profit of $0.6 million.

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American Innovations, Inc., which was acquired late in the third quarter of fiscal 1993 and had no sales last year, reported sales of $0.5 million in fiscal 1994. Operating losses, consisting primarily of marketing and engineering costs, were $1.6 million in fiscal 1994 compared to $2.4 million in fiscal 1993 which included a charge to research and development expense of $1.8 million for the value of research and development projects in process at the time of acquisition.

Corporate expenses were $6.1 million or $1.5 million less than fiscal 1993. Compensation and benefits were reduced $1.0 million due principally to reductions in staff, the discontinuance of the Supplemental Senior Executive Death Benefit Program and decreased pension costs. The balance of the decrease resulted principally from reduced workers' compensation insurance costs.

Other expense, net of other income, increased $0.9 million compared to fiscal 1993 primarily as a result of reduced investment income due chiefly to lower interest rates and, to a lesser extent, a smaller investment pool.

The effective tax rate for fiscal 1994 was 26%. This reduced rate reflects a refund of federal income taxes related to the settlement of claims assumed during the spin off from Ametek.

Income from continuing operations was $1.5 million or 42 cents per share, compared to a net loss of $3.4 million or 93 cents per share in the prior year.

Net income for the Company was $1.2 million or 34 cents per share this year, an improvement of $5.0 million over the prior year loss of $3.8 million or a loss of $1.02 per share.

FISCAL 1993 COMPARED TO FISCAL 1992

Sales for fiscal 1993 were $122.2 million compared to $133.1 million in fiscal 1992, a decrease of $10.9 million or 8.2%. The operating loss for fiscal 1993 was $2.4 million or $1.8 million less than the prior year which included a restructuring charge of $7.4 million. The changes in sales and operating income by business group are shown in the following table:

COMPARATIVE SALES AND OPERATING INCOME
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	SALES			OPERATING INCOME		
GROUP	FISCAL 1993	FISCAL 1992	INCREASE (DECREASE)	FISCAL 1993	FISCAL 1992	INCREASE (DECREASE)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Process	$ 50.9	$ 54.2	$ (3.3)	$ 3.8	$ 6.4	$(2.6)
Aerospace	46.1	54.1	(8.0)	1.3	(4.2)	5.5
Industrial	25.2	24.8	0.4	2.5	1.3	1.2
American Innovations, Inc.	--	--	--	(2.4)	--	(2.4)
Corporate Expenses	NA	NA	NA	(7.6)	(7.7)	0.1
Totals	$122.2	$133.1	$(10.9)	$(2.4)	$(4.2)	$ 1.8

</TABLE>

The Process Group's sales were $50.9 million in fiscal 1993, a decrease of $3.3 million or 6.1% compared to fiscal 1992. Decreases in shipments of heat exchangers and process equipment of $2.7 million and $0.9

million, respectively, were partially offset by increased sales of flow measurement devices of $0.3 million. The major reason for the decline in shipments of heat exchangers was reduced demand for mainframe computers. Operating profit for the Process Group was $3.8 million in fiscal 1993 versus $6.4 million in fiscal 1992, a decrease of $2.6 million. The reduced shipments of heat exchangers resulted in a reduction of operating profits of $0.7

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million. Reduced shipments of process equipment as well as increased environmental costs decreased operating profits by $1.4 million.

The Aerospace Group reported sales of $46.1 million for fiscal 1993, a decrease of $8.0 million or 14.8% compared to fiscal 1992. The sale of the Textile Products and Composite Material divisions in the third quarter of fiscal 1993 contributed $2.6 million to this decrease. Reduced shipments of aerospace components of $7.1 million and electro-mechanical devices of $1.6 million also had a negative impact on sales. These reductions were partially offset by a $2.8 million increase in space shuttle component shipments and a $0.5 million increase in sales of fabricated composite structures. Delays and extensions of aerospace customer requirements related to defense industry cutbacks and the soft commercial airline business, which had an adverse effect on sales and profits of aerospace components, are expected to continue for some time in the future. The operating profit of this group was $1.3 million, a decrease of $0.8 million compared to fiscal 1992, before the restructuring charge of $6.3 million. This decrease is primarily attributable to the changes in sales previously discussed and increased research and development expenditures in connection with a new composite structure fabrication program, partially offset by reduced losses of $0.7 million related to the composite materials businesses sold in fiscal 1993.

The Industrial Group recorded sales of $25.2 million in fiscal 1993, compared to $24.8 million for fiscal 1992. This increase of $0.4 million or 1.6% was due to increased shipments of extruded monofilaments as a result of new products introduced for the household and industrial brush market and increased demand for paint brush bristle and specialty monofilaments. The operating profit of the Industrial Group was $2.5 million in fiscal 1993, an increase of $1.2 million over the prior year. Increased shipments of extruded monofilaments used in cosmetic brushes resulted in an increase in operating profit of $0.4 million. Reduced cost of sales of die castings and thermistors as a result of cost control measures and new production techniques increased operating profit by $0.3 million and $0.5 million, respectively.

American Innovations, Inc., acquired in the third quarter of fiscal 1993, had no sales in that year. Operating losses of $2.4 million in fiscal 1993 consisted of a $1.8 million charge to research and development expense for the value of research and development projects in process at the time of acquisition plus continuing marketing and engineering costs.

Corporate expenses of $7.6 million in fiscal 1993 were $0.9 million greater than fiscal 1992 after excluding a $1.0 million restructuring charge included in that year. This increase was due to increases in corporate general and administrative expenses.

Other expense, net of other income, increased $2.3 million compared to fiscal 1992 primarily due to reduced investment income resulting principally from lower interest rates.

The fiscal 1993 tax provision includes a valuation allowance of $0.8 million for certain deferred tax assets related to current year losses that were not expected to be recoverable.

Loss from continuing operations was $3.4 million or 93 cents per share in fiscal 1993, compared to a loss of $3.2 million or 81 cents per share in the prior year.

Net loss for the Company was $3.8 million or $1.02 per share in fiscal 1993, compared to the net loss for fiscal 1992 of $3.0 million or 77 cents per share.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at February 28, 1994 amounted to $67.2 million compared to $75.5 million at February 28, 1993. This decrease of $8.3 million was caused largely by the reclassification of $4.5 million of long-term

debt to current, the repayment of $1.4 million of loans on officers life insurance and the decrease in assets of discontinued operations of $6.8 million

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due to the sale of the Aluminum Division. Working capital at May 31, 1994 amounted to $69.0 million, compared to $67.2 million at February 28, 1994. This increase of $1.8 million was caused, for the most part, by the receipt of $1.5 million of cash surrender value payments on officers' life insurance related to the discontinuance and settlement of the Supplemental Senior Executive Death Benefit Program in fiscal 1994. Included in current assets are cash and cash equivalents and marketable securities of $60.0 million at May 31, 1994, $60.7 million at February 28, 1994 and $64.7 million at February 28, 1993. Also included in current assets at May 31, 1994 are net deferred income tax assets of $3.4 million, the recognition of which is justified by the Company's ability to generate future taxable income through tax planning strategies for inventories which are presently valued on a LIFO basis.

The covenants of the $45.0 million of Senior Debt, with a current interest rate of 11.17%, prohibit prepayment until October 31, 1996, though scheduled annual repayments of $4.5 million will commence October 31, 1994. An amendment to the Senior Debt Agreement, however, will allow the Company to purchase an aggregate amount of $7.5 million of Debentures and/or Common Shares subsequent to February 28, 1994 if the Company can maintain a debt to capitalization ratio of less than 50%. The ratio as of February 28, 1994 was 51.2%.

The Company's ability to pay dividends is also restricted by the terms of its financing arrangements and the Company currently is not permitted to pay cash dividends to stockholders. In the future, the Company's Board of Directors will consider the advisability of paying cash or other dividends, when permitted, based on the Company's earnings, financial condition, anticipated cash needs and such other factors as are deemed relevant at the time.

The Company's overall financial condition remained strong at May 31, 1994, and its liquidity and capital resources were adequate for its operating needs.

CAPITAL EXPENDITURES

In fiscal 1994, 1993 and 1992, the Company invested a total of $15.0 million in capital improvements. Such expenditures were directed primarily toward improved production efficiency and expanded capacity. Capital expenditures in fiscal 1994 totaled $4.9 million, reflecting investment in automated and other manufacturing equipment. Capital expenditures and other cash requirements are being funded by internally generated and existing funds, and no significant additional borrowings have been incurred. Capital expenditures in 1995 are expected to be financed by existing cash balances and cash generated by operating activities.

OTHER MATTERS

Inflation has had no significant effect on the Company's overall operations or financial condition in the last few years due to the relatively low rate of inflation in the United States. In addition, the LIFO method of accounting for inventories (where the cost of the products sold approximates current cost) is used and, therefore, the effect of inflation is substantially reflected in operating costs. In general, the Company believes that programs are in place to monitor the effect of inflation and take the necessary steps to minimize its effect on operations.

MARKET PRICE FOR THE COMMON SHARES

The Company's Common Shares are listed and traded on the AMEX. The following table sets forth the high and low quoted sales price for the Common Shares on the AMEX for the periods indicated.

<TABLE>
<CAPTION>

FISCAL YEAR ENDING LAST DAY IN FEBRUARY	HIGH	LOW
<S>	<C>	<C>
1993:		
First Quarter	$11 7/8	$ 9 1/2
Second Quarter	$11 7/8	$10 7/8

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Third Quarter	$11 5/8	$11
Fourth Quarter	$12 1/2	$10 5/8
1994:		
First Quarter	$12 1/2	$11
Second Quarter	$11 7/8	$ 9 7/8
Third Quarter	$15 3/4	$10 3/4
Fourth Quarter	$14 1/2	$12 1/2
1995:		
First Quarter	$13 3/4	$11 7/8
Second Quarter (through July 29, 1994)	$ 15	$13 1/8

On October 20, 1993, the last trading day before the American Securities Group publicly indicated it was reviewing its options with respect to its interests in the Company, the high and low quoted sales price for the Common Shares on the AMEX were $11 1/8 and $11, respectively.

On April 26, 1994, the last trading day before the public announcement by the Company that it had received the Initial Proposal from the Acquiring Group, the high and low quoted sales price for the Common Shares on the AMEX were $13 and $12 3/4, respectively.

On June 21, 1994, the last trading day preceding the issuance of the press release by the Company announcing the receipt of the Revised Proposal, the high and low quoted sales price for the Common Shares on the AMEX was $13 1/2.

On , 1994, the most recent practicable date before the printing of this Proxy Statement, the high and low quoted sales price for the Common Shares on the AMEX were $ and $, respectively, and Common Shares were issued and outstanding among registered stockholders.

HOLDERS OF COMMON SHARES ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE COMMON SHARES.

DIVIDENDS

The Company has not paid cash dividends to date. As of February 28, 1994, payments of dividends were restricted until such time as the Company earns additional net income of $6.0 million.

Under the terms of the Note Purchase Agreement with respect to the Senior Notes, the Company is restricted in its ability to pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its Common Shares or rights, warrants, options or similar securities with respect to the purchase of its Common Shares). Such payments or distributions are prohibited (i) if a Default or an Event of Default, as defined in the Note Purchase Agreement, has occurred and is continuing, or (ii) if, in the aggregate, proposed dividends, repurchases of Common Shares, or certain investments are in excess of $5.0 million plus 75% of cumulative net income (or minus 100% of net losses) subsequent to December 1, 1988, plus any proceeds from the issuance of Common Shares or resulting from the conversion of indebtedness or Preferred Shares into Common Shares. During fiscal 1991, the Company received a waiver from its lenders excluding $3.0 million of certain costs reimbursed to Ametek from the above calculation. During fiscal 1992, the Note Purchase Agreement was amended to permit additional repurchases of up to $15.0 million of the Company's Debentures and Common Shares, provided that the Company is entitled to incur additional unsecured Funded Debt, as defined in the Note Purchase Agreement. In conjunction with such amendment, the interest rate on the Senior Notes was increased. Additional restrictions on the Company's ability to pay dividends will be imposed if at any time the Debentures are in default or any dividends are not declared and paid on the Preferred Stock.

CERTAIN INFORMATION CONCERNING ACQUISITION CORP., HOLDINGS CORP., KTM PARTNERS AND KTM GP CORP.

ACQUISITION CORP.

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Acquisition Corp. is a Delaware corporation organized for the purpose of effectuating the Merger. As of the date of this Proxy Statement, the authorized capital stock of Acquisition Corp. consists of 1,000 shares of common stock, $.01 par value per share ("Acquisition Corp. Shares"). Holdings Corp. owns all of the issued and outstanding Acquisition Corp. Shares. As of the date of this Proxy Statement, the directors and officers of Acquisition Corp. are as set forth under "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of Holdings Corp., Acquisition Corp. and KTM GP Corp." The directors and sole stockholder of Acquisition Corp. have approved the Merger Agreement. Until the consummation of the Merger, it is not anticipated that Acquisition Corp. will have any significant assets or liabilities (other than those arising under the Merger Agreement or in connection with the Merger and the transactions contemplated thereby) or engage in any activities other than those incident to its formation and capitalization, the Merger and the financing thereof.

HOLDINGS CORP.

Holdings Corp. is a Delaware corporation organized for the purpose of effectuating the Merger. As of the date of this Proxy Statement, the authorized capital stock of Holdings Corp. consists of 1,000 shares of common stock, $.01 par value per share ("Holdings Corp. Shares"). [Currently, KTM Partners owns all of the issued and outstanding Holdings Corp. Shares]. As of the date of this Proxy Statement, the directors and officers of Holdings Corp. are the same as for Acquisition Corp. The directors and sole stockholder of Holdings Corp. have approved the Merger Agreement. Until the consummation of the Merger, it is not anticipated that Holdings Corp. will have any significant assets or liabilities (other than those arising under the Merger Agreement or in connection with the Merger and the transactions contemplated thereby) or engage in any activities other than those incident to its formation and capitalization, the Merger and the financing thereof.

KTM PARTNERS

KTM Partners is a New York limited partnership formed for the purpose of effectuating the Merger. The sole general partner of KTM Partners is KTM Partners GP Corp., a New York corporation ("KTM GP Corp."), which holds a 1% ownership interest in KTM Partners. The limited partners of KTM Partners are the members of the American Securities Group, who hold the remaining 99% ownership interest in KTM Partners.

KTM GP CORP.

KTM GP Corp. is a New York corporation organized for the purpose of effectuating the Merger. As of the date of this Proxy Statement, the authorized capital stock of KTM GP Corp. consists of 1,000 shares of common stock, $.01 par value per share ("KTM GP Corp. Shares"). Currently, Elizabeth R. Varet owns 53%, Charles D. Klein owns 39% and Michael G. Fisch owns 8% of the issued and outstanding KTM GP Corp. Shares. As of the date of this Proxy Statement, the directors and officer of KTM GP Corp. are as set forth under "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION--Information Concerning Directors and Executive Officers of Holdings Corp., Acquisition Corp. and KTM GP Corp." Until the consummation of the Merger, it is not anticipated that KTM GP Corp. will have any significant assets or liabilities (other than those arising under the limited partnership agreement of KTM Partners) or engage in any activities other than those incident to its formation and capitalization, the Merger and the financing thereof.

GENERAL

The business address of Acquisition Corp., Holdings Corp., KTM Partners and KTM GP Corp. is 122 East 42nd Street, Suite 2400, New York, New York 10022.

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION

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INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Set forth below is the name of each director and executive officer of the Company and the present principal occupation or employment of each such person, the material occupations, positions, officers or employments and the name, principal business and address of any corporation or other organization in which such occupation, position, office or employment of each such person was held during the past five years. Unless otherwise indicated, the address of each director and executive officer is that of the Company at Suite 600, One Cherry Drive, 501 South Cherry Street, Denver, Colorado 80222. Unless otherwise indicated, each person listed below is a citizen of the United States.

<TABLE>
<CAPTION>

NAME	PRINCIPAL OCCUPATIONS OR POSITIONS, AND ADDRESSES THEREOF, DURING THE PAST FIVE YEARS (1); CITIZENSHIP
<S>	<C>
Alexander G. Anagnos....	Director of the Company since June 22, 1988; Financial advisor to Mr. William Rosenwald and his family; Executive Director of American Securities, L.P. and a Director of an affiliated and predecessor entity (122 East 42nd Street, Suite 2400, New York, New York 10022); Trustee of Eastover Corporation, a real estate investment trust, since April 1990.
William J. Catacosinos..	Director of the Company since June 22, 1988; Chairman of the Board, Chief Executive Officer and President of Long Island Lighting Company (175 East Old Country Road, Hicksville, New York 11801); Director of Utilities Mutual Insurance Co. and U.S. Life Corporation.
Alan R. Gruber..........	Director of the Company since June 25, 1992; Chairman of the Board and Chief Executive Officer of Orion Capital Corporation ("Orion"), a property and casualty insurance holding company (30 Rockefeller Plaza, New York, New York 10112); Chairman of Guaranty National Corporation, an insurance affiliate of Orion; Trustee of five trusts which manage the Neuberger & Berman family of equity mutual funds; Director of Trenwick Group, Inc., a property and casualty reinsurance underwriter.
Charles D. Klein........	Director of the Company since June 22, 1988; Financial advisor to Mr. William Rosenwald and his family; Managing Director of American Securities, L.P. and executive officer of affiliated and predecessor entities (122 East 42nd Street, Suite 2400, New York, New York 10022); Director of Ametek.
William E. Leisey.......	Controller of the Company since September 1990; Director of Accounting of the Company from December 1988 to September 1990.
Tom A. Sims..............	Vice President-Human Resources of the Company since August 1992; Director of Human Resources of Energy Service Company, Inc., (1445 Ross Avenue, Dallas, Texas 75202) from June 1990 to July 1992; Vice President of Administration of the Reading & Bates Corporation, (3500 Mid-Continent Tower, Tulsa, Oklahoma 74102) for more than two years prior thereto.

</TABLE>

<TABLE>
<CAPTION>

NAME	PRINCIPAL OCCUPATIONS OR POSITIONS, AND ADDRESSES THEREOF, DURING THE PAST FIVE YEARS (1); CITIZENSHIP

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<S>	<C>
Robert L. Tomz.....	Vice President and Chief Financial Officer of the Company since March 1993; Vice President of the Company from December 1992 to March 1993; business consultant (13907 Bluff Lane, San Antonio, Texas 78216) from July 1991 to November 1992; an Executive Vice President of James Barko and Associates (9311 San Pedro, Suite 1450, San Antonio, Texas 78216) from March 1990 to June 1991; President and Chief Executive Officer of RemodelAmerica Corporation (10410 Gulfdale, San Antonio, Texas 78216) from December 1988 to February 1990.
Elizabeth Rosenwald Varet.....	Director of the Company since June 22, 1988; Chairperson and Managing Director of American Securities, L.P. and a Director of affiliated and predecessor entities (122 East 42nd Street, Suite 2400, New York, New York 10022); Director of Ametek.
Robert L. Welty.....	Secretary of the Company since September 1993; Legal counsel of the Company since August 1990; in private practice (765 Belfry Drive, Blue Bell, Pennsylvania 19422) for two years prior to joining the Company.
Hugh H. Williamson, III.	Director, President and Chief Executive Officer of the Company since April 21, 1992; President, Chief Executive Officer and Chief Operating Officer of Williamson & Associates, (2519 E. 21st Street, Tulsa, Oklahoma 74114) a consulting firm, for more than three years prior thereto.

</TABLE>

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(1) Except as otherwise indicated, such persons have held their present occupations for a period in excess of five years.

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF HOLDINGS CORP., ACQUISITION CORP. AND KTM GP CORP.

Set forth below is the name of each director and executive officer of Holdings Corp., Acquisition Corp. and KTM GP Corp. and, unless disclosed elsewhere under "DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY, HOLDINGS CORP., ACQUISITION CORP., KTM GP CORP. AND THE SURVIVING CORPORATION," the present principal occupation or employment of each such person, the material occupations, positions, officers or employments and the name, principal business and address of any corporation or other organization in which such occupation, position, office or employment of each such person was held during the past five years. Unless otherwise indicated, the address of each director and executive officer of Holdings Corp., Acquisition Corp. and KTM GP Corp. is that of American Securities at 122 East 42nd Street, Suite 2400, New York, New York 10022. Unless otherwise indicated, each person listed below is a citizen of the United States.

<TABLE>
<CAPTION>

NAME	PRINCIPAL OCCUPATIONS OR POSITIONS, AND ADDRESSES THEREOF, DURING THE PAST FIVE YEARS (1); CITIZENSHIP
<S>	<C>
Michael G. Fisch.....	Director, Vice President, Treasurer and Assistant Secretary of Holdings Corp. and Acquisition Corp. since December 1993 and April 1994, respectively; Director, Executive Vice President, Treasurer and Secretary of KTM GP Corp. since June 1994; Financial advisor to Mr. William Rosenwald and his family since April 1993; Managing Director of American Securities, L.P. and executive officer of affiliated and predecessor entities (122 East 42nd Street, Suite 2400, New York, New York 10022) since April 1993; from 1991 to 1993, a Managing Director of First Atlantic Capital, Ltd., New York City; prior to 1990, a Principal of Adler & Shaykin, New

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York City.

Charles D. Klein..... Director and President of Holdings Corp. and Acquisition Corp. since December 1993 and April 1994, respectively; Director, President and Chief Executive Officer of KTM GP Corp. since June 1994. See "--Information Concerning Directors and Executive Officers of the Company."

David P. Steinmann..... Director, Vice President, Secretary and Assistant Treasurer of Holdings Corp. and Acquisition Corp. since December 1993 and April 1994, respectively; Chief Administrative Officer of the organization responsible for the management of the investment and philanthropic activities of the William Rosenwald family; Managing Director of American Securities, L.P. and executive officer of affiliated and predecessor entities (122 East 42nd Street, Suite 2400, New York, New York 10022); Director of Ametek.

Elizabeth R. Varet..... Chairman of the Board of Directors of KTM GP Corp. since June 1994. See "--Information Concerning Directors and Executive Officers of the Company."

</TABLE>

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(1) Except as otherwise indicated, such persons have held their present occupations for a period in excess of five years.

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF THE SURVIVING CORPORATION

The directors of the Surviving Corporation are expected to be Michael G. Fisch, Charles D. Klein, Elizabeth R. Varet and Hugh H. Williamson, III. See "--Information Concerning Directors and Executive Officers of the Company" and "--Information Concerning Directors and Executive Officers of Holdings Corp., Acquisition Corp. and KTM GP Corp."

The executive officers of the Company as identified above under "--Information Concerning Directors and Executive Officers of the Company" will continue to serve as executive officers of the Surviving Corporation.

SECURITY OWNERSHIP OF THE COMPANY

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of , 1994, information regarding the beneficial ownership of each person or group who owned of record or who, to the best knowledge of the Company, owned beneficially more than five percent of the outstanding Common Shares.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF COMMON SHARES BENEFICIALLY OWNED	PERCENT OF OUTSTANDING COMMON SHARES(1)
<S>	<C>	<C>
Acquiring Group c/o American Securities BD Co., L.P. 122 East 42nd Street Suite 2400 New York, New York 10168.....	926,942(2)	22.96%
Tweedy, Browne Company L.P. TBK Partners, L.P. Vanderbilt Partners, L.P. 52 Vanderbilt Avenue New York, New York 10017.....	455,477(3)	12.37%

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Gabelli Funds, Inc. GAMCO Investors, Inc. Gabelli & Company, Inc. Profit Sharing Plan Gabelli Performance Partnership Gabelli Associates Fund Gabelli Associates Limited One Corporate Center Rye, New York 10580-1435.....	293,072(4)	7.92%
Lehman Brothers, Inc. Lehman Brothers Holdings, Inc. 2 World Trade Center, 15th Floor New York, New York 10048.....	178,600(5)	5.12%

</TABLE>

- --------

(1) Percent of Outstanding Common Shares was calculated based on the ratio of beneficial ownership to the sum of (a) the outstanding Common Shares, (b) Common Shares issuable upon conversion of Debentures held by the applicable beneficial owner, (c) Common Shares issuable upon conversion of Preferred Shares (each of which is convertible into one Common Share) held by the applicable beneficial owner and (d) Common Shares issuable upon the exercise of currently exercisable stock options held by Hugh H. Williamson, III.

(2) Consists of 380,286 outstanding Common Shares, 495,881 outstanding Preferred Shares, 21,885 Common Shares issuable upon conversion of Debentures and 28,890 Common Shares issuable upon the exercise of currently exercisable stock options held by Hugh H. Williamson, III. Included in the Common Shares beneficially owned by certain members of the Acquiring Group are 12,612 outstanding Common Shares and 21,885 Common Shares issuable upon conversion of Debentures held in their capacities as trustees of certain trusts, executor of an estate or officers and/or directors of charitable foundations which are not proponents of the Merger; such 12,612 outstanding Common Shares will be converted into the right to receive the Merger Consideration in connection with the Merger. The total Common Shares owned beneficially by the Acquiring Group does not include an aggregate of approximately 192,762 Common Shares (5.41%) (including 71,374 Common Shares issuable upon conversion of Debentures), which are beneficially owned by other clients of American Securities. The

total beneficial ownership shown in the above table for the Acquiring Group eliminates the duplication of beneficial ownership of Common Shares where certain members of the Acquiring Group share voting and dispositive power over the same Common Shares by virtue of their positions as co-trustees of certain trusts or officers and/or directors of certain corporations and/or charitable foundations. Of the members of the American Securities Group, Elizabeth R. Varet has beneficial ownership with respect to Common Shares as provided below under "--Security Ownership of Directors and Executive Officers"; Nina K. Rosenwald, Ms. Varet's sister, has beneficial ownership with respect to 402,660 Common Shares (10.89%), as to 56,702 Common Shares (including 32,242 Preferred Shares) of which she has sole voting and dispositive power and as to 345,958 Common Shares (including 174,561 Preferred Shares and 128 Common Shares issuable upon conversion of Debentures) of which she has shared voting and dispositive power as a director and/or officer of one or more corporations and/or foundation and as a co-trustee of certain trusts; Alice R. Sigelman, Ms. Varet's sister, has beneficial ownership with respect to 412,840 Common Shares (11.17%), as to 34,357 Common Shares (including 24,197 Preferred Shares) of which she has sole voting and dispositive power and as to 378,483 Common Shares (including 182,478 Preferred Shares and 128 Common Shares issuable upon conversion of Debentures) of which she has shared voting and dispositive power as a director and/or officer of one or more corporations and/or foundation and as a co-trustee of certain trusts; and Lewis G. Cole, a member of Stroock & Stroock & Lavan, has beneficial ownership with respect to 310,357 Common Shares (8.56%), as to 1,200 Common Shares of which he has sole voting and dispositive power and as to 309,157 Common Shares (including 127,918 Preferred Shares and 5,455 Common Shares issuable upon conversion of Debentures) of which he has shared voting and dispositive power as a co-

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trustee of certain trusts.

(3) Based upon an amendment to a Schedule 13D filed with the Commission on July 6, 1994, (i) Tweedy, Browne Company L.P. reported beneficial ownership of an aggregate of 447,377 Common Shares (12.37%), of which it reported sole voting power as to 383,531 Common Shares and shared dispositive power as to 447,377 Common Shares; (ii) TBK Partners, L.P. reported sole voting and dispositive power with respect to 4,600 Common Shares (0.12%); and (iii) Vanderbilt Partners, L.P. reported sole voting and dispositive power with respect to 3,500 Common Shares (0.10%).

(4) Based upon an amendment to a Schedule 13D filed with the Commission on June 28, 1994, (i) Gabelli Funds, Inc. reported sole voting, dispositive power and beneficial ownership of 146,295 Common Shares (3.96%), of which 116,295 Common Shares are issuable upon conversion of Debentures; (ii) GAMCO Investors, Inc. reported sole voting, dispositive power and beneficial ownership of 63,583 Common Shares (1.71%), of which 58,083 Common Shares are issuable upon conversion of Debentures; (iii) Gabelli & Company, Inc. Profit Sharing Plan reported sole voting, dispositive power and beneficial ownership of 25,672 Common Shares (0.69%), of which 25,672 Common Shares are issuable upon conversion of Debentures; (iv) Gabelli Performance Partnership reported sole voting, dispositive power and beneficial ownership of 1,900 Common Shares (0.05%); (v) Gabelli Associates Fund reported sole voting, dispositive power and beneficial ownership of 53,122 Common Shares (1.14%), of which 8,022 Common Shares are issuable upon conversion of Debentures; and (vi) Gabelli Associates Limited reported sole voting, dispositive power and beneficial ownership of 2,500 Common Shares (0.07%).

(5) In a Schedule 13G filed with the Commission on February 10, 1994, Lehman Brothers, Inc. and Lehman Brothers Holdings, Inc. and certain related entities reported sole voting and dispositive power and beneficial ownership of 178,600 Common Shares.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth as of , 1994, information regarding the beneficial ownership of each Director of the Company, the Company's Chief Executive Officer and its other most highly compensated executive officers whose salary and bonus for fiscal year 1994 exceeded $100,000 and by all directors and executive officers of the Company as a group.

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	NUMBER OF COMMON SHARES BENEFICIALLY OWNED(1)	PERCENT OF OUTSTANDING COMMON SHARES(2)
<S>	<C>	<C>
Alexander G. Anagnos	55,477(3)	1.57%
William J. Catacosinos	11,704(4)	0.34%
Alan R. Gruber	14,000(5)	0.40%
Charles D. Klein	74,022(6)	2.09%
William E. Leisey	3,994(7)	0.11%
Thomas A. Sims	1,650(8)	0.05%
Robert L. Tomz	5,957(9)	0.17%
Elizabeth R. Varet	518,379(10)	13.82%
Hugh H. Williamson, III	84,526(11)	2.36%
All executive officers and directors as a group, consisting of ten persons, including the individuals named above	770,459(12)	19.92%

</TABLE>

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(1) Pursuant to Rule 13d-3 under the Exchange Act, beneficial ownership of a security consists of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose or direct the disposition) with respect to a security through any contract, arrangement, understanding, relationship or otherwise. Unless otherwise indicated, beneficial ownership disclosed consists of sole voting and dispositive power.

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(2) Percent of Outstanding Common Shares was calculated based on the ratio of beneficial ownership to the sum of (a) the outstanding Common Shares, (b) Common Shares issuable upon conversion of Debentures held by the applicable beneficial owner, (c) Common Shares issuable upon conversion of Preferred Shares (each of which is convertible into one Common Share) held by the applicable beneficial owner and (d) Common Shares issuable upon the exercise of currently exercisable stock options held by the applicable beneficial owner.

(3) Includes 19,201 Common Shares (including 7,702 Preferred Shares) beneficially owned by Mr. Anagnos' wife and son. Mr. Anagnos disclaims beneficial ownership of such 19,201 Common Shares. Mr. Anagnos has sole voting and dispositive power with respect to 9,593 Common Shares (including 8,793 Preferred Shares). Mr. Anagnos has shared voting and dispositive power with respect to 26,682 Common Shares (including 2,631 Preferred Shares and 15,339 Common Shares issuable upon conversion of Debentures) as a director and/or officer of a foundation, as a co-trustee of several trusts and as executor of an estate. Mr. Anagnos is a director of an investment manager for certain entities holding an aggregate of 94,400 Common Shares (including a Company employee benefit plan trust which holds among its assets an aggregate of 56,000 Common Shares); none of such 94,400 Common Shares have been included in the above table.

(4) Includes 1,604 Common Shares issuable upon conversion of Debentures.

(5) Includes 3,333 Common Shares held pursuant to restricted stock awards under the Company's 1988 Stock Incentive Plan (the "1988 Plan").

(6) Includes 3,425 Common Shares (including 1,925 Preferred Shares) beneficially owned by Mr. Klein's wife. Mr. Klein disclaims beneficial ownership of such 3,425 Common Shares. Mr. Klein has sole voting and dispositive power with respect to 57,126 Common Shares (including 32,926 Preferred Shares). Mr. Klein has shared voting and dispositive power with respect to 13,471 Common Shares (including 4,493 Preferred Shares and 6,418 Common Shares issuable upon conversion of Debentures) as a director and/or officer of a foundation and as a co-trustee of several trusts.

(7) Includes 384 Common Shares issuable upon conversion of Debentures and 3,250 Common Shares issuable upon the exercise of currently exercisable stock options.

(8) Issuable upon the exercise of currently exercisable stock options.

(9) Includes 1,604 Common Shares issuable upon conversion of Debentures beneficially owned by Mr. Tomz, 2,750 Common Shares issuable upon the exercise of currently exercisable stock options and 1,603 Common Shares issuable upon conversion of Debentures beneficially owned by his son and a trust for the benefit of another son. Mr. Tomz disclaims beneficial ownership of such 1,603 Common Shares.

(10) Includes 15,482 Common Shares (including 15,082 Preferred Shares) beneficially owned by Ms. Varet's husband. Ms. Varet disclaims beneficial ownership of such 15,482 Common Shares. Ms. Varet has sole voting and dispositive power with respect to 91,890 Common Shares (including 55,990 Preferred Shares) and shared voting and dispositive power with respect to 411,006 Common Shares (including 182,606 Preferred Shares) as a director and/or officer of one or more foundations and as co-trustee of certain trusts.

(11) Includes 55,636 Preferred Shares and 28,890 Common Shares issuable upon the exercise of currently exercisable stock options.

(12) Includes (a) 3,333 Common Shares held pursuant to restricted stock awards under the 1988 Plan; (b) 312,148 Preferred Shares; (c) 26,952 Common Shares issuable upon conversion of Debentures; and (d) 37,290 Common Shares issuable upon exercise of currently exercisable stock options held by all executive officers and directors as a group.

PURCHASES OF VOTING SHARES BY CERTAIN PERSONS

The following table sets forth certain information concerning purchases of Common Shares since March 1, 1992 by the Company, by members of the Acquiring Group, and by directors and executive officers of the Company.

<TABLE>
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	NO. OF	PRICE PER	WHERE AND HOW TRANSACTION

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NAME	DATE	SHARES	SHARE	EFFECTED
<S>	<C>	<C>	<C>	<C>
Steve Anagnos	3/04/92	1,180	$10.55	AMEX
Charles D. Klein	3/04/92	12,400	$10.55	AMEX
Jane P. Klein as custodian for Andrew Klein	3/04/92	500	$10.55	AMEX
Jane P. Klein as custodian for Elizabeth P. Klein	3/04/92	500	$10.55	AMEX
Jane P. Klein	3/04/92	500	$10.55	AMEX
David P. Steinmann	3/04/92	9,380	$10.55	AMEX
Catherine Steinmann	3/04/92	480	$10.55	AMEX
David P. Steinmann Defined Benefit Plan--Keogh U/A dated 12/28/84	3/04/92	500	$10.55	AMEX
Gabriel Steinmann	3/04/92	476	$10.55	AMEX
Jennifer Steinmann	3/04/92	476	$10.55	AMEX
Joshua Steinmann	3/04/92	476	$10.55	AMEX
J.J.G. Enterprises, Inc.	3/04/92	2,000	$10.55	AMEX
Trust U/A dated 9/28/51	3/04/92	9,870	$10.55	AMEX
Trust U/A dated 8/13/65	3/04/92	40,000	$10.55	AMEX
Trust U/A dated 8/30/41	3/04/92	15,000	$10.55	AMEX
Lewis G. Cole	3/04/92	1,000	$10.55	AMEX
Neil B. Goldstein	3/04/92	5,000	$10.55	AMEX
William Rosenwald Family Fund, Inc.	3/04/92	40,000	$10.55	AMEX
Company	4/17/92	197,600	$12.75(1)	Exercise of option
Alan R. Gruber	6/25/92	4,000	$11.00	AMEX
Company	7/15/92	37,000	$11.51	Private repurchase
Trust U/A dated 8/13/65	12/17/92	3,422	$10.82	AMEX
Company	9/01/93	190,900	$11.00	(2)

</TABLE>

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(1) Includes cost of option of $2.75 per Common Share and exercise price of option of $10.00 per Common Share.

(2) Received by the Company as part of the consideration for the sale of its Aluminum Extrusion Division.

The above table excludes Common Shares beneficially owned by members of the Acquiring Group as fiduciaries for persons or entities who are not proponents of the Merger. In addition to the purchases shown in the above table, from March 1992 through July 1994, various members of the Acquiring Group effected certain intra-group transfers for which no consideration was paid including distributions by certain trusts to the beneficiaries thereof and certain gifts. This table does not cover any transactions in the Debentures.

On , 1994, certain members of the Acquiring Group converted in the aggregate approximately $7,725,866 principal amount of Debentures into an aggregate of approximately 495,881 Preferred Shares.

TRANSACTION OF OTHER BUSINESS

The Board of Directors knows of no other matters which may be presented at the Special Meeting, but if other matters do properly come before the meeting, it is intended that the persons named in the proxy will vote, pursuant to their discretionary authority, according to their best judgment in the interest of the Company.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of February 28, 1993 and February 28, 1994 and for each of the years in the three-year period ended February 28, 1994, included herein have been audited by Ernst & Young, independent auditors, as indicated in their report with respect thereto.

MISCELLANEOUS

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If the Merger is not consummated for any reason, proposals of stockholders intended to be presented at the 1995 Annual Meeting of Stockholders must be received by the Company at its principal executive offices not later than , 199 , for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting. Stockholders should mail any proposals by certified mail--return receipt requested.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission by the Company (File No. 1-10028) pursuant to the Exchange Act are incorporated by reference in this Proxy Statement:

1. The Company's Annual Report on Form 10-K for the year ended February 28, 1994;

2. The Company's Current Report on Form 8-K dated June 29, 1994; and

3. The Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1994.

All documents filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act after the date of this Proxy Statement and prior to the date of the Special Meeting shall be deemed to be incorporated by reference into this Proxy Statement and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes hereof to the extent that a statement contained herein (or in any other subsequently filed document that is or is deemed to be incorporated by reference herein) modifies or supersedes such previous statement. Any statement so modified or superseded shall not be deemed to constitute a part hereof except as so modified or superseded. All information appearing in this Proxy Statement is qualified in its entirety by the information and financial statements (including the notes thereto) appearing in the documents incorporated by reference.

THIS PROXY STATEMENT INCORPORATES DOCUMENTS BY REFERENCE THAT ARE NOT PRESENTED HEREIN OR DELIVERED HEREWITH. SUCH DOCUMENTS (OTHER THAN CERTAIN EXHIBITS TO SUCH DOCUMENTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE TO SUCH DOCUMENTS) ARE AVAILABLE, WITHOUT CHARGE, TO ANY PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM THIS PROXY STATEMENT IS DELIVERED, ON WRITTEN OR ORAL REQUEST, IN THE CASE OF DOCUMENTS RELATING TO THE COMPANY, FROM KETEMA, INC., SUITE 600, ONE CHERRY CENTER, 501 SOUTH CHERRY STREET, DENVER, COLORADO 80222, ATTENTION: CORPORATE SECRETARY, TELEPHONE (303) 331-0940. IN ORDER TO ENSURE DELIVERY OF THE DOCUMENTS PRIOR TO THE SPECIAL MEETING, REQUESTS MUST BE RECEIVED BY , 1994.

BY ORDER OF THE BOARD OF DIRECTORS

Robert L. Welty
Secretary

Denver, Colorado
, 1994

PLEASE COMPLETE AND RETURN YOUR PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

INDEX TO FINANCIAL STATEMENTS

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</TABLE>

KETEMA, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MAY 31,	
	1994	1993(A)
<S>	<C>	<C>
Net sales	$30,956	$33,477
Expenses:		
Cost of sales, excluding depreciation	23,708	26,106
Selling, general and administrative	5,828	5,179
Depreciation	1,289	1,172
	30,825	32,457
Operating Income	131	1,020
Other income (expense):		
Interest income	666	620
Interest expense	(1,622)	(1,623)
Other, net	(7)	106
	(963)	(897)
Income (loss) from continuing operations before income taxes	(832)	123
Benefit from (provision for) income taxes	266	(216)
Income (loss) from continuing operations	(566)	(93)
Discontinued operations, net of income taxes	--	(250)
Net income (loss)	$ (566)	$ (343)
Income (loss) per share(b)		
Continuing operations	$ (0.16)	$ (0.03)
Discontinued operations	--	$ (0.06)
Net income (loss)	$ (0.16)	$ (0.09)

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Average common shares outstanding.....	3,490	3,683

</TABLE>
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(a) Restated to reflect the disposition of Aluminum Extrusion Division (Note 5).
(b) The fully diluted earnings per share are not shown since they are antidilutive.

See accompanying notes.

KETEMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

ASSETS	MAY 31, 1994	FEBRUARY 28, 1994
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents.....	$ 921	$ 961
Marketable securities.....	59,127	59,719
Receivables.....	20,973	20,445
Inventories.....	12,456	11,322
Deferred income taxes.....	3,394	2,835
Net assets of discontinued operations.....	676	992
Prepaid expenses and other current assets.....	3,226	4,311
Total current assets.....	100,773	100,585
Property, plant and equipment, at cost.....	73,536	73,097
Less accumulated depreciation.....	(48,733)	(47,789)
Net property, plant and equipment.....	24,803	25,308
Intangibles, net of amortization.....	13,137	13,396
Deferred income taxes.....	--	173
Other assets.....	8,143	9,511
	$ 146,856	$148,973

<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY		
<S>	<C>	<C>
Current liabilities:		
Accounts payable.....	$ 7,095	$ 7,200
Accrued employee compensation and benefits.....	5,314	5,671
Other accrued liabilities.....	14,854	15,692
Income taxes payable.....	--	309
Current maturities of long-term debt.....	4,505	4,505
Total current liabilities.....	31,768	33,377
Long-term debt.....	55,692	55,692
Deferred income taxes.....	112	--
Other long-term liabilities.....	2,969	2,923
Stockholders' equity.....	56,315	56,981
	$ 146,856	$148,973

</TABLE>

See accompanying notes.

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KETEMA, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MAY 31,	
	1994	1993(A)
<S>	<C>	<C>
Cash flow from operating activities:	$ (566)	$ (93)
Income (loss) from continuing operations		
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,649	1,535
Deferred income taxes and credits	(274)	161
Changes in working capital	(2,186)	(9,492)
Investing activities included in income (loss) from continuing operations	(407)	107
Redemption of cash surrender values on officers' life insurance	1,574	--
Other	(259)	117
Net cash provided by (used in) continuing operations	(469)	(7,665)
Loss from discontinued operations	--	(250)
Change in net operating assets of discontinued operations and other adjustments	316	(354)
Net cash provided by (used in) operating activities	(153)	(8,269)
Cash flow from investing activities:		
Capital expenditures--continued operations	(855)	(1,541)
Capital expenditures--discontinued operations	--	(173)
Sale (purchase) of marketable securities	985	4,476
Proceeds from sale of other assets	85	102
Other	(102)	(16)
Net cash provided by (used in) investing activities:	113	2,848
Cash flow from financing activities:		
Principal repayments of long-term debt	--	(15)
Increase (decrease) in cash and cash equivalents	(40)	(5,436)
Cash and cash equivalents, beginning of period	961	6,303
Cash and cash equivalents, end of period	$ 921	$ 867

</TABLE>

- --------

(a)Restated to reflect the disposition of Aluminum Extrusion Division (Note 5)

See accompanying notes.

KETEMA, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 -- CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are unaudited, but the Company believes that they include all adjustments necessary for fair presentation of the consolidated financial position of the Company at May 31, 1994, the consolidated results of operations for the three-month periods ended May 31, 1994 and 1993 and the consolidated cash flows for the three-month periods ended May 31, 1994 and 1993.

Quarterly results of operations are not necessarily indicative of results for the full year. The consolidated financial statements, which are unaudited and contain condensed disclosures, should be read in conjunction with the consolidated financial statements and related notes in the Company's latest audited financial statements.

NOTE 2 -- EARNINGS PER SHARE

Primary earnings per share is determined by dividing income (loss) by the weighted average number of common shares outstanding during the period, after adjusting for common stock equivalents arising from stock incentives, if dilutive.

Earnings per share assuming full dilution is not presented since there is no dilutive effect on earnings per share amounts assuming the conversion of the Company's outstanding debentures into additional shares of common stock and the exercise of outstanding stock incentives.

NOTE 3 -- INCOME TAXES

The differences between the Company's federal income tax rate of 34% and the Company's effective tax rate attributable to continuing operations were as follows:

<TABLE>
<CAPTION>

	(IN THOUSANDS) THREE MONTHS ENDED MAY 31,	
	1994	1993
<S>	<C>	<C>
Statutory federal tax benefit (provision)	$283	$ (42)
State income taxes, net of federal income tax benefit	37	(33)
Valuation allowance for deferred tax assets	--	(141)
Other	(54)	--
Benefit from (provision for) incomes taxes	$266	$(216)

</TABLE>

Components of the Company's deferred tax assets and liabilities as of May 31, 1994 and February 28, 1994 are as follows:

<TABLE>
<CAPTION>

	(IN THOUSANDS)	
	MAY 31, 1994	FEBRUARY 28, 1994
<S>	<C>	<C>
Total deferred tax assets	$ 7,747	$ 7,899
Valuation allowance for deferred tax assets	(2,189)	(2,189)

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	5,558	5,710
Total deferred tax liabilities	(2,276)	(2,702)
Net deferred tax assets	$ 3,282	$ 3,008

</TABLE>

In addition, income tax refund claims receivable of $1,694,000 included in prepaids and other current assets at February 28, 1994 were collected in March, 1994.

NOTE 4 -- INVENTORIES

Inventories are principally accounted for using the last-in, first-out (LIFO) cost method. If the first-in, first-out (FIFO) method of accounting for inventories had been used by the Company, inventories would have been higher than that reported at May 31, 1994 and February 28, 1994 by $9,714,000. During the three-month periods ended May 31, 1994 and 1993, certain inventories were reduced resulting in the liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with the cost of purchases in the current periods, the effect of which decreased cost of goods sold by approximately $85,000 and $207,000 for the three-month periods ended May 31, 1994 and 1993, respectively.

The estimated components of inventory stated at lower of LIFO cost or market are:

<TABLE>
<CAPTION>

	(IN THOUSANDS) MAY 31, 1994	FEBRUARY 28, 1994
<S>	<C>	<C>
Raw materials	$ 1,803	$ 1,831
Work in Process	4,953	4,335
Finished goods	5,700	5,156
	$12,456	$11,322

</TABLE>

Progress payments (principally related to long-term contracts and programs) of $945 at May 31, 1994 ($661 at February 28, 1994) have been netted against inventories.

NOTE 5 -- DISCONTINUED OPERATIONS

Effective August 31, 1993, the Company sold its Aluminum Extrusion Division for $10,978,000 which consisted of cash and short term notes of $8,878,000 (all notes were fully collected by December 30, 1993) and a non-cash item of 190,900 shares of Ketema, Inc. common stock which had a market value of $2,100,000. In addition, the Company is entitled to a contractually defined percentage of profits, if any, for the period from September 1, 1993 through December 31, 1996, from the combined aluminum extrusion operations consisting of the divested operation and two of the purchaser's operations. No gain or loss on the sale was recognized since the sales price, net of estimated divestiture expenditures, approximated the division's book value. The remaining assets of the Aluminum Extrusion Division at May 31, 1994 and February 28, 1994 of $676,000 and $992,000, respectively, consist primarily of accounts receivable and some fixed assets to be disposed of separately. The net assets and operating results of the Aluminum Extrusion Division have been classified as

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discontinued operations for all periods presented in the consolidated financial statements. Operating results from discontinued operations for the three months ended May 31, 1993 consisted of sales of $8,930,000 and an operating loss before tax of $417,000.

NOTE 6 -- MARKETABLE SECURITIES

During the first quarter of fiscal 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" effective for fiscal years beginning after December 15, 1993.

The effects of the adoption of FAS 115 were not material to the financial position or results of operations of the Company.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Ketema, Inc.

We have audited the accompanying consolidated balance sheets of Ketema, Inc. as of February 28, 1994 and February 28, 1993, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended February 28, 1994. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ketema, Inc. at February 28, 1994 and February 28, 1993 and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for income taxes and individual deferred compensation contracts during the year ended February 29, 1992.

/s/ Ernst & Young

Denver, Colorado
April 15, 1994,
except for Note 14, as to which the date is
May 11, 1994

KETEMA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	YEAR ENDED FEBRUARY 28, 1994	YEAR ENDED FEBRUARY 28, 1993*	YEAR ENDED FEBRUARY 29, 1992*

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<S>	<C>	<C>	<C>
Net sales	$127,109	$122,159	$133,132
Expenses:			
Cost of sales, excluding depreciation.	95,716	100,294	106,359
Selling, general and administrative...	21,080	19,996	19,303
Depreciation	4,763	4,242	4,234
Restructuring charge	--	--	7,385
	121,559	124,532	137,281
Operating income (loss)	5,550	(2,373)	(4,149)
Other income (expense):			
Interest income	2,651	3,969	6,405
Interest expense	(6,515)	(6,402)	(6,424)
Other, net	409	(109)	(175)
	(3,455)	(2,542)	(194)
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles	2,095	(4,915)	(4,343)
Benefit from (provision for) income taxes	(554)	1,018	1,149
Minority interest in loss of subsidiary.	--	450	--
Income (loss) from continuing operations	1,541	(3,447)	(3,194)
Discontinued operations, net of income taxes	(305)	(342)	(21)
Income (loss) before cumulative effect of changes in accounting principles	1,236	(3,789)	(3,215)
Cumulative effect of changes in accounting principles	--	--	208
Net income (loss)	$ 1,236	$ (3,789)	$ (3,007)
Income (loss) per share:			
Continuing operations	$ 0.42	$ (0.93)	$ (0.81)
Discontinued operations	(0.08)	(0.09)	(0.01)
Cumulative effect of changes in accounting principles	--	--	0.05
Net income (loss)	$ 0.34	$ (1.02)	$ (0.77)
Average common shares outstanding	3,630	3,718	3,927

</TABLE>

*Restated to reflect disposition of Aluminum Extrusion Division (Note 2).

See accompanying notes.

KETEMA, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

ASSETS	FEBRUARY 28, 1994	FEBRUARY 28, 1993*
<S>	<C>	<C>
Current assets:		

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Cash and cash equivalents	$ 961	$ 6,303
Marketable securities	59,719	58,405
Receivables	20,445	19,089
Notes receivable from employees	--	408
Inventories	11,322	10,952
Deferred income taxes	2,835	3,949
Net assets of discontinued operations	992	7,822
Prepaid expenses and other current assets	4,311	4,271
Total current assets	100,585	111,199
Property, plant and equipment, at cost:		
Land	2,573	2,573
Buildings	15,536	14,858
Machinery and equipment	54,988	53,116
	73,097	70,547
Less accumulated depreciation	(47,789)	(44,812)
Net property, plant and equipment	25,308	25,735
Intangibles, net of amortization	13,396	14,490
Deferred income taxes	173	--
Other assets	9,511	6,985
	$148,973	$158,409

<CAPTION>
LIABILITIES AND STOCKHOLDERS' EQUITY

<S>	<C>	<C>
Current liabilities:		
Accounts payable	$ 7,200	$ 8,268
Escrow funds payable	--	5,120
Accrued employee compensation and benefits	5,671	5,710
Other accrued liabilities	15,692	16,468
Income taxes payable	309	--
Current maturities of long-term debt	4,505	90
Total current liabilities	33,377	35,656
Long-term debt	55,692	60,198
Deferred income taxes	--	664
Other long-term liabilities	2,923	4,065
Stockholders' equity:		
Preferred stock, $1.00 par value, authorized 1,500 shares; none issued		
Common stock, $1.00 par value, authorized 13,500 shares; issued 4,532 for 1994 and 1993	4,532	4,532
Capital in excess of par value	74,096	74,096
Deficit	(8,858)	(10,094)
Net unrealized losses	(523)	(468)
Cost of shares held in treasury:		
1994--1,042 shares; 1993--851 shares	(12,221)	(10,121)
Unearned compensation	(45)	(119)
Total stockholders' equity	56,981	57,826
	$148,973	$158,409

</TABLE>

*Restated to reflect disposition of Aluminum Extrusion Division (Note 2).

See accompanying notes.

KETEMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	YEAR ENDED FEBRUARY 28, 1994	YEAR ENDED FEBRUARY 28, 1993*	YEAR ENDED FEBRUARY 29, 1992*
<S>	<C>	<C>	<C>
CASH FLOW FROM OPERATING ACTIVITIES:			
Income (loss) from continuing operations	$ 1,541	$ (3,447)	$(3,194)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,227	4,873	5,274
Write-off of intangibles	--	--	5,204
Research and development projects in process	--	1,766	--
Deferred income taxes and credits	305	134	(2,138)
Minority interest in loss of subsidiary	--	(450)	--
Changes in working capital			
Receivables	(949)	(686)	3,251
Inventories	(370)	2,200	(1,098)
Prepaid expenses and other current assets	(40)	(1,648)	(270)
Escrow fund, payable	(5,120)	5,120	--
Payables and accruals	(4,938)	106	(700)
Investing activities included in income (loss) from continuing operations	399	284	(138)
Prepaid interest to escrow account	--	(1,120)	--
Termination of deferred compensation arrangements	(1,744)	--	--
Other	(634)	(488)	360
Net cash provided by (used in) continuing operations	(5,323)	6,644	6,551
Loss from discontinued operations	(305)	(342)	(21)
Change in net operating assets of discontinued operations and other adjustments	(479)	(901)	2,293
Net cash provided by (used in) operating activities	(6,107)	5,401	8,823
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures--continued operations	(4,546)	(3,617)	(4,272)
Capital expenditures--discontinued operations	(349)	(431)	(1,745)
Purchased companies	--	(12,057)	--
Sale (purchase) of marketable securities	(1,902)	17,676	(2,396)
Proceeds from sale of Aluminum Extrusion Division	8,878	--	--
Proceeds from sale of other assets	243	928	208
Proceeds from note receivable	--	--	1,819
Other	(97)	(269)	(732)
Net cash provided by (used in) investing activities	2,227	2,230	(7,118)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long term debt	--	500	--
Purchase of treasury stock	--	(2,291)	(747)
Principal repayments of long-term debt	(91)	(2,312)	(812)

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Principal repayment of loans on officers life insurance.....	(1,371)	--	--
Net cash used in financing activities.....	(1,462)	(4,103)	(1,559)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(5,342)	3,528	146
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	6,303	2,775	2,629
CASH AND CASH EQUIVALENTS, END OF YEAR..	$ 961	$ 6,303	$ 2,775

</TABLE>
- --------
Supplemental cash flow disclosures--excluded from the consolidated statement of cash flows for the year ended February 28, 1994 was the effect of certain non-cash investing activities related to the sale of the Aluminum Division as disclosed in Note 2.

*Restated to reflect disposition of Aluminum Extrusion Division (Note 2).
See accompanying notes.

KETEMA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	COMMON STOCK $1 PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	(DEFICIT)	NET UNREALIZED GAINS (LOSSES)	TREASURY STOCK	UNEARNED COMPENSATION	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, FEBRUARY 28, 1991.....	$4,535	$74,140	$(3,298)	$(431)	$ (7,083)	$(481)	$67,382
Net loss.....	--	--	(3,007)	--	--	--	(3,007)
Employee stock incentives.....	--	--	--	--	--	353	353
Purchase of treasury stock.....	--	--	--	--	(747)	--	(747)
Change in pension liability in excess of unrecognized prior service cost, net of deferred taxes.....	--	--	--	288	--	--	288
BALANCE, FEBRUARY 29, 1992.....	4,535	74,140	(6,305)	(143)	(7,830)	(128)	64,269
Net loss.....	--	--	(3,789)	--	--	--	(3,789)
Employee stock incentives.....	(3)	(44)	--	--	111	9	73
Purchase of treasury stock.....	--	--	--	--	(2,402)	--	(2,402)
Change in pension liability in excess of unrecognized prior service cost, net of deferred taxes.....	--	--	--	(325)	--	--	(325)
BALANCE, FEBRUARY 28, 1993.....	4,532	74,096	(10,094)	(468)	(10,121)	(119)	57,826
Net income.....	--	--	1,236	--	--	--	1,236
Employee stock							

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incentives.....	--	--	--	--	--	74	74
Treasury stock received in connection with sale of the Aluminum Extrusion Division.....	--	--	--	--	(2,100)	--	(2,100)
Change in pension liability in excess of unrecognized prior service cost, net of deferred taxes.....	--	--	--	(55)	--	--	(55)
BALANCE, FEBRUARY 28, 1994.....	$4,532	$74,096	$(8,858)	$(523)	$(12,221)	$ (45)	$56,981

</TABLE>

See accompanying notes.

KETEMA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1--BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and subsidiaries, after elimination of all significant intercompany transactions in consolidation.

RESTATEMENT AND RECLASSIFICATION OF PRIOR YEARS

The results for fiscal years 1993 and 1992 have been restated to reflect the Aluminum Extrusion Division, which was sold effective August 31, 1993, as a discontinued operation. In addition, certain reclassifications have been reflected in the accompanying fiscal 1993 and 1992 consolidated financial statements to conform to the fiscal 1994 presentation.

SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents.

All highly liquid investments with maturities of three months or less when purchased are considered cash equivalents. The recorded value of cash and cash equivalents approximates market.

Marketable Securities.

Marketable securities, primarily U.S. Government securities, are carried at amortized cost plus accrued interest, which approximates market. During May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). FAS 115 is effective for fiscal years beginning after December 15, 1993 and will be implemented by the Company effective in fiscal 1995. Management does not believe the implementation of FAS 115 will have a significant effect on the Company.

Inventory Valuation.

Inventories are stated at the lower of cost or market, cost being determined principally by the last-in, first-out (LIFO) method, and market on the basis of the lower of replacement cost or estimated net proceeds from sales.

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Property, Plant and Equipment.

Expenditures for additions to plant facilities, or which extend the useful life of the properties, are capitalized. Maintenance and repairs are charged to operations as incurred. Depreciation of plant and equipment is determined principally on a straight-line basis over the estimated useful lives of the assets.

Intangible Assets.

Intangible assets are amortized on a straight-line basis over 3 to 40 years.

Research and Development.

Research and development costs are charged to operations as incurred. Such costs during the past three years were approximately: 1994--$700; 1993--$3,600 and 1992--$700. The costs in 1993 included a significant amount of research and development costs in process which related to the acquisition of American Innovations, Inc. during the third quarter of fiscal year 1993.

Income Taxes.

Deferred income taxes have been determined by applying current tax rates to temporary differences between the amount of assets and liabilities determined for income tax and financial reporting purposes and to applicable income tax credit carryforwards.

Earnings Per Share.

Primary earnings per share is determined by dividing income (loss) by the weighted average number of common shares outstanding during the year, after adjusting for common stock equivalents arising from stock incentives, if dilutive.

Earnings per share assuming full dilution is not presented since there is no dilutive effect on earnings per share amounts assuming the conversion of the Company's outstanding debentures into additional shares of common stock and the exercise of outstanding stock incentives.

Cumulative Effect of Accounting Changes in Fiscal 1992.

The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," in the fourth quarter of the fiscal year ended February 29, 1992. The Statement provides for the recognition of deferred tax assets given the likelihood of certain future events. The Company had previously used Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which contained much more restrictive criteria for the recognition of deferred tax assets. In accordance with generally accepted accounting principles, the cumulative effect of the change on prior years was recorded in the first quarter of fiscal 1992. The cumulative effect of this accounting change was to record a benefit of $1,115 or $0.28 per share as of March 1, 1991.

The Company also changed the method of accounting for existing individual deferred compensation contracts in accordance with an amendment to APB

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Opinion No. 12, Omnibus Opinion in the fourth quarter of the fiscal year ended February 29, 1992. In prior years, expense was recognized over a period through the date the Company commenced payment of its obligation under the deferred compensation contract. The amendment reduces the recognition period to the period over which the employee becomes entitled to the deferred compensation. In accordance with generally accepted accounting principles, the cumulative effect of the change on prior years was recorded in the first quarter of fiscal 1992. The total cumulative effect of this accounting change was to record a charge of $907 or $0.23 per share, net of a tax benefit of $605.

NOTE 2--ACQUISITIONS AND DISPOSALS

Effective August 31, 1993, the Company sold its Aluminum Extrusion Division for $10,978 which consisted of cash and short term notes of $8,878 (all notes were fully collected by December 30, 1993) and a non-cash item of 190,900 shares of Ketema, Inc. common stock which had a market value of $2,100. In addition, the Company is entitled to a contractually defined percentage of the profits, if any, for the period from September 1, 1993 through December 31, 1996, from the combined aluminum extrusion operations consisting of the divested operation and two of the purchaser's operations. No gain or loss on the sale was recognized since the sales price, net of estimated divestiture expenditures, approximated the division's book value. The remaining assets of the Aluminum Extrusion Division at February 28, 1994 of $992 consist primarily of accounts receivable and some fixed assets to be disposed of separately. The net assets of the Aluminum Extrusion Division at February 28, 1993 were $7,822 consisting primarily of receivables, inventory

and property, plant and equipment of $11,112 less payables and accruals of $3,290. The net assets and operating results of the Aluminum Extrusion Division have been classified as discontinued operations for all periods presented in the consolidated financial statements. Operating results for the three years ended February 28, 1994, are as follows:

<TABLE>
<CAPTION>

	1994	1993	1992
<S>	<C>	<C>	<C>
Net sales	$17,412	$33,091	$34,554
Operating loss, before tax	(508)	(570)	(35)
Operating loss, after tax	$ (305)	$ (342)	$ (21)

</TABLE>

On January 29, 1993, the Company purchased certain assets and assumed certain liabilities of XO Technologies, Inc., a producer of turbine meter products, for approximately $3,500. On December 17, 1992 a wholly-owned subsidiary of the Company purchased certain assets and assumed certain liabilities of Aldan Industrial Machining, Inc., a producer of high-precision machined components, at a cost of approximately $4,600 in cash and $4,000 (plus an additional $1,120 in interest thereon) funded into an escrow account subsequent to February 28, 1993 (the "Escrow Account"). These acquisitions were accounted for as purchases, and accordingly, the assets and liabilities acquired have been recorded at their estimated fair value (assets acquired of approximately $14,000, including intangible assets of approximately $8,500 being amortized over periods ranging from 3 to 20 years, and liabilities assumed of appoximately $1,900) and the results of operations were included from the date of acquisition.

During the third quarter of fiscal 1993, the Company entered into an arrangement whereby it contributed cash of approximately $1,800 to a newly established entity, American Innovations, Inc., in exchange for 80% of the

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common stock of the entity. A development stage enterprise (the "Predecessor Company") contributed tangible assets of approximately $100, liabilities of approximately $1,400, and intangible assets (comprised of research and development projects in process) of approximately $1,750 in exchange for 20% of the common stock of the newly established entity. The Company has consolidated the results of the newly formed entity since the formation date. The value of research and development projects in process was included in research and development expense for the period. The minority shareholders are entitled to a dividend preference for fiscal years 1994, 1995 and 1996 equal to 80% of earnings before interest and taxes of American Innovations, Inc. which will be paid 90 days following the close of the fiscal year. In the case of a loss before interest and taxes, a dividend will be paid only to the extent of cumulative earnings. Should such dividend be distributed, they will be accounted for as a purchase price adjustment. No dividend was earned for fiscal 1994 since American Innovations had a contractually defined operating loss.

On September 18, 1992, the Company sold the Composite Materials division, a composite materials engineering and design business, to former division management. On September 30, 1992, the Company completed the sale of the Textile Products division, a woven fabric composite material business. Sales and operating results of these businesses through the date of sale, which are included in the fiscal 1993 results, were not significant. No gain or loss was recorded in fiscal 1993 as a result of these disposals due to the restructuring charge booked in fiscal 1992 (see Note 3).

NOTE 3--RESTRUCTURING CHARGE

The fourth quarter of fiscal 1992 financial results included a special pretax charge of approximately $7,400 for the write-down of various intangible and other assets related to the woven fabric composite material business, expenses related to the consolidation of facilities and relocation costs.

NOTE 4--INVENTORIES

Inventories are principally accounted for using the last-in, first-out (LIFO) cost method. If the first-in, first-out (FIFO) method of accounting for inventories had been used by the Company, inventories would have been higher than that reported at February 28, 1994 and 1993, by $9,714 and $10,968 respectively. During fiscal years 1994, 1993 and 1992, certain inventories were reduced resulting in the liquidation of LIFO inventory layers carried at lower costs prevailing in prior years as compared with the cost of 1994, 1993 and 1992 purchases, the effect of which decreased costs of goods sold by approximately $1,564, $890 and $588 in fiscal years 1994, 1993 and 1992, respectively.

Revenues are recorded and costs are relieved from inventory relating to long-term fixed price contracts and programs primarily on a unit-of-delivery basis. Revenues and costs related to cost reimbursement contracts are recognized and relieved as the work progresses. Progress payments (principally related to long-term contracts and programs) of $661 at February 28, 1994 ($694 at February 28, 1993) have been netted against inventories.

The components of inventory at February 28, 1994 and 1993 are as follows:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Raw Materials	$ 1,831	$ 1,424
Work in process	4,335	5,170
Finished goods	5,156	4,358

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	$11,322	$10,952

</TABLE>

NOTE 5--LONG-TERM DEBT

Long-term debt at February 28, 1994 and 1993 consisted of:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Notes payable due October 31, 1994 to 2003.....	$45,000	$45,000
8% convertible subordinated debentures due 2003.....	14,692	14,692
8% private placement convertible subordinated debentures due 2003.....	500	500
Other.....	5	96
	60,197	60,288
Less current maturities.....	(4,505)	(90)
Net long-term debt.....	$55,692	$60,198

</TABLE>

In February 1989, the Company issued $17,500 of convertible subordinated debentures (the "Debentures") bearing an interest rate of 8% and maturing on November 15, 2003, with mandatory annual prepayments equal to 20% of principal beginning in fiscal year 2000 reduced by any repurchases or conversions to date. The Debentures are convertible at a conversion price of $15.58 per share into common stock at any time or into preferred stock under certain conditions, and are subordinated in right of payment to all existing and future senior indebtedness of the Company.

During fiscal 1993, the Company issued, through a private placement to Hugh H. Williamson, III, President and Chief Executive Officer of the Company, a $500 convertible subordinated debenture due 2003, with mandatory annual prepayments equal to 20% of principal beginning in fiscal year 2000 reduced by any

repurchases or conversions to date, bearing an interest rate of 8% and maturing on November 15, 2003. This debenture issued to Mr. Williamson is convertible at a conversion price of $10.375 per share into common stock at any time and participates pari passu with the Debentures described above.

Through a private placement in December 1988, the Company issued $45,000 in notes bearing interest at an annual rate of 10.97%. Scheduled annual repayments of $4,500 commence on October 31, 1994. The convenants of the notes prohibit prepayment until October 31, 1996. The prepayment penalty declines from 4.701% on October 31, 1996 to zero on October 31, 2002. In addition, the agreement contains restrictions relating to working capital, dividends and capital stock purchases. Under the Company's debt agreements at February 28, 1994, consolidated current assets were $50,519 in excess of the required minimum and payments of dividends were restricted until the Company earns additional net income of $6,015.

During the third quarter of fiscal 1992, the Company's note agreement was amended to permit, under certain circumstances, repurchases of up to $15,000 of the Company's common stock and 8% convertible subordinated debentures due 2003, not subject to certain otherwise applicable restrictions. In conjunction with the amendment, the interest rate on the notes payable increased to 11.07% and will increase to a maximum of 11.22% based on the level of permitted

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repurchases (11.17% and 11.12% at February 28, 1994 and 1993, respectively). In fiscal years 1992 and 1993, the Company repurchased $2,798 of the 8% convertible subordinated debentures. As of February 28, 1994, the Company is allowed to purchase an aggregate of $7,497 of Debentures and/or common stock if the Company can maintain a debt to capitalization ratio of less than 50%. (The debt to capitalization ratio as of February 28, 1994 is 51.2%.)

Cash payments of interest were approximately $6,300, $6,400, and $6,500 in 1994, 1993 and 1992, respectively.

The fair value of long-term debt approximated the recorded value at February 28, 1994. The fair values have been determined through information obtained from market sources and management estimates.

NOTE 6--STOCKHOLDERS' EQUITY

During fiscal 1993, the Company exercised an option, acquired in April 1991 at a price of $2.75 per share, to purchase 198 shares of common stock at an exercise price of $10.00 per share and purchased 37 shares of its common stock in a privately negotiated transaction at a cost of $426.

In October 1991, the Company adopted a Shareholder Rights Plan. Under the Shareholder Rights Plan's Rights Agreement, the Board of Directors declared a dividend of one Right for each share of Company common stock owned. The Shareholder Rights Plan provides, under certain conditions involving acquisition of the Company's common stock, that holders of Rights, except for the acquiring entity, would be entitled: (a) to purchase shares of preferred stock at a specified exercise price, or (b) to purchase shares of common stock of the Company, or the acquiring company, having a value of twice the Rights exercise price. The rights under the Shareholder Rights Plan expire in 2001.

The Company has a stock incentive plan (the "Plan") whereby key employees and directors may be granted stock options, stock appreciation rights and restricted stock awards. These stock incentives entitle them to purchase common stock and in certain cases receive cash under the Plan. The outstanding options are exercisable at a price not less than market value on the date of grant, with the exception of 104 stock options granted to Hugh H. Williamson, III in fiscal 1993 at 85% of market value on the date of grant.

Information on stock options for fiscal 1994 is as follows:

<TABLE>
<CAPTION>

<S>	PRICE RANGE <C>	SHARES <C>
Outstanding at beginning of year	$ 8.82-14.94	321
Granted	$11.13-11.13	19
Exercised	$ --	--
Cancelled	$11.13-13.56	27
Outstanding at end of year (expire from 1996 through 2002)	$ 8.82-14.94	313
Exercisable at end of year	$10.38-14.94	108

</TABLE>

Outstanding options are exercisable in installments over five to nine years and expire seven to ten years from the date of grant.

Under the Plan, the Company also has 142 outstanding conjunctive stock appreciation rights exercisable for cash and/or shares of common stock when the related option is exercised. Subject to certain limitations, each right relates to the excess of market value of the Company's stock over the exercise price of the related option, for which a charge to income is made, which is not

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significant in amount.

Also under the Plan, there are 7 outstanding shares of restricted stock which become nonforfeitable over fiscal 1995 and 1996. The shares were purchased for $1.00 per share and are subject to forfeiture under certain circumstances. Unearned compensation, representing the excess of the fair market value of the shares at the date of issuance over the purchase price of the award, is amortized to expense over the period of restriction.

At February 28, 1994 and 1993, 461 shares of the Company's common stock were reserved for issuance pursuant to the exercise of stock options and restricted stock awards, or stock appreciation rights granted or to be granted independently of any stock options. A maximum of 229 shares of the Company's common stock at February 28, 1994 and 1993, respectively were reserved for issuance pursuant to the exercise of conjunctive stock appreciation rights granted or to be granted in connection with stock options.

NOTE 7--LEASES

During fiscal years 1994, 1993 and 1992 rental expense under operating leases was charged to operations in the amount of $1,450, $1,555 and $1,722, respectively.

Minimum aggregate rental commitments under noncancellable operating leases (including those of discontinued operations retained by the Company) in effect at February 28, 1994 are as follows (principally comprised of real property and office space):

<TABLE>
<CAPTION>

FISCAL YEAR	
<S>	<C>
1995	$1,256
1996	1,015
1997	877
1998	619
1999	530
Thereafter	3,183
	$7,480

</TABLE>

NOTE 8--INCOME TAXES

At February 28, 1994, the Company has net operating loss carryforwards of approximately $4,700 for federal income tax purposes which expire in the year 2008. The Company also has AMT credit carryforwards of approximately $400 which may be utilized to reduce federal income taxes due in the future.

Components of the Company's deferred tax liabilities and assets as of February 28, 1994 and 1993 are as follows:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Total deferred tax assets	$ 7,899	$ 7,643
Valuation allowance for deferred tax assets --	(2,189)	(805)
	5,710	6,838

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Total deferred tax liabilities	(2,702)	(3,553)
Net deferred tax assets	$ 3,008	$ 3,285

The increase in the valuation allowance during fiscal 1994 of $1,384 was primarily attributable to: (a) $646 arising from the deductibility of a $1,900 claim paid in 1991 as to which no benefit was taken by the Company in 1994 (see Note 11); and (b) $813 which applied to deferred tax assets at February 28, 1993 which were grossed up against the related valuation allowance provided through that date.

Deferred income taxes reflect the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes and the tax effect of income tax credit carryforwards. Principal items comprising net deferred income tax assets as of February 28, 1994 and 1993 are:

	1994	1993
Tax over book depreciation	$(1,951)	$(3,231)
Reserves and accruals	5,021	4,580
Restructuring charge	81	297
AMT credit carryforward	422	--
Net operating loss carryforward	1,610	2,405
Other--net	14	39
	5,197	4,090
Valuation allowance	(2,189)	(805)
Net deferred tax assets	$ 3,008	$ 3,285

The income tax provision (benefit) consists of:

	1994	1993	1992
Current:			
Federal	$ 12	$(1,380)	$ 813
State	34	--	162
Amortization of prior years investment tax credits	--	(267)	(131)
Deferred	305	401	(2,007)
	351	(1,246)	(1,163)
Add back: benefit from discontinued operations	203	228	14
Provision for (benefit from) income taxes, continuing operations	554	(1,018)	(1,149)
Deferred (benefit) from cumulative effect of changes in accounting principles	--	--	(1,720)
	$554	$(1,018)	$(2,869)

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The differences between the federal income tax rate of 34% and the Company's effective tax rate were as follows:

<TABLE>
<CAPTION>

	1994	1993	1992
<S>	<C>	<C>	<C>
Statutory federal tax provision (benefit) continuing operations	$713	$(1,671)	$(1,477)
State income taxes, net of federal income tax benefit	124	87	185
Investment tax credits	--	(267)	(131)
Tax deduction related to fiscal 1991 settlement cost (Note 11)	(646)	--	--
Valuation allowance	571	805	--
Non-deductible items	153	57	218
AMT refund	(314)	--	--
Other	(47)	(29)	56
Provision for (benefit from) income taxes, continuing operations	$554	$(1,018)	$(1,149)

</TABLE>

During 1994 and 1993 net income tax refunds of $106 and $522, respectively, were received. Income taxes of $1,442 were paid during 1992. Refundable income taxes in the amounts of $1,694 and $1,462 for fiscal 1994 and 1993, respectively, are included within prepaids and other current assets in the accompanying balance sheet.

NOTE 9--RETIREMENT AND PENSION PLANS

The Company maintains noncontributory defined benefit retirement and pension plans for eligible salaried and hourly rated employees. The defined benefit plans provide benefits based primarily on the participant's years of service and/or compensation. These benefits are being funded through a trust established in conjunction with these plans. A defined benefit retirement plan for the Company's directors is unfunded.

The Company's funding policy with respect to its qualified plans is to contribute amounts determined annually on an actuarial basis that provides for current and future benefits in accordance with funding requirements of federal law and regulations. Assets of funded benefit plans are invested in a variety of equity and debt instruments and in commingled funds.

Net pension expense for the Company's defined benefit retirement and pension plans includes the following components:

<TABLE>
<CAPTION>

	1994	1993	1992
<S>	<C>	<C>	<C>
Service cost benefits earned during the period	$1,017	$1,421	$1,384
Interest cost on projected benefit obligation	1,271	1,190	1,031
Actual return on plan assets	(3,193)	(369)	(1,840)
Net amortization and deferrals	2,087	(636)	1,215
Net pension expense	1,182	1,606	1,790
Pension expense of discontinued operations	52	107	149
Net pension expense of continuing operations	$1,130	$1,499	$1,641

</TABLE>

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The Company also incurred an additional $267 in 1994 for costs associated with the curtailment and settlement of plans associated with discontinued operations. Such costs have been reflected as a charge to the reserve for discontinued operations (see Note 10).

Net pension expense reflects an expected long-term rate of return on plan assets of 9% for 1994, 1993 and 1992. The actual return has been adjusted to defer gains or losses which differ from the expected return. The present value of projected benefit obligations was determined using an assumed discount rate of 7.25% for 1994, 8.5% for 1993 and 9.0% for 1992. The assumed rate of compensation increase, where applicable, used in determining the present value of projected benefit obligations was 5.25% for 1994 and 6% for 1993 and 1992.

The following table sets forth the funded status of the plans:

<TABLE>
<CAPTION>

	FEBRUARY 28, 1994		FEBRUARY 28, 1993	
	ASSETS EXCEED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEED ASSETS	ASSETS EXCEED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEED ASSETS
<S>	<C>	<C>	<C>	<C>
Actuarial present value of benefit obligations:				
Vested benefit obligation.	$ 8,613	$ 6,690	$6,277	$ 6,378
Accumulated benefit obligation.....	$ 9,212	$ 7,000	$6,785	$ 6,505
Projected benefit obligation.....	$11,382	$ 7,000	$8,995	$ 6,650
Plan assets at fair value...	$11,545	$ 5,135	$8,763	$ 5,009
Plan assets in excess of (less than) projected benefit obligation.....	$ 163	$(1,865)	$ (232)	$(1,641)
Unrecognized prior service cost.....	608	709	745	600
Unrecognized net loss (gain).....	(24)	781	178	863
Unrecognized net transition (asset) obligation, net of amortization.....	(712)	310	(763)	301
Prepaid (accrued) pension expense.....	$ 35	$ (65)	$ (72)	$ 123

</TABLE>

For pension plans with accumulated benefits in excess of assets, a minimum liability was recognized for the sum of the excess of the accumulated benefit obligation over the fair value of the plan assets plus the amount of prepaid pension expense or minus the amount of accrued pension expense (such reduction limited to the underfunding position of individual plans). The minimum liability was $1,812 and $1,660 at February 28, 1994 and 1993, respectively. In 1994, the minimum liability was offset by a charge to stockholders' equity of $523, net of deferred tax benefits of $269, and an intangible asset of $1,020. In 1993, the minimum liability was offset by a charge to stockholders' equity of $468, net of deferred tax benefits of $241, and an intangible asset of $951.

The Company sponsors a defined contribution plan for eligible employees. The

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cost recognized in fiscal years 1994, 1993 and 1992 for the defined contribution plan, based on compensation of covered employees, was $246, $278 and $255, respectively.

The Company provides limited health care benefits for certain early retirees of one of its divisions. Prior to fiscal year 1994, the Company accounted for the costs of these benefits on an accrual basis over the working lives of employees expected to receive benefits. Effective March 1, 1994, the Company adopted the provisions

of Statement of Financial Accounting Standards No. 106 ("FAS 106") "Employers' Accounting for Postretirement Benefits Other than Pensions". At February 28, 1994 and 1993, respectively, the Company had accruals of $507 and $619 for these postretirement medical benefits which are included in other long-term liabilities in the accompanying balance sheet. The impact on the Company's operations of adopting FAS 106 in 1994 was not significant.

Prior to fiscal 1994, the Company had deferred compensation arrangements with certain officers, directors, and key employees pursuant to a Supplemental Executive Benefit Plan and a Directors' Benefit Plan. As of February 28, 1993, the Company had accrued $2,287 with respect to these agreements of which $350 was charged to expense in fiscal 1993. During fiscal 1994, the Board of Directors authorized the settlement of the obligation associated with these plans for participants with a "vested" benefit (currently retired or eligible for early retirement under the Ketema, Inc. Employees' Retirement Plan). These participants were offered a discounted lump sum cash settlement in lieu of future benefits from the Plan. Payments were made under this arrangement in the amount of $1,744. Non-vested agreements were terminated at no cost to the Company. At February 28, 1994, the Company has an accrual of $531 with respect to those participants who did not elect to accept the lump sum cash settlement. During fiscal 1994, $49 was charged to expense with respect to these Plans.

As part of the compensation package for Mr. Williamson which was recommended by the Compensation Committee and approved by the Board of Directors, a retirement benefit was approved which permits Mr. Williamson to retire at age 60 and receive an annual amount equal to 50% of the three-year average of his then-current salary and bonus. The difference between such amount and the amount received by Mr. Williamson under the retirement plan would be paid by the Company. Automatic vesting would occur upon a change in control of the Company prior to Mr. Williamson's reaching age 60. At February 28, 1994, $201 was accrued with respect to this agreement.

NOTE 10--INTANGIBLES, OTHER ASSETS AND OTHER ACCRUED LIABILITIES

Intangibles, other assets and other accrued liabilities consist of the following at February 28, 1994 and 1993:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Intangible Assets		
Patents	$ 2,312	$ 2,312

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Other acquired intangibles	8,832	8,584
Excess of cost over net assets acquired	3,016	2,965
Financing and organization costs	3,492	3,492
Pension	1,020	951
Less accumulated amortization	(5,276)	(3,814)
	$13,396	$14,490

Other Assets

Investment in limited partnership (approximates market value)	$ 5,228	$ 4,586
Cash surrender value of officers life insurance, net of related loans in 1993	2,172	643
Prepaid pension expense	862	862
Unbilled receivable, long term portion	693	--
Prepaid interest, long term portion	556	784
Other	--	110
	$ 9,511	$ 6,985

Other Accrued Liabilities

Accrued insurance	$ 4,871	$ 5,210
Accrued interest	2,032	2,074
Contract loss reserve	3,390	3,393
Restructuring/relocation reserves	643	2,036
Environmental reserve	832	1,000
Reserve for discontinued operations	1,644	--
Other	2,280	2,755
	$15,692	$16,468

</TABLE>

NOTE 11--CONTINGENT ASSETS AND LIABILITIES

The Company was incorporated in May 1988 in connection with a corporate restructuring of AMETEK, Inc. ("Ametek"), in which certain businesses and related assets and liabilities of Ametek were transferred to the Company. On November 30, 1988, the Company became a separate, publicly held corporation by means of the pro rata distribution (the "Distribution") by Ametek of all the outstanding shares of the Company's Common Stock, $1.00 par value ("Common Stock"), to holders of record of Ametek's common stock as of the close of business on that date.

In connection with the Distribution, the Company and Ametek agreed that contingent liabilities which arise out of the transferred assets or the conduct of the Company's operations, or which are not incurred in

the ordinary course of business, shall be obligations of the Company only to the extent of the first $5,000 and one-half of the next $10,000. The Company and Ametek agreed to indemnify each other against claims or damages arising from liabilities for which each has agreed to be responsible. However, to the extent liabilities are covered by insurance of Ametek, only one-half of the first $200 in any individual case shall be the responsibility of the Company. In accordance with the above agreement, the Company reimbursed Ametek $5,210 in 1991 for a settlement with the U.S. Government, for an event which occurred prior to the distribution. The income tax benefit of the settlement was to be recognized for financial statement purposes upon final determination by the Internal Revenue Service as to the deductibility of such costs.

During fiscal 1994, the Company and Ametek reached an agreement with the

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Internal Revenue Service which allowed the Company and Ametek to each deduct for federal income tax purposes $1,900 in relation to the reimbursement to Ametek mentioned above.

The Company has reflected its $1,900 additional deduction in the 1994 income tax balances. AMT refunds which resulted from amended prior year returns have been included in earnings in the fourth quarter of 1994. A valuation allowance has been provided to offset the deferred tax asset which results from the availability of an additional operating loss carryforward (see Note 8).

When Ametek files its amended federal and state income tax returns for calendar year 1991 for its $1,900 deduction, the proceeds plus interest, net of certain contractual costs and legal fees, will be due to the Company. Due to the uncertainty of the amount and the timing of payment, such amount will not be reflected in the Company's books until the net payment becomes certain.

NOTE 12--LETTERS OF CREDIT

The Company has entered into irrevocable standby letter of credit agreements with financial institutions primarily to back the Company's self-insurance program. At February 28, 1994, the Company was contingently liable on outstanding letters of credit aggregating $9,709. The Company paid fees in the amount of $83 on the outstanding letters of credit during fiscal 1994.

NOTE 13--LEGAL PROCEEDINGS

On August 25, 1993, the Company, Hugh H. Williamson, III--the Company's President and Chief Executive Officer, and John McCloskey--formerly the Company's Vice President--Manufacturing, were sued in the District Court, 160th Judicial District, Dallas, Texas, by Raymond J. Moore, the former General Manager of the Company's Heat Transfer Division, located in Grand Prairie, Texas. The case has been removed to the United States District Court for the Northern District of Texas, Dallas Division. Mr. Moore seeks damages for the alleged intentional infliction of severe emotional distress suffered by him as the result of an unsatisfactory performance review, negligent employment and retention, defamation and violations of the Age Discrimination in Employment Act, the Family Medical Leave Act and the Americans with Disabilities Act. Mr. Moore principally seeks, from the defendants, jointly and severally: lost wages in the amount of $20; full pay and benefits through 1997 in the amount of $150 per year as front pay; exemplary and punitive damages in the amount of $100,000; damages for mental anguish and emotional distress in the amount of $20,000; and $20,000 for the age, disability, family leave and defamation claims. The Company believes the case is without merit. Discovery is ongoing. The Company and the individual defendants intend to contest the matter vigorously and believe they have meritorious defenses. Trial is currently scheduled for the two week period following November 21, 1994.

See Note 14 for additional litigation matters.

NOTE 14--SUBSEQUENT EVENTS

In an amendment to a Schedule 13D Statement, dated October 19, 1993, filed with the Securities and Exchange Commission, a group of stockholders of the Company, consisting of clients of American Securities Partners, L.P. ("American Securities Partners"), including three directors of the Company (the "American Securities Group"), stated that they were considering various options with regard to their investment in the Company including initiating or responding to proposals regarding a merger or other business combination. The Amendment also stated that the American Securities Group had discussed generally and intended to explore with Hugh H. Williamson, III, the President and Chief Executive Officer of the Company, a possible merger or business combination transaction. On April 28, 1994, KTM Holdings Corp., a corporation organized on behalf of the American Securities Group ("KTM"), delivered a proposal to the Company's Board

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of Directors proposing the acquisition of all outstanding shares of Common Stock not already owned by the members of the American Securities Group at a price of $13.125 per share payable in cash through a merger of a wholly-owned subsidiary of KTM into the Company which would be the surviving corporation and become a wholly-owned subsidiary of KTM (the "Merger Proposal"). The Merger Proposal provides that the proposed merger, if approved by the Board of Directors based on a favorable recommendation of a special committee of the Board consisting of two directors who are not members of the American Securities Group or employees of the Company (the "Special Committee"), would be subject to a number of conditions, including (i) the negotiation and execution of a definitive merger agreement, (ii) approval by the holders of a majority of the outstanding shares of Common Stock, (iii) KTM reaching satisfactory agreements with (a) the institutional investors holding the Company's outstanding Senior Notes regarding the early retirement of such Notes and (b) Mr. Williamson, regarding, among other things, his continuation as Chief Executive Officer of the Company and his exchange of the convertible debentures and options held by him for an equity participation in KTM if the proposed merger is consummated, and (iv) the funding of working capital and term loans to finance the transaction under a bank commitment letter. Subsequently, KTM reached an understanding with Mr. Williamson. The American Securities Group and Mr. Williamson beneficially own in the aggregate approximately 22.87% of the outstanding shares of Common Stock (after giving effect to the conversion of all convertible debentures held by them and the exercise of all presently exercisable stock options held by Mr. Williamson).

"Thereafter, the Special Committee, with the assistance of its financial and legal advisors, began to consider the Merger Proposal in light of, among other things, the operating and financial performance of the Company." There can be no assurances that the merger contemplated by the Merger Proposal, or any other business combination involving the Company, will be approved by the Special Committee or the Board of Directors, or if approved, will be consummated.

The Company is obligated to pay the fees and expenses of the Special Committee's financial and legal advisors. The financial advisor was retained at a fee of $350 plus expenses, of which $100 was incurred in fiscal 1994. The amount of legal expenses is not currently determinable.

Subsequent to the Company's public announcement on April 28, 1994, of its receipt of the Merger Proposal the Company was served with, or advised of the filing of, seven class action lawsuits in the Delaware Court of Chancery, New Castle County relating to the Merger Proposal. The complaints name as defendants, inter alia, all or certain directors of the Company and, in some instances, the Company itself. All of the complaints allege that the proposal by certain of the defendant directors who are members of the American Securities Group to acquire the remaining interest of the Company at the offer price of $13.125 in cash, if accepted, would be inadequate and unfair to the minority stockholders of the Company and would constitute a breach of fiduciary duties by the defendant directors. Certain of the complaints include further allegations, among them, that the offer "effectively put(s) a cap on the market price for Ketema stock" and therefore is

manipulative, and that there is allegedly non-public information in the possession of the defendants with respect to the Company's prospects which should be disclosed to stockholders to enable them to determine whether to exercise appraisal rights in any proposed merger. The principal relief sought by the complaints is a declaration that, if the acquisition were consummated at the offered price, it would constitute a breach of fiduciary duty and the granting of a preliminary injunction to bar an acquisition at the offered price. The complaints further seek to rescind the merger if implemented prior to entry of an injunction, to recover damages in an unspecified amount, reimbursement of costs, including attorneys' and experts' fees, and other equitable relief.

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NOTE 15--BUSINESS SEGMENT INFORMATION

The Company classifies its operations into four business segments: Process Group, Aerospace Group, Industrial Group and American Innovations, Inc. The principal products and services offered by each segment are as follows:

Process Group

Heat transfer equipment, propeller and differential pressure flow meters, centrifuges and separation equipment and flow measurement and control devices.

Aerospace Group

Jet engine and airplane parts and composite material structures.

Industrial Group

Synthetic monofilaments, custom die-cast components and thermistors.

American Innovations, Inc.

Remotely monitored meter reading systems, primarily for the utility industry.

The Company's operations by industry segments are as follows:

<TABLE>
<CAPTION>

	1994	1993*	1992*
<S>	<C>	<C>	<C>
Net sales (1&2)			
Process Group	$ 55,503	$ 50,896	$ 54,237
Aerospace Group	46,081	46,048	54,068
Industrial Group	25,023	25,215	24,827
American Innovations, Inc.	502	--	--
Total	$127,109	$122,159	$133,132
Operating profit (3)			
Process Group	$ 4,595	$ 3,769	$ 6,399
Aerospace Group	5,793	1,357	(4,192)
Industrial Group	2,787	2,537	1,309
American Innovations, Inc.	(1,633)	(2,438)	--
Segment operating profit (4)	11,542	5,225	3,516
Corporate and other expenses	(5,583)	(7,707)	(7,840)
Interest income (expense), net	(3,864)	(2,433)	(19)
Income (loss) before income taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles	$ 2,095	$ (4,915)	$ (4,343)
Identifiable assets			
Process Group	$ 26,019	$ 24,531	$ 20,357
Aerospace Group	32,184	33,173	26,129
Industrial Group	9,663	9,142	11,003
American Innovations, Inc.	925	265	--
Total segments	68,791	67,111	57,489

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Discontinued operations	992	7,822	6,490
Corporate assets	79,190	83,476	92,973
Total	$148,973	$158,409	$156,952
Additions to property, plant and equipment			
Process Group	$ 1,355	$ 833	$ 1,379
Aerospace Group	2,005	2,075	2,179
Industrial Group	1,101	497	704
American Innovations, Inc	14	34	--
Total segment	4,475	3,439	4,262
Discontinued operations	349	431	1,745
Corporate	71	178	10
Total	$ 4,895	$ 4,048	$ 6,017
Depreciation and amortization			
Process Group	$ 1,813	$ 1,253	$ 1,315
Aerospace Group	3,222	2,445	2,757
Industrial Group	819	827	867
American Innovations, Inc	19	6	--
Total segments	5,873	4,531	4,939
Corporate	354	342	335
Total	$ 6,227	$ 4,873	$ 5,274

</TABLE>

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*Restated to reflect disposition of Aluminum Extrusion Division (Note 2), formerly a component of the Industrial Group.

(1) After elimination of inter-segment sales, not significant in amount.
(2) Sales to the U.S. Government (principally by the Aerospace Group) were 21% in 1994, 23% in 1993 and 29% in 1992 of the Company's net sales. Sales to General Electric Company (principally by the Aerospace Group) were 28% in 1994, 21% in 1993 and 22% in 1992 of the Company's total net sales and are partially included in sales to the U.S. Government.
(3) The 1992 results reflect a one-time, pretax charge of $7,385 for restructuring costs and the write-down of certain assets. Of the total charge $6,300 was allocated to the Aerospace Group, $85 was allocated to the Industrial Group and $1,000 was allocated to corporate and other expenses.
(4) Represents sales less all direct costs and expenses and certain administrative expenses applicable to each segment.

NOTE 16--QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly sales and earnings for fiscal years 1994 and 1993 are as follows:

<TABLE>
<CAPTION>

1994	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$33,477	$31,913	$31,902	$29,817	$127,109
Operating income	$ 1,020	$ 1,327	$ 1,107	$ 2,096	$ 5,550
Income (loss) from continuing operations	$ (93)	$ 37	$ 519	$ 1,078	$ 1,541
Net income (loss)	$ (343)	$ (18)	$ 519	$ 1,078	$ 1,236
Primary earnings (loss) per					

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share:					
Continuing operations.....	$ (0.03)	$ 0.01	$ 0.15	$ 0.30	$ 0.42
Net income (loss).....	$ (0.09)	$ 0.00	$ 0.15	$ 0.30	$ 0.34
Fully diluted earnings (loss) per share:					
Continuing operations.....	$ (0.03)	$ 0.01	$ 0.15	$ 0.28	$ 0.42
Net income (loss).....	$ (0.09)	$ 0.00	$ 0.15	$ 0.28	$ 0.34

<CAPTION>

1993*	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	$31,798	$33,228	$27,457	$29,676	$122,159
Operating income (loss).....	$ 647	$ 1,429	$(1,457)	$(2,992)	$ (2,373)
Income (loss) from continuing operations.....	$ 237	$ 554	$(1,762)	$(2,476)	$ (3,447)
Net income (loss).....	$ 265	$ 501	$(1,853)	$(2,702)	$ (3,789)
Primary earnings (loss) per share:					
Continuing operations.....	$ 0.06	$ 0.15	$ (0.47)	$ (0.67)	$ (.93)
Net income (loss).....	$ 0.07	$ 0.14	$ (0.50)	$ (0.73)	$ (1.02)
Fully diluted earnings (loss) per share:					
Continuing operations.....	$ 0.06	$ 0.15	$ (0.47)	$ (0.67)	$ (.93)
Net income (loss).....	$ 0.07	$ 0.14	$ (0.50)	$ (0.73)	$ (1.02)

</TABLE>

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*Restated to reflect disposition of Aluminum Extrusion Division (Note 2).

ANNEX A
[CONFORMED COPY]

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AGREEMENT AND PLAN OF MERGER
DATED AS OF

JUNE 21, 1994

AMONG

KETEMA, INC.,

KTM HOLDINGS CORP.

AND

KTM ACQUISITION CORP.

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated as of June 21, 1994 among Ketema, Inc., a Delaware corporation (the "Company"), KTM Holdings Corp., a Delaware corporation ("Buyer"), and KTM Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Buyer ("Merger Subsidiary").

WHEREAS:

A. The Company is a corporation duly incorporated and validly existing under the corporate laws of the State of Delaware with it principal executive offices located at Suite 600, One Cherry Center, 501 South Cherry Street, Denver, Colorado 80222.

B. The authorized capital stock of the Company consists of (i) 13,500,000 shares of common stock, $1 par value, (the "Company Common Stock"), of which 3,490,202 shares are issued and outstanding as of the date hereof, and (ii) 1,500,000 shares of Preferred Stock, $1 par value, none of which shares are issued and outstanding as of the date hereof.

C. Buyer is a corporation duly incorporated and validly existing under the corporate laws of the State of Delaware with its principal address located c/o American Securities Partners, L.P. at 122 East 42nd Street, New York, New York 10168.

D. Immediately prior to the Effective Time (as defined in Section 1.02(b) below), Buyer and/or Merger Subsidiary will own or be deemed to own beneficially not less than 894,000 shares of Company Common Stock, which shares are currently beneficially owned by certain clients of American Securities Partners, L.P. and by Hugh H. Williamson, III, the President and Chief

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Executive Officer of the Company (collectively, the "Acquiring Group"), and include shares of Company Common Stock issuable upon conversion of certain convertible subordinated debentures of the Company (or upon conversion of the convertible preferred stock which is issuable under certain circumstances upon conversion of such debentures) owned by members of the Acquiring Group.

E. The Board of Directors of the Company, based in part on the recommendation of a Special Committee of the Board of Directors initially appointed on September 28, 1993 and comprised entirely of Directors who are neither members of management nor affiliated with American Securities Partners, L.P. or the Acquiring Group (the "Special Committee"), (i) unanimously approved the members of the Acquiring Group becoming an "interested stockholder" within the meaning of Section 203 of the Delaware General Corporation Law and the Company's Certificate of Incorporation for purposes of proposing a "business combination" (as defined in said Section 203 and the Company's Certificate of Incorporation) between the Company and an entity formed by the Acquiring Group for the purpose of engaging in such a business combination, and (ii) has unanimously determined that the Merger is fair and in the best interests of the stockholders of the Company (other than the Acquiring Group) and has unanimously resolved to approve and adopt this Agreement and the transactions contemplated hereby and, subject to the terms and conditions set forth herein, to recommend the approval and adoption of this Agreement and the Merger by the stockholders of the Company.

F. The Board of Directors of the Company, based in part on the recommendation of the Special Committee, and the Boards of Directors of Buyer and Merger Subsidiary each have approved the merger of Merger Subsidiary with and into the Company (the "Merger") in accordance with the General Corporation Law of the State of Delaware and the terms and conditions provided below, pursuant to which each Share (as defined in Section 1.03 hereof) (other than Shares held by the Company as treasury stock, Shares owned by Buyer, Merger Subsidiary or any other subsidiary of Buyer immediately prior to the Effective Time and Shares as to which appraisal rights have been perfected) shall be converted into the right to receive the Merger Consideration (as defined in Section 1.03(a) below).

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations, warranties and agreements herein contained, the parties hereto agree as follows:

ARTICLE I

THE MERGER

SECTION 1.01. Company Action. The Company hereby consents to the Merger (as defined in Section 1.02) and represents that its Board of Directors, at a meeting duly called and held and acting, in part, on the unanimous recommendation of the Special Committee, has (i) unanimously determined that this Agreement and the transactions contemplated hereby, including the Merger, are fair to and in the best interest of the Company's stockholders (other than the Acquiring Group), (ii) unanimously approved and adopted this Agreement and the transactions contemplated hereby, including the Merger, and (iii) unanimously resolved to recommend approval and adoption of this Agreement and the Merger by the Company's stockholders, provided, that such recommendation may be withdrawn, modified or amended by the Board of Directors of the Company if the Board deems such withdrawal, modification or amendment appropriate in light of its fiduciary obligations to the Company's stockholders after consultation with counsel.

SECTION 1.02. The Merger. (a) At the Effective Time, Merger Subsidiary shall be merged with and into the Company in accordance with the General Corporation Law of the State of Delaware (the "Delaware Law"), whereupon the separate existence of Merger Subsidiary shall cease, and the Company shall be the surviving corporation (the "Surviving Corporation").

(b) As soon as practicable after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger, the Company and Merger Subsidiary will file a certificate of merger substantially in the form of

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Exhibit A hereto with the Secretary of State of the State of Delaware and make all other filings or recordings required by Delaware Law in connection with the Merger. The Merger shall become effective at such time as such certificate of merger is duly filed with the Secretary of State of the State of Delaware or at such later time as is specified in such certificate of merger (the "Effective Time").

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of the restrictions, disabilities and duties of the Company and Merger Subsidiary, all as provided under Delaware Law.

SECTION 1.03. Conversion of Shares. At the Effective Time:

(a) each share of Company Common Stock, together with the right (a "Right") associated therewith entitling the holder thereof to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company (each such share and associated Right being referred to herein as a "Share" and collectively, the "Shares") outstanding immediately prior to the Effective Time shall, except as otherwise provided in Section 1.03(b) or as provided in Section 1.05 with respect to Shares as to which appraisal rights have been perfected, be converted into the right to receive $15.00 in cash, without interest (the "Merger Consideration");

(b) each Share held by the Company as treasury stock or owned by Buyer, Merger Subsidiary or any other subsidiary of Buyer immediately prior to the Effective Time shall be cancelled, and no payment shall be made with respect thereto;

(c) each outstanding share of 7% Cumulative Convertible Voting Preferred Stock, $1 par value, of the Company (each, a "Convertible Preferred Share" and collectively, the "Convertible Preferred Shares"), if any, owned by Buyer, Merger Subsidiary or any other subsidiary of Buyer immediately prior to the Effective Time shall be cancelled, and no payment shall be made with respect thereto;

(d) each outstanding Convertible Preferred Share, if any, not owned by Buyer, Merger Subsidiary or any other subsidiary of Buyer immediately prior to the Effective Time, shall remain outstanding in accordance with its terms and shall not be converted in the Merger; and

(e) each share of common stock of Merger Subsidiary outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock of the Surviving

Corporation with the same rights, powers and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation.

SECTION 1.04. Surrender and Payment. (a) At or prior to the Effective Time, the Company shall appoint American Stock Transfer & Trust Company as agent (the "Exchange Agent") for the purpose of exchanging certificates representing Shares for the Merger Consideration. At the Effective Time, the Surviving Corporation will make available to the Exchange Agent the Merger Consideration to be paid in respect of all outstanding Shares entitled thereto as to which appraisal rights have not been exercised. At or prior to the Effective Time, the Company or Surviving Corporation will send, or will cause the Exchange Agent to send, to each holder of Shares at the Effective Time a letter of transmittal for use in such exchange (which shall specify that the delivery shall be effected, and risk of loss and title shall pass, only upon proper delivery of the certificates representing Shares to the Exchange Agent).

(b) Each holder of Shares that have been converted into a right to receive the Merger Consideration, upon surrender to the Exchange Agent of a certificate or certificates representing such Shares, together with a properly completed letter of transmittal covering such Shares, will be entitled to receive the Merger Consideration payable in respect of such Shares. Until so surrendered, each such certificate shall, after the Effective Time, represent for all

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purposes, only the right to receive such Merger Consideration.

(c) If any portion of the Merger Consideration is to be paid to a Person other than the registered holder of the Shares represented by the certificate or certificates surrendered in exchange therefor, it shall be a condition to such payment that the certificate or certificates so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the Person requesting such payment shall pay to the Exchange Agent any transfer or other taxes required as a result of such payment to a Person other than the registered holder of such Shares or establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable. For purposes of this Agreement, "Person" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

(d) After the Effective Time, there shall be no further registration of transfers of Shares. If, after the Effective Time, certificates representing Shares are presented to the Surviving Corporation, they shall be cancelled and exchanged for the Merger Consideration provided for, and in accordance with the procedures set forth, in this Article I.

(e) Any portion of the Merger Consideration made available to the Exchange Agent pursuant to Section 1.04(a) that remains unclaimed by the holders of Shares one year after the Effective Time shall be returned within one week after the end of such one year period, without further action or request, to the Surviving Corporation, and any such holder who has not exchanged his Shares for the Merger Consideration in accordance with this Section prior to that time shall thereafter look only to the Surviving Corporation for payment of the Merger Consideration in respect of his Shares. Notwithstanding the foregoing, neither Buyer nor the Surviving Corporation shall be liable to any holder of Shares for any amount paid to a public official pursuant to applicable abandoned property laws. Any amounts remaining unclaimed by holders of Shares two years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental entity) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto; provided, however, that nothing herein shall limit the obligations of the Surviving Corporation under Section 1.04(b).

SECTION 1.05. Dissenting Shares. Notwithstanding Section 1.03, Shares outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal for such Shares in accordance with Delaware Law shall not be converted into a right to receive the Merger Consideration, unless such holder fails to perfect or withdraws or otherwise loses his right to appraisal. If after the Effective Time such holder fails to perfect or

withdraws or loses his right to appraisal, such Shares shall be treated as if they had been converted as of the Effective Time into a right to receive the Merger Consideration. The Company shall give Buyer prompt notice of any demands received by the Company for appraisal of Shares, and Buyer shall have the right to participate in all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Buyer, make any payment with respect to, or settle or offer to settle, any such demands.

SECTION 1.06. Stock Options. (a) Except as otherwise provided in paragraph (b) of this Section 1.06 and except for outstanding options to purchase Shares and conjunctive stock appreciation rights granted to Hugh H. Williamson, III, the Company shall take all steps reasonably necessary such that, at the Effective Time, the holder of each outstanding option to purchase Shares granted under the Company's 1988 Stock Incentive Plan, whether or not then vested or exercisable, shall be paid by the Surviving Corporation for each such option an amount in cash determined by multiplying (i) the excess, if any, of the Merger Consideration over the applicable exercise price of the option (the "Spread") by (ii) the number of Shares such holder could have purchased had such holder exercised such option in full immediately prior to the Effective

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Time (whether or not such option is actually vested or exercisable at such time) and each such option shall thereafter be cancelled. Any conjunctive stock appreciation rights related to any such option shall also be cancelled and, in accordance with the terms thereof and of the Company's Stock Incentive Plan, each holder thereof shall be entitled to receive from the Surviving Corporation an amount in cash equal to 66 2/3% of the product obtained by multiplying (i) the Spread by (ii) the number of Shares to which such stock appreciation rights relate.

(b) Notwithstanding the provisions of paragraph (a) above, Buyer may, at its option but subject to its receipt of the requisite consent of the individual holder thereof, including Hugh H. Williamson, III, issue in exchange for the cancellation of all options held by such holder outstanding at the Effective Time and any conjunctive stock appreciation rights related thereto, a deeply discounted non-qualified option to purchase shares of common stock of Buyer (a "Substitute Option"). The number of shares of Buyer's common stock subject to such Substitute Option shall be such number of shares as shall have a fair market value immediately after the Effective Time equal to the sum of the Aggregate Value (as hereinafter defined) and the aggregate exercise price under the Substitute Option. The Aggregate Value shall mean the sum of (A) the amount determined by multiplying (i) the Spread with respect to all options held by such individual holder by (ii) the number of Shares such individual holder could have purchased had he exercised such options in full immediately prior to the Effective Time (whether or not such options are actually vested or exercisable at such time) plus (B) 66 2/3% of the product obtained by multiplying (i) the Spread with respect to all options held by such individual holder which have conjunctive stock appreciation rights related thereto by (ii) the number of Shares to which such stock appreciation rights relate. The term of each Substitute Option shall be ten years. Each Substitute Option shall become vested and exercisable on the seventh anniversary of the date of grant; provided, however, that the Substitute Option shall have accelerated vesting and exercisability provisions if certain pre-determined earnings and/or debt reduction goals are met, in which case the Substitute Option shall become vested and exercisable with respect to up to 20% of the shares of Buyer's common stock subject thereto on or after each of the first, second, third, fourth and fifth anniversaries of the date of grant. The Substitute Options shall contain such other terms and conditions as shall be set forth in the non-qualified stock option agreement executed by Buyer and the individual holder of an option consenting to receive such Substitute Option pursuant to this Section 1.06(b).

ARTICLE II

THE SURVIVING CORPORATION

SECTION 2.01. Certificate of Incorporation. The certificate of incorporation of the Company in effect at the Effective Time shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.02. Bylaws. The bylaws of the Company in effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.03. Directors and Officers. From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, (i) the directors of Merger Subsidiary at the Effective Time shall be the directors of the Surviving Corporation, and (ii) the officers of the Company at the Effective Time shall be the officers of the Surviving Corporation.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Buyer that:

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SECTION 3.01. Corporate Existence and Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted, except for those licenses, authorizations, consents and approvals where the failure to so obtain would not, individually or in the aggregate, have a Material Adverse Effect. The Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. The Company has heretofore delivered to Buyer true and complete copies of the Company's certificate of incorporation and bylaws as currently in effect. For purposes of this Agreement, "Material Adverse Effect" means with respect to any matter that such matter would be expected to materially and adversely affect the business, condition (financial or otherwise) or results of operations of the Company and its consolidated Subsidiaries considered as a whole.

SECTION 3.02. Corporate Authorization. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby are within the Company's corporate powers and, except for any required approval by the Company's stockholders in connection with the consummation of the Merger, have been duly authorized by all necessary corporate action. This Agreement constitutes a valid and binding agreement of the Company.

SECTION 3.03. Governmental Authorization. The execution, delivery and performance by the Company of this Agreement and the consummation of the Merger by the Company require no action by or in respect of, or filing with, any governmental body, agency, official or authority other than (i) the filing of a certificate of merger in accordance with Delaware Law; and (ii) compliance with applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act").

SECTION 3.04. Non-Contravention. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby do not and will not (i) contravene or conflict with the certificate of incorporation or bylaws of the Company, or (ii) assuming compliance with the matters referred to in Section 3.03, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to the Company or any Subsidiary.

SECTION 3.05. Capitalization. The authorized capital stock of the Company consists of 13,500,000 authorized shares of Company Common Stock and 1,500,000 authorized shares of Preferred Stock, $1 par value ("Preferred Shares"). As of May 31, 1994, (a) 3,490,202 shares of Company Common Stock were issued and outstanding, (b) 1,041,619 shares of Company Common Stock were held in the treasury of the Company,

(c) 943,003 shares of Company Common Stock were reserved for future issuance upon conversion of the Company's 8% Convertible Subordinated Debentures due 2003 (the "Public Debentures") of which $14,692,000 in aggregate principal amount were outstanding, (d) 48,192 shares of Company Common Stock were reserved for future issuance upon conversion of the Company's 8% Convertible Subordinated Debentures due 2003 (the "Private Debentures") of which $500,000 principal amount were outstanding and held by Hugh H. Williamson, III and (e) 461,479 shares of Company Common Stock were reserved for future issuance pursuant to outstanding employee stock options granted pursuant to the Company's Stock Incentive Plan. As of May 31, 1994, (a) no Preferred Shares were issued and outstanding, (b) no Preferred Shares were held in the treasury of the Company, (c) 943,003 Convertible Preferred Shares were reserved for future issuance upon conversion, under certain circumstances, of the Public Debentures and (d) one one-hundredth of a share of Series A Junior Participating Preferred Stock is reserved for future issuance upon exercise, under certain circumstances, of each Right issued under the Company's Shareholder Rights Plan, dated October 15, 1991, between the Company and

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American Stock Transfer & Trust Company, as Rights Agent. All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable. Except as set forth in this Section and except for changes since May 31, 1994, resulting from the exercise of employee stock options outstanding on such date, there are outstanding (i) no shares of capital stock or other voting securities of the Company, (ii) no securities of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company, and (iii) no options or other rights to acquire from the Company, and no obligation of the Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Company Securities"). There are no outstanding obligations of the Company or any Subsidiary to repurchase, redeem or otherwise acquire any Company Securities.

SECTION 3.06. Subsidiaries. All of the outstanding capital stock of, or other ownership interests in, each Subsidiary, is owned by the Company, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests). There are no outstanding (i) securities of the Company or any Subsidiary convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in any Subsidiary, and (ii) options or other rights to acquire from the Company or any Subsidiary, and no other obligation of the Company or any Subsidiary to issue, any capital stock, voting securities or other ownership interests in, or any securities convertible into or exchangeable for any capital stock, voting securities or ownership interests in, any Subsidiary (the items in clauses (i) and (ii) being referred to collectively as the "Subsidiary Securities"). There are no outstanding obligations of the Company or any Subsidiary to repurchase, redeem or otherwise acquire any outstanding Subsidiary Securities. For purposes of this Agreement, "Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are directly or indirectly owned by the Company.

SECTION 3.07. SEC Filings. (a) The Company has delivered to Buyer (i) the annual report on Form 10-K for its fiscal year ended February 28, 1994 (the "Company 10-K"), (ii) its proxy or information statements relating to meetings of, or actions taken without a meeting by, the stockholders of the Company held since June 24, 1993 and (iii) all of its other reports, statements, schedules and registration statements filed with the Securities and Exchange Commission (the "SEC") since February 28, 1994.

(b) As of its filing date, each such report or statement filed pursuant to the Exchange Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

SECTION 3.08. Financial Statements. The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the Company 10-K fairly present, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of the Company and its consolidated

subsidiaries as of the dates thereof and their consolidated statements of operations and of cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements). For purposes of this Agreement, "Balance Sheet" means the consolidated balance sheets of the Company as of February 28, 1994 set forth in the Company 10-K and "Balance Sheet Date" means February 28, 1994.

SECTION 3.09. Disclosure Documents. (a) Each document required to be filed by the Company with the SEC in connection with the transactions contemplated by this Agreement (the "Company Disclosure Documents"), including, without limitation, the proxy statement of the Company (the "Company Proxy Statement")

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to be filed with the SEC in connection with the Merger, and any amendments or supplements thereto will, when filed, comply as to form in all material respects with the applicable requirements of the Exchange Act.

(b) At the time the Company Proxy Statement or any amendment or supplement thereto is first mailed to stockholders of the Company, at the time such stockholders vote on adoption of this Agreement and at the Effective Time, the Company Proxy Statement, as supplemented or amended, if applicable, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. At the time of the filing of any Company Disclosure Document other than the Company Proxy Statement and at the time of any distribution thereof, such Company Disclosure Document will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The representations and warranties contained in this Section 3.09(b) will not apply to statements or omissions included in any Company Disclosure Documents (including, without limitation, the Company Proxy Statement) based upon information furnished to the Company in writing by Buyer specifically for use therein.

SECTION 3.10. Litigation. Except as set forth in the Company 10-K or most recent quarterly report on Form 10-Q, there is no action, suit, investigation or proceeding pending against, or to the knowledge of the Company threatened against or affecting, the Company or any of its officers or Directors which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the Merger or any of the other transactions contemplated hereby.

SECTION 3.11. Finders' and Bankers' Fees. Except for Bear, Stearns & Co. Inc. ("Bear Stearns"), a copy of whose engagement agreement has been provided to Buyer, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company, the Special Committee or any Subsidiary who might be entitled to any fee or commission from Buyer or any of its affiliates upon consummation of the transactions contemplated by this Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to the Company that:

SECTION 4.01. Corporate Existence and Power. Each of Buyer and Merger Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to consummate the transactions contemplated by this Agreement. Since the date of its incorporation, Merger Subsidiary has not engaged in any material activities other than in connection with or as contemplated by this Agreement or in connection with arranging any financing required to consummate the transactions contemplated hereby.

SECTION 4.02. Corporate Authorization. The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated hereby are within the corporate powers of Buyer and Merger Subsidiary and have been duly authorized by all necessary corporate action. This Agreement constitutes a valid and binding agreement of Buyer and Merger Subsidiary.

SECTION 4.03. Governmental Authorization. (a) The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated by this Agreement require no action by or in respect of, or filing with, any governmental body, agency, official or authority other than (i) the filing of a certificate of merger in accordance with Delaware Law and (ii) compliance with

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any applicable requirements of the Exchange Act.

(b) With respect to the Hart-Scott-Rodino Antitrust Improvement Act of 1976, (i) Buyer is controlled by KTM Partners, L.P., a New York limited partnership (the "Partnership"); (ii) formation of Buyer requires no Premerger Notification and Report Forms to be filed; (iii) neither the Partnership, Buyer nor Merger Subsidiary will have any assets other than capital consisting of cash and equity securities of the Company that will be utilized in connection with the Merger; and (iv) the Partnership, Buyer and Merger Subsidiary will not have regularly prepared balance sheets prior to the consummation of the Merger.

SECTION 4.04. Non-Contravention. The execution, delivery and performance by Buyer and Merger Subsidiary of this Agreement and the consummation by Buyer and Merger Subsidiary of the transactions contemplated hereby do not and will not (i) contravene or conflict with the certificate of incorporation or bylaws of Buyer or Merger Subsidiary, or (ii) assuming compliance with the matters referred to in Section 4.03, contravene or conflict with any material provision of law, regulation, judgment, order or decree binding upon Buyer or Merger Subsidiary.

SECTION 4.05. Disclosure Documents. The information with respect to Buyer and its affiliates that Buyer furnishes to the Company in writing specifically for use in any Company Disclosure Document will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading (i) in the case of the Company Proxy Statement at the time the Company Proxy Statement or any amendment or supplement thereto is first mailed to stockholders of the Company, at the time the stockholders vote on adoption of this Agreement and at the Effective Time, and (ii) in the case of any Company Disclosure Document other than the Company Proxy Statement, at the time of the filing thereof and at the time of any distribution thereof.

SECTION 4.06. Finders' and Bankers' Fees. Except for American Securities Corporation and its successor, American Securities Partners, L.P., which have acted on behalf of the Acquiring Group, and for The Bridgeford Group, which has been engaged as a financial adviser to Buyer and its affiliates, there is no investment banker, broker, finder or other intermediary who might be entitled to any fee or commission from the Company or any of its affiliates upon consummation of the transactions contemplated by this Agreement.

SECTION 4.07. Financing. Buyer has received and furnished copies to the Company of a commitment letter addressed to Buyer (the "Commitment Letter") from The Chase Manhattan Bank, N.A. (the "Lender") dated May 5, 1994, as amended on June 21, 1994, pursuant to which the Lender has committed, subject to the terms and conditions thereof, to enter into a credit agreement with Merger Subsidiary to provide financing for the transactions contemplated herein (the "Financing"). The aggregate proceeds of the Financing committed by the Lender in the Commitment Letter, together with the then available cash and marketable securities of the Company and equity financing to be provided by the Acquiring Group and/or other investors, is in an amount which Buyer believes is sufficient to provide all of the requisite Merger Consideration, to effect all refinancing required in connection with the transactions contemplated herein and to pay all related fees and expenses. The equity to be provided by the Acquiring Group and/or other investors to Buyer shall, in any event, be not less than $15,000,000 consisting of cash contributed by the Acquiring

Group or by third party investors (which may be substantial individuals and/or families, financial institutions, public and private pension funds, corporations and other sophisticated and substantial investors) and/or Shares valued on the basis of the Merger Consideration (or Public Debentures, Convertible Preferred Shares issued upon conversion thereof or Private Debentures) contributed to Buyer or Merger Subsidiary.

SECTION 4.08. Ownership of Shares. On the record date applicable to the meeting of stockholders of the Company to be held in connection with the Merger, the members of the Acquiring Group, Buyer and/or Merger Subsidiary in the aggregate will own beneficially not less than 894,000 Shares, including Shares issuable upon conversion of the Public Debentures (or any Convertible

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Preferred Shares) and the Private Debentures beneficially owned by them.

SECTION 4.09. Solvency; Adequate Capitalization. After giving effect to the Merger, the Surviving Corporation will be solvent. For purposes of this Agreement, the term "solvent" shall mean, with respect to the Surviving Corporation, that the fair valuation of its property will be, on the date of determination, greater than the total amount of liabilities of the Surviving Corporation as of such date and that the present fair saleable value of the Surviving Corporation's assets will be, on the date of determination, greater than the amount that will be required to pay the Surviving Corporation's probable liability on its existing debts as they become absolute and matured. After giving effect to the Merger, the Surviving Corporation will not have unreasonably small capital with which to conduct its business.

ARTICLE V

COVENANTS OF THE COMPANY

The Company agrees that:

SECTION 5.01. Conduct of the Company. From the date hereof until the Effective Time, the Company and the Subsidiaries shall conduct their business in the ordinary course consistent with past practice and (except for acts necessary to the Merger) shall use their best efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing, from the date hereof until the Effective Time, without the consent of Buyer:

(a) the Company will not adopt or propose any change in its certificate of incorporation or bylaws;

(b) the Company will not, and will not permit any Subsidiary to, acquire, whether by purchase of equity securities, merger or consolidation, any other Person or acquire a material amount of assets of any other Person;

(c) the Company will not, and will not permit any Subsidiary to, sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments and (ii) in the ordinary course consistent with past practice;

(d) except as otherwise contemplated herein, the Company will not, and will not permit any Subsidiary to, agree or commit to do any of the foregoing;

(e) the Company will not authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or equity equivalents (including, without limitation, any stock options or stock appreciation rights), except upon conversion of the Public Debentures (or any Convertible Preferred Shares) or the Private Debentures and except as required by outstanding options or stock appreciation rights under the Company's Stock Incentive Plan as in effect as of the date hereof, or amend any of the terms of any such securities, options or rights outstanding as of the date hereof, except as specifically contemplated by this Agreement;

(f) the Company will not split, combine or reclassify shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof)

in respect of its capital stock, or redeem or otherwise acquire any of its securities or any securities of its subsidiaries; and

(g) the Company will not, and will not permit any Subsidiary to, except as may be required by law, enter into, adopt or amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock

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equivalent, stock purchase agreement, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the benefit or welfare of any director, officer of employee in any manner, or (except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company, or as required under existing agreements) increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, without limitation, the granting of stock appreciation rights or performance units).

SECTION 5.02. Stockholder Meeting; Proxy Material. The Company shall cause a meeting of its stockholders (the "Company Stockholder Meeting") to be duly called and held as soon as reasonably practicable for the purpose of voting on the approval and adoption of this Agreement and the Merger. The Directors of the Company, acting in part on the unanimous recommendation of the Special Committee, shall, subject to their fiduciary duties after consultation with counsel, recommend approval and adoption of this Agreement and the Merger by the Company's stockholders. In connection with such meeting, but subject to the terms hereof, including Section 10.08(b), the Company (i) will promptly prepare and file with the SEC, will use its best efforts to have cleared by the SEC and will thereafter mail to its stockholders as promptly as practicable the Company Proxy Statement, all other proxy materials for such meeting and the Rule 13E-3 Transaction Statement required pursuant to Section 13(e) of the Exchange Act (the "Schedule 13E-3"), (ii) will use its best efforts to obtain the necessary approvals by its stockholders of this Agreement and the transactions contemplated hereby and (iii) will otherwise comply with all legal requirements applicable to such meeting.

SECTION 5.03. Access to Information. From the date hereof until the Effective Time, the Company will give Buyer, its counsel, financial advisors, auditors and other authorized representatives full access to the offices, properties, books and records of the Company and the Subsidiaries, will furnish to Buyer, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request and will instruct the Company's employees, counsel, financial advisors and auditors to cooperate with Buyer in its investigation of the business of the Company and the Subsidiaries; provided that no investigation pursuant to this Section shall affect any representation or warranty given by the Company to Buyer hereunder.

SECTION 5.04. Other Potential Bidders. The Company shall, directly or indirectly, furnish information and access, in each case in response to unsolicited requests therefor, received prior to or after the date of this Agreement, to the same extent permitted by Section 5.03 hereof, to any corporation, partnership, person or other entity or group pursuant to appropriate confidentiality agreements, and may participate in discussions and negotiate with any such entity or group concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any Subsidiary or division of the Company (any such transaction being referred to herein as a "Competing Transaction"), if the Special Committee determines that such action is appropriate in light of its fiduciary obligations to the Company's stockholders after consultation with counsel. In addition, the Company shall direct its officers and other appropriate personnel to cooperate with and be reasonably available to consult with any such entity or group. Except as set forth above, the Company shall not solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Buyer or its affiliates or associates) concerning any merger, sale of assets, sale of shares of capital stock or similar transaction involving the Company or any Subsidiary or division of the Company.

SECTION 5.05. Notices of Certain Events. The Company shall promptly notify Buyer of:

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(i) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement; and

(ii) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement.

ARTICLE VI

COVENANTS OF BUYER

Buyer agrees that:

SECTION 6.01. Confidentiality. Prior to the Effective Time and after any termination of this Agreement Buyer will hold, and will instruct its officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning the Company and the Subsidiaries furnished to Buyer in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known on a nonconfidential basis by Buyer, (ii) in the public domain other than as a result of a disclosure by Buyer or (iii) later lawfully acquired by Buyer from sources other than the Company; provided that Buyer may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement and to its potential sources of financing (both debt and equity) in connection with obtaining the financing for the transactions contemplated by this Agreement so long as such Persons are informed by Buyer of the confidential nature of such information and are directed by Buyer to treat such information confidentially. If this Agreement is terminated, Buyer will, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to the Company, upon request, all documents and other materials, and all copies thereof, obtained by or on behalf of Buyer from the Company in connection with this Agreement that are subject to such confidentiality undertaking.

SECTION 6.02. Voting of Shares. Prior to the record date applicable to the Company Stockholder Meeting to be held in connection with the Merger, each of the members of the Acquiring Group shall execute an agreement with the Company, substantially in the form of Exhibit B attached hereto, to vote or cause to be voted all of the Shares and Convertible Preferred Shares, if any, then outstanding and beneficially owned by such member of the Acquiring Group in favor of the approval and adoption of this Agreement and the Merger.

SECTION 6.03. Director and Officer Liability. For six years after the Effective Time, Buyer will or will cause the Surviving Corporation to indemnify and hold harmless the present and former officers and directors of the Company in respect of acts or omissions occurring prior to the Effective Time to the extent provided under the Company's certificate of incorporation and bylaws in effect on the date hereof; provided that such indemnification shall be subject to any limitation imposed from time to time under applicable law. For such six years after the Effective Time, Buyer will or will cause the Surviving Corporation to use its best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such Person currently covered by the Company's officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date hereof, provided that if such coverage is not obtainable at a cost less than or equal to two times the amount per annum the Company paid in its last full fiscal year, Buyer shall or shall cause the Surviving Corporation to purchase such lesser amount of coverage, on terms as similar in coverage as practicable to such coverage in effect on the date hereof, as may be obtained having a cost not to exceed two times the amount per annum the Company paid in its last full fiscal year, which amount has been disclosed to Buyer.

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ARTICLE VII

COVENANTS OF BUYER AND THE COMPANY

The parties hereto agree that:

SECTION 7.01. Best Efforts. Subject to the terms and conditions of this Agreement, each party will use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement. Buyer also will use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to satisfy all requirements of the Financing agreements or any alternative arrangements which are conditions to closing the transactions constituting the Financing.

SECTION 7.02. Certain Filings. The Company and Buyer shall cooperate with one another (a) in connection with the preparation of the Company Disclosure Documents and (b) in determining whether any action by or in respect of, or filing with, any governmental body, agency or official, or authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (c) in seeking any such actions, consents, approvals or waivers or making any such filings, furnishing information required in connection therewith or with the Company Disclosure Documents and seeking timely to obtain any such actions, consents, approvals or waivers.

SECTION 7.03. Public Announcements. Buyer and the Company will consult with each other before issuing any press release or making any public statement with respect to this Agreement and the transactions contemplated hereby and, except as may be required by applicable law or any listing agreement with any national securities exchange, will not issue any such press release or make any such public statement prior to such consultation.

SECTION 7.04. Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Subsidiary, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Subsidiary, any other actions and things they may deem desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE VIII

CONDITIONS TO THE MERGER

SECTION 8.01. Conditions to the Obligations of Each Party. The obligations of the Company, Buyer and Merger Subsidiary to consummate the Merger are subject to the satisfaction at or prior to the Effective Time of the following conditions, any or all of which may be waived, in whole or in part, by each of the parties intended to benefit therefrom, to the extent permitted by applicable law:

(i) this Agreement and the Merger shall have been approved and adopted by the requisite vote of the stockholders of the Company in accordance with Delaware Law;

(ii) no court, arbitrator or governmental body, agency, official or authority shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger;

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(iii) all actions by or in respect of or filings with any governmental body, agency, official, or authority required to permit the consummation of the Merger shall have been obtained; and

(iv) at the time of mailing of the Company Proxy Statement, Bear Stearns shall have reaffirmed in writing the fairness opinion previously prepared and delivered by it to the Special Committee and, at or prior to the time of the Company Stockholder Meeting and the Effective Time, Bear Stearns shall not have withdrawn such opinion.

SECTION 8.02. Additional Conditions to the Obligations of Buyer and Merger Subsidiary. The obligations of Buyer and Merger Subsidiary to consummate the Merger are also subject to the satisfaction at or prior to the Effective Time of the following further conditions, any or all of which may be waived, in whole or in part, by each of the parties intended to benefit therefrom, to the extent permitted by applicable law:

(i) the Company shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, the representations and warranties of the Company contained in this Agreement and in any certificate or other writing delivered by the Company pursuant hereto shall be true and correct in all respects, except where the breach or inaccuracy thereof would not, individually or in the aggregate, have a Material Adverse Effect, at and as of the Effective Time as if made at and as of such time, except that those representations and warranties which address matters only as of a particular date shall remain true and correct as of such date, and Buyer shall have received a certificate signed by the principal financial officer of the Company to the foregoing effect;

(ii) Buyer shall have received or be satisfied that it will receive all consents and approvals contemplated by Section 3.03 or otherwise necessary in connection with the consummation of the Merger; and

(iii) Buyer shall have obtained on behalf of Merger Subsidiary the Financing pursuant to the Commitment Letter in an amount which, together with then available cash and marketable securities of the Company, exclusive of the Company's investment in Pine Street Partners, L.P., is sufficient to enable the Surviving Corporation to pay as of the Effective Time the aggregate amount of the Merger Consideration payable hereunder to holders of Shares, to effect all necessary refinancing, and to pay all related fees and expenses as contemplated by the Commitment Letter.

SECTION 8.03. Conditions to the Obligations of the Company. The obligations of the Company to consummate the Merger are also subject to the satisfaction at or prior to the Effective Time of the following further conditions, any or all of which may be waived, in whole or in part, by the Company to the extent permitted by applicable law:

(i) Buyer and Merger Subsidiary shall have performed in all material respects all of their respective obligations hereunder required to be performed by them at or prior to the Effective Time, the representations and warranties of Buyer and Merger Subsidiary contained in this Agreement shall be true and correct in all material respects at and as of the Effective Time as if made at and as of such time, except that those representations and warranties which address matters only as of a particular date shall remain true and correct as of such date, and the Company shall have received a certificate signed by the President or any Vice President of each of Buyer and Merger Subsidiary to the foregoing effect;

(ii) the Company shall have received all documents it may reasonably request relating to the existence of Buyer or Merger Subsidiary and the authority of Buyer or Merger Subsidiary to enter into this Agreement, all in form and substance satisfactory to the Company; and

(iii) the Board shall have received a certificate signed by the principal

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financial officer of the Company to the effect that after the consummation of the Merger, the Surviving Corporation will be solvent as defined above in Section 4.09; provided, however, that if the Lender providing the Financing shall require an opinion of an independent appraiser to such effect, a copy of such opinion addressed to the Board shall be received in lieu of the certificate of the principal financial officer.

ARTICLE IX

TERMINATION

SECTION 9.01. Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the stockholders of the Company):

(i) by mutual written consent of the Company and Buyer;

(ii) by either the Company or Buyer, if the Merger has not been consummated by December 31, 1994;

(iii) by either the Company or Buyer, if there shall be any law or regulation that makes consummation of the Merger illegal or otherwise prohibited or if any judgment, injunction, order or decree enjoining Buyer or the Company from consummating the Merger is entered and such judgment, injunction, order or decree shall become final and nonappealable;

(iv) by either the Company or Buyer if this Agreement and the Merger shall fail to receive the requisite vote for approval and adoption by the stockholders of the Company at the Company Stockholder Meeting called for such purpose;

(v) by Buyer or the Company (such determination to be made on behalf of the Company by the Special Committee in its sole discretion), if (a) the Board of Directors of the Company or the Special Committee withdraws, modifies or changes its recommendation of this Agreement or the Merger in a manner adverse to Buyer or Merger Subsidiary or shall have resolved to do any of the foregoing or the Board of Directors of the Company or the Special Committee shall have recommended to the stockholders of the Company any Competing Transaction or resolved to do so, or (b) any Person shall have acquired beneficial ownership or any "group" (as such term is defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder and not including the Acquiring Group) shall have been formed which beneficially owns 50% or more of the Shares.

SECTION 9.02. Effect of Termination. If this Agreement is terminated pursuant to Section 9.01, this Agreement shall become void and of no effect with no liability on the part of any party hereto, except that the agreements contained in Sections 6.01, 10.04 and 10.08 shall survive the termination hereof; provided, however, that, except as specifically provided herein, nothing herein shall relieve any party hereto of liability for any breach of this Agreement.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including telecopy or similar writing) and shall be given,

if to Buyer or Merger Subsidiary, to:

KTM Holdings Corp.
c/o American Securities Partners, L.P.
122 East 42nd Street
New York, New York 10168
Telecopy: (212) 697-5524
Attention: Michael G. Fisch

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with a copy to:

Stroock & Stroock & Lavan
7 Hanover Square
New York, New York 10004-2696
Telecopy: (212) 806-6006
Attention: David L. Finkelman, Esq.

if to the Company, to:

Ketema, Inc.
501 South Cherry Street
Suite 600
Denver, Colorado 80222
Telecopy: (303) 331-9430
Attention: Special Committee of the Board of Directors

with a copy to:

Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, New York 10022
Telecopy: (212) 735-2001
Attention: Eileen Nugent Simon, Esq.

or such other address or telecopy number as such party may hereafter specify for the purpose by notice to the other parties hereto. Each such notice, request or other communication shall be effective when delivered at the address specified in this Section.

SECTION 10.02. Survival of Representations and Warranties. The representations and warranties contained herein and in any certificate or other writing delivered pursuant hereto shall not survive the Effective Time or the termination of this Agreement.

SECTION 10.03. Amendments; No Waivers. (a) Any provision of this Agreement may be amended or waived prior to the Effective Time if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Company, Buyer and Merger Subsidiary or in the case of a waiver, by the party against whom the waiver is to be effective; provided that any such amendment and any such waiver by the Company shall have been approved by the Board of Directors of the Company, acting on the recommendation of the Special Committee; and provided, further, that after the adoption of this Agreement by the stockholders of the Company, no such amendment or waiver shall, without the further approval of such stockholders, alter or change (i) the amount or kind of consideration to be received in exchange for any shares of capital stock of the Company or (ii) any of the terms or conditions of this Agreement if such alteration or change would adversely affect the holders of any shares of capital stock of the Company.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 10.04. Fees and Expenses. (a) Except as otherwise provided in this Section, all Expenses (as defined below) incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

(b) If (i) this Agreement is terminated (a) by the Company or Buyer pursuant to Section 9.01(iv), (b) by the Company pursuant to Section 9.01(v) if the Company or the Special Committee shall have recommended to the stockholders of the Company any Competing Transaction or (c) by the Company or Buyer pursuant to Section 9.01(v)(b) or (ii) the Merger is not consummated and the Company is in breach in any material respect of its covenants, representations, warranties or agreements contained herein, and in any of such events set forth in clause

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(i) or (ii) Buyer and Merger Subsidiary are not in breach in any material respect of their respective covenants, representations, warranties or agreements contained herein, the Company shall, promptly after a request by Buyer therefor, pay, or in the discretion of Buyer, reimburse Buyer for, all Expenses, not to exceed $1,500,000, incurred by or on behalf of Buyer.

"Expenses", as used in this Section, shall include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, investment bankers, experts and consultants (which shall not include fees and expenses of officers or Directors of Buyer and/or affiliates thereof) and commitment fees and other financing fees and expenses) incurred by Buyer, Merger Subsidiary or the Company or on behalf of any such party in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the Financing, the preparation, printing, filing and mailing of the Company Proxy Statement and Schedule 13E-3, the solicitation of the stockholder approvals and all other matters related to the consummation of the transactions contemplated herein.

SECTION 10.05. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto except that Buyer may transfer or assign, in whole or from time to time in part, to one or more of its affiliates, its rights under this Agreement, but any such transfer or assignment will not relieve Buyer of its obligations under this Agreement or prejudice the rights of stockholders to receive the Merger Consideration for Shares properly surrendered in accordance with Section 1.04. This Agreement shall not be construed so as to confer any right or benefit upon any person other than the parties to this Agreement, and their respective successors and assigns.

SECTION 10.06. Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of Delaware.

SECTION 10.07. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

SECTION 10.08. Actions of the Company Approved or Taken by the Acquiring Group. (a) The parties hereto hereby agree that any action or inaction of the Company approved or taken or omitted to be taken by the Acquiring Group or any member thereof (including Hugh H. Williamson, III) that is not concurred in by the Special Committee and that might otherwise be a breach of this Agreement shall not be a breach of this Agreement and that Buyer and Merger Subsidiary waive any and all claims and causes of action arising out of or otherwise related to any such action or inaction.

(b) Buyer and Merger Subsidiary waive any and all claims and causes of action (i) against the Company or the Special Committee or its members (collectively, the "Section 10.08(b) Parties") arising out of or otherwise related to any of the Section 10.08(b) Parties' actions pursuant to Section 5.04 hereof (including, without limitation, that any such action would constitute a breach of Sections 5.02 or 7.01 hereof) and (ii) against any of the Section 10.08(b) Parties and/or any third parties for tortious or intentional interference with contract or with prospective economic advantage by virtue of any of the Section 10.08(b) Parties' or such third parties' actions hereunder (including, without limitation, actions taken pursuant to Section 5.04 hereof) or the termination of this Agreement by the Company in accordance with the terms hereof.

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

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above written.

Ketema, Inc.

/s/ Hugh H. Williamson, III
By _____
Title: President and Chief Executive Officer

KTM Holdings Corp.

/s/ Michael G. Fisch
By _____
Title: Vice President

KTM Acquisition Corp.

/s/ Michael G. Fisch
By _____
Title: Vice President

EXHIBIT A

FORM OF CERTIFICATE OF MERGER

CERTIFICATE OF MERGER
OF
KTM ACQUISITION CORP.
INTO
KETEMA, INC.

PURSUANT TO SECTION 251 OF THE
GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

KETEMA, INC., a Delaware corporation, hereby certifies as follows:

FIRST: The names of the constituent corporations are "KTM ACQUISITION CORP." and "KETEMA, INC.". Each constituent corporation is incorporated under the laws of the State of Delaware.

SECOND: An Agreement and Plan of Merger dated as of June 21, 1994 has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations in accordance with Section 251(c) of the General Corporation Law of the State of Delaware.

THIRD: The name of the surviving corporation (the "Surviving Corporation") is Ketema, Inc.

FOURTH: The Certificate of Incorporation of Ketema, Inc. as in effect at the date of the merger shall be the Certificate of Incorporation of the Surviving Corporation.

FIFTH: An executed copy of the Agreement and Plan of Merger is on file at the principal place of business of the Surviving Corporation, 501 South Cherry Street, Suite 600, Denver, Colorado 80222, and a copy of the Agreement will be furnished by the Surviving Corporation, on request and without cost, to any stockholder of either of the constituent corporations.

IN WITNESS WHEREOF, Ketema, Inc. has caused this Certificate of Merger to be executed in its corporate name by its President and attested by its Secretary this day of , 1994.

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Ketema, Inc.

By _____
Hugh H. Williamson, III
President

Attest:

By _____
Secretary

EXHIBIT B

, 1994

Ketema, Inc.
501 South Cherry Street
Suite 600
Denver, Colorado 80222

Dear Sirs:

The undersigned is or may become a beneficial owner of shares of common stock, $1.00 par value per share ("Common Stock"), or voting preferred stock, $1.00 par value per share ("Preferred Stock"), of Ketema, Inc., a Delaware corporation (the "Company"). The undersigned has been advised that the Company has entered into an Agreement and Plan of Merger dated as of June 21, 1994 with KTM Holdings Corp., a Delaware corporation ("Holdings"), and KTM Acquisition Corp., a Delaware corporation ("Acquisition Corp."), pursuant to which Acquisition Corp. would be merged into the Company and the Company would thereby become a wholly-owned subsidiary of Holdings. Such Agreement and Plan of Merger, as it may hereafter be amended in accordance with its terms, is referred to herein as the "Merger Agreement."

The undersigned hereby agrees that in any vote of the Company's stockholders with respect to the Merger Agreement and the transactions thereby contemplated (whether at a meeting or otherwise), the undersigned will vote, or cause to be voted, all shares of Common Stock and Preferred Stock, if any, then outstanding and beneficially owned by the undersigned in favor of the approval and adoption of the Merger Agreement and the transactions thereby contemplated.

This letter shall in no way be construed to preclude the undersigned from (i) converting any convertible securities of the Company beneficially owned by the undersigned into, or exercising any option or right to acquire, shares of Common Stock or Preferred Stock or (ii) otherwise acquiring shares of Common Stock or Preferred Stock after the date hereof. Any such shares of Common Stock or Preferred Stock so acquired shall become subject to the terms of this letter.

The undersigned acknowledges that in the event of any breach by the undersigned of the obligations set forth in this letter, the Company will not have an adequate remedy at law or in damages. Accordingly, in the event of any such breach, the undersigned consents to the issuance of an injunction or award of specific performance or the enforcement of other equitable remedies against the undersigned in any action to compel performance of the terms hereof.

The provisions of this letter shall terminate, and the undersigned shall cease to be bound hereby, concurrently with any termination of the Merger Agreement in accordance with its terms.

In the event that the undersigned is a director of the Company, it is understood that the provisions of this letter relate solely to the undersigned as a stockholder of the Company and shall not in any way be construed to require the undersigned to take or refrain from taking any action in the undersigned's capacity as a director of the Company.

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Please indicate your acceptance of this letter by signing below.

Very truly yours,

Accepted and Agreed:

Ketema, Inc.

By: _____
Name:
Title:

ANNEX B

SECTION 262
OF THE DELAWARE GENERAL CORPORATION LAW

262. APPRAISAL RIGHTS.--(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to (S) 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of his shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to (S) 251, 252, 254, 257, 258 or 263 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock which, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 stockholders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of (S) 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to (S)(S) 251, 252, 254, 257, 258 and 263 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation;

b. Shares of stock of any other corporation which at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 stockholders;

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c. Cash in lieu of fractional shares of the corporation described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock and cash in lieu of fractional shares described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under (S) 253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the aspects of the corporation. If the certificate of incorporation

contains such a provision, the procedures of this section, including those set forth in subsection (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsections (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of his shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of his shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of his shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to (S) 228 or 253 of this title, the surviving or resulting corporation, either before the effective date of the merger or consolidation or within 10 days thereafter, shall notify each of the stockholders entitled to appraisal rights of the effective date of the merger or consolidation and that appraisal rights are available for any or all of the shares of the constituent corporation, and shall include in such notice a copy of this section. The notice shall be sent by certified or registered mail, return receipt requested, addressed to the stockholder at his address as it appears on the records of the corporation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of the notice, demand in writing from the surviving or resulting corporation the appraisal of his shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of his shares.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination

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of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw his demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after his written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The

Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted his certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that he is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholder entitled thereto. Interest may be simple or compound, as the

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Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded his appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of his demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall

be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

ANNEX C

FORM OF OPINION

, 1994

Special Committee
of the Board of Directors
Ketema, Inc.
One Cherry Center
Suite 600
501 South Cherry Street
Denver, Colorado 80222

Dear Sirs:

We understand that Ketema, Inc. ("Ketema") has entered into an Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 21, 1994, with KTM Holdings Corp. ("Holdings") and KTM Acquisition Corp. ("Acquisition") pursuant to which Acquisition will be merged with and into Ketema and all of Ketema's common stock not already owned by Holdings or Acquisition will receive $15.00 per share payable in cash (the "Transaction"). We understand that as of the record date for the Special Meeting of the Stockholders to consider and vote upon the Merger Agreement certain clients of American Securities BD Co., L.P. and Hugh H. Williamson, III, Ketema's President and Chief Executive Officer (collectively, the "Acquiring Group"), Holdings and Acquisition, collectively

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owned or may have been deemed to beneficially own not less than 894,000 common shares of Ketema. You have supplied us with a copy of the proxy statement, which includes the Merger Agreement, describing the Transaction in substantially the form to be sent to Ketema's common stockholders (the "Proxy Statement").

You have asked us to render our opinion as to whether the Transaction is fair, from a financial point of view, to Ketema's common stockholders unaffiliated with the Acquiring Group.

In the course of our analyses for rendering this opinion, we have:

1. reviewed the Proxy Statement;

2. reviewed Ketema's Annual Reports to Stockholders and Annual Reports on Form 10-K for the fiscal years ended February 28, 1993 and 1994 and its Quarterly Reports on Form 10-Q for the periods ended May 31, 1994, [and August 31, 1994];

3. reviewed certain operating and financial information including projections, provided to us by management relating to Ketema's business and prospects;

4. met with certain members of Ketema's senior and operating managements to discuss its operations, historical financial statements and future prospects;

5. visited Ketema's facilities in Bensalem, Pennsylvania, Denver, Colorado, El Cajon, California, Grand Prairie, Texas and Odenton, Maryland;

6. reviewed the historical stock prices and trading volume of the common shares of Ketema;

7. reviewed publicly available financial data and stock market performance data of public companies which we deemed generally comparable to Ketema;

8. reviewed the terms of recent acquisitions of companies which we deemed generally comparable to Ketema; and

9. conducted such other studies, analyses, inquiries and investigations as we deemed appropriate.

In the course of our review, we have relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information provided to us by management and we have further relied upon the assurances of management that they are unaware of any facts that would make the information provided to us incomplete or misleading. In arriving at our opinion, we have not performed any independent appraisal of the assets of Ketema.

On the basis of the foregoing, it is our opinion that the Transaction is fair, from a financial point of view, to Ketema's common stockholders unaffiliated with the Acquiring Group.

Very truly yours,

BEAR, STEARNS & CO. INC.

By: _____
Managing Director

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EXHIBIT (D)(3)

KETEMA INC.
SUITE 600
ONE CHERRY CENTER
501 SOUTH CHERRY STREET
DENVER, COLORADO 80222

PROXY SOLICITED FOR SPECIAL MEETING OF STOCKHOLDERS, , 1994

P R O X Y

The undersigned hereby appoints and and each of them, the proxy and attorney-in-fact for the undersigned, with full power of substitution in each, to vote on behalf of the undersigned at the Special Meeting of Stockholders of Ketema, Inc. to be held at , New York, New York on at , local time, and at any adjournment or postponement of such meeting, all Common Stock and 7% Cumulative Convertible Preferred Stock of Ketema, Inc. standing in the name of the undersigned or which the undersigned may be entitled to vote on the matters described on the reverse side.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF KETEMA, INC. PLEASE COMPLETE, SIGN, DATE AND MAIL, THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

THIS PROXY MAY BE REVOKED BY A PROXY EXECUTED AT A LATER DATE OR OTHERWISE, AS SET FORTH IN THE KETEMA, INC. PROXY STATEMENT WHICH ACCOMPANIED THIS CARD.

[X] Please mark your vote as in this example.

The proxy, if properly executed, will be voted as specified below by the stockholder. If no direction is given, this proxy will be voted FOR the proposal to approve and adopt the Merger Agreement (as described in Ketema, Inc.'s Proxy Statement dated , 1994).

- ---

The Board of Directors recommends a vote "FOR" the proposal to approve and adopt the Merger Agreement (as described in Ketema, Inc.'s Proxy Statement dated , 1994).

- ---

1. THE PROPOSAL TO APPROVE AND ADOPT THE MERGER AGREEMENT (as described in Ketema, Inc.'s Proxy Statement dated , 1994).

FOR	AGAINST	ABSTAIN
[_]	[_]	[_]

2. In their discretion, the parties are authorized to vote upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

- ---

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Please sign, date and mail this proxy promptly using the enclosed envelope.

Please sign exactly as name appears on this card. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign full corporate name and sign authorized officer's name and title. If a partnership, please sign in partnership name and sign authorized person's name and title.

The undersigned hereby revokes all proxies heretofore given by the undersigned to vote at such meeting or any adjournments or postponements thereof.

SIGNATURES DATE

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EXHIBIT (D)(4)

FOR IMMEDIATE RELEASE

DENVER, CO--April 28, 1994--Ketema, Inc. (Amex-KTM) announced today that its Board of Directors has received a merger proposal from a group of stockholders who are affiliated with American Securities Corporation. Under the merger proposal, such stockholders would acquire all of the Common Stock of Ketema not already owned by them at a price of $13.125 per share in cash through a merger of a newly-formed corporation owned by them into Ketema.

Ketema said that it understands that members of the American Securities group, which includes three Directors of Ketema, beneficially own approximately 21.2% of Ketema's outstanding Common Stock, including shares issuable upon conversion of debentures held by them. Ketema further said that its Board of Directors had appointed a Special Committee of Directors to consider any proposal which might be made.

The American Securities group disclosed on October 21, 1993 in a Schedule 13D filing with the Securities and Exchange Commission that the group was considering various options with regard to its investment in the Company, including a merger of the type now proposed.

Under the terms of the proposal, Ketema's 8% Convertible Subordinated Debentures due 2003 which are not converted into Common Stock prior to the merger would remain outstanding and, in accordance with their terms, would thereafter be convertible solely into the right to receive the cash merger consideration. Such Debentures are presently convertible into Ketema Common Stock at a conversion price of $15.58 per share.

Ketema said that the proposed merger would be subject to, among other things, (i) the execution of a definitive merger agreement, (ii) approval by holders of a majority of Ketema's outstanding shares, (iii) the American Securities group reaching satisfactory agreements with the institutional investors holding Ketema's $45 million principal amount of outstanding senior notes regarding the early retirement of such notes, (iv) the receipt of all necessary consents and governmental approvals, (v) the group reaching a satisfactory agreement with the chief executive officer of Ketema regarding his continuation as CEO following the merger and (vi) funding pursuant to an oral financing commitment. Ketema said the group has advised that it has obtained an oral commitment from a bank to provide financing and that the group anticipates that such financing, together with Ketema's cash balances and marketable securities, will be sufficient to refinance Ketema's existing institutional indebtedness, fund the merger, pay transaction expenses and provide for ongoing working capital needs.

Ketema said that there can be no assurance at this time as to whether or not any transaction will occur or as to the timing or terms of any transaction.

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EXHIBIT (D)(5)

FOR IMMEDIATE RELEASE

KETEMA'S SPECIAL COMMITTEE MAKES INITIAL DETERMINATION

Denver, CO, June 13, 1994--Ketema, Inc. (Amex-KTM) announced today that its Special Committee of Directors formed to review and evaluate the proposal received from the Amseco Group to acquire the shares of the Company's common stock not owned by them at $13.125 per share in cash has determined that the offer is inadequate from a financial point of view and that it would not recommend that stockholders approve the offer. The Amseco Group, which owns approximately 23% of the Company's outstanding stock, including shares issuable upon conversion of debentures held by the Group, consists of clients of American Securities Partners, L.P. and Hugh H. Williamson, III, the President and Chief Executive Officer of Ketema. Four members of the Amseco Group are directors of the Company. The Special Committee based its determination in part on the opinion of Bear, Stearns & Co. Inc., its financial advisor. The Special Committee has advised representatives of the Amseco Group of its determination and is continuing to discuss the proposal with the Amseco Group and its advisors, as well as exploring other expressions of interest which have been or may be received from third parties.

Ketema, Inc., is a diversified, multi-product manufacturer that develops, designs, manufactures, and markets, domestically and internationally, a wide group of products for industrial and commercial markets.

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EXHIBIT (D)(6)

FOR IMMEDIATE RELEASE

KETEMA'S BOARD APPROVES REVISED MERGER PROPOSAL

Denver, CO, June 21, 1994--Ketema, Inc. (Amex-KTM) announced today that its Board of Directors, based in part upon the recommendation of a Special Committee of independent Directors, has unanimously approved a revised merger proposal from the American Securities Group under which the members of such Group would acquire all of the Common Stock of Ketema not already owned by them at a price of $15.00 per share in cash through the merger of a newly-formed corporation owned by them into Ketema. The American Securities Group, which owns approximately 23% of the Company's outstanding stock, including shares issuable upon conversion of Debentures held by the Group, consists of clients of American Securities Partners, L.P., and Hugh H. Williamson, III, the President and Chief Executive officer of Ketema. Four members of the American Securities Group are Directors of the Company.

The Special Committee based its recommendation in part upon the advice of Bear, Stearns & Co. Inc., its financial advisor, that the transaction is fair from a financial point of view to the Company's stockholders (other than the American Securities Group). As previously reported, the American Securities Group had submitted a proposal in April, 1994 for a similar transaction at a price of $13.125 per share in cash. On June 13, 1994, the Company announced that the Special Committee had determined that such prior offer was inadequate from a financial point of view and that it would not recommend that stockholders approve the offer.

Under the terms of the definitive Merger Agreement executed today, the Special Committee has the authority to continue to explore other expressions of interest which have been or may be received from third parties. The Company, acting through the Special Committee, would have the right to terminate the Merger Agreement if the Board of Directors or the Special Committee recommends a competing transaction or withdraws its recommendation of the proposal of the American Securities Group.

Ketema said that under the terms of the Merger Agreement, the merger is subject to, among other things, (i) approval by holders of a majority of Ketema's outstanding shares at a Special Meeting of Stockholders to be called for the purpose of considering the merger, (ii) funding pursuant to a bank financing commitment, which financing commitment would require, among other things, the American Securities Group reaching satisfactory agreements with the institutional investors holding Ketema's $45,000,000 principal amount of outstanding Senior Notes regarding the early retirement of such Notes, and (iii) the receipt of all necessary consents and governmental approvals.

Upon consummation of the merger, Ketema's 8% Convertible Subordinated

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Debentures due 2003 which are not converted into Common Stock prior to the merger would remain outstanding and, in accordance with their terms, would thereafter be convertible solely into the right to receive the cash merger consideration. Such Debentures are presently convertible into Ketema Common Stock at a conversion price of $15.58 per share. However, it is the present intention of the American Securities Group to cause Ketema to redeem the Debentures at their redemption price, plus accrued interest, following consummation of the merger subject to availability of financing.

Ketema, Inc. is a diversified, multi-product manufacturer that develops, designs, manufactures, and markets, domestically and internationally, a wide group of products for industrial and commercial markets.

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