SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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HAYNES INTERNATIONAL INC

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

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 30, 1996. (Fee Required)

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required)

Commission File Number: 333-5411

HAYNES INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1185400
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1020 West Park Avenue, Kokomo, Indiana	46904-9013
(Address of principal executive offices)	(Zip Code)

(317) 456-6000
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

The registrant is a privately held corporation. As such, there is no practicable method to determine the aggregate market value of the voting stock held by non-affiliates of the registrant.

The number of shares of Common Stock, $.01 par value, of Haynes International, Inc. outstanding as of December 20, 1996 was 100.

Documents Incorporated by Reference: None

The Index to Exhibits begins on page 79 in the sequential numbering system.

Total pages: 83

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PART I

ITEM 1. BUSINESS

GENERAL

The Company develops, manufactures and markets technologically advanced, high performance alloys primarily for use in the aerospace and chemical processing industries. The Company's products are high temperature alloys ("HTA") and corrosion resistant alloys ("CRA"). The Company's HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace industry, gas turbine engines used for power generation, and waste incineration and industrial heating equipment. The Company's CRA products are used in applications that require resistance to extreme corrosion, such as chemical processing, power plant emissions control and hazardous waste treatment. The Company produces its high performance alloy products primarily in sheet, coil and plate forms, which in the aggregate represented approximately 65% of the Company's net revenues in fiscal 1996. In addition, the Company produces its alloy products as seamless and welded tubulars, and in bar, billet and wire forms.

High performance alloys are characterized by highly engineered, often proprietary, metallurgical formulations primarily of nickel, cobalt and other metals with complex physical properties. The complexity of the manufacturing process for high performance alloys is reflected in the Company's relatively high average selling price per pound, compared to the average selling price of other metals such as carbon steel sheet, stainless steel sheet and aluminum. Demanding end-user specifications, a multi-stage manufacturing process and the technical sales, marketing and manufacturing expertise required to develop new applications combine to create significant barriers to entry in the high performance alloy industry. The Company derived approximately 25% of its fiscal 1996 net revenues from products that are protected by United States patents and derived an additional approximately 19% of its fiscal 1996 net revenues from sales of products that are not patented, but for which the Company has limited or no competition.

PRODUCTS

The alloy market consists of four primary segments: stainless steel, super stainless steel, nickel alloys and high performance alloys. The Company competes exclusively in the high performance alloy segment, which includes HTA

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and CRA products. The Company believes that the high performance alloy segment represents less than 10% of the total alloy market. The percentages of the Company's total product revenue and volume presented in this section are based on data which include revenue and volume associated with sales by the Company to its foreign subsidiaries, but exclude revenue and volume associated with sales by such foreign subsidiaries to their customers. Management believes, however, that the effect of including revenue and volume data associated with sales by its foreign subsidiaries would not materially change the percentages presented in this section. In fiscal 1996, HTA and CRA products accounted for approximately 61% and 39%, respectively, of the Company's net revenues.

HTA products are used primarily in manufacturing components used in the hot sections of jet engines. Stringent safety and performance standards in the aerospace industry result in development lead times typically as long as eight to ten years in the introduction of new aerospace-related market applications for HTA products. However, once a particular new alloy is shown to possess the properties required for a specific application in the aerospace industry, it tends to remain in use for extended periods. HTA products are also used in gas turbine engines produced for use in applications such as naval and commercial vessels, electric power generators, power sources for offshore drilling platforms, gas pipeline booster stations and emergency standby power stations.

CRA products are used in a variety of applications, such as chemical processing, power plant emissions control, hazardous waste treatment and sour gas production. Historically, the chemical processing industry has represented the largest end-user segment for CRA products. Due to maintenance, safety and environmental considerations, the Company believes this industry represents an area of potential long-term growth for the Company. Unlike aerospace applications within the HTA product market, the development of new market applications for CRA products generally does not require long lead times.

HIGH TEMPERATURE ALLOYS. The following table sets forth information with respect to certain of the Company's significant high temperature alloys:

<TABLE>

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<S>	<C>	<C>
Alloy and Year Introduced	End Markets and Applications (1)	Features
Haynes HR-160 (1990) (2)	Waste incineration/CPI-boiler tube shields	Good resistance to sulfidation high temperatures
Haynes 242 (1990) (2)	Aero-seal rings	High strength, low expansion and good fabricability
Haynes HR-120 (1990) (2)	Industrial heating-heat-treating baskets	Good strength-to-cost ratio as compared to competing alloys
Haynes 230 (1984) (2)	Aero/LBGT-ducting	Good combination of strength, stability, oxidation resistance and fabricability
Haynes 214 (1981) (2)	Aero-honeycomb seals	Good combination of oxidation resistance and fabricability among nickel-based alloys
Haynes 188 (1968)	Aero-burner cans, after-burner components	High strength, oxidation resistant cobalt-based alloys
Haynes 625 (1964)	Aero/CPI-ducting, tanks, vessels, weld overlays	Good fabricability and general corrosion resistance
Haynes 263 (1960)	Aero/LBGT-components for gas turbine hot gas exhaust pan	Good ductility and high strength at temperatures up to 1600EF
Haynes 718 (1955)	Aero-ducting, vanes, nozzles	Weldable high strength alloy with good fabricability
Hastelloy X (1954)	Aero/LBGT-burner cans, transition ducts	Good high temperature strength at relatively low cost

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Haynes Ti 3-2.5 (1950)	Aero-aircraft hydraulic and fuel systems components	Light weight, high strength titanium-based alloy

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(1) "Aero" refers to aerospace; "LBGT" refers to land-based gas turbines; "CPI" refers to the chemical processing industry.

(2) Represents a patented product or a product with respect to which the Company believes it has limited or no competition.
</TABLE>

The higher volume HTA products, including Haynes 625, Haynes 718 and Hastelloy X, are generally considered industry standards, especially in the manufacture of aircraft and LBGT. These products have been used in such applications since the 1950's and because of their widespread use have been most subject to competitive pricing pressures. In fiscal 1996, sales of these HTA products accounted for approximately 25% of the Company's net revenues.

The Company also produces and sells cobalt-based alloys introduced over the last three decades, which are more highly specialized and less price competitive than nickel-based alloys. Haynes 188 and Haynes 263 are the most widely used of the Company's cobalt-based products and accounted for approximately 10% of the Company's net revenues in fiscal 1996. Three of the more recently introduced HTA products, Haynes 242, Haynes 230 and Haynes 214, initially developed for the aerospace and LBGT markets, are still patent-protected and together accounted for approximately 6% of the Company's net revenues in fiscal 1996. These newer alloys are gaining acceptance for applications in industrial heating and waste incineration.

Haynes HR-160 and Haynes HR-120 were introduced in fiscal 1990 and targeted for sale in industrial heat treating applications. Haynes HR-160 is a higher priced cobalt-based alloy designed for use when the need for long-term performance outweighs initial cost considerations. Potential applications for Haynes HR-160 include use in key components in waste incinerators, chemical processing equipment, mineral processing kilns and fossil fuel energy plants. Haynes HR-120 is a lower priced, iron-based alloy and is designed to replace competitive alloys not manufactured by the Company that may be slightly lower in price but also less effective. In fiscal 1996, these two alloys accounted for approximately 1% of the Company's net revenues.

The Company also produces seamless titanium tubing for use as hydraulic lines in airframes and as bicycle frames. During fiscal 1996, sales of these products accounted for approximately 4% of the Company's net revenues.

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CORROSION RESISTANT ALLOYS. The following table sets forth information with respect to certain of the Company's significant corrosion resistant alloys:
<TABLE>

<CAPTION>

Alloy and Year Introduced	End Markets and Applications (1)	Features
Hastelloy C-2000 (1995) (2)	CPI-tanks, mixers, piping	Versatile alloy with good resistance to uniform corrosion
Hastelloy B-3 (1994) (2)	CPI-acetic acid plants	Better fabrication characteristics compared to other nickel-molybdenum

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		alloys
Hastelloy D-205 (1993) (2)	CPI-plate heat exchangers	Corrosion resistance to hot sulfuric acid
Ultimet (1990) (2)	CPI-pumps, valves	Wear and corrosion resistant nickel-based alloy
Hastelloy G-50 (1989) (2)	Oil and gas-sour gas tubulars	Good resistance to down hole corrosive environments
Hastelloy C-22 (1985) (2)	CPI/FGD-tanks, mixers, piping	Resistance to localized corrosion and pitting
Hastelloy G-30 (1985) (2)	CPI-tanks, mixers, piping	Lower cost alloy with good corrosion resistance in phosphoric acid
Hastelloy B-2 (1974)	CPI-acetic acid	Resistance to hydrochloric acid and other reducing acids
Hastelloy C-4 (1973)	CPI-tanks, mixers, piping	Good thermal stability
Hastelloy C-276 (1968)	CPI/FGD/oil and gas-tanks, mixers, piping	Broad resistance to many environments

<FN>

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(1) "CPI" refers to the chemical processing industry; "FGD" refers to flue gas desulfurization.

(2) Represents a patented product or a product with respect to which the Company believes it has limited or no competition.
</TABLE>

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During fiscal 1996, sales of the CRA alloys Hastelloy C-276, Hastelloy C-22 and Hastelloy C-4 accounted for approximately 31% of the Company's net revenues. Hastelloy C-276, introduced by the Company in 1968, is recognized as a standard for corrosion protection in the chemical processing industry and is also used extensively for FGD and oil and gas exploration and production applications. Hastelloy C-22, a proprietary alloy of the Company, was introduced in 1985 as an improvement on Hastelloy C-276 and is currently sold to the chemical processing and FGD markets for essentially the same applications as Hastelloy C-276. Hastelloy C-22 offers greater and more versatile corrosion resistance and therefore has gained market share at the expense of the non-proprietary Hastelloy C-276. Hastelloy C-22's improved corrosion resistance has led to increased sales in semiconductor gas handling systems, pharmaceutical manufacturing and waste treatment applications. Hastelloy C-4 is specified in many chemical processing applications in Germany and is sold almost exclusively to that market.

The Company also produces alloys for more specialized applications in the chemical processing industry and other industries. For example, Hastelloy B-2 was introduced in 1970 for use in the manufacture of equipment utilized in the production of acetic acid and ethyl benzine and is still sold almost exclusively for those purposes. Due to its limited use and complex manufacturing process, there is little competition for sales of this material. Hastelloy B-3 was developed for the same applications and has greater ease in fabrication. The Company expects Hastelloy B-3 to eventually replace Hastelloy B-2. Hastelloy G-30 is used primarily in the production of super phosphoric acid and fluorinated aromatics. Hastelloy G-50 has gained acceptance as a lower priced alternative to Hastelloy C-276 for production of tubing for use in sour gas wells. These more specialized products accounted for approximately 7% of the Company's net revenues in fiscal 1996.

The Company's patented Ultimet is used in a variety of industrial applications that result in material degradation by "corrosion-wear." Ultimet is designed for applications where conditions require resistance to corrosion and wear and is currently being tested in spray nozzles, fan blades, filters, bolts, rolls, pump and valve parts where these properties are critical. Hastelloy D-205, introduced in 1993, is designed for use in handling hot

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concentrated sulfuric acid and other highly corrosive substances.

The Company believes that its most recently introduced alloy, Hastelloy C-2000, improves upon Hastelloy C-22. Hastelloy C-2000, which the Company expects will be used extensively in the chemical processing industry, can be used in both oxidizing and reducing environments.

END MARKETS

Aerospace. The Company has manufactured HTA products for the aerospace market since it entered the market in the late 1930s, and has developed numerous proprietary alloys for this market. The Company sold products to approximately 500 customers in this segment in fiscal 1996, and no one customer accounted for more than 2% of the Company's net revenues.

Customers in the aerospace markets tend to be the most demanding with respect to meeting specifications within very low tolerances and achieving new product performance standards. Stringent safety standards and continuous efforts to reduce equipment weight require close coordination between the Company and its customers in the selection and development of HTA products. As a result, sales to aerospace customers tend to be made through the Company's direct sales force. Unlike the FGD and oil and gas production industries, where large,competitively bid projects can have a significant impact on demand and prices, demand for the Company's products in the aerospace industry is based on the new and replacement market for jet engines and the maintenance needs of operators of commercial and military aircraft. The hot sections of jet engines are subjected to substantial wear and tear and accordingly require periodic maintenance and replacement. This maintenance-based demand, while potentially volatile, is generally less subject to wide fluctuations than demand in the FGD and sour gas production industries.

Chemical Processing. The chemical processing industry segment represents a large base of customers with diverse CRA applications. The Company sells its CRA products to hundreds of chemical processing customers worldwide and no one customer in this industry accounted for over 2% of the Company's net revenues in fiscal 1996. CRA products supplied by the Company have been used in the chemical processing industry since the early 1930s.

Demand for the Company's products in this industry is based on the level of maintenance, repair and expansion of existing chemical processing facilities as well as the construction of new facilities. The Company believes the extensive worldwide network of Company-owned service centers and independent distributors is a competitive advantage in marketing its CRA products to this market. Sales of the Company's products in the chemical processing industry tend to be more stable than the aerospace, FGD and oil and gas markets. Increased concerns regarding the reliability of chemical processing facilities, their potential environmental impact and safety hazards to their personnel have led to an increased demand for more sophisticated alloys, such as the Company's CRA products.

Land-Based Gas Turbines. The LBGT industry represents a growing market, with demand for the Company's products driven by the construction of cogeneration facilities and electric utilities operating electric generating facilities. Demand for the Company's alloys in the LBGT industry has also been driven by concerns regarding lowering emissions from generating facilities powered by fossil fuels. LBGT generating facilities are gaining acceptance as clean,low-cost alternatives to fossil fuel-fired electric generating facilities.

Flue Gas Desulfurization. The FGD industry has been driven by both legislated and self-imposed standards for lowering emissions from fossil fuel-fired electric generating facilities. In the United States, the Clean Air Act mandates a two-phase program aimed at significantly reducing SO2 emissions from electric generating facilities powered by fossil fuels by 2000. Canada and its provinces have also set goals to reduce emissions of SO2 over the next several years. Phase I of the Clean Air Act program affected approximately 100 steam-generating plants representing 261 operating units fueled by fossil fuels,primarily coal. Of these 261 units, 25 units were retrofitted with FGD systems while the balance opted mostly for switching to low sulfur coal to achieve compliance. The market for FGD systems peaked in 1992 at approximately $1.1 billion, and then dropped sharply in 1993 to a level of approximately $174.0 million due to a curtailment of activity associated with Phase I. Phase II compliance begins in 2000 and affects 785 generating plants with more than 2,100 operating units. Options available under the Clean Air Act to bring the targeted facilities into compliance with Phase II SO2 emissions requirements include fuel switching, clean coal technologies, purchase of SO2 allowances,

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closure off facilities and off-gas scrubbing utilizing FGD technology.

Oil and Gas. The Company also sells its products for use in the oil and gas industry, primarily in connection with sour gas production. Sour gas contains extremely corrosive materials and is produced under high pressure, necessitating the use of corrosion resistant materials. The demand for sour gas tubulars is driven by the rate of development of sour gas fields. The factors influencing the development of sour gas fields include the price of natural gas and the need to commence drilling in order to protect leases that have been purchased from either the federal or state governments. As a result, competing oil companies often place orders for the Company's products at approximately the same time, adding volatility to the market. This market was very active in 1991, especially in the offshore sour gas fields in the Gulf of Mexico, but demand for the Company's products declined significantly thereafter. More recently there has been less drilling activity and more use of lower performing alloys, which together have resulted in intense price competition. Demand for the Company's products in the oil and gas industry is tied to the global demand for natural gas.

Other Markets. In addition to the industries described above, the Company also targets a variety of other markets. Other industries to which the Company sells its HTA products include waste incineration, industrial heat treating, automotive and instrumentation. Other industries to which the Company sells its CRA products include automotive, medical and instrumentation. Demand in these markets for many of the Company's lower volume proprietary alloys has grown in recent periods. For example, incineration of municipal, biological, industrial and hazardous waste products typically produces very corrosive conditions that demand high performance alloys. Markets capable of providing growth are being driven by increasing performance, reliability and service life requirements for products used in these markets which could provide further applications for the Company's products.

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SALES AND MARKETING

Providing technical assistance to customers is an important part of the Company's marketing strategy. The Company provides analyses of its products and those of its competitors for its customers. These analyses enable the Company to evaluate the performance of its products and to make recommendations as to the substitution of Company products for other products in appropriate applications,enabling the Company's products to be specified for use in the production of customers' products. The market development engineers, five of whom have doctoral degrees in metallurgy, are assisted by the research and development staff in directing the sales force to new opportunities. The Company believes its combination of direct sales, technical marketing and research and development customer support provides an advantage over other manufacturers in the high performance industry. This activity allows the Company to obtain direct insight into customers' alloy needs and allows the Company to develop proprietary alloys that provide solutions to customers' problems.

The Company sells its products primarily through its direct sales organization, which includes four domestic Company-owned service centers, three wholly-owned European subsidiaries and sales agents serving the Asia Pacific Rim. Approximately 75% of the Company's net revenues in fiscal 1996 was generated by the Company's direct sales organization. The remaining 25% of the Company's fiscal 1996 net revenues was generated by independent distributors and licensees in the United States, Europe and Japan,some of whom have been associated with the Company for over 25 years. The following table sets forth the approximate percentage of the Company's fiscal 1996 net revenues generated through each of the Company's distribution channels.
<TABLE>

<CAPTION>

<S>	<C> DOMESTIC	<C> FOREIGN	<C> TOTAL

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Company sales office/direct	34%	8%	42%
Company-owned service centers	13	20	33
Independent distributors/sales agents	17	8	25
Total	64%	36%	100%

</TABLE>

The top twenty customers not affiliated with the Company accounted for approximately 41% of the Company's net revenues in fiscal 1996. Sales to Spectrum Metals, Inc. and Rolled Alloys, Inc., which are affiliated with each other, accounted for an aggregate of 12% of the Company's net revenues in fiscal 1996. No other customer of the Company accounted for more than 10% of the Company's net revenues in fiscal 1996.

The Company's foreign and export sales were approximately $55.7 million,$79.6 million and $84.3 million for fiscal 1994, 1995 and 1996, respectively. Additional information concerning foreign operations and export sales is set forth in Note 12 of the Notes to Consolidated Financial Statements appearing elsewhere herein.

MANUFACTURING PROCESS

High performance alloys require a lengthier, more complex melting process and are more difficult to manufacture than lower performance alloys, such as stainless steels. The alloying elements in high performance alloys must be highly refined, and the manufacturing process must be tightly controlled to produce precise chemical properties. The resulting alloyed material is more difficult to process because, by design, it is more resistant to deformation. Consequently, high performance alloys require that greater force be applied when hot or cold working and are less susceptible to reduction or thinning when rolling or forging, resulting in more cycles of rolling, annealing and pickling than a lower performance alloy to achieve proper dimensions. Certain alloys may undergo as many as 40 distinct stages of melting, remelting, annealing, forging, rolling and pickling before they achieve the specifications required by a customer. The Company manufactures products in sheet, plate, tubular, billet, bar and wire forms, which represented 48%, 23%, 12%, 12%, 3% and 2%, respectively, of total volume sold in fiscal 1996 (after giving effect to the conversion of billet to bar by the Company's U.K.subsidiary).

The manufacturing process begins with raw materials being combined, melted and refined in a precise manner to produce the chemical composition specified for each alloy. For most alloys, this molten material is cast into electrodes and additionally refined through electroslag remelting. The resulting ingots are then forged or rolled to an intermediate shape and size depending upon the intended final product. Intermediate shapes destined for flat products are then sent through a series of hot and cold rolling, annealing and pickling operations before being cut to final size.

The Argon Oxygen Decarburization ("AOD") gas controls in the Company's primary melt facility remove carbon and other undesirable elements, thereby allowing more tightly-controlled chemistries which in turn produce more consistent properties in the alloys. The AOD gas control system also allows for statistical process control monitoring in real time to improve product quality.

The Company has a four-high Steckel mill for use in hot rolling material.The four-high mill was installed in 1982 at a cost of approximately $60.0 million and is one of only two such mills in the high performance alloy industry. The mill is capable of generating approximately 12.0 million pounds of separating force and rolling plate up to 72 inches wide. The mill includes integrated computer controls (with automatic gauge control and programmed rolling schedules), two coiling Steckel furnaces and five heating furnaces. Computer-controlled rolling schedules for each of the hundreds of combinations of alloy shapes and sizes the Company produces allow the mill to roll numerous widths and gauges to exact specifications without stoppages or changeovers.

The Company also operates a three-high rolling mill and a two-high rolling mill, each of which is capable of custom processing much smaller quantities of material than the four-high mill. These mills provide the Company with significant flexibility in running smaller batches of varied products in response to customer requirements. The Company believes the flexibility

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provided by the three-high and two-high mills provides the Company an advantage over its major competitors in obtaining smaller specialty orders.

BACKLOG

As of September 30, 1996, the Company's backlog orders aggregated approximately $53.7 million, compared to approximately $49.9 million at September 30, 1995,and approximately $41.5 million at September 30, 1994. The increase in backlog orders is primarily due to an increase in orders for chemical processing and aerospace products worldwide during fiscal 1996. Substantially all orders in the backlog at September 30, 1996 are expected to be shipped within the twelve months beginning October 1, 1996. Due to the cyclical nature of order entry experienced by the Company, there can be no assurance that order entry will continue at current levels. The historical and current backlog amounts shown in the following table are also indicative of relative demand over the past few years.

<TABLE>

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HAYNES BACKLOG
AT FISCAL QUARTER END
(IN MILLIONS)

<S> <C> <C> <C> <C>

	1993	1994	1995	1996
1st	$41.5	$29.5	$49.7	$61.2
2nd	$38.9	$35.5	$64.8	$61.9
3rd	$31.5	$38.0	$55.8	$57.5
4th	$31.1	$41.5	$49.9	$53.7

</TABLE>

RAW MATERIALS

Nickel is the primary material used in the Company's alloys. Each pound of alloy contains, on average, 0.48 pounds of nickel. Other raw materials include cobalt, chromium, molybdenum and tungsten. Melt materials consist of virgin raw material, purchased scrap and internally produced scrap. The significant sources of cobalt are the countries of Zambia, Zaire and Russia; all other raw materials used by the Company are available from a number of alternative sources.

Since most of the Company's products are produced to specific orders, the Company purchases materials against known production schedules. Materials are purchased from several different suppliers, through consignment arrangements, annual contracts and spot purchases. These arrangements involve a variety of pricing mechanisms, but the Company generally can establish selling prices with reference to known costs of materials, thereby reducing the risk associated with changes in the cost of raw materials. The Company maintains a policy of pricing its products at the time of order placement. As a result, rapidly escalating raw material costs during the period between the time the Company receives an order and the time the Company purchases the raw materials used to fill such order, which has averaged approximately 30 days in recent months, can negatively affect profitability even though the high performance alloy industry has generally been able to pass raw material price increases through to its customers.

Raw material costs account for a significant portion of the Company's cost

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of sales. The prices of the Company's products are based in part on the cost of raw materials, a significant portion of which is nickel. The Company covers approximately half its open market exposure to nickel price changes through hedging activities through the London Metals Exchange. The following table sets forth the average per pound prices for nickel as reported by the London Metals Exchange for the fiscal years indicated.

<TABLE>

<CAPTION>

<S>	<C>
YEAR ENDED SEPTEMBER 30,	AVERAGE PRICE
1988	$ 4.12
1989	5.77
1990	4.29
1991	4.21
1992	3.48
1993	2.53
1994	2.54
1995	3.66
1996	3.56

</TABLE>

RESEARCH AND TECHNICAL DEVELOPMENT

The Company's research facilities are located at the Company's Kokomo facility and consist of 90,000 square feet of offices and laboratories, as well as an additional 90,000 square feet of paved storage area. The Company has ten fully equipped laboratories, including a mechanical test lab, a metallographic lab, an electron microscopy lab, a corrosion lab and a high temperature lab,among others. These facilities also contain a reduced scale, fully equipped melt shop and process lab. As of September 30, 1996, the research and technical development staff consisted of 37 persons, 15 of whom have engineering or science degrees, including six with doctoral degrees, with the majority of degrees in the field of metallurgical engineering.

Research and technical development costs relate to efforts to develop new proprietary alloys, to improve current or develop new manufacturing methods, to provide technical service to customers, to maintain quality assurance methods and to provide metallurgical training to engineer and non-engineer employees. The Company spent approximately $3.6 million, $3.0 million and $3.4 million for research and technical development activities for fiscal 1994, 1995 and 1996, respectively.

During fiscal 1996, exploratory alloy development projects were focused on new CRA products for hydrofluoric and phosphoric acid service. Engineering projects include manufacturing process development, welding development and application support for two large volume projects involving the LBGT and steel making industries. The Company is also developing a computerized database management system to better manage its corrosion, high temperature and mechanical property data.

Over the last seven years, the Company's technical programs have yielded seven new proprietary alloys and seven United States patents, with an additional three United States patent applications pending. The Company currently maintains a total of 42 United States patents and approximately 147 foreign counterpart patents targeted at countries with significant or potential markets for the patented products. In fiscal 1996, approximately 25% of the Company's net revenues was derived from the sale of patented products and an additional approximately 46% was derived from the sale of products for which patents formerly held by the Company had expired. While the Company believes its patents are important to its competitive position, significant barriers to entry continue to exist beyond the expiration of any patent period. Five of the alloys considered by management to be of future commercial significance, Ultimet, Hastelloy C-22, Haynes 230, Hastelloy G-30 and Hastelloy G-50, are protected by United States patents that continue until the years 2009, 2008, 2002, 2001 and 1998, respectively.

COMPETITION

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The high performance alloy market is a highly competitive market in which eight to ten producers participate in various product forms. The Company faces strong competition from domestic and foreign manufacturers of both the Company's high performance alloys and other competing metals. The Company's primary competitors include Inco Alloys International, Inc., a subsidiary of Inco Limited, Allegheny Ludlum Corporation and Krupp VDM GmbH. Prior to fiscal 1994,this competition, coupled with declining demand in several of the Company's key markets, led to significant erosion in the price for certain of the Company's products. The Company may face additional competition in the future to the extent new materials are developed, such as plastics or ceramics, that may be substituted for the Company's products.

EMPLOYEES

As of September 30, 1996, the Company had approximately 931 employees. All eligible hourly employees at the Kokomo plant are covered by a collective bargaining agreement with the United Steelworkers of America ("USWA") which was ratified on June 11, 1996 and which expires on June 11, 1999. As of September 30, 1996, 474 employees of the Kokomo facility were covered by the collective bargaining agreement. The Company has not experienced a strike at the Kokomo plant since 1967. None of the employees of the Company's Arcadia or Openshaw plants are represented by a labor union. Management considers its employee relations in each of the facilities to be satisfactory.

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ENVIRONMENTAL MATTERS

The Company's facilities and operations are subject to certain foreign,federal, state and local laws and regulations relating to the protection of human health and the environment, including those governing the discharge of pollutants into the environment and the storage, handling, use, treatment and disposal of hazardous substances and wastes. Violations of these laws and regulations can result in the imposition of substantial penalties and can require facilities improvements. In addition, the Company may be required in the future to comply with certain regulations pertaining to the emission of hazardous air pollutants under the Clean Air Act. However, since these regulations have not been proposed or promulgated, the Company cannot predict the cost, if any, associated with compliance with such regulations. Expenses related to environmental compliance were $1.3 million for fiscal 1996 and are expected to be approximately $3.2 million for fiscal year 1997 through fiscal year 1998. Although there can be no assurance, based upon current information available to the Company, the Company does not expect that costs of environmental contingencies, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company's facilities are subject to periodic inspection by various regulatory authorities, who from time to time have issued findings of violations of governing laws, regulations and permits. In the past five years, the Company has paid administrative fines, none of which has exceeded $50,000, for alleged violations relating to environmental matters, including the handling and storage of hazardous wastes, and record keeping requirements relating to, and handling of, polychlorinated biphenyls ("PCBs"). Although the Company does not believe that similar regulatory or enforcement actions would have a material impact on its operations, there can be no assurance that violations will not be alleged or will not result in the assessment of additional penalties in the future.

The Company has received permits from IDEM and EPA to close and to provide post-closure monitoring and care for certain areas at the Kokomo facility used for the storage and disposal of wastes, some of which are classified as hazardous under applicable regulations. The closure project, essentially complete, entailed installation of a clay liner under the disposal areas, a leachate collection system and a clay cap and revegetation of the site. Construction was completed in May 1994 and a closure certification has been filed with IDEM. Thereafter, the Company will be required to monitor groundwater and to continue post-closure maintenance of the former disposal areas. The Company is aware of elevated levels of certain contaminants in the groundwater. The Company believes that some or all of these contaminants may have migrated from a nearby superfund site. If it is determined that the disposal areas have impacted the groundwater underlying the Kokomo facility, additional corrective action by the Company could be required. The Company is

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unable to estimate the costs of such action, if any. There can be no assurance, however, that the costs of future corrective action would not have a material effect on the Company's financial condition, results of operations or liquidity. Additionally, it is possible that the Company could be required to obtain permits and undertake other closure projects and post-closure commitments for any other waste management unit determined to exist at the facility.

As a condition of these closure and post-closure permits, the Company must provide and maintain assurances to IDEM and EPA of the Company's capability to satisfy closure and post-closure ground water monitoring requirements, including possible future corrective action as necessary. On April 8, 1996, IDEM issued a Notice of Violation relating to the requirements for the former disposal areas. An Agreed Order dated July 2, 1996 was entered into between the Company and the IDEM in resolution of this Notice of Violation. The Company paid a civil penalty of $15,000 provided for by the Agreed Order.

The Company has completed an investigation, pursuant to a work plan approved by the EPA, of eight specifically identified solid waste management units at the Kokomo facility. Results of this investigation have been filed with the EPA. Based on the results of this investigation compared to Indiana's Tier II clean-up goals, the Company believes that no further actions will be necessary. Until the EPA reviews the results, the Company is unable to determine whether further corrective action will be required or, if required, whether it will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

The Company may also incur liability for alleged environmental damages associated with the off-site transportation and disposal of its wastes. The Company's operations generate hazardous wastes, and, while a large percentage of these wastes are reclaimed or recycled, the Company also accumulates hazardous wastes at each of its facilities for subsequent transportation and disposal off-site by third parties. Generators of hazardous waste transported to disposal sites where environmental problems are alleged to exist are subject to claims under CERCLA, and state counterparts. CERCLA imposes strict, joint and several liability for investigatory and cleanup costs upon waste generators, site owners and operators and other "potentially responsible parties" ("PRPs"). Based on its prior shipment of waste oil contaminated with PCBs, the Company is one of approximately 700 PRPs in connection with the cleanup of PCB contamination at the Rose Chemical site in Missouri. The Company has contributed over $130,000 toward the private cleanup currently being implemented by a group of many of these PRPs, approximately $52,000 of which has been refunded, and does not anticipate that further significant expenditures by the Company will be required in connection with this site. Based on its prior shipment of certain hydraulic fluid, the Company is one of approximately 300 PRPs in connection with the proposed cleanup of the Fisher-Calo site in Indiana. The PRPs have negotiated a Consent Decree implementing a remedial design/remedial action plan ("RD/RA") for the site with the EPA. The Company has paid approximately $138,000 as its share of the total estimated cost of the RD/RA under the Consent Decree. Based on information available to the Company concerning the status of the cleanup efforts at the Rose Chemical and Fisher-Calo sites, the large number of PRPs at each site and the prior payments made by the Company in connection with these sites, management does not expect the Company's involvement in these sites to have a material adverse effect on the financial condition, results of operations or liquidity of the Company. The Company may have generated hazardous wastes disposed of at other sites potentially subject to CERCLA or equivalent state law remedial action. Thus, there can be no assurance that the Company will not be named as a PRP at additional sites in the future or that the costs associated with those sites would not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

In November 1988, the EPA approved start-up of a new waste water treatment plant at the Arcadia, Louisiana facility, which discharges treated industrial waste water to the municipal sewage system. After the Company exceeded certain EPA effluent limitations in 1989, the EPA issued an administrative order in 1992 which set new effluent limitations for the facility. The waste water plant is currently operating under this order and the Company believes it is meeting such effluent limitations. However, the Company anticipates that in the future Louisiana will take over waste water permitting authority from the EPA and may issue a waste water permit, the conditions of which could require modification to the plant. Reasonably anticipated modifications are not expected to have a substantial impact on operations.

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ITEM 2. PROPERTIES

The Company's owned facilities, and the products provided at each facility, are as follows:

Kokomo, Indiana--all product forms, other than tubular goods.

Arcadia, Louisiana--welded and seamless tubular goods.

Openshaw, England--bar and billet for the European market.

The Kokomo plant, the primary production facility, is located on approximately 236 acres of industrial property and includes over one million square feet of building space. There are three sites consisting of ahead quarters and research lab; melting and annealing furnaces, forge press and several hot mills; and the four-high mill and sheet product cold working equipment, including two cold strip mills. All alloys and product forms other than tubular goods are produced in Kokomo.

The Arcadia plant consists of approximately 42 acres of land and over 135,000 square feet of buildings on a single site. Arcadia uses feedstock produced in Kokomo to fabricate welded and seamless alloy pipe and tubing and purchases extruded tube hollows to produce seamless titanium tubing. Manufacturing processes at Arcadia require cold pilger mills, weld mills, drawbenches, annealing furnaces and pickling facilities.

The United States facilities are subject to a mortgage which secures the Company's obligations under the Company's Revolving Credit Facility. See Note 6 of Notes to Consolidated Financial Statements.

The Openshaw plant, located near Manchester, England, consists of approximately 15 acres of land and over 200,000 square feet of buildings on a single site. The plant produces bar and billet using billets produced in Kokomo as feedstock. Additionally, products not competitive with the Company's products are processed for third parties. The processes conducted at the facility require hot rotary forges, bar mills and miscellaneous straightening, turning and cutting equipment.

Although capacity can be limited from time to time by certain production processes, the Company believes that its existing facilities will provide sufficient capacity for current demand.

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ITEM 3. LEGAL PROCEEDINGS

In Leslie Baxter, et. al. vs. Haynes International, Inc. and Haynes Group Insurance Plan, filed July 6, 1995 in the U.S. District Court, Southern District of Indiana, Indianapolis Division, retirees and the surviving spouse of a retiree filed suit on behalf of themselves and similarly situated retirees and surviving spouses for restoration of the retiree health insurance to benefit levels prevailing before the reduction of those benefit levels on January 1, 1995 and to maintain the restored insurance benefit levels for the lives of the covered retirees and their surviving spouses. The suit also seeks judgment in damages for the benefits that have been lost as a result of the January 1, 1995 reductions in benefit levels and for the medical expenses, premiums paid and other damages incurred, including reasonable attorneys' fees and costs of maintaining the suit. This lawsuit is in the very early stages of discovery, and the Company is not able at this time to assess the likelihood that or the extent to which this lawsuit could have an impact on the Company's financial position or operations. The Company intends to vigorously defend against the claims.

The Company recently completed an examination by the Internal Revenue Service ("IRS") for the five taxable years ended September 30, 1993 (the "Years in Issue"). The IRS has proposed to disallow aggregate deductions

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claimed by the Company during the Years in Issue in an amount aggregating approximately $5.5 million, relating to the amortization of certain loan fees totaling $10.4 million incurred in connection with the acquisition of the Company by Morgan, Lewis, Githens & Ahn ("MLGA") and the management of the Company in August 1989 ("1989 Acquisition"). The Company claimed similar deductions in 1994 through 1996. The loan fees are being amortized over a 10-year period ending in 1999. In addition to proposed disallowance of deductions claimed during the Years in Issue, the IRS' position, if sustained, would prohibit amortization deductions for the years following the Years in Issue in an aggregate amount of approximately $4.9 million, and the amount of available net operating loss carryforwards would be reduced accordingly. The Company has formally protested the disallowance of these deductions. On August 28, 1996, the Company met with officials from the IRS Appeals Office and received a favorable verbal confirmation that the deductions would be allowed as a result of the recent passage of the Small Business Job Protection Act of 1996. The Company is awaiting written confirmation of the IRS' position.

The Company also is involved in other routine litigation incidental to the conduct of its business, none of which is believed by management to be material.

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

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established trading market for the common stock of the Company.

As of December 26, 1996 there was one holder of the common stock of the Company.

There have been no cash dividends declared on the common stock for the two fiscal years ended September 30, 1996.

The payment of dividends is limited by terms of certain debt agreements to which the Company is a party. See Note 6 to the Consolidated Financial Statements of the Company included in this Annual Report in response to Item 8.

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT RATIO AND OPERATING DATA)

The following table sets forth selected consolidated financial data of the Company. The selected consolidated financial data as of and for the years ended September 30, 1992, 1993, 1994, 1995 and 1996 are derived from the audited consolidated financial statements of the Company.

These selected financial data are not covered by the auditor's report and are qualified in their entirety by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and the related notes thereto included elsewhere in this Form 10-K.

<TABLE>

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<S>	<C>	<C>	<C>	<C>	<C>
	Year Ended	September	30,		
Statement of Operations Data:	1992	1993	1994	1995	1996
Net revenues	$ 169,344	$ 162,454	$ 150,578	$201,933	$ 226,402
Cost of sales	152,911(2)	137,102	171,957(3)	167,196	181,173
Selling and administrative expenses	19,641(2)	14,569	15,039	15,475	19,966
Research and technical expenses	3,894	3,603	3,630	3,049	3,411
Operating income (loss)	(7,102)	7,180	(40,048)	16,213	21,852
Other cost, net	882(2)	400	816	1,767	590
Interest expense, net	20,107	18,497	19,582	19,904	21,102
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	(16,771)	(8,275)	(60,866)	(6,771)	160
Extraordinary item, net of tax benefit					(7,256)(9)
Cumulative effect of change in accounting principle (net of tax benefit)	--	--	(79,630)(4)	--	--
Net loss	(16,771)	(8,275)	(140,496)	(6,771)	(9,036)

</TABLE>

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<S>	<C>	<C>	<C>	<C>	<C>
	Year Ended	September	30,		
Balance Sheet Data:	1992	1993	1994	1995	1996
Working capital (5)	$ 39,344	$ 72,131	$ 60,182	$ 62,616	$ 57,307

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Property, plant and equipment, net	60,700	51,676	43,119	36,863	31,157
Total assets	214,585	194,200	145,723	151,316	161,489
Total debt	142,194	140,180	148,141	152,477	168,238
Accrued post-retirement benefits	--	--	94,148	94,830	95,813
Stockholder's equity (Capital deficit)	35,162	22,938	(116,029)	(121,909)	(130,341)

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<S>	<C>	<C>	<C>	<C>	<C>
		September	30,		
Other Financial Data:	1992	1993	1994	1995	1996
Depreciation and amortization (6)	$ 16,484	$ 13,766	$ 51,555	$ 9,000	$ 9,042
Capital expenditures	821	56	771	1,934	2,092
EBITDA (7)	8,500	20,546	10,691	23,446	32,141
Ratio of EBITDA to interest expense	0.42x	1.11x	0.55x	1.18x	1.52x
Ratio of earnings before fixed charges to fixed charges (8)	--	--	--	--	1.01x
Net cash provided from (used in) operations	$ 19,850	$ 5,711	$(12,801)	$(2,883)	$(5,343)
Net cash provided from (used in) investment activities	(757)	318	746	(1,895)	(2,025)
Net cash provided from (used in) financing activities	(16,440)	(2,014)	7,102	3,912	7,116

<FN>

(1) The Company was acquired by MLGA and the management of the Company in August 1989. For financial statement purposes, the 1989 Acquisition was accounted for as a purchase transaction effective September 1, 1989; accordingly, inventories were adjusted to reflect estimated fair values at that date. This adjustment to inventories was amortized to cost of sales as inventories were reduced from the base layer. Non-cash charges for this adjustment included in cost of sales were $5,210, $3,686 and $488 for fiscal 1992, 1993 and 1994, respectively; no charges have been recognized since fiscal 1994.

(2) Includes costs related to the implementation of certain cost reduction measures, the implementation of a just-in-time and total quality management program and the renegotiation of the terms of the 1989 Acquisition credit agreement. In fiscal 1992, these charges were reflected in cost of sales, selling and administrative expenses, and other cost, net in the amounts of $6,937, $1,156 and $603, respectively.

(3) Reflects the write-off of $37,117 of goodwill created in connection with the 1989 Acquisition remaining at September 30, 1994. See Note 10 of the Notes to Consolidated Financial Statements.

(4) During fiscal 1994, the Company adopted SFAS 106. The Company elected to immediately recognize the transition obligation for benefits earned as of October 1, 1993, resulting in a non-cash charge of $79,630, net of a $10,580 tax benefit, representing the cumulative effect of the change in accounting principles. The tax benefit recognized was limited to then existing net deferred tax liabilities. See Note 8 of the Notes to Consolidated Financial Statements.

(5) Reflects the excess of current assets over historical and adjusted current liabilities as set forth in the Consolidated Financial Statements.

(6) Reflects (i) depreciation and amortization as presented in the Company's Consolidated Statement of Cash Flows and set forth in note (7) below, plus (ii) other non-cash charges, including the amortization of prepaid pension costs (which is included in the change in other asset category) and the amortization of inventory costs as described in note (1) above, minus amortization of debt issuance costs, all as set forth in note (7) below.

(7) Represents for the relevant period net income plus expenses recognized for interest, taxes, depreciation, amortization and other non-cash charges (excluding any non-cash charges which require accrual or reserve for cash charges for any future period and excluding the refinancing costs set forth in Note 9, part (a) and (b) below for fiscal 1996). In addition to net interest expense as listed in the table, the following charges are added to net income to calculate EBITDA:

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<S>	<C> 1992	<C> 1993	<C> 1994	<C> 1995	<C> 1996
Provision for (benefit from) income taxes	$(11,320)	$(3,442)	$ 420	$ 1,313	$ 1,940
Depreciation	8,752	8,650	8,208	8,188	7,751
Amortization:					
Debt issuance costs	1,333	2,120	1,680	1,444	4,698
Goodwill	1,490	1,487	38,607	--	--
Inventory (see note (1) above)	5,210	3,686	488	--	--
Prepaid pension costs	1,032	(57)	314	130	308
	9,065	7,236	41,089	1,574	5,006
SFAS 106-Post-retirement	--	--	3,938	682	983
Amortization of debt issuance costs	(1,333)	(2,120)	(1,680)	(1,444)	(4,698)
Total	$ 5,164	$10,324	$51,975	$10,313	$10,982

<FN>

EBITDA should not be construed as a substitute for income from operations, net earnings (loss) or cash flows from operating activities determined in accordance with Generally Accepted Accounting Principles ("GAAP"). The Company has included EBITDA because it believes it is commonly used by certain investors and analysts to analyze and compare companies on the basis of operating performance, leverage and liquidity and to determine a company's ability to service debt. Because EBITDA is not calculated in the same manner by all entities, EBITDA as calculated by the Company may not necessarily be comparable to that of the Company's competitors or of other entities.

(8) For purposes of these computations, earnings before fixed charges consist of income (loss) before provision for (benefit from) income taxes and cumulative effect of change in accounting principle plus fixed charges. Fixed charges consist of interest on debt and amortization of debt issuance costs. Earnings were insufficient to cover fixed charges by $28,091, $11,717, $60,446, and $5,458 for fiscal 1992, 1993, 1994 and 1995, respectively.

(9) During fiscal 1996, the Company successfully refinanced its debt with the issuance of $140,000 Senior Notes due 2004 and an amendment to its Revolving Credit Facility with Congress Financial Corporation ("Congress"). As a result of this refinancing effort, certain non-recurring charges were recorded as follows: (a) $7,256 was recorded as the aggregate of extraordinary items which represents the extraordinary loss on the redemption of the Company's 113% Senior Secured Notes due 1998 and 132% Senior Subordinated Notes due 1999 (collectively, the "Old Notes") and is comprised of $3,911 of prepayment penalties incurred in connection with the redemption and $3,345 of deferred debt issuance costs which were written off upon consummation of the redemption; (b) $1,837 of Selling and Administrative Expense which represents costs incurred with a postponed initial public offering of the Company's common stock; and (c) $924 of Interest Expense which represents the net interest expense (approximately $1,500 interest expense, less approximately $600 interest income) incurred during the period between the issuance of the Senior Notes and the redemption of the Old Notes.

</TABLE>

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

COMPANY BACKGROUND

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The Company sells high temperature alloys and corrosion resistant alloys, which accounted for 61% and 39%, respectively, of the Company's net revenues in fiscal 1996. Based on available industry data, the Company believes that it is one of three principal producers of high performance alloys in flat product form, which includes sheet, coil and plate forms, and also produces its alloys in round and tubular forms. In fiscal 1996, flat products accounted for 72% of shipments and 65% of net revenues.

The Company's annual production capacity varies depending upon the mix of alloys, forms, product sizes, gauges and order sizes. Based on the current product mix, the Company estimates that its annual production capacity, which has been unchanged for the past five years, is approximately 20.0 million pounds. As a result of changes in the Company's primary markets, sales volume has ranged from a high of 16.4 million pounds in fiscal 1996, to a low of 13.3 million pounds in fiscal 1994. The Company is not currently capacity constrained, but has planned capital expenditures of approximately $17.6 million from fiscal 1997 through fiscal 1998, one of the principal benefits of which will be to increase annual capacity by approximately 25% to approximately 25.0 million pounds. See "--Liquidity and Capital Resources."

The Company sells its products primarily through its direct sales organization, which includes four domestic Company-owned service centers, three wholly-owned European subsidiaries and sales agents serving the Pacific Rim who operate on a commission basis. Approximately 75% of the Company's net revenues in fiscal 1996 was generated by the Company's direct sales organization. The remaining 25% of the Company's fiscal 1996 net revenues was generated by independent distributors and licensees in the United States, Europe and Japan, some of whom have been associated with the Company for over 25 years.

The proximity of production facilities to export customers is not a significant competitive factor, since freight and duty costs per pound are minor in comparison to the selling price per pound of high performance alloy products. In fiscal 1996, sales to customers outside the United States accounted for approximately 36% of the Company's net revenues. Sales of domestically-produced products accounted for approximately 38% of the Company's foreign sales in fiscal 1996, and the balance of foreign sales was derived from sales of products produced overseas.

The high performance alloy industry is characterized by high capital investment and high fixed costs, and profitability is therefore very sensitive to changes in volume. The cost of raw materials is the primary variable cost in the high performance alloy manufacturing process and represents approximately one-half of total manufacturing costs. Other manufacturing costs, such as labor, energy, maintenance and supplies, often thought of as variable, have a significant fixed element. Accordingly, relatively small changes in volume can result in significant variations in earnings. The Company's results in fiscal 1994 reflect this sensitivity. While volume declined by 13% from fiscal 1993 to fiscal 1994, primarily due to declines in demand for the Company's products in the oil and gas and FGD markets, EBITDA calculated as described in Note (7) to Selected Consolidated Financial Data, declined 48%, despite a 7% increase in the average selling price per pound of the Company's products.

In fiscal 1996, proprietary products represented approximately 25% of the Company's net revenues. In addition to these patent-protected alloys, several other alloys manufactured by the Company have little or no direct competition because they are difficult to produce and require relatively small production runs to satisfy demand. In fiscal 1996, these other alloys represented approximately 19% of the Company's net revenues.

Order to shipment lead times can be a competitive factor as well as an indication of the strength of the demand for high performance alloys. The Company's current average manufacturing lead time for flat products is approximately 10 to 12 weeks, although due to current backlog levels, lead times from order to shipment are approximately 14 to 18 weeks.

OVERVIEW OF MARKETS

A breakdown of sales, shipments and average selling prices to the markets served by the Company for the last five fiscal years is shown in the following table:

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SALES (DOLLARS IN MILLIONS)	1992 Amount	1992 % of Total	1993 Amount	1993 % of Total	1994 Amount	1994 % of Total	1995 Amount	1995 % of Total	1996 Amount
Aerospace.	$ 45.7	27.0%	$ 46.7	28.7%	$ 46.4	30.8%	$ 66.4	32.9%	$ 87.1
Chemical processing	52.8	31.2	52.2	32.1	50.1	33.3	72.2	35.8	83.0
Land-based gas turbines	10.7	6.3	12.6	7.8	17.0	11.3	14.3	7.1	16.4
Flue gas desulfurization	11.4	6.7	17.4	10.7	10.2	6.7	6.6	3.3	8.2
Oil and gas	18.8	11.1	11.0	6.8	4.2	2.8	4.5	2.2	4.3
Other markets	28.0	16.6	20.5	12.6	20.6	13.7	34.6	17.1	23.8
Total product	167.4	98.9	160.4	98.7	148.5	98.6	198.6	98.4	222.8
Other revenue(1)	1.9	1.1	2.1	1.3	2.1	1.4	3.3	1.6	3.6
Net revenues	$ 169.3	100.0%	$ 162.5	100.0%	$ 150.6	100.0%	$ 201.9	100.0%	$ 226.4
U.S.	$ 116.4		$ 109.1		$ 94.8		$ 122.3		$ 142.0
Foreign	$ 52.9		$ 53.4		$ 55.8		$ 79.6		$ 84.4
SHIPMENTS BY OF MARKET (MILLIONS POUNDS)									
Aerospace	3.4	24.5%	3.3	21.6%	3.3	24.8%	4.7	28.8%	5.8
Chemical processing	4.6	33.1	5.2	34.0	5.0	37.6	6.1	37.4	6.6
Land-based gas turbines	1.3	9.4	1.2	7.8	1.6	12.0	1.3	8.0	1.4
Flue gas desulfurization	1.6	11.4	2.9	19.0	1.5	11.3	0.9	5.5	0.9
Oil and gas	1.3	9.4	1.1	7.2	0.4	3.0	0.5	3.1	0.3
Other markets	1.7	12.2	1.6	10.4	1.5	11.3	2.8	17.2	1.4
Total shipments	13.9	100.0%	15.3	100.0%	13.3	100.0%	16.3	100.0%	16.4
AVERAGE SELLING PRICE PER POUND									
Aerospace.	$ 13.44		$ 14.15		$ 14.06		$ 14.13		$ 15.02
Chemical processing	11.48		10.04		10.02		11.84		12.58
Land-based gas turbines	8.23		10.50		10.63		11.00		11.71
Flue gas desulfurization	7.13		6.00		6.80		7.33		9.11
Oil and gas	14.46		10.00		10.50		9.00		14.33
Other markets	16.47		12.81		13.73		12.36		17.00
All markets	12.04		10.48		11.17		12.18		13.59

SALES (DOLLARS IN MILLIONS)	1996 % of Total
Aerospace.	38.5%
Chemical processing	36.7
Land-based gas turbines	7.2
Flue gas desulfurization	3.6
Oil and gas	1.9
Other markets	10.5
Total product	98.4
Other revenue(1)	1.6
Net revenues	100.0%
U.S.	
Foreign	
SHIPMENTS BY OF MARKET (MILLIONS POUNDS)	
Aerospace	35.4%
Chemical processing	40.2
Land-based gas turbines	8.5

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Flue gas desulfurization	5.5
Oil and gas	1.8
Other markets	8.6
Total shipments	100.0%

AVERAGE SELLING PRICE PER POUND	
Aerospace	
Chemical processing	
Land-based gas turbines	
Flue gas desulfurization	
Oil and gas	
Other markets	
All markets	

<FN>

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(1) Includes toll conversion and royalty income.
</TABLE>

Fluctuations in net revenues and volume from fiscal 1992 through fiscal 1996 are a direct result of significant changes in each of the Company's major markets.

Aerospace. Demand for the Company's products in the aerospace industry is driven by orders for new jet engines as well as requirements for spare parts and replacement parts for jet engines. Demand for the Company's aerospace products declined significantly from fiscal 1991 to fiscal 1992, as order rates for commercial aircraft fell below delivery rates due to cancellations and deferrals of previously placed orders. The Company believes that, as a result of these cancellations and deferrals, engine manufacturers and their fabricators and suppliers were caught with excess inventories. The draw down of these inventories, and the implementation of just-in-time delivery requirements by many jet engine manufacturers, exacerbated the decline experienced by suppliers to these manufacturers, including the Company. Demand for products used in manufacturing military aircraft and engines also dropped during this period as domestic defense spending declined following the Persian Gulf War. These conditions persisted through fiscal 1994.

The Company began to see a recovery in the demand for its aerospace products at the beginning of fiscal 1995. Reflecting increased aircraft production and maintenance, the Company's net revenues from sales to the aerospace industry in 1996 increased 31.2% over the comparable period in fiscal 1995.

Chemical Processing. Demand for the Company's products in the chemical processing industry is driven primarily by maintenance requirements of chemical processing facilities, and tends to track overall economic activity due to the diverse nature of chemical products and their applications. Major projects involving the expansion of existing chemical processing facilities or the construction of new facilities periodically increase demand for CRA products in the industry. Demand for the Company's products used in the chemical processing industry declined in fiscal 1991 and fiscal 1992, but began to increase in late fiscal 1993. In fiscal 1996, sales of the Company's products to the chemical processing industry reached a five-year high, and the Company believes that the outlook for sales of the Company's products to the chemical processing industry continues to improve. Concerns regarding the reliability of chemical processing facilities, their potential impact on the environment and the safety of their personnel as well as the need for higher throughput should support demand for more sophisticated alloys, such as the Company's CRA products.

The Company expects that growth in the chemical processing industry will result from volume increases and selective price increases as a result of increased demand. In addition, the Company's key proprietary CRA products, the recently introduced Hastelloy C-2000, which the Company believes provides better overall corrosion resistance and versatility than any other readily available CRA product, and Hastelloy C-22, are expected to contribute to the Company's growth in this market, although there can be no assurance that this will be the case.

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Land-Based Gas Turbines. The Company leveraged its metallurgical expertise to develop LBGT applications for alloys it had historically sold to the aerospace industry. Electric generating facilities powered by land-based gas turbines are less expensive to construct and operate and produce fewer sulfur dioxide ("SO2") emissions than traditional fossil fuel-fired facilities. The Company believes these factors are primarily responsible for creating demand for its products in the LBGT industry. Prior to the enactment of the Clean Air Act of 1990, as amended (the "Clean Air Act"), land-based gas turbines were used primarily to satisfy peak power requirements. However, legislated standards for lowering emissions from fossil fuel-fired electric utilities and cogeneration facilities, such as the Clean Air Act, together with self-imposed standards, contributed to increased demand for some of the Company's products in the early 1990s, when Phase I of the Clean Air Act was being implemented. The Company believes that land-based gas turbines are gaining acceptance as a clean, low-cost alternative to fossil fuel-fired electric generating facilities. The Company believes that compliance with Phase II of the Clean Air Act, which begins in 2000, will further contribute to demand for its products.

Flue Gas Desulfurization. The Clean Air Act is the primary factor determining the demand for high performance alloys in the FGD industry. FGD projects have been undertaken by electric utilities and cogeneration facilities powered by fossil fuels in the United States, Europe and the Pacific Rim in response to concerns over emissions. FGD projects are generally highly visible and as a result are highly price competitive, especially when demand for high performance alloys in other major markets is weak. The Company anticipates increasing sales opportunities in the FGD market as deadlines for Phase II of the Clean Air Act approach in 2000.

Oil and Gas. The Company's participation in the oil and gas industry consists primarily of providing tubular goods for sour gas production. Demand for the Company's products in this industry is driven by the rate of development of sour gas fields, which in turn is driven by the price of natural gas and the need to commence production in order to protect leases. This market was very active in fiscal 1991, especially in the offshore sour gas fields in the Gulf of Mexico, but demand for the Company's sour gas tubular products has declined significantly since that time. Due to the volatility of the oil and gas industry, the Company has chosen not to invest in certain manufacturing equipment necessary to perform certain intermediate steps of the manufacturing process for these tubular products. However, the Company can outsource the necessary processing steps in the manufacture of these tubulars when prices rise to attractive levels. The Company intends to selectively take advantage of future opportunities as they arise, but plans no capital expenditures to increase its internal capabilities in this area.

Other Markets. In addition to the industries described above, the Company also targets a variety of other markets. Representative industries served in fiscal 1996 include waste incineration, industrial heat treating, automotive, medical and instrumentation. Many of the Company's lower volume proprietary alloys are experiencing growing demand in these other markets. Markets capable of providing growth are being driven by increasing performance, reliability and service life requirements for products used in these markets, which could provide further applications for the Company's products.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, consolidated statements of operations data as a percentage of net revenues:

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<TABLE>

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<S>	YEAR ENDED September 30, <C>		
	1994	1995	1996
Net revenues	100.0%	100.0%	100.0%
Cost of sales	89.6(1)	82.8	80.0
Selling and administrative expenses	10.0	7.7	8.8(4)
Research and technical expenses	2.4	1.5	1.5
Other cost, net	0.5	0.9	0.3
Interest expense	13.2	10.0	9.7(4)
Interest income	(0.2)	(0.2)	(0.4)(4)
Goodwill write-off	24.6(2)	--	--
Income (loss) before provision for income taxes, extraordinary items, and cumulative effect of change in accounting principle	(40.1)	(2.7)	0.1
Provision for (benefit from) income taxes	0.3	0.6	0.9
Extraordinary item, net of tax benefit			(3.2)(4)
Cumulative effect of change in accounting principle, (net of tax benefit)	(52.9)(3)	--	--
Net loss	(93.3)%	(3.3)%	(4.0)%

<FN>

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(1) For financial statement purposes, the 1989 Acquisition was accounted for as a purchase transaction effective September 1, 1989; accordingly, inventories were adjusted to reflect estimated fair values at that date. This adjustment to inventories was amortized to cost of sales as inventories were reduced from the base layer. Non-cash charges for this adjustment included in cost of sales were approximately $488,000 for fiscal 1994 and no charges have been recognized since fiscal 1994.

(2) Reflects the write-off of $37.1 million of goodwill created in connection with the 1989 Acquisition remaining at September 30, 1994. See Note 10 of the Notes to Consolidated Financial Statements.

(3) During fiscal 1994, the Company adopted SFAS 106. The Company elected to immediately recognize the transition obligation for benefits earned as of October 1, 1993, resulting in a non-cash charge of approximately $79.6 million net of an approximately $10.6 million tax benefit, representing the cumulative effect of the change in accounting principle. The tax benefit recognized was limited to then existing net deferred tax liabilities. See Note 8 of the Notes to Consolidated Financial Statements.

(4) During 1996, the Company refinanced its debt and certain non-recurring charges were recorded as a result of this refinancing effort as follows: (a) approximately $7.3 million was recorded as the aggregate of extraordinary items which represents the extraordinary loss on the redemption of the Senior Secured Notes and Senior Subordinated Notes and is comprised of approximately $3.9 million of prepayment penalties incurred in connection with the redemption and approximately $3.3 million of deferred debt issuance costs which were written off upon consummation of the redemption; (b) approximately $1.8 million of Selling and Administrative Expense which represents costs incurred with a postponed initial public offering of the Company's common stock; and (c) $924,000 of Interest Expense which represents the net interest expense (approximately $1.5 million interest expense less approximately $600,000 interest income) incurred during the period between the issuance of the Senior Notes and the redemption of the Senior Secured and Senior Subordinated Notes.

</TABLE>

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YEAR ENDED SEPTEMBER 30, 1996 COMPARED TO YEAR ENDED SEPTEMBER 30, 1995

Net revenues increased approximately $24.5 million, or 12.1%, to approximately $226.4 million in fiscal 1996 from approximately $201.9 million in fiscal 1995, primarily as a result of an 11.6% increase in the average selling price per pound, from $12.18 to $13.59. Shipments increased by 0.6% to 16.4 million pounds in fiscal 1996 from 16.3 million pounds in fiscal 1995, as volume increases in the aerospace, chemical processing and LBGT markets offset lower volumes in the oil and gas and other markets.

Sales to the aerospace market increased by 31.2% to approximately $87.1 millon in fiscal 1996 from approximately $66.4 million in fiscal 1995. Volume increased 23.4% and the average selling price per pound increased 6.3%. Increased demand for the Company's products in fiscal 1996 from the aerospace market was generated primarily by domestic engine producers, as demand in Europe remained relatively flat.

Sales to the chemical processing industry increased 15.0% to approximately $83.0 million in fiscal 1996 from approximately $72.2 million in fiscal 1995. Volume increased 8.2% despite lower exports to the Asia Pacific Rim. In addition, the average selling price per pound increased 6.3% as a result of higher demand from both the domestic and European markets.

Sales to the LBGT market increased 14.7% to approximately $16.4 million in fiscal 1996 from approximately $14.3 million in fiscal 1995 as a result of an 7.7% increase in volume and a 6.5% increase in the average selling price per pound. This reflected strong demand for cleaner burning power generation from gas turbines. In addition, the Company's sales to this market have been favorably impacted by its success in marketing Haynes 230 to European turbine manufacturers as a replacement for competing alloys.

Sales to the FGD market increased 24.2% to approximately $8.2 million in fiscal 1996 from approximately $6.6 million in fiscal 1995. Volume was essentially unchanged; however, average selling price per pound increased by 24.3%.

Sales to the oil and gas industry decreased 4.4% to approximately $4.3 million in fiscal 1996 from sales of approximately $4.5 million in fiscal 1995. Sales to this market occurred primarily in the third quarter for both fiscal years due to sour gas projects in Mobile Bay off the coast of Alabama. Volume decreased 40.0%, while average selling price per pound increased 59.2% due primarily to a favorable product mix.

Sales to other markets decreased by 31.8% to approximately $23.8 million for fiscal 1996 from approximately $34.9 million in fiscal 1995, as a result of a 50.0% decrease in volume which was only partially offset by a 37.5% increase in average selling price per pound. The Company benefitted from a one-time order of approximately $3.5 million for a major waste treatment facility in Eastern Europe and a $5.1 million one-time order for defense-related recuperators on M-1 tanks in the first nine months of fiscal 1995. Sales to the waste incineration market increased as a result of greater use of the Company's products in high temperature corrosion applications. In addition, increased use of Haynes HR-120 as a substitute for competing products (including stainless steel) in the industrial heating market led to higher sales in that segment.

Cost of sales increased by approximately $14.0 million, or 8.4% to approximately $181.2 million in fiscal 1996 from approximately $167.2 million in fiscal 1995. However, cost of sales as a percent of net revenues decreased to 80.0% from 82.3% in the respective periods as a result of higher average selling prices and a favorable change in product mix. Volume in the higher-market high value-added product forms such as sheet, wire and seamless tubulars increased in fiscal 1996 over fiscal 1995 levels. Increased capacity utilization in the higher-cost operations used to manufacture these forms led to efficiencies that lowered the per unit cost. Also, during fiscal 1995 raw material costs escalated thereby temporarily reducing margins until price increases could be fully implemented. In fiscal 1996, these increased costs had been fully passed through to a greater extent as reflected in higher selling prices.

Selling and administrative expenses increased approximately $4.5 million, or 29.0% to approximately $20.0 million for fiscal 1996 from approximately $15.5 million in fiscal 1995. The increase was primarily a result of salary increases and the payment and accrual of management and employee bonuses of approximately $1.9 million which were awarded for fiscal 1995 and fiscal 1996 performance. Selling and administrative expenses also include approximately $1.8 million of costs incurred in connection with a postponed initial public

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offering of the Company's common stock. In addition, sales and marketing personnel were hired as a part of the Company's efforts to increase market coverage and customer contact.

Research and technical expenses increased approximately $362,000 or 11.9%, to approximately $3.4 million in fiscal 1996 from approximately $3.0 million in fiscal 1995, primarily as a result of salary increases. Headcount increased as part of the Company's ongoing commitment to technological leadership.

As a result of the above factors, the Company recognized operating income for fiscal 1996 of approximately $21.9 million, approximately $4.9 million of which was contributed by the Company's foreign subsidiaries. For fiscal 1995, operating income was approximately $16.2 million, of which approximately $5.3 million was contributed by the Company's foreign subsidiaries.

Other costs, net decreased approximately $1.2 million or 66.6% to approximately $590,000 for fiscal 1996 from approximately $1.8 million in the same period in fiscal 1995, primarily as a result of foreign exchange gains in fiscal 1996 compared to foreign exchange losses in fiscal 1995 and a $582,000 reduction in other costs associated with the fiscal 1995 purchase of options to acquire the then outstanding Subordinated Notes.

Interest expense increased approximately $1.8 million or 8.7% to approximately $22.0 million or fiscal 1996 from approximately $20.2 million for the same period in fiscal 1995, due primarily to higher average borrowings under the Existing Credit Facility and an additional $1.5 million of interest expense incurred during the period between the issuance of the Senior Notes and the redemption of the Senior Secured Notes and Senior Subordinated Notes.

The provision for income taxes of approximately $1.9 million for fiscal 1996 increased by approximately $672,000 from approximately $1.3 million for fiscal 1995, due primarily to taxes on foreign earnings against which the Company was unable to utilize its U.S. federal income tax net operating loss carryforwards.

Extraordinary items, net of tax benefit of approximately $7.3 million, were recorded in fiscal 1996 representing the extraordinary loss on the redemption of the Senior Secured Notes and Senior Subordinated Notes and is comprised of approximately $3.9 million of prepayment penalties incurred as a result of the redemption and approximately $3.3 million of deferred debt issuance costs which were written off upon redemption. No tax benefit was recognized due to the valuation reserve established for tax reporting purposes.

As a result of the above factors, the Company recognized a net loss for fiscal 1996 of approximately $9.0 mllion, compared to a net loss of approximately $6.8 million for fiscal 1995.

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YEAR ENDED SEPTEMBER 30, 1995 COMPARED TO YEAR ENDED SEPTEMBER 30, 1994

Net revenues increased approximately $51.3 million, or 34.1%, to approximately $201.9 million in fiscal 1995 from approximately $150.6 million in fiscal 1994, as a result of a 22.6% increase in volume to 16.3 million pounds from approximately 13.3 million pounds and a 9.0% increase in average selling price to $12.18 per pound from $11.17 per pound. Volume increases were due to higher demand in the aerospace, chemical processing, waste incineration and industrial heating industries. Alloy price increases were implemented in fiscal 1995 in response to rising raw material costs, which resulted in higher average selling prices.

Sales to the aerospace market increased 43.1% to approximately $66.4 million in fiscal 1995 from approximately $46.4 million in fiscal 1994 due to a 42.4% increase in volume as reflected by the increased order backlog for commercial aircraft and jet engines in fiscal 1995. In addition, the Company greatly increased its sales to distributors serving the aerospace market by meeting competitive prices for certain higher volume HTA products. Due to changes in product mix, the average selling price per pound to the aerospace market in fiscal 1995 remained essentially flat as compared to fiscal 1994 despite generally higher alloy prices.

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Sales to the chemical processing industry increased 44.1% to approximately $72.2 million in fiscal 1995 from approximately $50.1 million in fiscal 1994 as a result of higher spending in the United States and Europe for smaller maintenance and improvement projects, as well as along the Pacific Rim for certain large capacity expansion projects. Volume increased 22.0% and average selling price per pound increased 18.2%. The large Pacific Rim projects were very competitively bid upon, resulting in lower average selling prices per pound for these projects as compared to other projects. The lower average selling prices for these products were more than offset, however, by higher prices in smaller projects. In addition, the Company was favorably impacted in fiscal 1995 by its shift from production of a low-priced duplex stainless steel that it had manufactured for several years to other higher-priced, higher-margin products as a result of stronger market demand for such products.

Sales to the LBGT market decreased 15.9% to approximately $14.3 million in fiscal 1995 from approximately $17.0 million in fiscal 1994. During fiscal 1995, a few of the larger LBGT manufacturers decreased purchases of alloys as they reduced their inventories; as a result, the Company's volume decreased 18.8%. Although Haynes 230 was gaining acceptance, especially in Europe, the Company experienced temporary disruptions in sales of this product due to production and delivery problems, and as a result the Company's fiscal 1995 average selling price per pound was unchanged as compared to fiscal 1994.

Sales to the FGD market declined 35.3% to approximately $6.6 million in fiscal 1995 from approximately $10.2 million in fiscal 1994 as a result of a 40.0% decrease in volume and a 7.8% increase in average selling price per pound. Sharply lower domestic sales were partially offset by increased sales in Europe and along the Pacific Rim. The weakness in domestic markets reflected lower demand for wet scrubbing facilities for fossil fuel-fired electric generating plants.

Demand in the oil and gas market has been weak and orders have been only sporadic since fiscal 1992, when a major sour gas production project in the Gulf of Mexico was completed. Sales increased 7.1% in fiscal 1995 as compared to fiscal 1994 as a result of a 25.0% increase in volume, which was partially offset by a 14.3% decrease in average selling price per pound.

Sales to other markets increased 68.0% to approximately $34.6 million in fiscal 1995 from approximately $20.6 million in fiscal 1994 due primarily to a shipment in fiscal 1995 to a large waste treatment project destined for installation in Eastern Europe and the completion of a short-term contract in support of the U.S. Army's M-1 tank program. These projects resulted in an 86.7% increase in volume in fiscal 1995 as compared to fiscal 1994 and a 10.0% decrease in average selling price per pound for the same periods.

Cost of sales decreased approximately $4.8 million, or 2.8%, to approximately $167.2 million in fiscal 1995 from approximately $172.0 million in fiscal 1994. Fiscal 1994 cost of sales included the write-off of goodwill as discussed in Note 10 of the Notes to Consolidated Financial Statements. Cost of sales as a percent of the Company's net revenues decreased to 82.8% from 89.6% in the respective years, excluding the effect of the write-off of goodwill in fiscal 1994 as discussed above. This was due primarily to increased capacity utilization and increased profitability in the European subsidiaries. During the first half of fiscal 1995, raw material costs escalated rapidly, resulting in lower margins. As a result, the spread between average selling price and material cost per pound was lower in fiscal 1995 than in fiscal 1994. This was partially offset in the second half of fiscal 1995 as price increases for the Company's alloys became effective. Higher volume reduced unit fixed costs and led to improved operating efficiencies. In addition, the European subsidiaries experienced improved volume and margins in fiscal 1995, reflecting improved business conditions which further improved the Company's cost of sales as a percent of net revenues.

Selling and administrative expenses increased approximately $436,000, or 2.9%, to approximately $15.5 million in fiscal 1995 from approximately $15.0 million in fiscal 1994 primarily as a result of expenses which previously had been reported as research and technology expenses in fiscal 1994 being reclassified as selling and administrative expenses in fiscal 1995.

Research and technical expenses decreased approximately $581,000, or 16.0%, to approximately $3.0 million in fiscal 1995 from approximately $3.6 million in fiscal 1994 due in part to the reclassification of expenses noted above. In addition, certain costs associated with engineering functions recorded as manufacturing costs in fiscal 1995 were reported as research and technical expenses in fiscal 1994.

As a result of the above factors, the Company recognized operating income

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in fiscal 1995 of approximately $16.2 million as compared to an operating loss of approximately $40.0 million in fiscal 1994. Operating loss in fiscal 1994 was approximately $2.9 million prior to the write off of approximately $37.1 million of goodwill as described in Note 10 of the Notes to Consolidated Financial Statements. Operating income contributed by the Company's foreign subsidiaries was approximately $5.3 million in fiscal 1995 and approximately $1.6 million in fiscal 1994.

Other costs, net increased approximately $951,000, or 116.5%, to approximately $1.8 million in fiscal 1995 from approximately $816,000 in fiscal 1994, primarily as a result of fluctuations in foreign exchange rates, which accounted for approximately $150,000 of the increase, and approximately $478,000 in costs incurred associated with obtaining options to purchase certain of the Company's Existing Subordinated Notes. The options expired in October 1995.

Interest expense increased approximately $317,000, or 1.6%, to approximately $20.2 million in fiscal 1995 from approximately $19.9 million in fiscal 1994, primarily as a result of higher average borrowings under the Existing Credit Facility.

The provision for income taxes for fiscal 1995 was approximately $1.3 million compared to approximately $420,000 in fiscal 1994, due primarily to taxes on foreign earnings against which the Company was unable to utilize its NOLs.

As a result of the above factors, the Company reported a net loss of approximately $6.8 million in fiscal 1995 compared to a net loss of approximately $140.5 million in fiscal 1994, including SFAS 106 expense of approximately $79.6 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's near-term future cash needs will be driven by working capital requirements, which are likely to increase, and planned capital expenditures. Capital expenditures were approximately $2.1 million in fiscal 1996 and are expected to be approximately $8.0 million in fiscal 1997 and approximately $9.6 million in fiscal 1998. Capital expenditures were approximately $772,000 and $1.9 million for fiscal 1994 and 1995, respectively. The increased capital investments for fiscal 1997 and 1998 are designated for significant new equipment additions and expenditures of approximately $3.1 million for new integrated information systems. The primary benefits of this spending are expected to be (i) the expansion of annual production capacity by 25% from approximately 20.0 million pounds to approximately 25.0 million pounds, based on the current product mix, (ii) improved production quality resulting in lower internal rejection rates and rework costs and (iii) improved coordination among sales, marketing and manufacturing personnel resulting in more efficient pricing practices. The Company does not expect such capital expenditures to have a material adverse effect on its long-term liquidity. Moreover, the Company does not currently have any significant capital expenditure commitments. The Company expects to fund its working capital needs and capital expenditures with cash provided from operations, supplemented by borrowings under its Revolving Credit Facility. The Company believes these sources of capital will be sufficient to fund these capital expenditures and working capital requirements over the next 12 months and on a long-term basis, although there can be no assurance that this will be the case.

Net cash used in operations in fiscal 1996 was approximately $5.3 million, as compared to approximately $2.9 million for fiscal 1995. The negative cash flow from operations for fiscal 1996 was primarily a result of increases of approximately $15.1 million in inventories and approximately $1.6 million in accounts receivable, which were offset by non-cash depreciation and amortization expenses of approximately $9.1 million, extraordinary item of $7.3 million, an increase in the accounts payable and accrued expenses balance of approximately $2.5 million and other adjustments. Cash used for investing activities increased from approximately $1.9 million in fiscal 1995 to approximately $2.0 million in fiscal 1996, primarily as a result of higher capital expenditures. Cash provided by financing activities for fiscal 1996 was approximately $7.1 million due primarily to $18.4 million increased borrowings under the Revolving Credit Facility offset by a net payment on refinancing of long-term debt of $12.0 million. Cash for fiscal 1996 decreased approximately $347,000, resulting in a September 30, 1996 cash balance of approximately $4.7 million. Cash in fiscal 1995 decreased approximately $655,000, resulting in a cash balance of approximately $5.0 million at September 30, 1995.

On August 23, 1996, the Company issued $140.0 million of its 11 5/8% Senior Notes due 2004 and amended its Revolving Credit Facility with Congress

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Financial Corporation ("Congress") to increase the maximum amount available under the Revolving Line of Credit to $50.0 million. With the proceeds from the issuance of the Senior Notes and borrowings under the Revolving Credit Facility, the Company redeemed all of its outstanding Senior Secured Notes and Senior Subordinated Notes on September 23, 1996. See Note 6 of the Notes to Consolidated Financial Statements for a description of the terms of the Senior Notes and the Revolving Credit Facility.

The Senior Notes and the Revolving Credit Facility contain a number of covenants limiting the Company's access to capital, including covenants that restrict the ability of the Company and its subsidiaries to (i) incur additional Indebtedness, (ii) make certain restricted payments, (iii) engage in transactions with affiliates, (iv) create liens on assets, (v) sell assets, (vi) issue and sell preferred stock of subsidiaries, and (vii) engage in consolidations, mergers and transfers.

The Company is currently conducting groundwater monitoring and post-closure monitoring in connection with certain disposal areas, and has completed an investigation of eight specifically identified solid waste management units at the Kokomo facility. The results of the investigation have been filed with the U.S. Environmental Protection Agency ("EPA"). If the EPA or the Indiana Department of Environmental Management ("IDEM") were to require corrective action in connection with such disposal areas or solid waste management units, there can be no assurance that the costs of such corrective action will not have a material adverse effect on the Company's financial condition, results of operations or liquidity. In addition, the Company has been named as a potentially responsible party at two waste disposal sites. Although there can be no assurance, based on current information, the Company believes that its involvement at these two sites will not have a material adverse effect on the Company's financial condition, results of operations or liquidity. Expenses related to environmental compliance were $1.3 million for fiscal 1996 and

are expected to be approximately $3.2 million for fiscal 1997 through fiscal 1998. See "Business-- Environmental Matters." Based on information currently available to the Company, the Company is not aware of any information which would indicate that litigation pending against the Company is reasonably likely to have a material adverse effect on the Company's operations or liquidity. See "Business--Legal Proceedings."

INFLATION

The Company believes that inflation has not had a material impact on its operations.

INCOME TAX CONSIDERATIONS

For financial reporting purposes the Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Statement of Financial Accounting Standards ("SFAS") No. 109 requires the recording of a valuation allowance when it is more likely than not that some portion or all of a deferred tax asset will not be realized. This statement further states that forming a conclusion that a valuation allowance is not needed may be difficult, especially when there is negative evidence such as cumulative losses in recent years. The ultimate realization of all or part of the Company's deferred tax assets depends upon the Company's ability to generate sufficient taxable income in the future.

At September 30, 1996, the Company had a net deferred tax asset approximating $36.4 million consisting principally of temporary differences relating to available Net Operating Losses ("NOL's") and accruals for postretirement benefits other than pensions partially offset by depreciation. Because of unfavorable operating results in recent years, the Company has established a 100% valuation allowance to offset the net deferred tax asset, resulting in a charge to operations and a corresponding reduction of equity. The Company will periodically evaluate its strategic and business plans in light of evolving business conditions and actual operating results, and the valuation allowance may be adjusted for future income expectations resulting from that process.

As a result, the application of the valuation allowance determination process could result in recognition of significant income tax provisions or benefits in a single interim or annual period due to actual operating results and changes in future income expectations over several years. Such tax provision or benefit effect could likely be material in the context of the specific interim or annual financial reporting period in which changes in judgment about extended future periods are reported. The valuation allowance determination process is a balance sheet approach and does not have as its

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objective the periodic matching of pre-tax income or loss with the related actual income tax effects.

If the Company's principal markets continue to exhibit improvement, and such improvement is manifested in positive trends in the value and profitability of customer orders and backlog, additional tax benefits may be reported in future periods as the valuation allowance is reduced. Alternatively, to the extent that the Company's future profit expectations remain static or are diminished, tax provisions may be charged against pretax income. In either event, such valuation allowance-related tax provisions or benefits should not necessarily be viewed as recurring. Further, the amount of current taxes that the Company expects to pay for the foreseeable future is minimal, and the Company's carryforward tax attributes are viewed by management as a significant competitive advantage to the extent that profits can be sheltered effectively from tax and re-employed in the growth of the business.

See "Legal Proceedings" with respect to certain other tax matters.

ACCOUNTING PRONOUNCEMENTS

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" are effective for the year ending September 30, 1997. In the opinion of management, these statements will not impact the Company's financial position or results of operations.

SFAS No. 123, "Accounting for Stock Based Compensation," was issued and is also effective for the year ending September 30, 1997. The Company has not decided how it intends to apply the accounting and disclosure provisions of this statement.

ITEM 8. Financial Statements and Supplementary Data

Board of Directors
Haynes International, Inc.

We have audited the consolidated financial statements and the financial statement schedule of Haynes International, Inc. (the Company), a wholly owned subsidiary of Haynes Holdings, Inc., listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Haynes International, Inc. as of September 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Notes 1 and 8 to the consolidated financial statements, the Company changed its method of accounting for income taxes and postretirement benefits during 1994.

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Coopers & Lybrand L.L.P.

Fort Wayne, Indiana
November 6, 1996

<TABLE>

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HAYNES INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<S>	<C>	<C>
ASSETS	September 30, 1995	September 30, 1996
Current Assets:		
Cash and cash equivalents	$ 5,035	$ 4,688
Accounts and notes receivable, less allowance for doubtful accounts of $979 and $900, respectively	38,089	39,624
Inventories	60,234	74,755
Total current assets	103,358	119,067
Net property, plant and equipment	36,863	31,157
Prepayments and deferred charges, net	11,095	11,265
Total assets	$ 151,316	$ 161,489
LIABILITIES AND CAPITAL DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	$ 22,975	$ 24,814
Accrued postretirement benefits	4,100	4,000
Revolving credit	12,477	30,888
Note payable		859
Income taxes payable	1,190	1,199
Total current liabilities	40,742	61,760
Long-term debt, net of unamortized discount	140,000	137,350
Deferred income taxes	326	485
Accrued postretirement benefits	90,730	91,813
Total liabilities	271,798	291,408

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Redeemable common stock of parent company	1,427	422
Capital deficiency:		
Common stock, $.01 par value (100 shares authorized, issued and outstanding)		
Additional paid-in capital	46,306	47,985
Accumulated deficit	(172,285)	(181,321)
Foreign currency translation adjustment	4,070	2,995
Total capital deficiency	(121,909)	(130,341)
Total liabilities and capital deficiency	$ 151,316	$ 161,489

<FN>

The accompanying notes are an integral part of these financial statements.
</TABLE>

<TABLE>

<CAPTION>

HAYNES INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(DOLLARS IN THOUSANDS)

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996
Net revenues	$ 150,578	$ 201,933	$ 226,402
Costs and expenses:			
Cost of sales	134,840	167,196	181,173
Goodwill write-off	37,117		
Selling and administrative	15,039	15,475	19,966
Research and technical	3,630	3,049	3,411
Other costs, net	816	1,767	590
Interest expense	19,916	20,233	21,991
Interest income	(334)	(329)	(889)
Total costs and expenses	211,024	207,391	226,242
Income (loss) before provision for income taxes, extraordinary item and cumulative effect of change in accounting principle	(60,446)	(5,458)	160
Provision for income taxes	420	1,313	1,940

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Loss before extraordinary item and cumulative effect of change in accounting principle	(60,866)	(6,771)	(1,780)
Extraordinary item, net of tax benefit			(7,256)
Cumulative effect of change in accounting principle, net of tax benefit	(79,630)		
Net loss	$ (140,496)	$ (6,771)	$ (9,036)

<FN>

The accompanying notes are an integral part of these financial statements.
</TABLE>

<TABLE>

<CAPTION>

HAYNES INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(DOLLARS IN THOUSANDS)

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996
Cash flows from operating activities:			
Net loss	$ (140,496)	$ (6,771)	$ (9,036)
Adjustments to reconcile net loss to net cash used in operations:			
Extraordinary item			7,256
Depreciation	8,208	8,188	7,751
Amortization and goodwill write-off	40,287	1,444	1,353
Deferred income taxes	(10,633)	2	213
Gain on disposition of property and equipment	(397)	(37)	(20)
Change in assets and liabilities:			
Accounts and notes receivable	(3,028)	(7,354)	(1,599)
Inventories	(951)	(6,480)	(15,132)
Other assets	(58)	347	(335)
Accounts payable and accrued expenses	4,291	6,322	2,543
Income taxes payable	(234)	774	10
Accrued postretirement benefits	90,210	682	983
Net cash used in operating activities	(12,801)	(2,883)	(5,343)
Cash flows from investing activities:			
Additions to property, plant and equipment	(771)	(1,934)	(2,092)
Proceeds from disposals of property, plant, and equipment	1,517	39	67

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Net cash provided from (used in) investing activities	746	(1,895)	(2,025)
Cash flows from financing activities:			
Net additions of revolving credit	7,960	4,337	18,411
Borrowings of long-term debt			137,350
Repayments of long-term debt			(140,000)
Payment of debt issuance costs			(5,408)
Prepayment penalties on debt retirement			(3,911)
Dividend from parent company on exercise of stock options			674
Retirement of stock options	(858)	(425)	
Net cash provided from financing activities	7,102	3,912	7,116
Effect of exchange rates on cash	129	211	(95)
Decrease in cash and cash equivalents	(4,824)	(655)	(347)
Cash and cash equivalents:			
Beginning of year	10,514	5,690	5,035
End of year	$ 5,690	$ 5,035	$ 4,688
Supplemental disclosures of cash flow information: Cash paid during period for:			
Interest	$ 17,891	$ 18,840	$ 22,076
Income taxes	$ 848	$ 560	$ 1,717

<FN>

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

</TABLE>

HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. PRINCIPLES OF CONSOLIDATION AND NATURE OF OPERATIONS

The consolidated financial statements include the accounts of Haynes International, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany transactions and balances are eliminated. The Company develops, manufactures and markets technologically advanced, high performance alloys primarily for use in the aerospace and chemical processing industries worldwide.

B.CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments, including investments with maturities of three months or less at acquisition, to be cash equivalents, the carrying value of which approximates fair value due to the short maturity of these investments.

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C.INVENTORIES

Inventories are stated at the lower of cost or market. The cost of domestic inventories is determined using the last-in, first-out method (LIFO). The cost of foreign inventories is determined using the first-in, first-out (FIFO) method and average cost method.

D.PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment are recorded at cost with depreciation calculated primarily by using the straight-line method based on estimated economic useful lives. Buildings are generally depreciated over 40 years and machinery and equipment are depreciated over periods ranging from 5 to 14 years.

Expenditures for maintenance and repairs and minor renewals are charged to expense; major renewals are capitalized. Upon retirement or sale of assets, the cost of the disposed assets and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

E.FOREIGN CURRENCY TRANSLATION

The Company's foreign operating entities' financial statements are stated in the functional currencies of each respective country, which are the local currencies. Substantially all assets and liabilities are translated to U.S. dollars using exchange rates in effect at the end of the year and revenues and expenses are translated at the weighted average rate for the year. Translation gains or losses are recorded as a separate component of capital deficiency and transaction gains and losses are reflected in net losses.

F. INCOME TAXES

Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This statement applies an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized (see Note 5). Previously, the Company accounted for income taxes under the provisions of SFAS No. 96, "Accounting for Income Taxes". Financial statements for the prior years have not been restated and the cumulative effect of the change in accounting principle was not material.

G. DEFERRED CHARGES

Deferred charges consist primarily of debt issuance costs which are amortized over the terms of the related debt using the effective interest method. Accumulated amortization at September 30, 1995 and 1996 was $9,266 and $63, respectively. During 1996, the Company wrote off approximately $3,345 of deferred debt issuance costs and capitalized approximately $5,408 of costs incurred in connection with the refinancing of the Company's debt.

H. FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISK

The Company enters into forward currency exchange contracts and nickel futures contracts on a continuing basis for periods consistent with contractual exposures. The effect of this practice is to minimize the variability in the Company's operating results arising from foreign exchange rate and nickel price movements. These contracts are considered short-term financial instruments, the carrying value of which approximates fair value due to the relatively short duration of the contracts. The Company does not engage in foreign currency or nickel futures speculation. Gains and losses on these contracts are reflected in the statement of operations in the month the contracts are settled. At September 30, 1995 and 1996, the Company had $1,700 and $1,360 of foreign currency exchange contracts, respectively, and $4,441 and $3,512 of nickel futures contracts, respectively, outstanding with a combined net unrealized loss of $103 and $192, respectively. With respect to the Consolidated Statement of Cash Flows, contracts accounted for as hedges are classified in the same category as the items being hedged.

Financial instruments which potentially subject the Company to concentrations

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of credit risk consist of cash and cash equivalents. At September 30, 1996 and periodically throughout the year the Company has maintained cash balances in excess of federally insured limits.

During 1995 and 1996, sales to one group of affiliated customers approximated $23,718 and $26,937, respectively, or 12% of net revenues for both years. At September 30, 1995 and 1996, receivables from the customers approximated $3,338 and $5,034, respectively. During 1994, sales to a single customer approximated $15,452 or 10% of net revenues. The Company does not believe it is significantly vulnerable to certain business concentrations with respect to customers, suppliers, products, markets or geographic areas that make the Company vulnerable to the risk of a near-term severe impact.

HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

I. RECLASSIFICATIONS

Certain amounts in prior year financial statements have been reclassified to conform with current year presentation.

J. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company does not believe that it has assets, liabilities or contingencies that are particularly sensitive to changes in estimates in the near term.

K. ACCOUNTING PRONOUNCEMENTS

SFAS No. 121, "Accounting for the Impairment of Long-Lived assets and for Long-Lived assets to Be Disposed Of" and SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" are effective for the year ending September 30, 1997. In the opinion of management, these statements will not impact the Company's financial position or results of operations. The Company currently accounts for stock options under the provisions of Accounting Principles Board Opinion (APB) No. 25. Recently, SFAS No. 123, "Accounting for Stock Based Compensation", was issued and is also effective for the year ending September 30, 1997. The Company has not decided how it intends to apply the accounting and disclosure provisions of this statement.

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<TABLE>

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HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 2: INVENTORIES

The following is a summary of the major classes of inventories:

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<S>	<C> September 30, 1995	<C> September 30, 1996
Raw materials	$ 2,998	$ 4,296
Work-in-process	38,488	37,643
Finished goods	20,616	32,046
Other	2,428	861
Amount necessary to decrease certain inventories to the LIFO method	(4,296)	(91)
Net inventories	$ 60,234	$ 74,755

<FN>

Inventories valued using the LIFO method comprise 73% and 74% of consolidated FIFO inventories at September 30, 1995 and 1996, respectively.
</TABLE>

<TABLE>

<CAPTION>

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the major classes of property, plant, and equipment:

<S>	<C> September 30, 1995	<C> September 30, 1996
Land and land improvements	$ 1,920	$ 1,918
Buildings	6,623	6,623
Machinery and equipment	74,951	76,336
Construction in process	664	900
	84,158	85,777
Less accumulated depreciation	(47,295)	(54,620)
Net property, plant and equipment	$ 36,863	$ 31,157

</TABLE>

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NOTE 4: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of the major classes of accounts payable and accrued expenses:

<S>	<C> September 30, 1995	<C> September 30, 1996
Accounts payable, trade	$ 14,477	$ 15,285
Employee compensation	1,995	4,214
Taxes, other than income taxes	2,226	1,977
Interest	3,160	1,718
Other	1,117	1,620
Total	$ 22,975	$ 24,814

</TABLE>

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<TABLE>

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NOTE 5: INCOME TAXES

The components of income (loss) before provision for income taxes, extraordinary item and cumulative effect of change in accounting principle consist of the following:

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996
Income (loss) before provision for income taxes, extraordinary item and cumulative effect of change in accounting principle			
U.S.	$ (58,509)	$ (9,332)	$ (4,558)
Foreign	(1,937)	3,874	4,718

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Total	$ (60,446)	$ (5,458)	$ 160

Income tax provision (benefit):

Current:

U.S. Federal			$ 187
Foreign	$ 411	$ 1,284	1,509
State	62	27	31
Current total	473	1,311	1,727

Deferred:

U. S. Federal		2	131
Foreign	(53)		82
Deferred total	(53)	2	213
Total provision for income taxes	$ 420	$ 1,313	$ 1,940

</TABLE>

HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

<TABLE>

<CAPTION>

The provision for income taxes applicable to results of operations before extraordinary item and cumulative effect of change in accounting principle differed from the U.S. federal statutory rate as follows:

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996
Statutory federal tax rate	34%	34%	34%
Tax provision (benefit) at the statutory rate	$ (20,552)	$ (1,856)	$ 54
Foreign tax rate differentials	951	(162)	(24)
Goodwill amortization and write-off	12,054		
Withholding tax on undistributed earnings of			

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foreign subsidiaries			131
Provision for state taxes, net of federal tax	62	27	31
Exercise of stock options of parent company			400
U.S. tax on distributed and undistributed earnings of foreign subsidiaries	1,735	980	760
Increase in valuation allowance	5,639	2,057	363
Other	531	267	225
Provision at effective tax rate	$ 420	$ 1,313	$ 1,940

</TABLE>

HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

<TABLE>

<CAPTION>

Deferred income tax assets (liabilities) are comprised of the following:

<S>	<C>	<C>
Current defferred income tax assets (liabilities):	September 30, 1995	September 30, 1996
Inventory capitalization	$ 853	$ 962
Postretirement benefits other than pensions	1,590	1,553
Accrued expenses for vacation	446	470
Other	606	700
Gross deferred tax assets	3,495	3,685
Less: Valuation allowance	(2,132)	(2,434)
	1,363	1,251
Inventory purchase accounting adjustment	(5,637)	(5,646)
Total net current deferred tax liability	(4,274)	(4,395)
Noncurrent deferred income tax assets (liabilities):		
Property, plant and equipment, net	(9,344)	(7,069)
Prepaid pension costs	(2,107)	(1,990)
Investment in subsidiary	(466)	(466)
Other foreign related	(390)	(475)
Undistributed earnings of foreign subsidiaries	(2,669)	(3,420)
Gross noncurrent deferred tax liability	(14,976)	(13,420)

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Postretirement benefits other than pensions	35,182	35,656
Executive compensation	553	164
Investment in subsidiary	563	563
Net operating loss carryforwards	13,283	14,406
Alternative minimum tax credit carryforwards	414	538
Gross noncurrent deferred tax asset	49,995	51,327
Less: Valuation allowance	(31,071)	(33,997)
	18,924	17,330
Total net noncurrent deferred tax asset	3,948	3,910
Total	$ (326)	$ (485)

</TABLE>

<TABLE>

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The valuation allowance used to offset deferred tax assets is as follows:

<S> <C>

Allowance at October 1, 1993	$24,422
Increase in allowance	6,435
Allowance at October 1, 1994	30,857
Increase in allowance	2,346
Allowance at October 1, 1995	33,203
Increase in allowance	3,228
Allowance at September 30, 1996	$36,431

</TABLE>

As of September 30, 1996 the Company had net operating loss carryforwards for regular tax purposes of approximately $39,700 (expiring in fiscal years 2005 to 2011), of which $19,800 are available for alternative minimum tax. The Company has alternative minimum tax credit carryforwards of approximately $500 which are available to reduce federal regular income taxes, if any, over an indefinite period.

Because of unfavorable operating results in recent years and the Company's net operating loss carryforward position, the Company has established a valuation allowance to offset certain deferred tax assets created by operations. If in the future the facts and circumstances of the Company's financial position and operating performance consistently improve over a period of time, the valuation allowance will be adjusted accordingly.

The Company recently completed an examination by the Internal Revenue Service (IRS) for the five taxable years ended September 30, 1993. The IRS

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has proposed to disallow aggregate deductions in the amount of $5,500 relative to the amortization of certain loan fees, totaling $10,400, incurred in connection with the 1989 acquisition of the Company. The Company claimed similar deductions in 1994 through 1996. The Company has formally protested the disallowance of these deductions. On August 28, 1996, the Company met with officials from the IRS Appeals Office and received a favorable verbal confirmation that the deductions would be allowed as a result of the recent passage of the Small Business Job Protection Act of 1996. The Company is presently awaiting a written confirmation from the IRS. If the Company does not prevail in its defense, the amount of available net operating loss carryforwards will be reduced accordingly.

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<TABLE>

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NOTE 6: DEBT

Long-term debt, consists of the following:

<S>	<C> September 30, 1995	<C> September 30, 1996
Senior Notes (due 2004, 11.625%) net of $2,650 unamortized discount (effective rate of 12.0%)		$ 137,350
Senior Subordinated Notes (due 1997-1999, 13.5%)	$ 90,000	
Senior Secured Notes (due 1998, 11.25%)	50,000	
	$ 140,000	$ 137,350

</TABLE>

On August 23, 1996, the Company successfully refinanced its debt with the issuance of $140,000 Senior Notes due 2004 and an amendment to its then existing revolving credit facility with Congress Financial Corporation ("Congress").

Certain non recurring charges were recorded as a result of this refinancing effort as follows:

@ $7,256 of extraordinary losses were incurred resulting from the redemption of the Senior Secured and Senior Subordinated Notes. The losses are comprised of $3,911 in prepayment penalties incurred with the redemption and $3,345 of deferred debt issuance costs which were written off upon redemption of the related debt;

@ $1,837 of Selling and Administrative Expense which represents costs incurred from a deferred initial public offering of the Company's common stock; and

@ $924 of net Interest Expense incurred during the period between the issuance of the Senior Notes and the redemption of the Senior Secured and Senior Subordinated Notes.

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The Company now has available a $50,000 working capital facility (the "Revolving Credit Facility") with Congress. The amount available for revolving credit loans equals the difference between the $50,000 total facility amount less any letter of credit reimbursement obligations incurred by the Company, which are subject to a sublimit of $10,000. The total availability may not exceed the sum of 85% of eligible accounts receivable (generally, accounts receivable of the Company from domestic and export customers that are less than 60 days outstanding) plus 60% of eligible inventories consisting of finished goods and raw materials plus 45% of eligible inventories consisting of work-in-process and semi-finished goods calculated at the lower of cost or current market value minus any availability reserves established by Congress. Unused line of credit fees during the revolving credit loan period are .375% of the amount by which the $50,000 million maximum credit exceeds the average daily principal balance of the outstanding revolving loans and letter of credit accommodations.

The Revolving Credit Facility bears interest at a fluctuating per annum rate equal to a combination of prime rate plus 0.75% and London Interbank Offered Rates ("LIBOR") plus 2.75%. At September 30, 1996 the effective interest rates for revolving credit loans were 8.238% for $24,000 of the Revolving Credit Facility and 9.0% for $6,900 of the Revolving Credit Facility. As of September 30, 1996, $3,025 in letter of credit reimbursement obligations have been incurred by the Company. The availability for revolving credit loans at September 30, 1996 was $16,075.

The Revolving Credit Facility contains covenants common to such agreements including the maintenance of certain net worth levels and limitations on capital expenditures, investments, incurrences of debt, impositions of liens, dispositions of assets and payments of dividends and distributions. The Revolving Credit Facility is collateralized by first priority security interests in all accounts receivable and inventories (excluding all accounts receivable and inventories of the Company's foreign subsidiaries) and fixed assets of the Company and the sales proceeds therefrom.

The estimated fair value, based upon an independent market quotation, of the Company's long-term debt was approximately $106,750 and $145,600 at September 30, 1995 and 1996, respectively. The carrying value of the Company's Revolving Credit Facility approximates fair value.

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SENIOR NOTES DUE 2004

The Senior Notes are uncollateralized obligations of the Company and are effectively subordinated in right of payment to obligations under the Revolving Credit Facility. Interest is payable semi-annually on March 1 and September 1.

The notes are redeemable, in whole or in part, at the Company's option at any time on or after September 1, 2000 at redemption prices ranging from 105.813% to 100% plus accrued interest to the date of redemption. In addition, prior to September 1, 1999, in the event one or more public equity

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offerings of the Company are consummated, the Company may redeem in the aggregate up to a maximum of 35% of the initial aggregate principal amount of the Notes with the net proceeds thereof at a redemption price equal to 111.625% of the principal amount thereof plus accrued and unpaid interest to the date of redemption; provided that, after giving effect thereto, at least $85,000 aggregate principal amount of Notes remains outstanding.

The Senior Notes limit the incurrence of additional indebtedness, restricted payments, mergers, consolidations and asset sales.

OTHER

In addition, the Company's UK affiliate (Haynes International, Ltd.) has a revolving credit agreement with Midland Bank that provides for availability of 1 million pounds sterling collateralized by the assets of the affiliate. This revolving credit agreement was available in its entirety on September 30, 1996 as a means of financing the activities of the affiliate including payments to the Company for intercompany purchases. The Company's French affiliate (Haynes International, SARL) has an overdraft banking facility of 7.0 million French francs ($1,400) and utilized 4.4 million French francs ($896) of the facility as of September 30, 1996.

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<TABLE>

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NOTE 7: STOCKHOLDER'S EQUITY (CAPITAL DEFICIENCY)

The following is a summary of changes in stockholder's equity (capital deficiency):

<S>	<C>	<C>	<C>	<C>	<C>
	Common Stock				
	No. of Shares	At Par	Additional Paid in Capital	(Accumulated Deficit)	Foreign Currency Translation Adjustment
Balance at September 30, 1993	100	$ 0	$ 46,087	$ (25,018)	$ 1,869
Year ended September 30, 1994:					
Net loss				(140,496)	
Dividend to parent company to repurchase stock			(83)		
Reclassification of re-deemable common stock			272		

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Foreign exchange					1,342
Balance at September 30, 1994	100	0	46,276	(165,514)	3,211
Year ended September 30, 1995:					
Net Loss				(6,771)	
Dividend to parent company to repurchase stock			(70)		
Reclassification of redeemable common stock			100		
Foreign Exchange					859
Balance at September 30, 1995	100	0	46,306	(172,285)	4,070
Year ended September 30, 1996:					
Net Loss				(9,036)	
Dividend from parent company on exercise of stock option			674		
Reclassification of redeemable common stock			1,005		
Foreign Exchange					(1,075)
Balance at September 30, 1996	100	$ 0	$ 47,985	$ (181,321)	$ 2,995

<S> <C>

	Total Stockholder's Equity (Capital Deficiency)
Balance at September 30, 1993	$ 22,938
Year ended September 30, 1994:	
Net loss	(140,496)
Dividend to parent company to repurchase stock	(83)
Reclassification of re-deemable common stock	272
Foreign exchange	1,342
Balance at	

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September 30, 1994	(116,027)
Year ended September 30, 1995:	
Net Loss	(6,771)
Dividend to parent company to repurchase stock	(70)
Reclassification of redeemable common stock	100
Foreign Exchange	859
Balance at September 30, 1995	(121,909)
Year ended September 30, 1996:	
Net Loss	(9,036)
Dividend from parent company on exercise of stock option	674
Reclassification of redeemable common stock	1,005
Foreign Exchange	(1,075)
Balance at September 30, 1996	$ (130,341)

</TABLE>

NOTE 8: PENSION PLAN AND RETIREMENT BENEFITS

The Company has non-contributory defined benefit pension plans which cover most employees in the United States and certain foreign subsidiaries.

Benefits provided under the Company's domestic defined benefit pension plan are based on years of service and the employee's final compensation. The Company's funding policy is to contribute annually an amount deductible for federal income tax purposes based upon an actuarial cost method using actuarial and economic assumptions designed to achieve adequate funding of benefit obligations.

Net periodic pension cost on a consolidated basis was $611, $458, and $720 for the years ended September 30, 1994, 1995 and 1996, respectively.

For the domestic pension plan, net periodic pension cost was comprised of the following elements:

<TABLE>

<CAPTION>

<S>	<C> Year Ended September 30,	<C> Year Ended September 30,	<C> Year Ended September 30,

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	1994	1995	1996
Service cost	$ 2,165	$ 1,713	$ 2,042
Interest cost	6,536	7,060	7,027
Actual return on plan assets	(639)	(18,727)	(13,431)
Net amortization and deferral	(7,748)	10,084	4,670
Net periodic pension cost	$ 314	$ 130	$ 308

</TABLE>

The following table sets forth the domestic pension plan's funded status:

<TABLE>

<CAPTION>

<S>	<C> September 30, 1995	<C> September 30, 1996
Accumulated benefit obligation, including vested benefits of $86,227 and $83,516, respectively	$ 90,285	$ 87,469
Projected benefit obligation for service rendered to date	$ (103,149)	$ (101,922)
Plan assets at fair value (primarily debt securities)	122,103	128,264
Plan assets in excess of projected benefit obligation	18,954	26,342
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	(13,459)	(24,364)
Unrecognized prior service costs	(62)	3,146
Prepaid pension cost recognized in the consolidated balance sheet	$ 5,433	$ 5,124

Assumptions:

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Weighted average discount rate	7.00%	7.50%
Average rate of increase in compensation levels	5.25%	5.75%
Expected rate of return on plan assets during year	7.50%	7.75%

</TABLE>

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all domestic employees become eligible for these benefits if they reach normal retirement age while working for the Company. Prior to 1994, the cost of retiree health care and life insurance benefits was recognized as expense upon payment of claims or insurance premiums.

Effective October 1, 1993, the Company adopted SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions" which requires the cost of postretirement benefits to be accrued over the years employees provide services to the date of their full eligibility for such benefits. The Company's policy is to fund the cost these of benefits on an annual basis. The Company elected to immediately recognize the transition obligation for benefits earned as of October 1, 1993, resulting in a pre-tax, non-cash charge of $90,210 representing the cumulative effect of the change in accounting principle, which along with the establishment of a deferred tax valuation allowance, reduced net worth at September 30, 1994 by $79,630. Operations were charged approximately $7,997, $4,671 and $4,823 for these benefits during fiscal 1994, 1995 and 1996, respectively.

Effective January 1, 1995, the Company amended its health care plan by requiring retirees and surviving spouses to share in the cost of medical care by paying a portion of the cost of continuing health care insurance protection. As a result of this amendment, the accumulated postretirement benefit obligation was reduced by $13,583 and will be amortized to operations over approximately 12.5 years.

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The following sets forth the funded status of the plans in the aggregate reconciled with amounts reported in the Company's balance sheet:

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<TABLE>

<CAPTION>

<S>	<C> September 30, 1994	<C> September 30, 1995	<C> September 30, 1996
Accumulated postretirement benefit obligation (APBO):			
Retirees and dependents	$ 59,907	$ 47,039	$ 48,380
Active plan participants eligible to receive benefits	8,286	6,941	7,813
Active plan participants not yet eligible to receive benefits	18,087	15,823	16,043
Total APBO	86,280	69,803	72,236
Unrecognized prior service cost		12,674	11,582
Unrecognized net gain	7,868	12,353	11,995
Accrued postretirement liability	$ 94,148	$ 94,830	$ 95,813

</TABLE>

Net periodic postretirement benefit cost included the following components:

<TABLE>

<CAPTION>

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996
Service cost	$ 1,624	$ 1,036	$ 1,131
Interest cost	6,373	5,126	5,089
Amortization of net gain		(582)	(306)
Amortization of prior service cost		(909)	(1,091)
Net periodic postretirement benefit cost	$ 7,997	$ 4,671	$ 4,823

</TABLE>

An 11.46% annual rate of increase for ages under 65 and a 9.32% annual rate of increase for ages over 65 in the costs of covered health care benefits was assumed for 1996, gradually decreasing for both age groups to 5.25% by the year 2010. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 1996 by $9,903 and increase the net periodic postretirement benefit cost for 1996 by $973. A discount rate of 8.0% was used to determine the accumulated postretirement benefit obligation at September 30, 1994 and a discount rate of 7.5% was used to determine the accumulated postretirement benefit obligation at September 30, 1995 and 1996.

The Company sponsors certain profit sharing plans for the benefit of

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employees meeting certain eligibility requirements. There were no contributions for these plans for the three years in the period ended September 30, 1996.

NOTE 9:COMMITMENTS

The Company leases certain transportation vehicles, warehouse facilities, office space and machinery and equipment under cancelable and non-cancelable leases, most of which expire within 10 years and may be renewed by the Company. Rent expense under such arrangements totaled $1,567, $1,431 and $1,392 for the periods ended September 30, 1994, 1995 and 1996, respectively. Future minimum rental commitments under non-cancelable leases in effect at September 30, 1996 are as follows:

<TABLE>

<CAPTION>

<S>	<C>
1997	$1,234
1998	1,086
1999	806
2000	563
2001 and thereafter	928
	$4,617

</TABLE>

NOTE 10: OTHER

Other costs, net consists of net foreign currency transaction (gains) and losses in the amounts of $56, $207, and $(185) for the periods ended September 30, 1994, 1995 and 1996, respectively, and miscellaneous costs.

At September 30, 1994 the Company elected to write-off the remaining goodwill balance of $37,117. The reason for the write-off was that excess industry capacity, aggressive competitive activity, just-in-time inventory management programs, and weakness in certain economic sectors of the economy adversely affected the specialty corrosion and high-temperature alloy industry operating conditions and the Company's operating results since 1992. Accordingly, the Company revised its projections and determined that its projected operating results would not support the future amortization of the Company's remaining goodwill balance.

The methodology employed to assess the recoverability of the Company's goodwill first involved the projection of operating results forward 25 years, which approximated the remaining amortization period of goodwill as of September 30, 1994. The Company then evaluated the recoverability of goodwill on the basis of this forecast of future operations. Based on this forecast, the cumulative discounted net loss, before goodwill amortization and after interest expense, was insufficient to recover the remaining goodwill balance and accordingly, operations were charged for the entire unamortized balance.

The Company, like others in similar businesses, is involved as the defendant in several legal actions and is subject to extensive federal, state and local environmental laws and regulations. Although Company environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent regulation could

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require the Company to make additional unforeseen environmental expenditures.

Although the level of future expenditures for environmental and other legal matters cannot be determined with any degree of certainty, based on the facts presently known, management does not believe that such costs will have a material effect on the Company's financial position, results of operations or liquidity.

NOTE 11: STOCK OPTION PLAN

The Company's parent has a stock option plan (the "Plan") which allows for the granting of options to certain key employees and directors of the Company. Under the Plan, options to purchase up to 905,880 shares of common stock may be granted at a price not less than the lower of book value or 50% of fair market value, as defined in the Plan. The options must be exercised within ten years from the date of grant and become exercisable on a pro rata basis over a five year period from the date of grant, subject to approval by the Board of Directors.

All holders of options with exercise prices of $2.28 and $3.24 per share have the right to redeem such options at a price equal to book value per share, as defined in the Plan. Further, the Company has the right to call these options at an amount equal to the greater of $10.00 per share or fair market value per share, as defined in the Plan. The difference between the fair market value of the stock on the last measurement date and the exercise price of these options is classified as redeemable common stock. Due to the exercise and/or redemption of some of these options, redeemable common stock was reduced by $454 and $1,005 during 1995 and 1996, respectively.

Certain holders of 320,000 options with exercise prices of $5.00 per share have the right to redeem such options at a price equal to book value per share, as defined in the Plan. Further, the Company has the right to call these options at an amount equal to the greater of $5.00 per share (the estimated fair market value on the last measurement date) or fair market value per share, as defined in the Plan.

In January 1996, a majority of the options with exercise prices of $5.00 per share were re-priced to $2.50 per share (the estimated fair market value on that date).

On October 22, 1996, 133,000 options were granted to certain key management personnel at an exercise price of $8.00 per share.

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HAYNES INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Pertinent information covering the Plan is as follows:

<TABLE>

<CAPTION>

<S>	<C> Number of Shares	<C> Option Price Per Share	<C> Fiscal Year of Expiration	<C> Shares Exercisable

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Outstanding at September 30, 1993	836,058	$ 2.28-5.00	1999-2003	592,078
Granted	7,000	5.00		
Redeemed	(139,315)	2.28-3.24		
Canceled	(107,300)	5.00		
Outstanding at September 30, 1994	596,443	2.28-5.00	1999-2004	434,443
Granted	322,900	5.00		
Redeemed	(62,798)	2.28-3.24		
Canceled	(36,500)	5.00		
Outstanding at September 30, 1995	820,045	2.28-5.00	1999-2005	377,145
Granted	---	---		
Exercised	(201,931)	2.28-5.00		
Canceled	(32,000)	2.50		
Outstanding at September 30, 1996	586,114	$ 2.28-2.50	1999-2005	279,794
Options Outstanding at				
September 30, 1996 consist of:	23,644	$ 2.28		23,644
	35,470	3.24		35,470
	527,000	2.50		220,680
	586,114			279,794

</TABLE>

NOTE 12: FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Financial information by geographic area is as follows:

<TABLE>

<CAPTION>

<S>	<C> Year Ended September 30, 1994	<C> Year Ended September 30, 1995	<C> Year Ended September 30, 1996

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Sales			
United States	$ 94,830	$ 122,334	$ 142,132
Export Sales	43,045	63,235	66,777
	137,875	185,569	208,909
Europe	31,560	42,935	54,173
	169,435	228,504	263,082
Less: Eliminations	18,857	26,571	36,680
Net revenues	$ 150,578	$ 201,933	$ 226,402
Operating income (loss) and other cost, net			
United States	$ (38,636)	$ 10,825	$ 17,345
Europe	(1,894)	3,950	4,806
Total operating income (loss) and other cost, net	(40,530)	14,775	22,151
Interest	19,916	20,233	21,991
Income (loss) before provision for income taxes, extraordinary item and cumulative effect of change in accounting principle	$ (60,446)	$ (5,458)	$ 160
Identifiable assets			
United States	$ 115,251	$ 116,428	$ 122,400
Europe	24,490	29,649	34,314
General corporate assets*	5,690	5,035	4,688
Equity in affiliates	292	204	87
	$ 145,723	$ 151,316	$ 161,489

<FN>

- General corporate assets include cash and cash equivalents.
</TABLE>

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

Not applicable.

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PART III

ITEM 10. DIRECTORS & EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the persons who served as the directors and executive officers of the Company as of September 30, 1996. Except as indicated in the following paragraphs, the principal occupations of these persons have not changed during the past five years.

<TABLE>

<CAPTION>

<S>	<C>	<C>
NAME	AGE	POSITION WITH THE COMPANY
Michael D. Austin	56	President and Chief Executive Officer; Director
Joseph F. Barker.	49	Chief Financial Officer; Vice President, Finance; Secretary; Treasurer; Director
F. Galen Hodge.	58	Vice President, International
Michael F. Rothman.	49	Vice President, Engineering & Technology
Charles J. Sponaugle.	48	Vice President, Sales and Marketing
Frank J. LaRosa	37	Vice President, Human Resources and Information Technology
August A. Cijan	41	Vice President, Operations
Theodore T. Brown	38	Controller; Chief Accounting Officer
Robert I. Hanson.	52	General Manager, Arcadia Tubular Products
Perry J. Lewis.	58	Director, Chairman of the Board
Robert Egan	65	Director, Vice Chairman of the Board
John A. Morgan.	66	Director
Thomas F. Githens	69	Director
Sangwoo Ahn	58	Director
Ira Starr	37	Director

</TABLE>

Mr. Austin was elected President, Chief Executive Officer and a director of the Company in September 1993. From 1987 to the time he joined the Company, Mr. Austin was President and Chief Executive Officer of Tuscaloosa Steel Corporation, a mini hot strip mill owned by British Steel PLC with approximately $200 million in annual revenue ("Tuscaloosa"). Mr. Austin also serves on the board of directors of Chicago Metallic Corporation.

Mr. Barker was elected Vice President, Finance and a director of the Company in September 1992 and Treasurer and Secretary in September 1993. Mr. Barker was also elected Chief Financial Officer in May 1996. He had served as Controller of the Company and its predecessors since November 1986.

Dr. Hodge was elected Vice President, International in June 1994 after having served as Vice President of Technology since September 1989. He was Marketing and Technical Manager for the European Sales and Distribution operations from 1985 to 1987 and Director of Technology from 1987 to 1989.

Mr. Rothman was elected Vice President, Engineering and Technology in October 1995 after having served as Marketing Manager since 1994. He previously served in various marketing and technical positions since joining the Company in 1975.

Mr. Sponaugle was elected Vice President, Sales and Marketing in October 1994 after having served as Quality Control Manager and Total Quality Manager since September 1992. He previously served as Marketing Manager from 1985 to 1992.

Mr. LaRosa was elected Vice President, Human Resources and Information Technology in April 1996 after having served as Manager, Human Resources and Information Technology from June 1994 to April 1996. From September 1993 until June 1994, Mr. LaRosa served as Manager, Human Resources. From December 1990 until joining the Company in September 1993, he served in various management capacities at Tuscaloosa.

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Mr. Cijan was elected Vice President, Operations in April 1996. He joined the Company in 1993 as Manufacturing Manager and was Manager, Maintenance and Engineering for Tuscaloosa from 1987 until he joined the Company in 1993.

Mr. Brown was elected Controller and Chief Accounting Officer of the Company in May, 1996 after having served as General Accounting Manager since 1992. From 1988 to 1992 he served in various financial capacities with the Company.

Mr. Hanson was named General Manager, Arcadia Tubular Products Facility in November 1994. He previously served the Company and its predecessors in various technical, production and engineering capacities since October 1987.

Mr. Lewis has served as a general partner of MLGAL Partners L.P. ("MLGAL"), a Connecticut limited partnership that is the general partner of Fund II, since its formation in 1987. He was elected a director of the Company in 1989 and has served as Chairman of the Board of the Company since October 1993. Mr. Lewis also serves on the boards of directors of Aon Corporation, Evergreen Media Corporation, Tyler Corporation, Quaker Fabric Corporation, Stuart Entertainment, Inc. and ITI Technologies, Inc.

Mr. Egan was elected as a director and Vice Chairman of the Board of the Company in December 1993. Mr. Egan is retired. He was formerly the Chairman and Chief Executive Officer of Alloy Rods Corporation from 1985 to 1993. Mr. Egan also serves on the board of directors of Robroy Inc. See Item 12 for a summary of these agreements.

Mr. Morgan has served as a general partner of MLGAL since its formation in 1987. He was elected a director of the Company in 1989. Mr. Morgan also serves on the boards of directors of TriMas Corporation, Flight Safety International, Mascotech, Inc., Masco Corp., Allied Digital Technologies, Inc. and McDermott International Incorporated.

Mr. Githens has been a retired partner of MLGAL since January 1, 1993. From 1982 until his retirement, Mr. Githens was a partner in MLGAL, although he ceased his active involvement in the operations of MLGAL in December 1991.

Mr. Ahn has served as a general partner of MLGAL since its formation in 1987. He was elected a director of the Company in 1989. Mr. Ahn also serves on the boards of directors of Kaneb Services, Inc., Kaneb Pipe Line Partners, L.P., PAR Technology Corp., Quaker Fabric Corporation, Stuart Entertainment, Inc. and ITI Technologies, Inc.

Mr. Starr has served as a general partner of MLGAL since 1994. Mr. Starr served as Vice President of MLGAL from 1988 to 1994. He was elected a director of the Company in 1989. Mr. Starr also serves on the boards of directors of Quaker Fabric Corporation and Stuart Entertainment, Inc.

The Company, Holdings, Fund II and the investors in the Company who are officers or directors of the Company or employees of MLGA or the Company entered into the Stock Subscription Agreement, which requires certain persons be elected to the board of directors. The same parties, together with certain institutional investors, entered into a Stockholders Agreement dated August 31, 1989 (the "Stockholder Agreement"). See Item 12 for a summary of these agreements.

Each member of the board of directors is elected for a term of one year. Except for Messrs. Austin, Barker and Egan, who were elected in September 1993, September 1992 and October 1993, respectively, each of the directors has served in that capacity since August 1989. Each of the directors is nominated and elected pursuant to the terms of the Stock Subscription Agreement.

The Company's Certificate of Incorporation (the "Certificate") authorizes the board of directors to designate the number of directors. The board currently has designated eleven directors, and there are three existing vacancies on the board of directors, which the Company does not intend to fill in the near future. Directors of the Company serve until their successors are duly elected and qualified or until their earlier resignation or removal. Officers of the Company serve at the discretion of the board of directors, subject, in the case of Mr. Austin, to the terms of his employment contract. See "--Austin Employment Agreement."

The board has established an Audit Committee and a Compensation Committee. The Audit Committee consists of Messrs. Egan, Githens and Starr and the Compensation Committee consists of Messrs. Lewis, Ahn and Egan. The Audit Committee is responsible for recommending independent auditors, reviewing, in connection with the independent auditors, the audit plan, the adequacy of internal controls, the audit report and management letter and undertaking such

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other incidental functions as the board may authorize. The Compensation Committee is responsible for administering the Stock Option Plans, determining executive compensation policies and administering compensation plans and salary programs, including performing an annual review of the total compensation and recommended adjustments for all executive officers. See Item 11.

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ITEM 11. EXECUTIVE COMPENSATION

The following tables and notes present the compensation provided by the Company to its Chief Executive Officer and the Company's four most highly compensated executive officers, who served as executive officers as of September 30, 1996.

SUMMARY COMPENSATION TABLE

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS/OPTIONS	
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	(NUMBER OF SHARES	ALL OTHER COMPENSATION(3)
Michael D. Austin	1996	$ 351,250	$ 67,000	--	$ 104,519
President and Chief	1995	314,167	--	--	75,631
Executive Officer	1994	314,167	100,000(2)	--	5,520
Joseph F. Barker	1996	150,000	27,000	--	2,073
Vice President, Finance;	1995	130,500	--	28,400	1,808
Secretary; Treasurer	1994	130,500	--	--	2,252
F. Galen Hodge	1996	136,750	26,700	--	3,236
Vice President,	1995	129,033	--	23,00	3,651
International	1994	129,033	--	--	2,580
August A. Cijan	1996	139,350	25,100	--	743
Vice President, Operations	1995	117,800	--	40,000	55,677
	1994	106,893	--	--	295
Charles J. Sponaugle	1996	134,042	23,100	--	1,191
Vice President, Sales	1995	109,908	--	40,00	1,555
and Marketing	1994	83,733	--	--	682

<FN>

---

(1) Additional compensation in the form of perquisites was paid to certain of the named officers in the perids presented; however, the amount of such compensation was less than the level required for reporting.

(2) Mr. Austin was elected President and Chief Executive Officer of the Company on September 2, 1993 and, under the terms of an Executive Employment Agreement with the Company, Mr. Austin received a $100,000 bonus to cover deferred compensation forfeited at his former employer. See "Austin Employment Agreement" below.

(3) Premium payments to the group term life insurance plan, gainsharing payments and relocation reimbursements which

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were made by the Company.
</TABLE>

STOCK OPTION PLANS

In 1986, the Company adopted a stock incentive plan, which was amended and restated in 1987, for certain key management employees (the "Prior Option Plan"). The Prior Option Plan allowed participants to acquire restricted common stock from the Company by exercising stock options (the "Prior Options") granted pursuant to the terms and conditions of the Prior Option Plan. In connection with the 1989 Acquisition, Holdings established the Haynes Holdings, Inc. Employee Stock Option Plan (the "Existing Stock Option Plan"). The Existing Stock Option Plan authorizes the granting of options to certain key employees and directors of Holdings and its subsidiaries (including the Company) for the purchase of a maximum of 905,880 shares of Holdings' Common Stock. As of September 30, 1996, options to purchase 820,045 shares were outstanding under the Existing Stock Option Plan, leaving 85,835 options available for grant. Upon consummation of the 1989 Acquisition, the holders of the Prior Options exchanged all of their remaining Prior Options for options pursuant to the Stock Option Plan (the "Rollover Options"). Except for the Rollover Options, the Compensation Committee, which administers the Existing Stock Option Plan, is authorized to determine which eligible employees will receive options and the amount of such options. Pursuant to the Existing Stock Option Plan, the Compensation Committee is authorized to grant options to purchase Common Stock at any price in excess of the lower of Book Value (as defined in the Existing Stock Option Plan) or 50% of the Fair Market Value (as defined in the Existing Stock Option Plan) per share of Common Stock on the date of the award. However, actual options outstanding under the Existing Stock Option Plan have been granted at the estimated fair market value per share at the date of grant, resulting is no compensation being charged to operations.

Subject to earlier exercise upon death, disability or normal retirement, upon a change of control (as defined in the Existing Stock Option Plan) of Holdings, upon the determination of the Compensation Committee in its discretion, or upon the sale of all or substantially all of the assets of the Company, options granted under the Existing Stock Option Plan (other than the Rollover Options and options granted to existing Management Holders (as defined in the Existing Stock Option Plan) that are immediately exercisable) become exercisable on the third anniversary thereof unless otherwise provided by the Compensation Committee and terminate on the earlier of (i) three months after the optionee ceases to be employed by the Company or any of its subsidiaries or (ii) ten years and two days after the date of grant. Options granted pursuant to the Existing Stock Option Plan may not be assigned or transferred by an optionee other than by last will and testament or by the laws of descent and distribution, and any attempted transfer of such options may result in termination thereof. The grant, holding or exercise of options granted pursuant to the Existing Stock Option Plan may, in the Compensation Committee's discretion, be conditioned upon the optionee becoming a party to the Stock Subscription Agreement or the Stockholders Agreement entered into by the investors in the Company at the time of the 1989 Acquisition. See "Principal Stockholders."

In fiscal 1995, 322,900 options were granted by the Compensation Committee pursuant to the Existing Stock Option Plan. No options were granted in fiscal 1996. On October 22, 1996, 133,000 options were granted to certain key management personnel with exercise prices of $8.00 per share.

Certain options were originally granted in December 1994 with an exercise price of $5.00 per share. In order to provide a meaningful incentive to management, in January 1996 the Company's board of directors reduced the exercise price for the options listed in the table (and options to purchase an additional 191,500 shares of Common Stock granted to other members of the Company's management) to $2.50 per share, which the board of directors determined was the fair market value at that time.

<TABLE>

<CAPTION>

The following table sets forth the number of shares of Holdings common stock covered by exercisable and unexercisable options held by the persons named in the Summary Compensation Table.

Fiscal Year End Option Values

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	Number of at September	Unexercised Options 30, 1996 (#)	Value of Options at	Unexercised September 30,	In-the-Money 1996 ($)(1)
<S>	<C> Name	<C> Exercisable	<C> Unexercisable	<C> Exercisable	<C> Unexercisable
Michael D. Austin	120,000	80,000	660,000	440,000	
F. Galen Hodge	57,070	18,400	287,637	101,200	
Joseph F. Barker	40,924		22,720	230,284	124,960
August A. Cijan	8,000	32,000	44,000	176,000	
Charles J. Sponaugle	14,800	25,200	81,400	138,600	

<FN>

(1) Because there is no market for Holdings common stock, the value of unexercised "In-the Money" options is based on the most recent value of Holdings common stock as determined by the Holdings Board of Directors.
</TABLE>

SEVERANCE AGREEMENTS

In connection with the events leading up to the acquisition of the Company by Morgan Lewis Githens & Ahn and management of the Company in August 1989, the Company entered into Severance Agreements with certain key employees (the "Prior Severance Agreements"). In 1995, the Company determined that the provisions of the Prior Severance Agreements were no longer appropriate for the key employees who were parties thereto and that several other key employees who were employed after 1989 should be entitled to severance benefits. Consequently, during and after July 1995, the Company entered into Severance Agreements (the "Severance Agreements") with Messrs. Austin, Barker, Cijan, Hodge, LaRosa and Sponaugle and with certain other key employees of the Company (the "Eligible Employees"). The Severance Agreements superseded in all respects the Prior Severance Agreements that were then in effect.

The Severance Agreements provide for an initial term expiring April 30, 1996, subject to one-year automatic extensions (unless terminated by the Company or the Eligible Employee 60 days prior to May 1 of any year). The Severance Agreements automatically terminate upon termination of the Eligible Employee's employment prior to a Change in Control of the Company, as defined in the Severance Agreements (a "Severance Change in Control"), unless the termination of employment occurs as a result of action of the Company other than for Cause (as defined in the Severance Agreements) within 90 days of a Severance Change in Control. A Severance Change in Control occurs upon a change in ownership of 50.0% or more of the combined voting power of the outstanding securities of the Company or upon the merger, consolidation, sale of all or substantially all of the assets or liquidation of the Company.

The Severance Agreements provide that if an Eligible Employee's employment with the Company is terminated within six months following a Severance Change in Control by reason of such Eligible Employee's disability, retirement or death, the Company will pay the Eligible Employee (or his estate) his Base Salary (as defined in the Severance Agreements) plus any bonuses or incentive compensation earned or payable as of the date of termination. In the event that the Eligible Employee's employment is terminated by the Company for Cause (as defined in the Severance Agreements) within the six-month period, the Company is obligated only to pay the Eligible Employee his Base Salary through the date of termination. In addition, if within the six-month period the Eligible Employee's employment is terminated by the Eligible Employee or the Company (other than for Cause or due to disability, retirement or death), the Company must (among other things) (i) pay to the Eligible Employee such Eligible Employee's full Base Salary and any bonuses or incentive compensation earned or payable as of the date of termination; (ii) continue to provide life insurance and medical and hospital benefits to the Eligible Employee for up to 12 months following the date of termination (18 months for Messrs. Austin and Barker); (iii) pay to the Eligible Employee $12,000 for outplacement costs to be incurred, (iv) pay to the Eligible Employee a lump sum cash payment equal to either (a) 150% of the Eligible Employee's Base Salary in the case of Messrs. Austin and Barker, or (b) 100% of the Eligible Employee's Base Salary in the case of the other Eligible Employees, provided that the Company may elect to make such payments in installments over an 18 month period in the case of Messrs. Austin or Barker or a 12 month period in the case of the other Eligible Employees. As a condition to receipt of severance payments and

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benefits, the Severance Agreements require that Eligible Employees execute a release of all claims.

Pursuant to the Severance Agreements, each Eligible Employee agrees that during his employment with the Company and for an additional one year following the termination of the Eligible Employee's employment with the Company by reason of disability or retirement, by the Eligible Employee within six months following a Severance Change in Control or by the Company for Cause, the Eligible Employee will not, directly or indirectly, engage in any business in competition with the business of the Company.

AUSTIN EMPLOYMENT AGREEMENT

On September 2, 1993, the board of directors elected Michael D. Austin President and Chief Executive Officer of the Company. The Company and Holdings entered into an Executive Employment Agreement with Mr. Austin (the "Executive Employment Agreement") which provides that, in exchange for his services as President and Chief Executive Officer of the Company, the Company will pay Mr. Austin (1) an annual base salary of not less than $325,000, subject to annual adjustment at the sole discretion of the board of directors, and (2) incentive compensation as determined by the board of directors based on the actual results of operations of the Company in relation to budgeted results of operation of the Company. In addition, Mr. Austin is entitled to receive vacation leave and to participate in all benefit plans generally applicable to senior executives of the Company and to receive fringe benefits as are customary for the position of Chief Executive Officer.

Under the terms of the Executive Employment Agreement, the Company agreed to pay Mr. Austin the sum of $100,000 as compensation for deferred compensation forfeited by Mr. Austin at his former employer. The Company also indemnified Mr. Austin against any loss incurred in the sale of Mr. Austin's residence at his prior location and paid certain financing costs incurred in connection with the residence. The Company provided supplemental life, health, and accident coverage for Mr. Austin until he was eligible to participate in the Company's benefit plans.

Pursuant to the Executive Employment Agreement, Holdings also granted Mr. Austin the option to purchase 200,000 shares of Common Stock of Holdings at a purchase price of $5.00 per share under the Existing Stock Option Plan. In January 1996, the purchase price for exercise of the option was reduced to $2.50 per share. These options vest at a rate of 40,000 shares on September 1 of each year commencing September 1, 1994 until fully vested, so long as Mr. Austin continues to be employed by the Company on such dates and provided that all options would vest upon a "change in control" as defined in the Existing Stock Option Plan or certain sales of assets as specified in the Existing Stock Option Plan. Mr. Austin also became a party to the Stock Subscription Agreement and the Stockholders Agreement. In the event of a change in control and the termination of Mr. Austin's employment by the Company thereafter, the Company is also obligated to pay the difference, if any, between the pension benefit payable to Mr. Austin under the U.S. Pension Plan (as defined below) at the time of such change in control and the pension benefit that would be payable under the U.S. Pension Plan if Mr. Austin had completed 10 years of service with the Company.

On July 15, 1996, the Company, Holdings and Mr. Austin entered into an amendment of the Executive Employment Agreement which extends its term to August 31, 1999 (with year to year continuation thereafter unless the Company or Mr. Austin elects otherwise) and requires the Company to reimburse Mr. Austin for up to $10,000 for estate or financial planning services. The amendment of the Executive Employment Agreement also requires that in 1996 the Company review and evaluate the existing bonus plans and consider, among other alternatives, a deferred compensation plan for the management of the Company.

If Mr. Austin's employment is terminated by the Company prior to August 31, 1999 without "Cause," as defined in the Executive Employment Agreement, as amended, Mr. Austin is entitled to continuation of his annual base salary until the later of August 31, 1999 or 24 months following the date of termination. Also, if the Company terminates Mr. Austin's employment without Cause after August 31, 1999 or elects not to renew the Executive Employment Agreement on a one-year basis, Mr. Austin is entitled to annual base salary continuation for a period of 12 months following the date of termination of his employment. In the event that Mr. Austin is entitled to termination benefits under the Severance Agreement to which he is a party, he is not entitled to salary continuation or benefits under the Executive Employment Agreement, as amended.

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U.S. PENSION PLAN

The Company maintains for the benefit of eligible domestic employees a defined benefit pension plan, designated as the Haynes International, Inc. Pension Plan (the "U.S. Pension Plan"). Under the U.S. Pension Plan, all Company employees completing at least 1,000 hours of employment in a 12-month period become eligible to participate in the plan. Employees are eligible to receive an unreduced pension annuity on reaching age 65, reaching age 62 and completing 10 years of service, or completing 30 years of service. The final option is available only for union employees hired before July 3, 1988 or for salaried employees who were plan participants on March 31, 1987.

For salaried employees employed on or after July 3, 1988, the normal monthly pension benefit provided under the U.S. Pension Plan is the greater of (i) 1.31% of the employee's average monthly earnings multiplied by years of credited service, plus an additional 0.5% of the employee's average monthly earnings, if any, in excess of Social Security covered compensation multiplied by years of credited service up to 35 years, or (ii) the employee's accrued benefit as of March 31, 1987.

There are provisions for delayed retirement benefits, early retirement benefits, disability and death benefits, optional methods of benefit payments, payments to an employee who leaves after five or more years of service and payments to an employee's surviving spouse. Employees are vested and eligible to receive pension benefits after completing five years of service. Vested benefits are generally paid beginning at or after age 55; however, benefits maybe paid earlier in the event of disability, death, or completion of 30 years service prior to age 55.

The following table sets forth the range of estimated annual benefits payable upon retirement for graduated levels of average annual earnings and years of service for employees under the plan, based on retirement at age 65 in 1996. The maximum annual benefit permitted for 1996 under Section 415(b) of the Code is $120,000.

<TABLE>

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AVERAGE ANNUAL REMUNERATION	YEARS OF SERVICE 15	20	25	30	35
100,000	$ 23,800	$ 31,700	$ 39,700	$ 47,600	$ 55,500
150,000	36,500	48,700	60,900	73,100	85,300
200,000	49,300	65,700	82,200	98,600	115,000
250,000	62,000	82,700	103,400	124,100	144,800
300,000	74,800	99,700	124,700	149,600	174,500
350,000	87,500	116,700	145,900	175,100	204,300
400,000	100,300	133,700	167,200	200,600	234,000
450,000	113,000	150,700	188,400	226,100	263,800

</TABLE>

The estimated credited years of service of each of the individuals named in the Summary Compensation Table as of September 30, 1996 are as follows:
<TABLE>

<CAPTION>

	CREDITED SERVICE
Michael D. Austin	2
F. Galen Hodge	26

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Joseph F. Barker	15
Charles J. Sponaugle	15
August A. Cijan	2

</TABLE>

U.K. PENSION PLAN

The Company maintains a pension plan for its employees in the United Kingdom (the "U.K. Pension Plan"). The U.K. Pension Plan is a contributory plan under which eligible employees contribute 3% or 6% of their annual earnings. Normal retirement age under the U.K. Pension Plan is age 65 for males and age 60 for females. The annual pension benefit provided at normal retirement age under the U.K. Pension Plan ranges from 1% to 1 2/3% of the employee's final average annual earnings for each year of credited service, depending on the level of employee contributions made each year during the employee's period of service with the Company. The maximum annual pension benefit for employees with at least 10 years of service is two-thirds of the individual's final average annual earnings. Similar to the U.S. Pension Plan, the U.K. Pension Plan also includes provisions for delayed retirement benefits, early retirement benefits, disability and death benefits, optional methods of benefit payments, payments to employees who leave after a certain number of years of service, and payments to an employee's surviving spouse. The U.K. Pension Plan also provides for payments to an employee's surviving children.

PROFIT SHARING AND SAVINGS PLAN

The Company maintains the Haynes International, Inc. Profit Sharing and Savings Plan and the Haynes International, Inc. Hourly Profit Sharing and Savings Plan (the "Profit Sharing Plans") to provide retirement, tax-deferred savings for eligible employees and their beneficiaries.

The board of directors has sole discretion to determine the amount, if any, to be contributed by the Company. No Company contributions were made to the Profit Sharing Plans for the fiscal years ended September 30, 1994, 1995 and 1996.

The Profit Sharing Plans are qualified under Section 401 of the Code, permitting the Company to deduct for federal income tax purposes all amounts contributed by it to the Profit Sharing Plans.

In general, all salaried employees completing at least 1,000 hours of employment in a 12-month period are eligible to participate after completion of one full year of employment. Each participant's share in the annual allocation, if any, to the Profit Sharing Plans is represented by the percentage which his or her plan compensation (up to $260,000) bears to the total plan compensation of all participants in the plan. Employees may also elect to make elective salary reduction contributions to the Profit Sharing Plans, in amounts up to 10% of their plan compensation. Elective salary reduction contributions may be withdrawn subject to the terms of the Profit Sharing Plans.

Vested individual account balances attributable to Company contributions may be withdrawn only after the amount to be distributed has been held by the plan trustee in the profit sharing account for at least 24 consecutive calendar months. Participants vest in their individual account balances attributable to Company contributions at age 65, death, disability or on completing five years of service.

INCENTIVE PLAN

In January 1996, the Company awarded and paid management bonuses of approximately $439,000 pursuant to its management incentive program. The January bonuses were calculated based on the Company's fiscal 1995 performance. Additionally, the Company adopted a management incentive plan effective for fiscal 1996 pursuant to which senior managers and managers in the level below senior managers will be paid a bonus based on actual EBITDA compared to budgeted EBITDA. Based on results for fiscal 1996, the Company accrued approximately $1.5 million for fiscal 1996 which was paid to all domestic employees meeting certain service requirements on November 15, 1996.

HAYNES INTERNATIONAL, LTD. PLAN

In fiscal 1995, the Company's affiliate Haynes International, LTD instituted a gainsharing plan. For fiscal 1995 and 1996, the Company made gainsharing payments pursuant to this plan of approximately $269,000 and

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$266,000, respectively.

DIRECTOR COMPENSATION

The directors of the Company other than Thomas F. Githens and Robert Egan receive no compensation for their services as such. The non-management members of the board of directors are reimbursed by the Company for their out-of-pocket expenses incurred in attending meetings of the board of directors. Mr. Githens receives a director's fee of $3,000 per calendar quarter, $1,000 per board meeting attended and $750 per board committee meeting attended. Mr. Egan receives a director's fee of $2,000 per month plus an advisory fee of $2,000 per month.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Sangwoo Ahn, Perry J. Lewis and Robert Egan served on the Compensation Committee during fiscal 1996. None of the members of the Compensation Committee are now serving or previously have served as employees or officers of the Company or any subsidiary, and none of the Company's executive officers serve as directors of, or in any compensation related capacity for, companies with which members of the Compensation Committee are affiliated.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors is responsible for administering the Existing Stock Option Plan, determining executive compensation policies and administering compensation plans and salary programs. The Committee is currently comprised solely of non-employee directors. The Committee is chaired by Mr. Perry J. Lewis. The other Committee members are Mr. Sangwoo Ahn and Mr. Robert Egan. The following report is submitted by the members of the Compensation Committee.

* * *

The Company's executive compensation program is designed to align executive compensation with the financial performance, business strategies and objectives of the Company. The Company's compensation philosophy is to ensure that the delivery of compensation, both in the short- and long-term, is consistent with the sustained progress, growth and profitability of the Company and acts as an inducement to attract and retain qualified individuals. Under the guidance of the Company's Compensation Committee, the Company has developed and implemented an executive compensation program to achieve these objectives while providing executives with compensation opportunities that are competitive with companies of comparable size in related industries.

The Company's executive compensation program has been designed to implement the objectives described above and is comprised of the following fundamental three elements:

C a base salary that is determined by individual contributions and sustained performance within an established competitive salary range. Pay for performance recognizes the achievement of financial goals and accomplishment of corporate and functional objectives of the Company.

C an annual cash bonus, based upon corporate and individual performance during the fiscal year.

C grants of stock options, also based upon corporate and individual performance during the fiscal year, which focus executives on managing the Company from the perspective of an owner with an equity position in the business.

Base Salary. The salary, and any periodic increase thereof, of the President and Chief Executive Officer was and is determined by the Board of Directors of the Company based on recommendations made by the Compensation Committee. The salaries, and any periodic increases thereof, of the Vice President, Finance, Secretary and Treasurer, the Vice President, International, the Vice President, Operations, and the Vice President, Marketing, were and are determined by the Board of Directors based on recommendations made by the President and Chief Executive Officer and approved by the Committee.

The Company, in establishing base salaries, levels of incidental and/or supplemental compensation, and incentive compensation programs for its officers and key executives, assesses periodic compensation surveys and published data covering the industry in which the Company operates and industry in general. The level of base salary compensation for officers and key executives is determined by both their scope and responsibility and the

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established salary ranges for officers and key executives of the Company. Periodic increases in base salary are dependent on the executive's proficiency of performance in the individual's position for a given period, and on the executive's competency, skill and experience.

Compensation levels for fiscal 1996 for the President and Chief Executive Officer, and for the other executive officers of the Company, reflected the accomplishment of corporate and functional objectives in fiscal 1995.

Bonus Payments. Bonus awards are determined by the Board of Directors of the Company based on recommendations made by the Compensation Committee. Bonus awards for fiscal 1996 reflected the accomplishment of corporate and functional objectives in fiscal 1996, including the successful refinancing of the Company's debt.

Stock Option Grants. Stock options under the Existing Option Plan are granted to key executives and officers based upon individual and corporate performance and are determined by the Board of Directors of the Company based on recommendations made by the Compensation Committee. No stock options were granted in fiscal 1996.

SUBMITTED BY THE COMPENSATION COMMITTEE

Mr. Perry J. Lewis
Mr. Sangwoo Ahn
Mr. Robert Egan

[Remainder of page intentionally left blank.]

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

All of the outstanding capital stock of the Company is owned by Holdings. The only stockholder of record of Holdings owning more than five percent of its outstanding Common Stock at September 30, 1996 was MLGA Fund II, L.P. ("Fund II"), a Connecticut limited partnership that is controlled by John A. Morgan, Perry J. Lewis, Sangwoo Ahn, Ira Starr and William C. Ughetta, Jr., all principals of MLGAL. The following table sets forth the number and percentage of shares of Common Stock of Holdings owned by (i) Fund II, (ii) all affiliates of Fund II, (iii) each of the directors of the Company and each of the executive officers named in the Summary Compensation Table, (iv) all affiliates of Fund II as a group and (v) all directors and executive officers of the Company as a group, as of September 30, 1996. The address of Fund II, and of Messrs. Ahn, Lewis, Morgan, Starr and Ughetta, is 2 Greenwich Plaza, Greenwich, Connecticut 06830. The address of Messrs, Austin, Hodge, Barker, Cijan, and Sponaugle is 1020 West Park Avenue, Kokomo, Indiana 46904-9013. The address of Mr. Githens is 41 Crescent Place, Short Hills, New Jersey 07078. The address of Mr. Egan is 4 Foxwood Drive, Pittsburgh, Pennsylvania 15238.

<TABLE>

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<S>	<C>	<C>
	Shares Beneficially Owned(1)	
Name	Number	Percent
Fund II	5,759,894	87.6%
Sangwoo Ahn	5,879,836(2)(3)	89.4
Perry J. Lewis	5,879,836(2)(3)	89.4
John A. Morgan	5,879,836(2)(3)	89.4
Ira Starr	5,854,251(2)(3)	89.0

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William C. Ughetta, Jr.	5,846,751(2)(3)	88.9
Thomas F. Githens	54,799	(6)
Robert Egan	0	--
Michael D. Austin	120,000(4)	1.8
F. Galen Hodge	57,070(6)	(6)
Joseph F. Barker	40,924(6)	(6)
August A. Cijan	8,000(6)	(6)
Charles J. Sponaugle	19,800(5)	(6)
All Fund II affiliates as a group	5,953,506	90.6
All directors and executive officers of the Company as a group	6,270,099(2)	91.8

<FN>

---

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock.

(2) Includes the shares reported in the table as owned by Fund II and 86,857 shares owned by MLGAL.

(3) The named stockholder disclaims beneficial ownership of the shares held by Fund II and MLGAL, except to the extent of his pecuniary interest therein arising from his general partnership interest in MLGAL.

(4) Represents shares of Common Stock underlying options exercisable within 60 days of September 30, 1996 which are deemed to be beneficially owned by the holders of such options. See Item 11 - "Executive Compensation - Stock Option Plans."

(5) Includes 14,800 shares of Common Stock underlying options exercisable within 60 days of September 30, 1996 which are deemed to be beneficially owned by Mr. Sponaugle. See Item 11 - "Executive Compensation - Stock Option Plans."

(6) Less than 1%.

</TABLE>

AGREEMENTS AMONG STOCKHOLDERS

Holdings, the Company, MLGA Fund II and the investors in Holdings who were officers or directors of the Company or affiliates of MLGA Fund II or the Company at the time of the 1989 Acquisition have entered into the Stock Subscription Agreement and Holdings and all of the investors in Holdings have entered into the Stockholder Agreement, both dated August 31, 1989 and amended as of August 14, 1992 to add MLGAL as a party. The Stock Subscription Agreement was further amended on March 16, 1993 to reduce the Company's purchase price for Holdings common stock and stock options described below.

The Stock Subscription Agreement provides that each of the investors who is a party to the agreement shall have a right of first refusal with respect to any transfer by an investor of Holdings common stock unless the transfer complies with all applicable securities laws and all other agreements made by the investors who are parties to the agreement, or the transferee is Holdings or a person specified in the Stock Subscription Agreement as a "Permitted Transferee", or the transfer is made pursuant to a public offering of Holdings common stock. Investors who are management employees of the Company or their Permitted Transferees (the "Management Holders") have the right to sell their Holdings common stock or their options to purchase Holdings common stock, in whole or in part, to Holdings at a price equal to (i) 6.3 multiplied by the Company's EBITDA (as defined in the Stock Subscription Agreement) for the immediately preceding four fiscal quarters less the average indebtedness of Holdings, the Company and its subsidiaries for the immediately preceding four fiscal quarters, all to be determined on a consolidated basis, divided by (ii) the total number of fully diluted shares of Holdings common stock outstanding (the "Fair Market Value") net of the applicable exercise price, if any, within five years after termination of employment because of disability, retirement or death, after which time the Holdings common stock and options to purchase Holdings common stock may be called by Holdings for redemption at the Fair

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Market Value. Additionally, upon the termination of employment of any Management Holder other than for disability, retirement or death, the Stock Subscription Agreement contains provisions for the purchase and sale of Holdings common stock and options to purchase Holdings common stock at prices based on formulas which take into account the reason for the termination.

The Stock Subscription Agreement contains voting requirements which provide for the election as directors of Holdings and of the Company of six persons (including the Chairman of the Board) designated by the Founding Investors (as defined in the Stock Subscription Agreement) and of five persons designated by the Management Holders. A change in the number of directors requires the approval of a majority of all the investors who are parties to the agreement and a majority of the Management Holders. The Board of Directors must approve all capital expenditures over $500,000, mergers, adjustments to management's compensation, promotions of officers, incurrence of debt, loans, sales of shares, and any disposal of substantially all the assets of the Company. The Stock Subscription Agreement also requires that the investors who are parties to the agreement vote to amend the Certificate of Incorporation of Holdings if necessary to accommodate a public offering; however, newly issued shares must be approved by a majority of the Management Holders if the issuance price is below certain specified minimum prices. The Stock Subscription Agreement terminates upon the earlier of an initial public offering, the consent of a majority of all the investors who are parties to the agreement and of a majority of the Management Holders, or the tenth anniversary of the 1989 Acquisition.

The Stockholder Agreement imposes certain transfer restrictions on the Holdings common stock, including provisions that (i) Holdings common stock may be transferred only to those persons agreeing to be bound by the Stockholder Agreement, and the Stock Subscription Agreement if the transferor is a party thereto, except if such transfer is pursuant to a public offering or made following a public offering in compliance with Rule 144 under the Securities Act; (ii) the investors may not grant any proxy or enter into or agree to be bound by any voting trust with respect to the Holdings common stock; (iii) if the Founding Investors, the Management Holders or their permitted transferees propose to sell any of their Holdings common stock, the other investors shall in most instances have the right to participate ratably in the proposed sale or, under certain circumstances, to sell all of their Holdings common stock in the proposed sale; (iv) if a majority in interest of the investors propose to sell a majority of the Holdings common stock or substantially all of the assets of Holdings or the Company to a third party, the Management Holders shall have a right to bid for such stock or assets; and (v) a majority in interest of the investors may compel all other such investors to sell their shares under certain circumstances. The Stockholder Agreement also contains a commitment on the part of Holdings to register the shares under the Securities Act upon request by investors holding at least 25% of the fully diluted shares of Holdings common stock outstanding, or if Holdings otherwise proposes to register shares, subject to certain conditions and limitations. The Stockholder Agreement terminates on the earlier of the sale of 15% or more of the fully diluted stock pursuant to a public offering and the qualification of the common stock for listing on the New York Stock Exchange, the American Stock Exchange or Nasdaq, or upon the tenth anniversary of the Acquisition.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

(a) Documents filed as part of this Report.

1. Financial Statements:

Included as outlined in Item 8 of Part II of this report:

Report of Independent Accountants.

Consolidated Balance Sheet as of September 30, 1995 and September 30, 1996.

Consolidated Statement of Operations for the Years Ended September 30, 1994, 1995 and 1996.

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Consolidated Statement of Cash Flows for the Years Ended September 30, 1994, 1995 and 1996.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules:

Included as outlined in Item 8 of Part II of this report:

Schedule VIII - Valuation and Qualifying Accounts and Reserves

Schedules other than those listed above are omitted as they are not required, are not applicable, or the information is shown in the Notes to the Consolidated Financial Statements.

(b) Reports on Form 8-K. None.

(c) Exhibits. See Index to Exhibits.

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<TABLE>

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HAYNES INTERNATIONAL, INC.
SCHEDULE VIII
EVALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(IN THOUSANDS)

<S>	<C>	<C>	<C>
	Year Ended Sept. 30, 1994	Year Ended Sept. 30, 1995	Year Ended Sept. 30, 1996
Balance at beginning of period	$ 450	$ 520	$ 979
Provisions	863	553	26
Write-Offs	(805)	(151)	(152)
Recoveries	12	57	47
Balance at end of period	$ 520	$ 979	$ 900

</TABLE>

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SIGNATURES

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

HAYNES INTERNATIONAL, INC.

(Registrant)

By:/s/ Michael D. Austin

Michael D. Austin, President

Date: December 20, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>

<CAPTION>

<S>	<C>	<C>
Signature	Capacity	Date
/s/ Michael D. Austin Michael D. Austin	President and Director (Principle Executive Officer)	December 20, 1996
/s/ Joseph F. Barker Joseph F. Barker	Vice President, Finance; Treasurer and Director Principle Financial Officer	December 20, 1996
/s/ Theodore T. Brown Theodore T. Brown	Controller (Principal Accounting Officer)	December 20, 1996
/s/ John A. Morgan John A. Morgan	Director	December 20, 1996
/s/ Perry J. Lewis Perry J. Lewis	Director	December 20, 1996
/s/ Thomas F. Githens Thomas F. Githens	Director	December 20, 1996

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/s/ Sangwoo Ahn Director December 20, 1996

Sangwoo Ahn

/s/ Ira Starr Director December 20, 1996

Ira Starr

/s/ Robert Egan Director December 20, 1996

Robert Egan

</TABLE>

<TABLE>

<CAPTION>

INDEX TO EXHIBITS

<S>	<C>	<C>	<C>
Number Assigned In Regulation S-K Item 601		Description of Exhibit	Sequential Numbering System Page Number of Exhibit
(2)		No Exhibit.	
(3)	3.01	Restated Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.01 to Registration Statement on Form S-1, Registration No. 33-32617.)	
	3.02	Bylaws of Registrant. (Incorporated by reference to Exhibit 3.02 to Registration Statement on Form S-1, Registration No. 33-32617.)	
(4)	4.01	Indenture, dated as of August 23, 1996, between Haynes International, Inc., and National City Bank, as Trustee, relating to the 11-5/8% Senior Notes Due 2004, table of contents and cross-reference sheet	
	4.02	Form of 11 5/8% Senior Note Due 2004.	
(9)		No Exhibit	
(10)	10.01	Form of Severance Agreements, dated as of March 10, 1989, between Haynes International, Inc. and the employees of Haynes International, Inc. named in the schedule to the Exhibit. (Incorporated by reference to Exhibit 10.03 to Registration Statement on Form S-1, Registration No. 33-32617.)	
	10.02	Stock Subscription Agreement, dated as of August 31, 1989, among Haynes Holdings, Inc., Haynes International, Inc. and the persons listed on the signature pages thereto (Investors). (Incorporated by reference to Exhibit 4.07 to Registration Statement on Form S-1, Registration No. 33-32617.)	
	10.03	Amendment to the Stock Subscription Agreement To Add a Party, dated August 14, 1992, among Haynes Holdings, Inc., Haynes International, Inc., MLGA Fund II, L.P., and the persons listed on the signature pages thereto. (Incorporated by reference to Exhibit 10.17 to Registration Statement on Form S-4, Registration No. 33-66346.)	
	10.04	Second Amendment to Stock Subscription Agreement, dated	

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March 16, 1993, among Haynes Holdings, Inc., Haynes International, Inc., MLGA Fund II, L.P., MLGAL Partners, Limited Partnership, and the persons listed on the signature pages thereto. (Incorporated by reference to Exhibit 10.21 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.05 Stockholders Agreement, dated as of August 31, 1989, among Haynes Holdings, Inc. and the persons listed on the signature pages thereto (Investors). (Incorporated by reference to Exhibit 4.08 to Registration Statement on Form S-1, Registration No. 33-32617.)

10.06 Amendment to the Stockholders Agreement To Add a Party, dated August 14, 1992, among Haynes Holdings, Inc., MLGA Fund II, L.P., and the persons listed on the signature pages thereto. (Incorporated by reference to Exhibit 10.18 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.07 Investment Agreement, dated August 10, 1992, between MLGA Fund II, L.P., and Haynes Holdings, Inc. (Incorporated by reference to Exhibit 10.22 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.08 Investment Agreement, dated August 10, 1992, between MLGAL Partners, Limited Partnership and Haynes Holdings, Inc. (Incorporated by reference to Exhibit 10.23 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.09 Investment Agreement, dated August 10, 1992, between Thomas F. Githens and Haynes Holdings, Inc. (Incorporated by reference to Exhibit 10.24 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.10 Consent and Waiver Agreement, dated August 14, 1992, among Haynes Holdings, Inc., Haynes International, Inc., MLGA Fund II, L.P., and the persons listed on the signature pages thereto. (Incorporated by reference to Exhibit 10.19 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.11 Retirement Agreement, dated as of May 21, 1993, between Haynes International, Inc. and Paul F. Troiano (Incorporated by reference to Exhibit 10.02 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.12 Executive Employment Agreement, dated as of September 1, 1993, by and among Haynes International, Inc., Haynes Holdings, Inc. and Michael D. Austin. (Incorporated by reference to Exhibit 10.26 to the Registration Statement on Form S-4, Registration No. 33-66346.)

10.13 Amendment to Employment Agreement, dated as of July 15, 1996 by and among Haynes International, Inc., Haynes Holdings, Inc. and Michael D. Austin. (Incorporated by reference to Exhibit 10.15 to Registration Statement on Form S-1, Registration No. 333-05411.)

10.14 Haynes Holdings, Inc. Employee Stock Option Plan. (Incorporated by reference to Exhibit 10.08 to Registration Statement on Form S-1, Registration No. 33-32617.)

10.15 Form of "New Option" Agreements between Haynes Holdings, Inc. and the executive officers of Haynes International, Inc. named in the schedule to the Exhibit. (Incorporated by reference to Exhibit 10.09 to Registration Statement on Form S-1, Registration No. 33-32617.)

10.16 Form of "September Option" Agreements between Haynes Holdings, Inc. and the executive officers of Haynes International, Inc. named in the schedule to the Exhibit. (Incorporated by reference to Exhibit 10.10 to Registration Statement on Form S-1, Registration No. 33-66346.)

10.17 Form of "January 1992 Option" Agreements between Haynes Holdings, Inc. and the executive officers of Haynes International, Inc. named in the schedule to the Exhibit. (Incorporated by reference to Exhibit 10.08 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.18 Form of "Amendment to Holdings Option Agreements" between Haynes Holdings, Inc. and the executive officers of Haynes International, Inc. named in the schedule to the Exhibit. (Incorporated by reference to Exhibit 10.09 to Registration Statement on Form S-4, Registration No. 33-66346.)

10.19 Amended and Restated Loan Agreement by and among CoreStates Bank, N.A. and Congress Financial Corporation (Central), as Lenders, Congress Financial Corporation (Central), as Agent of Lenders, and

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		Haynes International, Inc., as Borrower.
(11)		No Exhibit.
(12)	12.01	Statement re: computation of ratio of earnings to fixed charges.
(13)		No Exhibit.
(16)		No Exhibit.
(18)		No Exhibit.
(21)	21.01	Subsidiaries of the Registrant. (Incorporated by Reference to Exhibit 21.01 to Registration Statement on Form S-1, Registration No. 333-05411.)
(22)		No Exhibit.
(23)		No Exhibit.
(24)		No Exhibit.
(27)	27.01	Financial Data Schedule
(28)		No Exhibit.
(99)		No Exhibit.

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Form of Indenture, dated as of August 20, 1996, among Haynes International, Inc., Haynes Holdings, Inc. and National City Bank, as Trustee, relating to the 11.625% Senior Notes Due 2004, table of contents and cross-reference sheet

HAYNES INTERNATIONAL, INC.

and

NATIONAL CITY BANK, AS TRUSTEE

INDENTURE

Dated as of August 23, 1996

$140,000,000

11e% Senior Notes due 2004

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SCHEDULE I. Restrictions on Dividends of Subsidiaries

INDENTURE, dated as of August 23, 1996, between HAYNES INTERNATIONAl, INC., a Delaware corporation (as more fully defined below, the "Company"), and National City Bank, a national banking association, as trustee (the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of 11e% Senior Notes due 2004 (the "Securities"), of substantially the tenor and amount hereinafter set forth, and to provide therefor, the Company has duly authorized the execution and delivery of this Indenture;

This Indenture is subject to, and shall be governed by, the provisions of the Trust Indenture Act that are required to be part of and to

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govern indentures qualified under the Trust Indenture Act; and

All acts and things necessary have been done to make (i) the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company and (ii) this Indenture a valid agreement of the Company in accordance with the terms of this Indenture.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 1.1. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular;

(b) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(e) all references to $, US$, dollars or United States dollars shall refer to the lawful currency of the United States of America.

The following terms shall have the meanings set forth in this Section.

"Acquired Indebtedness" means Indebtedness of a Person (i) existing at the time such Person becomes a Subsidiary or (ii) assumed in connection with the acquisition of assets from such Person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Subsidiary or such acquisition. Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from any Person or the date the acquired Person becomes a Subsidiary.

"Adjusted Consolidated Interest Expense" of any Person means, without duplication, for any period, as applied to any Person, the sum of (a) the interest expense of such Person and its Consolidated Subsidiaries for such period, on a Consolidated basis, including without limitation, (i) amortization of debt discount, (ii) the net cost under interest rate contracts (including amortization of discounts), (iii) the interest portion of any deferred payment obligation and (iv) accrued interest, plus (b)(i) the interest component of the Capital Lease Obligations paid, accrued and/or scheduled to be paid, or accrued by such Person during such period, and (ii) all capitalized interest of such Person and its Consolidated Subsidiaries, in each case as determined in accordance with GAAP consistently applied.

"Affiliate" means, (i) with respect to any specified Person, (A) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person or (B) any other Person that owns, directly or indirectly, 5% or more of such Person's Capital Stock or any officer or director of any such specified Person or other Person described in clauses (A) or (B), or (ii) with respect to any natural Person, any person having a relationship with such Person by blood, marriage or adoption not more remote than first cousin. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person directly or indirectly, whether through ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings

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correlative to the foregoing.

"Asset Sale" means any sale, issuance, conveyance, transfer, lease or other disposition (including, without limitation, by way of merger, consolidation or Sale and Leaseback Transaction)(collectively, a "transfer"), directly or indirectly, in one or a series of related transactions, of (a) any Capital Stock of any Subsidiary; (b) all or substantially all of the properties and assets of any division or line of business of the Company or its Subsidiaries; or (c) any other properties or assets of the Company or any Subsidiary, other than in the ordinary course of business; provided that the sale of any material portion of the Company's facilities in Kokomo, Indiana, Arcadia, Louisiana or Openshaw, England shall be deemed to be not in the ordinary course of business. For the purposes of this definition, the term "Asset Sale" shall not include any transfer of properties and assets (A) that is governed by the provisions described under "Consolidation, Merger, Sale of Assets," (B) that is of the Company to any Wholly- Owned

Subsidiary, or of any Subsidiary to the Company or any Wholly-Owned Subsidiary in accordance with the terms hereof or (C) for which the Fair Market Value of any transferred properties or assets is less than $1 million.

"Average Life to Stated Maturity" means, as of the date of determination with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of (a) the number of years from the date of determination to the date or dates of each successive scheduled principal payment of such Indebtedness multiplied by (b) the amount of each such principal payment; by (ii) the sum of all such principal payments.

"Bankruptcy Law" means Title 11, United States Bankruptcy Code of 1978, as amended, or any similar United States Federal or State law relating to bankruptcy, insolvency, receivership, winding-up, liquidation, reorganization or relief of debtors or any amendment to, succession to or change in any such law.

"Board of Directors" means the board of directors of the Company or any duly authorized committee of such board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by such Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York or the city in which the principal office of the Trustee is located are authorized or obligated by law or executive order to close.

"Capital Lease Obligation" of any Person means any obligations of such Person and its Subsidiaries on a Consolidated basis under any capital lease of real or personal property which, in accordance with GAAP, has been recorded as a capitalized lease obligation.

"Capital Stock" of any Person means any and all shares, interests, participations or other equivalents (however designated) of such Person's capital stock.

"Change of Control" means the occurrence of any of the following events: (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total outstanding Voting Stock of the Company, (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election to such Board or whose nomination for election by the stockholders of the Company, was approved by a vote of 66 2/3% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of such Board of Directors then in office; (iii) the Company consolidates with, or merges with or into, another Person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any Person, or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which the outstanding Voting Stock of the Company is converted into or exchanged for

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cash, securities or other property, other than any such transaction where (a) the outstanding Voting Stock of the Company is converted into or exchanged for (1) Voting Stock (other than Redeemable Capital Stock) of the surviving or transferee corporation or (2) cash, securities and other property in an amount which could be paid by the Company as a Restricted Payment as described under Section 10.9 (and such amount shall be treated as a Restricted Payment as described under Section 10.9) and (b) immediately after such transaction no "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total outstanding Voting Stock of the surviving or transferee corporation; or (iv) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a transaction which complies with the provisions described under Article VIII.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act of 1939, then the body performing such duties at such time.

"Common Stock" means the common stock, par value $.01 per share, of the Company.

"Company" means Haynes International, Inc., a corporation incorporated under the laws of Delaware until a successor Person shall have become such pursuant to the applicable provisions of the Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by any one if its Chairman of the Board, its Vice Chairman, its President or a Vice President (regardless of Vice Presidential designation), and by any one of its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Consolidated Fixed Charge Coverage Ratio" of any Person means, for any period, the ratio of EBITDA to the sum of Adjusted Consolidated Interest Expense for such period and cash and non-cash dividends paid on any Preferred Stock of such Person during such period; provided that (i) in making such computation, the Adjusted Consolidated Interest Expense attributable to interest on any Indebtedness shall be computed on a pro forma basis (calculated as described under Article X) and (A) where such Indebtedness was outstanding during the period and bore a floating interest rate, interest shall be computed as if the rate in effect on the date of computation had been the applicable rate for the entire period and (B) where such indebtedness was not outstanding during the period for which the computation is being made but which bears, at the option of the Company, a fixed or floating rate of interest, shall be computed by applying at the option of the Company, either the fixed or floating rate and (ii) in making such computation, the Adjusted Consolidated Interest Expense of such Person attributable to interest on any Indebtedness under a revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period.

"Consolidated Income Tax Expense" means for any period, as applied to any Person, the provision for federal, state, local and foreign income taxes of such Person and its Consolidated Subsidiaries for such period as determined in accordance with GAAP consistently applied.

"Consolidated Net Income" of any Person means, for any period, the consolidated net income (or loss) of such Person and its Consolidated Subsidiaries for such period as determined in accordance with GAAP consistently applied, adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication, (i) all extraordinary gains or losses (less all fees and expenses relating thereto), (ii) the portion of net income (or loss) of such Person and its Consolidated Subsidiaries allocable to minority interests in unconsolidated Persons to the extent that cash dividends or distributions have not actually been received by such Person or one of its Consolidated Subsidiaries, (iii) net income (or loss) of any Person combined with the Company or any of its Subsidiaries on a "pooling of interests" basis attributable to any period prior to the date of combination, (iv) any gain or loss, net of taxes, realized upon the termination of any employee pension benefit plan, (v) net gains or losses (less all fees and

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expenses relating thereto) in respect of dispositions of assets other than in the ordinary course of business, (vi) the expenses recognized in connection with the payment of the prepayment premiums related to the Redemption, (vii) the expenses recognized in connection with the termination of and repayment of amounts outstanding under the Existing Credit Facility, (viii) the expenses recognized related to amortization of fees and other charges in connection with the 1989 Acquisition, (ix) an amount equal to the excess of (A) the interest expense incurred on the Existing Notes and the Securities during the period following the consummation of the offering of the Securities and prior to the date of the Redemption, over (B) the interest income earned on the proceeds from the offering of the Securities designated for the Redemption during the same period, or (x) the net income of any Subsidiary to the extent that the declaration of dividends or similar distributions by that Subsidiary of that income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary or its stockholders.

"Consolidated Net Worth" of any Person means the Consolidated stockholders' equity (excluding Redeemable Capital Stock) of such Person and its Subsidiaries, as determined in accordance with GAAP consistently applied.

"Consolidated Non-Cash Charges" of any Person means, for any period, the aggregate depreciation, amortization and other non-cash charges of such Person and its Consolidated Subsidiaries for such period, as determined in accordance with GAAP (excluding any non-cash charge that requires an accrual or reserve for cash charges for any future period and all non-cash charges incurred in connection with the valuation of inventory on a LIFO basis).

"Consolidation" means, with respect to the accounts of any Person, the consolidation of such Person and each of its subsidiaries if and to the extent the accounts of such Person and each of its subsidiaries would normally be consolidated with those of such Person, all in accordance with GAAP consistently applied. The term "Consolidated" shall have a similar meaning.

"Corporate Trust Office" means the office of the Trustee or an affiliate or agent thereof at which at any particular time the corporate trust business for the purposes of this Indenture shall be principally administered, which office at the date of execution of this Indenture is located at 101 West Washington Street, Suite 655 South, Indianapolis, Indiana 46255.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Disinterested Director" means, with respect to any transaction or series of related transactions, a member of the Board of Directors who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"EBITDA" means the sum of Consolidated Net Income, Adjusted Consolidated Interest Expense, Consolidated Income Tax Expense and Consolidated Non-Cash Charges deducted in computing Consolidated Net Income, in each case, for such period, of the Company and its Subsidiaries on a Consolidated basis, all determined in accordance with GAAP consistently applied.

"Eligible Inventory" means Inventory consisting of finished goods held for resale in the ordinary course of business of the Company, raw materials for such finished goods and work-in-process and semi-finished goods which satisfy and continue to satisfy the criteria as set forth below as determined by the agent under the New Credit Facility in good faith. In general, Eligible Inventory shall not include (a) components which are not part of finished goods; (b) spare parts for equipment; (c) packaging and shipping materials; (d) supplies used or consumed in the Company's business; (e) Inventory at premises other than those owned and controlled by the Company, except if the agent under the New Credit Facility shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to such agent, acknowledging the first priority security interest in the Inventory of such agent, for itself and the ratable benefit of the creditors under the New Credit Facility, waiving security interests and claims by such person against the Inventory and permitting such agent access to, and the right to remain on, the premises so as to exercise the rights and remedies of such agent for itself and the ratable benefit of the creditors under the New Credit Facility, and otherwise deal with the collateral; (f) Inventory subject to a security interest or lien in favor of any person other than the agent under the New Credit Facility (except those permitted under the New Credit

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Facility); (g) bill and hold goods; (h) unserviceable, obsolete or slow moving Inventory, (i) Inventory which is not subject to the first priority, valid and perfected security interest of the agent under the New Credit Facility; (j) returned, damaged and/or defective Inventory; or (k) Inventory purchased or sold on consignment. General criteria for Eligible Inventory may be established and revised from time to time by the agent under the New Credit Facility in good faith based on events, conditions, circumstances or risks which such agent in good faith determines are reasonably likely to affect the Inventory, the value of the Inventory or the security interests and other rights in the Inventory of such agent, for itself and the ratable benefit of the creditors under the New Credit Facility, and for which no availability reserve has been established.

"Event of Default" has the meaning specified in Article V.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Credit Facility" means the revolving credit facility established pursuant to a Loan and Security Agreement between the Company and Congress Financial Corporation (Central) dated August 11, 1994, as amended.

"Existing Notes" means the Company's 11 % Senior Secured Notes due 1998 and 13 % Senior Subordinated Notes due 1999.

"Fair Market Value" means, with respect to any asset or property, the sale value that would be obtained in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer.

"Generally Accepted Accounting Principles" or "GAAP" means generally accepted accounting principles in the United States, consistently applied, which are in effect on the date of this Indenture.

"Guaranteed Debt" of any Person means, without duplication, all Indebtedness of any other Person (debtor) referred to in the definition of "Indebtedness" contained in this Section guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to, or in any other manner invest in, the debtor (including any agreement to pay for property or services without requiring that such property be received or such services be rendered), (iv) to maintain working capital or equity capital of the debtor, or otherwise to maintain the net worth, solvency or other financial condition of the debtor or (v) otherwise to assure a creditor against loss; provided that the term "guarantee" shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indebtedness" means, with respect to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities arising in the ordinary course of business, but including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit issued under letter of credit facilities, acceptance facilities or other similar facilities and in connection with any agreement to purchase, redeem, exchange, convert or otherwise acquire for value any Capital Stock of such Person, or any warrants, rights or options to acquire such Capital Stock, now or hereafter outstanding, (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments, (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade payables arising in the ordinary course of business, (iv) all obligations under Interest Rate Agreements of such Person, (v) all Capital Lease Obligations of such Person, (vi) all Indebtedness referred to in clauses (i) through (v) above of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien,

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upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, (vii) all Guaranteed Debt of such Person, (viii) all Redeemable Capital Stock valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued and unpaid dividends, and (ix) any amendment, supplement, modification, deferral, renewal, extension, refunding or refinancing of any liability of the types referred to in clauses (i) through (viii) above. For purposes hereof, the "maximum fixed repurchase price" of any Redeemable Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Redeemable Capital Stock, such fair market value to be determined in good faith by the Board of Directors of the issuer of such Redeemable Capital Stock.

"Indenture" means this instrument as originally executed (including all exhibits and schedules thereto) and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

"Indenture Obligations" means the obligations of the Company and any other obligor under the Indenture or under the Securities to pay principal of, premium, if any, and interest when due and payable, and all other amounts due or to become due under or in connection with the Indenture, the Securities and the performance of all other obligations to the Trustee and the holders under the Indenture and the Securities, according to the terms thereof.

"Independent Financial Advisor" means a nationally recognized investment banking firm (i) which does not, and whose directors, officers and employees or Affiliates do not, have a direct or indirect financial interest in the Company and (ii) which, in the judgment of the board of directors of the Company, is otherwise independent and qualified to perform the task for which it is to be engaged.

"Interest Payment Date" means the Stated Maturity of a regular installment of interest on the Securities or the Special Payment Date with respect to Defaulted Interest.

"Interest Rate Agreements" means one or more of the following agreements which shall be entered into by one or more financial institutions: interest rate protection agreements (including, without limitation, interest rate swaps, caps, floors, collars and similar agreements) and/or other types of interest rate hedging agreements from time to time.

"Inventory" means all of the Company's now-owned and hereafter acquired inventory, goods, merchandise, and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work-in-process, semi- finished goods, finished goods, returned and repossessed goods, and materials and supplies of any kind, nature or description which are or might be consumed in the Company's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such inventory, goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Investment Grade" means BBB- or higher by S&P or Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's or in the event Moody's or S&P shall cease rating the Securities and the Company shall select any Rating Agency, the equivalent of such ratings by another Rating Agency.

"Investments" means, with respect to any Person, directly or indirectly, any advance, loan, or other extension of credit or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures or other securities issued or owned by any other Person.

"Lien" means any mortgage, charge, pledge, lien (statutory or otherwise), privilege, security interest, hypothecation or other encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired.

"Material Subsidiary" means a Subsidiary that is a "significant subsidiary" of the Company as defined in Rule 1-02 of Regulation S-X under the Securities Act and the Exchange Act.

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"Maturity" when used with respect to any Security means the date on which the principal of such Security becomes due and payable as therein provided or as provided in the Indenture, whether at Stated Maturity, the Offer Date, the Change of Control Purchase Date or the redemption date and whether by declaration of acceleration, Offer in respect of Excess Proceeds, Change of Control, call for redemption or otherwise.

"MLGA" means Morgan, Lewis, Githens, & Ahn, an investment partnership.

"MLGA Fund II, L.P." means MLGA Fund II, L.P., a Connecticut limited partnership controlled by certain principals of MLGA.

"Moody's" means Moody's Investors Service, Inc. or any successor rating agency.

"Net Cash Proceeds" means (a) with respect to any Asset Sale by any Person, the proceeds thereof in the form of cash or cash equivalents including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Company or any Subsidiary) net of (i) brokerage commissions and other reasonable fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale, (ii) provisions for all taxes payable as a result of such Asset Sale, (iii) payments made to retire Indebtedness where payment of such Indebtedness is secured by the assets or properties the subject of such Asset Sale, (iv) amounts required to be paid to any Person (other than the Company or any Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale and (v) appropriate amounts to be provided by the Company or any Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an officers' certificate delivered to the Trustee and (b) with respect to any issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock, as referred to under Section 10.9 the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Company or any Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"New Credit Facility" means the Loan and Security Agreement, dated on or before the Closing Date, among the Company, Congress Financial Corporation (Central) ("Congress"), as agent, and Congress and CoreStates Bank, N.A., as lenders, as such agreement may be amended, renewed, extended, substituted, refinanced, restructured, replaced, supplemented or otherwise modified from time to time, whether by the same or any other lender or group of lenders (including, without limitation, any successive renewals, extensions, substitutions, refinancings, restructurings, replacements, supplementations or other modifications of the foregoing), so long as the collateral therein consists only of accounts receivable, inventory and fixed assets or any combination thereof.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, Vice Chairman, President or a Vice President (regardless of Vice Presidential designation), and by the Treasurer, Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company or the Trustee, and who shall be reasonably acceptable to the Trustee, including but not limited to an Opinion of Independent Counsel.

"Opinion of Independent Counsel" means a written opinion by someone who is not an employee or consultant of the Company and who shall be reasonably acceptable to the Trustee.

"Outstanding" when used with respect to Securities means, as of the

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date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(a) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Securities, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided, that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor reasonably satisfactory to the Trustee has been made;

(c) Securities, except to the extent provided in Sections 4.2 and 4.3, with respect to which the Company has effected defeasance or covenant defeasance as provided in Article IV; and

(d) Securities in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee and Company proof reasonably satisfactory to each of them that such Securities are held by a bona fide purchaser in whose hands the Securities are valid obligations of the Company; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the reasonable satisfaction of the Trustee the pledgee's right so as to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor.

"Pari Passu Indebtedness" means any Indebtedness of the Company that is paripassu in right of payment to this Securities.

"Participants" means Persons for whom the Depositary holds Securities.

"Paying Agent" means any Person authorized by the Company to pay the principal, premium, if any, or interest on any Securities on behalf of the Company.

"Permitted Holders" means MLGA Fund II, L.P. and any Affiliates thereof.

"Permitted Indebtedness" means the following:

(i) Indebtedness of the Company under the New Credit Facility under which the sum of (a) the aggregate principal amount of revolving loan advances and (b) the aggregate stated amount of letters of credit issued pursuant thereto, at any one time outstanding does not exceed the greater of (x) $50.0 million and (y) an amount equal to (i) 60% of Eligible Inventory consisting of finished goods and raw materials for such finished goods, plus (ii) 45% of Eligible Inventory consisting of work-in-process and semi-processed goods plus (iii) 85% percent of the Net Amount of Eligible Accounts minus (iv) any Availability Reserves, as each of the capitalized terms in this clause (y) is defined in the New Credit Facility;

(ii) Indebtedness of the Company pursuant to the Securities;

(iii) Indebtedness of the Company evidenced by the Existing Notes to be redeemed pursuant to a notice of redemption given on the date hereof;

(iv) Indebtedness of the Company owing to a Subsidiary; provided that any Indebtedness of the Company owing to a Subsidiary is made pursuant to an intercompany note and is subordinated in right of payment from

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and after such time as the Securities shall become due and payable (whether at Stated Maturity, acceleration or otherwise) to the payment and performance of the Company's obligations under the Securities; provided, further, that any disposition, pledge or transfer of any such Indebtedness to a Person (other than the Company or another Subsidiary) shall be deemed to be an incurrence of such Indebtedness by the Company not permitted by this clause (iv);

(v) obligations of the Company entered into in the ordinary course of business pursuant to Interest Rate Agreements designed to protect the Company or any Subsidiary against fluctuations in interest rates in respect of Indebtedness of the Company or any of its Subsidiaries, which obligations do not exceed the aggregate principal amount of such Indebtedness and hedging arrangements that the Company enters into in the ordinary course of business for the purpose of protecting its production against fluctuations in commodity prices;

(vi) Indebtedness of the Company incurred (a) as a Purchase Money Obligation, (b) under any Capital Lease Obligation, or (c) with respect to letters of credit not otherwise permitted pursuant to clause (i) of this definition of "Permitted Indebtedness" in a principal amount for clauses (a), (b) and (c) in the aggregate not to exceed $10.0 million in any fiscal year of the Company;

(vii) Indebtedness of the Company in addition to that described in clauses (i) through (vi) of this definition of "Permitted Indebtedness," not to exceed $10.0 million at any time outstanding in the aggregate; provided that such amount shall be reduced by the amount, if any, of Permitted Subsidiary Indebtedness then outstanding under clause (iii) of the definition of "Permitted Subsidiary Indebtedness";

(viii) any renewals, extensions, substitutions, refundings, refinancings or replacements (collectively, a "renewal/refinancing") of any Indebtedness described in clauses (ii) and (vi) of this definition of "Permitted Indebtedness," including any successive renewal/refinancings so long as the aggregate principal amount of Indebtedness represented thereby is not increased by such renewal/refinancing plus the lesser of (I) the stated amount of any premium or other payment required to be paid in connection with such renewal/refinancing pursuant to the terms of such Indebtedness or (II) the amount of premium or other payment actually paid at such time to refinance the Indebtedness, plus, in either case, the amount of expenses of the Company incurred in connection with such renewal/refinancing and, in the case of Pari Passu Indebtedness or Subordinated Indebtedness, such renewal/refinancing does not reduce the Average Life to Stated Maturity or the Stated Maturity of such Indebtedness;

(ix) Permitted Subsidiary Indebtedness that is permitted to be incurred by a Subsidiary pursuant to clauses (ii) and (iii) under the definition of "Permitted Subsidiary Indebtedness"; and

(x) Acquired Indebtedness that, after giving pro forma effect thereto, and to the related acquisition as provided in Section 10.8(a), results in (x) the Consolidated Fixed Coverage Ratio being less than the Applicable Coverage Ratio (as defined in Section 10.8 hereof) but greater than or equal to 1.75 to 1.00 and (y) the Consolidated Fixed Coverage Ratio increasing as a consequence of such incurrence.

"Permitted Investment" means (i) Investments in any Wholly-Owned Subsidiary; (ii) Indebtedness of a Subsidiary described under clause (ii) of the definition of "Permitted Subsidiary Indebtedness" or Indebtedness of the Company described under clauses (iv) of the definition of "Permitted Indebtedness;" (iii) Temporary Cash Investments; (iv) Investments acquired by the Company or any Subsidiary in connection with an Asset Sale permitted under Section 10.12 to the extent such Investments are non-cash proceeds as permitted under such covenant; and (v) other Investments in the aggregate not to exceed $5.0 million.

"Permitted Subsidiary Indebtedness" means:

(i) Acquired Indebtedness of any Subsidiary whose incurrence would be permitted under the test set forth in paragraph (x) of the definition of "Permitted Indebtedness" as if calculated for such Subsidiary;

(ii) Indebtedness of a Wholly-Owned Subsidiary owing to the Company or another Wholly-Owned Subsidiary; provided that any such Indebtedness is made pursuant to an intercompany note in the form attached as an exhibit to the Indenture; provided, further, that (x) any disposition, pledge or transfer of any such Indebtedness to a Person (other than the

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Company or a Wholly-Owned Subsidiary and other than any pledge as security for the New Credit Facility) shall be deemed to be an incurrence of such Indebtedness by the obligor not permitted by this clause (ii) and (y) any transaction pursuant to which any Wholly-Owned Subsidiary, which has Indebtedness owing to the Company or any other Wholly-Owned Subsidiary, ceases to be a Wholly-Owned Subsidiary shall be deemed to be the incurrence of Indebtedness by the Company or such other Wholly-Owned Subsidiary that is not permitted under this clause (ii);

(iii) Indebtedness of a Subsidiary in addition to that described in clauses (i) and (ii) of this definition of "Permitted Subsidiary Indebtedness," not to exceed $10.0 million at any time outstanding in the aggregate; provided, that such amount shall be reduced by the amount, if any, of Permitted Indebtedness then outstanding under clause (vii) of the definition of "Permitted Indebtedness"; and

(iv) any renewals, extensions, substitutions, refinancings or replacements (collectively, a "debt refinancing") of any Indebtedness described in clause (i) of this definition of "Permitted Subsidiary Indebtedness," including any successive debt refinancings thereof, so long as any such new Indebtedness shall be in a principal amount that does not exceed the principal amount so refinanced, plus an amount equal to the lesser of (x) the stated amount of any premium required to be paid in connection with any such debt refinancing and (y) the amount of premium actually paid in connection with any such debt refinancing plus the amount of expenses of such Subsidiary incurred in connection therewith.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.6 in exchange for a mutilated Security or in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the mutilated, lost, destroyed, or stolen Security.

"Preferred Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's preferred stock whether now outstanding, or issued after the date of the Indenture, and including, without limitation, all classes and series of preferred or preference stock.

"Public Equity Offering" means any underwritten public offering of common stock of the Company pursuant to a registration statement filed pursuant to the Securities Act which offering is consummated after the date of the offering of Securities.

"Purchase Money Obligation" means any Indebtedness secured by a Lien on assets related to the business of the Company or its Subsidiaries, and any additions and accessions thereto, which are purchased by the Company or any Subsidiary at any time after the Securities are issued; provided that (i) the security agreement or conditional sales or other title retention contract pursuant to which the Lien on such assets described above is created (collectively a "Purchase Money Security Agreement") shall be entered into within 90 days after the purchase or substantial completion of the construction of such assets and shall at all times be confined solely to the assets so purchased or acquired, any additions and accessions thereto and any proceeds therefrom, (ii) at no time shall the aggregate principal amount of the outstanding Indebtedness secured thereby be increased, except in connection with the purchase of additions and accessions thereto and except in respect of fees and other obligations in respect of such Indebtedness and (iii) (A) the aggregate outstanding principal amount of Indebtedness secured thereby (determined on a per asset basis in the case of any additions and accessions) shall not at the time such Purchase Money Security Agreement is entered into exceed 100% of the purchase price to the Company or any Subsidiary of the assets subject thereto or (B) the Indebtedness secured thereby shall be with recourse solely to the assets so purchased or acquired, any additions and accessions thereto and any proceeds therefrom.

"Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"Redeemable Capital Stock" means any Capital Stock that, either by

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its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, is or upon the happening of any event or passage of time would be, required to be redeemed prior to any Stated Maturity of the principal of the Securities or is redeemable at the option of the holder thereof at any time prior to any such Stated Maturity, or is convertible into or exchangeable for debt securities at any time prior to any such Stated Maturity at the option of the holder thereof.

"Redemption" means the redemption of the Existing Notes.

"Redemption Date" when used with respect to any Security to be redeemed pursuant to any provision in this Indenture means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" when used with respect to any Security to be redeemed pursuant to any provision in this Indenture means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date means February 15 or August 15, as the case may be (whether or not a Business Day), next preceding such Interest Payment Date.

"Responsible Officer" when used with respect to the Trustee means any officer assigned to the Corporate Trust Office of the Trustee or any agent of the Trustee appointed hereunder, including the chairman or vice chairman of the board of directors or the executive committee of the board of directors, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers or any other officer appointed hereunder to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"S&P" means Standard and Poor's Corporation or any successor rating agency.

"Sale and Leaseback Transaction" means any transaction or series of related transactions pursuant to which the Company or a Subsidiary sells or transfers any property or asset in connection with the leasing, or the resale against installment payments, of such property or asset to the Company or such Subsidiary.

"Securities" has the meaning specified in the first recital of this Indenture.

"Securities Act" means the Securities Act of 1933, as amended.

"Senior Indebtedness" means Indebtedness of the Company other than Subordinated Indebtedness.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 3.7.

"Stated Maturity" when used with respect to any Indebtedness or any installment of interest thereon, means the dates specified in such Indebtedness as the fixed date on which the principal of such Indebtedness or such installment of interest is due and payable.

"Subordinated Indebtedness" means Indebtedness of the Company which is by its terms expressly subordinated in right of payment to the Securities.

"Subsidiary" means any Person a majority of the equity ownership or the Voting Stock of which is at the time owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries; provided that an Unrestricted Subsidiary shall not be deemed a Subsidiary for purposes of the Indenture.

"Temporary Cash Investments" means (i) any evidence of Indebtedness, maturing not more than two years after the date of acquisition, issued by the United States of America, or an instrumentality or agency thereof and guaranteed fully as to principal, premium, if any, and interest by the United States of America; (ii) any certificate of deposit, maturing not more than two years after the date of acquisition, issued by, or time deposit of, a commercial banking institution that is a member of the Federal Reserve System and that has combined capital and surplus and undivided profits of not less

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than $500.0 million, whose debt has a rating, at the time as of which any investment therein is made, of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P, (iii) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than Affiliate or Subsidiary of the Company) organized and existing under the laws of the United States of America with a rating, at the time as of which any investment therein is made, of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P; (iv) any money market deposit accounts issued or offered by (a) a domestic commercial bank having capital and surplus in excess of $500.0 million or (b) a nationally recognized investment bank having capital and surplus and undivided profits in excess of $150.0 million; (v) repurchase obligations for underlying securities of the type described in clause (i) above entered into with any financial institution designated as a "Primary Dealer" by the Federal Reserve Bank of New York or any commercial banking institution that satisfies the criteria set forth in clause (ii) of this definition of "Temporary Cash Investments" as a counterparty; and (vi) Eurodollar certificates of deposit maturing not more than two years after the date of acquisition issued by, or any time deposit of, a commercial banking institution outside the United States having equity capital and surplus and undivided profits of not less than $250.0 million and foreign denominated money market deposit accounts issued by a commercial banking institution outside the United States having equity capital and surplus and undivided profits of not less than $250.0 million.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture, until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

"Unrestricted Subsidiary" means any Subsidiary as to which all of the following conditions apply: (a) neither the Company nor any of its Subsidiaries provides credit support for any Indebtedness of such Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness); (b) such subsidiary is not liable, directly or indirectly, with respect to any Indebtedness other than Unrestricted Subsidiary Indebtedness; (c) neither the Company nor any of its Subsidiaries has made an Investment in such Unrestricted Subsidiary unless such Investment was not prohibited by the provisions described under Section 10.9 hereunder; and (d) the Board of Directors of the Company, as provided below, shall have designated such Subsidiary to be an Unrestricted Subsidiary. Any such designation by the Board of Directors shall be evidenced to the Trustee by filing with the Trustee a Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complies with the foregoing conditions. The Board of Directors may designate any Unrestricted Subsidiary as a Subsidiary; provided, that (i) immediately after giving effect to such designation, the Company could incur $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the restrictions under Section 10.8 hereunder; and (ii) all Indebtedness of such Unrestricted Subsidiary shall be deemed to be incurred on the date such Unrestricted Subsidiary becomes a Subsidiary.

"Unrestricted Subsidiary Indebtedness" of any Unrestricted Subsidiary means Indebtedness of such Unrestricted Subsidiary (a) as to which neither the Company nor any Subsidiary is directly or indirectly liable (by virtue of the Company or any such Subsidiary being the primary obligor on, guarantor of, or otherwise liable in any respect to, such Indebtedness), and (b) which, upon the occurrence of a default with respect thereto, does not result in, or permit any holder of any Indebtedness of the Company or any Subsidiary to declare, a default on such Indebtedness of the Company or any Subsidiary or cause the payment thereof to be accelerated or payable prior to its stated maturity.

"Voting Stock" means stock of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

"Wholly-Owned Subsidiary" means a Subsidiary all the Capital Stock (other than directors' qualifying shares) of which is owned by the Company or another Wholly-Owned Subsidiary.

"1989 Acquisition" means the acquisition in 1989 of the Company by

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MLGA and its Affiliates, together with management of the Company, in a leveraged buy-out.

<TABLE>

<CAPTION>

Section 1.2. Other Definitions.

<S> <C>

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"Applicable Coverage Ratio"	10.8
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"Treasury Rate"	10.14
"U.S. Government Obligations"	4.4

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Section 1.3. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company and each other obligor of the Securities shall furnish to the Trustee an Officers' Certificate to the effect that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel to the effect that
in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that, in the case of any such application or request as to which the furnishing of any certificates and/or opinions is specifically required by any provision of this Indenture, relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture (other than

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certificates provided pursuant to Section 10.18 of this Indenture) shall include:

(a) a statement to the effect that each individual or firm signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement to the effect that, in the opinion of each such individual or such firm, he has made such examination or investigation as is necessary to enable him or them to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such individual or such firm, such condition or covenant has been complied with.

Section 1.4. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company or other obligor of the Securities may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any certificate or opinion of such an officer or of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company or other obligor of the Securities with respect to such factual matters and which contains a statement to the effect that the information with respect to such factual matters is in the possession of the Company or other obligor of the Securities, unless such officer or counsel knows that the certificate or opinion or representations with respect to such matters are erroneous. Opinions of Counsel required to be delivered to the Trustee may have qualifications customary for opinions of the type required and counsel delivering such Opinions of Counsel may rely on certificates of the Company or government or other officials customary for opinions of the type required, including certificates certifying as to matters of fact, including that various financial covenants have been complied with.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.5. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The ownership of Securities shall be proved by the Security Register.

(c) Any request, demand, authorization, direction, notice, consent, waiver or other Act by the Holder of any Security shall bind every future Holder of the same Security or the Holder of every Security issued upon

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the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done, suffered or omitted to be done by the Trustee, any Paying Agent or the Company or any other obligor in reliance thereon, whether or not notation of such action is made upon such Security.

(d) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

Section 1.6. Notices, etc., to Trustee and the Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(a) the Trustee by any Holder or by the Company or any other obligor of the Securities shall be sufficient for every purpose hereunder if made, given, furnished or filed, in writing, by first-class mail postage prepaid (return receipt requested) or delivered in person or by recognized overnight courier to or with the Trustee at 101 West Washington Street, Suite 655 South, Indianapolis, Indiana 46255, Attention: Corporate Trust Administration or at any other address furnished in writing prior thereto to the Holders, the Company or any other obligor of the Securities by the Trustee, or delivered by facsimile transmission to (317) 267- 7658, Attention: Corporate Trust Administration or at any other facsimile number furnished in writing prior thereto to the Holders, the Company or any other obligor of the Securities by the Trustee, provided that a copy of any facsimile delivery is delivered by mail or courier in the manner and to the address described above not later than five Business Days after the delivery by facsimile; or

(b) the Company shall be sufficient for every purpose (except as provided in Section 5.1(c)) hereunder if in writing and mailed, first-class postage prepaid or delivered by recognized overnight courier, to the Company addressed to it at 1020 West Park Avenue, Kokomo, Indiana 46904-9013, Attention: Chief Financial Officer, or at any other address previously furnished in writing to the Trustee by the Company or delivered by facsimile transmission to (317) 456-6985, Attention: Chief Financial Officer, or at any other facsimile number furnished in writing prior thereto to the Holders, the Trustee or any other obligor of the Securities by the Company, provided that a copy of any facsimile delivery is delivered by mail or courier in the manner and to the address described above not later than five Business Days after the delivery by facsimile, with a copy to Ice Miller Donadio & Ryan, One American Square, Box 82001, Indianapolis, Indiana 46282-0002, Attention: Stephen J. Hackman, or delivered by facsimile transmission to (317) 236-2219, Attention: Stephen J. Hackman or at any other facsimile number furnished in writing prior thereto to the Holders, the Trustee, the Company or any other obligor of the Securities by Ice Miller, Donadio & Ryan, provided that a copy of any facsimile delivery is delivered by mail or courier in the manner and to the address described above not later than five Business Days after the delivery by facsimile.

Section 1.7. Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at such Holder's address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice when mailed to a Holder in the aforesaid manner shall be conclusively deemed to have been received by such Holder whether or not actually received by such Holder. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action

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taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event as required by any provision of this Indenture, then any method of giving such notice as shall be reasonably satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

Section 1.8. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with any provision of the Trust Indenture Act or another provision which is required or deemed to be included in this Indenture by any of the provisions of the Trust Indenture Act, the provision or requirement of the Trust Indenture Act shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, such provision of the Trust Indenture Act shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 1.9. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.10. Successors and Assigns.

All covenants and agreements in this Indenture by the Company and any other obligor of the Securities shall bind their successors and assigns, whether so expressed or not.

Section 1.11. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.12. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person (other than the parties hereto and their successors hereunder, any Paying Agent and the Holders) any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.13. GOVERNING LAW.

THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF).

Section 1.14. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, Maturity or Stated Maturity of any Security shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal or premium, if any, need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at Maturity or the Stated Maturity, and no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date, Maturity or Stated Maturity, as the case may be, to the next succeeding Business Day.

Section 1.15. Schedules.

All schedules attached hereto are by this reference made a part with the same effect as if herein set forth in full.

Section 1.16. Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

ARTICLE II

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SECURITY FORMS

Section 2.1. Forms Generally.

(a) The Securities will initially be issued in the form of one or more global notes (the "Global Note"). The Global Note will be deposited on the date of the closing of the sale of the Securities offered hereby (the "Closing Date") with, or on behalf of, The Depository Trust Company or its successors and assigns (the "Depositary") and registered in the name of Cede & Co., as nominee of the Depositary (such nominee being referred to herein as the "Global Note Holder").

(b) Notwithstanding Section 2.1(a), Securities that are issued in accordance with Section 2.1(c) will be issued in the form of registered definitive certificates (the "Certificated Notes"). Such Certificated Notes may, unless the Global Note has previously been exchanged for Certificated Notes, be exchanged for an interest in the Global Note representing the principal amount of Securities being transferred.

(c) Any person owning a beneficial interest in the Global Note may, upon request to the Trustee, exchange such beneficial interest for Securities in the form of Certificated Notes. Upon any such issuance, the Trustee is required to register such Certificated Notes in the name of, and cause the same to be delivered to, such Person or Persons (or the nominee of any thereof). In addition, if (i) the Company notifies the Trustee in writing that the Depositary is no longer willing or able to act as a depositary and the Company is unable to locate a qualified successor within 90 days, or (ii) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of Securities in the form of Certificated Notes under the Indenture, then, upon surrender by the Global Note Holder of its Global Note, Certificated Notes will be issued to each Person that the Global Note Holder and the Depositary identify as being the beneficial owner of the related Securities. If the Company determines to replace the Depositary with another qualified securities depository, the Company shall prepare or cause to be prepared a new fully-registered Global Note, registered in the name of such successor or substitute securities depositary or its nominee, or make such other arrangements as are acceptable to the Company, the Trustee and the securities depository and not inconsistent with the terms of this Indenture.

(d) Neither the Company nor the Trustee will be liable for any delay by the Global Note Holder or the Depositary in identifying the beneficial owners of the Securities, and the Company and the Trustee may conclusively rely on, and will be protected in relying on, instructions from the Global Note Holder or the Depositary for all purposes.

(e) Securities and the Trustee's certificates of authentication thereof shall be in substantially the forms set forth in this Article II, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange, any organizational document or governing instrument or applicable law or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. Any portion of the text of any Security may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Security.

(f) The Certificated Notes shall be printed, lithographed or engraved or produced by any combination of these methods or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 2.2. Form of Face of Security.

The form of the face of the Securities shall be substantially as follows:

HAYNES INTERNATIONAL, INC.

11e% Senior Notes due 2004

CUSIP No. 420877 AD4 $140,000,000

HAYNES International, Inc., a Delaware corporation (herein called the "Company," which term includes any successor), for value received, hereby

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promises to pay to or registered assigns, the principal sum of $140,000,000 United States dollars on September 1, 2004, at the office or agency of the Company referred to below, and to pay interest thereon from August 23, 1997 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, semiannually on March 1 and September 1 of each year commencing March 1, 1997 at the rate of 11e% per annum, in United States dollars, until the principal hereof is paid or duly provided for.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be February 15 or August 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so paid, or duly provided for, and interest on such defaulted interest at the interest rate borne by the Securities, to the extent lawful, shall forthwith cease to be payable to the Holder in whose name such Security is registered as of such Regular Record Date, and may be paid on the Special Payment Date to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date to be fixed by the Trustee (and for which notice shall be given to Holders of Securities not less than 10 days prior to such Special Record Date) or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of, premium, if any, and interest on this Security will be made at the office or agency of the Company maintained for that purpose, or at such other office or agency of the Company as may be maintained for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the
option of the Company by check mailed to the address of the Person entitled thereto as such address shall appear on the Security Register. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been duly executed by the Trustee referred to on the reverse hereof or by the authenticating agent appointed as provided in the Indenture by manual signature, this Security shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by the manual or facsimile signature of its authorized officers and its corporate seal to be affixed or reproduced hereon.

Dated: August 23, 1996 HAYNES INTERNATIONAL, INC.

By:

Attest: [SEAL]

Secretary

Section 2.3. Form of Reverse of Security.

The form of the reverse of the Securities shall be substantially as follows:

This Security is one of the duly authorized issue of Securities of the Company designated as its 11 % Senior Notes due 2004 (herein called the "Securities"), limited (except as otherwise provided in the Indenture referred to below) in aggregate principal amount to $140.0 million which may be issued under and are subject to the terms of an indenture (herein called the "Indenture") dated as of August 23, 1996 between the Company and National City Bank, as trustee (together with any successor trustee under the Indenture, the

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"Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties, obligations and immunities thereunder of the Company, the Trustee and the Holders, and of the terms upon which the Securities are, and are to be, authenticated and delivered.

The Indenture contains provisions for defeasance at any time of (a) the entire Indebtedness on this Security and (b) certain covenants and related Defaults and Events of Default thereunder, in each case upon compliance with certain conditions set forth therein.

The Securities are subject to redemption at any time on or after September 1, 2000, at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' prior notice in amounts of $1,000 or an integral multiple thereof at the following redemption prices (expressed as percentages of the principal amount), if redeemed during the 12-month period beginning September 1 of the years indicated below:

<TABLE>

<CAPTION>

Year	Redemption Price
2000	105.813%
2001	102.906%

</TABLE>

and thereafter at 100% of the principal amount, in each case together with accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on relevant record dates to receive interest due on an interest payment date).

In addition, prior to September 1, 1999, in the event one or more Public Equity Offerings of the Company are consummated, the Company may redeem in the aggregate up to a maximum of 35% of the initial aggregate principal amount of the Securities with the net proceeds thereof at a Redemption Price equal to 111.625% of the principal amount thereof plus accrued and unpaid interest to the Redemption Date; provided that, after giving effect thereto, at least $85.0 million aggregate principal amount of Securities remains outstanding.

If less than all of the Securities are to be redeemed, the Trustee shall select the Securities or portions thereof to be redeemed pro rata, by lot or by any other method the Trustee shall deem fair and reasonable, provided that, any redemption pursuant to the provisions relating to a sale of the Common Stock of the Company pursuant to one or more Public Equity Offerings shall be made on a pro rata basis or on as nearly a pro rata basis as practicable (subject to any procedures of the Depositary).

If a Change of Control shall occur at any time, then each holder of Securities shall have the right to require that the Company purchase such holder's Securities in whole or in part in integral multiples of $1,000, at a purchase price in cash in an amount equal to 101% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of purchase pursuant to the offer procedures set forth in the Indenture.

In addition, if a Change of Control shall occur at any time, then the Company shall, within 180 days after a Change of Control and upon not less than 30 nor more than 60 days' prior notice to each holder of Securities, have the right to purchase the Securities, in whole or in part, at a redemption price equal to the sum of (i) the then outstanding principal amount plus (ii) accrued and unpaid interest, if any, to the Redemption Date, plus (iii) a premium defined as the greater of (a) 1.0% of the then outstanding principal amount of the Securities and (b) the excess of (1) the present value of the required payments on the Securities, computed using a discount rate equal to

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the Treasury Rate plus 75 basis points, over (2) the then outstanding principal amount of the Securities.

Under certain circumstances, in the event the Net Cash Proceeds that are received by the Company from any Asset Sale, and that are not applied within the time periods set forth in the Indenture to repay or prepay permanently any Indebtedness under the New Credit Facility then outstanding or invested in properties or assets that replace the assets sold or that are used in the businesses of the Company or its Subsidiaries, equal or exceed $5.0 million, the Company will be required to offer, pursuant to the offer procedures set forth in the Indenture, to apply such proceeds to the repayment of the Securities at 100% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of purchase and to the repayment of certain Indebtedness ranking pari passu with the Securities.

In the case of any redemption of Securities, interest installments whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities of record as of the close of business on the relevant Regular Record Date or Special Record Date referred to on the face hereof. Securities (or portions thereof) for whose redemption and payment provision is made in accordance with the Indenture shall cease to bear interest from and after the Redemption Date.

In the event of redemption of this Security in part only, a new Security or Securities for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

If an Event of Default shall occur and be continuing, the principal amount of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions (including certain amendments permitted without the consent of any Holders) as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Indenture and the Securities at any time with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and the Securities and certain past Defaults under the Indenture and their consequences. Any such consent or waiver by or on behalf of the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company or any other obligor under the Securities (in the event such other obligor is obligated to make payments in respect of the Securities), which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Security at the times, place, and rate, and in the coin or currency, herein prescribed.

As set forth in, and subject to, the provisions of the Indenture, no Holder of any Security will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless (a) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default, (b) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, (c) the Trustee shall not have received from the Holders of a majority in principal amount of the Outstanding Securities a direction inconsistent with such request and (d) the Trustee shall have failed to institute such proceeding within 60 days; provided, however, that such limitations do not apply to a suit instituted by the Holder hereof for the enforcement of payment of the principal of (and premium, if any) or any interest on this Security on or after the respective due dates expressed herein.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable on the Security Register of the Company, upon surrender of this Security for registration of transfer at the office or agency of the Company maintained for

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such purpose or at such other office or agency of the Company as may be maintained for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, the Securities are exchangeable for a like aggregate principal amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any registration of transfer or exchange or redemption of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security is overdue, and none of the Company, the Trustee nor any agent shall be affected by notice to the contrary.

Upon any consolidation or merger, or any sale, assignment, conveyance, transfer or disposition (other than pursuant to a lease) of all or substantially all of the properties and assets of the Company in accordance with the Indenture, subject to the terms and conditions of the Indenture, the successor Person to such transaction shall become the obligor on this Security, and the Company shall be discharged from all obligations and covenants under this Security and the Indenture.

All terms used in this Security which are defined in the Indenture and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

The Company will furnish to any holders of the Securities upon written request and without charge a copy of the Indenture. All requests may be made to Haynes International, Inc., 1020 West Park Avenue, Kokomo, Indiana 46904-9013.

Section 2.4. Form of Trustee's Certificate of Authentication.

The Trustee's certificate of authentication shall be included on the form of the face of the Securities substantially in the following form:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

This is one of the Securities referred to in the within-mentioned Indenture.

National City Bank,
as Trustee

By:
Authorized Signatory

ARTICLE III

THE SECURITIES

Section 3.1. Title and Terms.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to $140,000,000 in principal amount of Securities, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.3, 3.4, 3.5, 3.6, 9.6, 10.12, 10.13, 10.14 or 11.8.

The Securities shall be known and designated as the "11 % Senior

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Notes due 2004" of the Company. The Stated Maturity of the Securities shall be September 1, 2004, and the Securities shall bear interest at the rate of 11 % per annum from August 23, 1996 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable commencing on March 1, 1997 and semiannually thereafter on March 1 and September 1 in each year, until the principal thereof is paid or duly provided for. Interest on any overdue principal, interest (to the extent lawful) or premium, if any, shall be payable as provided in Section 3.7.

The principal of, premium, if any, and interest on the Securities shall be payable at the office or agency of the Company maintained for such purpose, or at such other office or agency of the Company as may be maintained for such purpose; provided, however, that at the option of the Company interest may be paid by check mailed to addresses of the Persons entitled thereto as such addresses as shall appear on the Security Register.

The Securities shall be redeemable as provided in Article XI.

At the election of the Company, the entire indebtedness on the Securities or certain of the Company's obligations and covenants and certain Defaults and Events of Default thereunder may be defeased as provided in Article IV.

Section 3.2. Denominations.

The Securities shall be issuable only in registered form without coupons and only in denominations of $1,000 and any integral multiple thereof.

Section 3.3. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by one of its Chairman of the Board, Vice-Chairman, President or one of its Vice Presidents under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices on the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities; and the Trustee in accordance with such Company Order shall authenticate and deliver such Securities as provided in this Indenture and not otherwise.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication, substantially in the form provided for herein, duly executed by the Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

In case the Company or any of its Subsidiaries, pursuant to Article VIII, shall be consolidated or merged with or into any other Person or shall sell, convey, assign, transfer, lease or otherwise dispose of all or substantially all of its properties and assets to any Person or group of affiliated Persons, and the successor Person resulting from such consolidation, or surviving such consolidation or merger, or into which the Company shall have been merged or consolidated, or the successor Person which shall have received a conveyance, transfer, lease or other disposition as aforesaid, shall have executed an indenture supplemental hereto with the Trustee pursuant to Article VIII, any of the Securities authenticated or delivered prior to such consolidation, merger, conveyance, transfer, lease or other disposition may, from time to time, at the request of the successor Person, be exchanged for other Securities executed in the name of the successor Person with such changes in phraseology and form as may be appropriate, but otherwise in substance of like tenor as the Securities surrendered for such exchange and of like principal amount; and the Trustee, upon Company Request of the successor Person, shall authenticate and deliver Securities as specified in such request for the purpose of such exchange. If

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Securities shall at any time be authenticated and delivered in any new name of a successor Person pursuant to this Section in exchange or substitution for or upon registration of transfer of any Securities, such successor Person, at the option of a Holder but without expense to such Holder, shall provide for the exchange of all Securities at the time Outstanding held by such Holder for Securities authenticated and delivered in such new name.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate Securities on behalf of the Trustee. Unless limited by the terms of such appointment, an authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Security Registrar or Paying Agent to deal with the Company and its Affiliates.

Section 3.4. Temporary Securities.

Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 10.2 (or in accordance with Section 3.3, in the case of the initial Securities), without charge to the Holders thereof. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

Section 3.5. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee, or such other office as the Trustee may designate, a register (the register maintained in such office being herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as the Security Registrar may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee or an agent thereof or of the Company shall initially be the "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided. The Company may appoint one or more co- registrars.

Subject to the requirements of applicable law, upon surrender for registration of transfer of any Security at the office or agency of the Company designated pursuant to Section 10.2, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denomination or denominations, of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denomination or denominations, of a like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same Indebtedness, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer, or for exchange or redemption, shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly

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executed by the Holder thereof or such Holder's attorney duly authorized in writing.

No service charge shall be made to a Holder for any registration of transfer, exchange or redemption of Securities, but the Company may require payment of a sum sufficient to pay all documentary, stamp or similar issue or transfer taxes or other governmental charges that may be imposed in connection with any registration of, transfer, exchange or redemption of Securities, other than exchanges pursuant to Section 3.3, 3.4, 3.6, 9.6, 10.12, 10.13, 10.14 or 11.8 not involving any transfer.

The Company shall not be required (a) to issue, register the transfer of or exchange any Security during a period beginning at the opening of business (i) 15 days before the mailing of a notice of redemption of the Securities selected for redemption under Section 11.4 and ending at the close of business on the day of such mailing or (ii) 15 days before an Interest Payment Date and ending on the close of business on the Interest Payment Date, or (b) to register the transfer of or exchange any Security selected for redemption in whole or in part, except the unredeemed portion of Securities being redeemed in part.

Section 3.6. Mutilated, Destroyed, Lost and Stolen Securities.

If (a) any mutilated Security is surrendered to the Trustee, or (b) the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company, any other obligor under the Securities and the Trustee, such security and/or indemnity, in each case as may be required by them to save each of them harmless, then, in the absence of notice to the Company, any other obligor under the Securities or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a replacement Security of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a replacement Security, pay such Security.

Upon the issuance of any replacement Securities under this Section, the Company may require the payment of a sum sufficient to pay all documentary, stamp or similar issue or transfer taxes or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every replacement Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company and any other obligor of the Securities, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 3.7. Payment of Interest; Interest Rights Preserved.

Interest on any Security which is payable, and is punctually paid or duly provided for, on the Stated Maturity of such interest shall be paid to the Person in whose name that Security is registered at the close of business on the Regular Record Date for such interest payment.

Any interest on any Security which is payable, but is not paid or duly provided for on the Stated Maturity of such interest (or within 15 days after the Stated Maturity of such interest) and interest on such defaulted interest at the then applicable interest rate borne by the Securities, to the extent lawful (such defaulted interest and interest thereon herein collectively called "Defaulted Interest") shall forthwith cease to be payable to the Holder in whose name such Security is registered as of the Regular Record Date; and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Subsection (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities are registered at the

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close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner.

The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment (the "Special Payment Date"), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit at least one Business Day prior to the Special Payment Date, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Subsection provided. Such notice shall be received by the Trustee no less than 30 days prior to the Special Payment Date. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which Special Record Date shall be not more than 15 days and not less than 10 days prior to the Special Payment Date and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company in writing of such Special Record Date and Special Payment Date. In the name and at the expense of the Company, the Trustee shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date and Special Payment Date therefor to be mailed, certified or registered (return receipt requested) first-class postage prepaid, to each Holder at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities are registered on such Special Record Date and shall no longer be payable pursuant to the following Subsection (b).

(b) The Company may make payment to the Persons in whose name the Securities are registered at the close of business on the Special Record Date and Special Payment Date of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, unless, after written notice given by the Company to the Trustee of the proposed payment pursuant to this Subsection, such manner of payment shall not be deemed practicable by the Trustee (acting reasonably). The Trustee shall give prompt written notice to the Company of any such determination.

Subject to the foregoing provisions of this Section 3.7, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 3.8. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name any Security is registered as the owner of such Security for the purpose of receiving payment of principal of, premium, if any, and (subject to Section 3.7) interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

Section 3.9. Cancellation.

All Securities surrendered for payment, purchase, redemption, registration of transfer or exchange shall be delivered to the Trustee and, if not already canceled, shall be promptly canceled by it. The Company or any Subsidiary may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company or any such Subsidiary may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be destroyed in accordance with its customary procedures and certification of their destruction delivered to the Company unless by a Company Order received by the Trustee prior to such destruction the Company shall direct that the canceled Securities be returned to it. The Trustee shall provide the Company a list of all Securities that have been canceled from time to time as requested by the Company.

Section 3.10. Computation of Interest.

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Interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 3.11. Depositary Procedures.

(a) The following procedures will be established: (i) upon deposit of the Global Note, the Depositary will credit the accounts of Participants designated by the underwriters of the Securities with portions of the principal amount of the Global Note, and (ii) ownership of the Securities evidenced by the Global Note will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by the Depositary (with respect to the interests in the Depositary's Participants), the Depositary's Participants and the Depositary's indirect Participants.

(b) So long as the Global Note Holder is the registered holder of the Global Note, the Global Note Holder will be considered for all purposes under the Indenture as the sole and absolute owner of the Securities evidenced by the Global Note. Beneficial owners of Securities evidenced by the Global Note will not be considered the owners or holders thereof under the Indenture for any purpose. Without limiting the foregoing sentence, neither the Company nor the Trustee will have any responsibility or liability for (i) any aspect of the records of the Depositary, (ii) maintaining, supervising, or reviewing any records of the Depositary relating to the Securities, (iii) the selection by the Depositary of beneficial interests in the Securities to be redeemed in part or (iv) the payment to any beneficial owner or other Person, other than the Depositary, of any amount with respect to principal of, premium, if any, or interest with respect to the Securities.

Section 3.12. Book-Entry.

Payments in respect of the principal of, premium, if any, and interest on any Securities registered in the name of the Global Note Holder on the applicable record date will be payable by an office or agency established by the Company under the Indenture for such purpose to or at the direction of the Global Note Holder in its capacity as the holder of the Global Note. The Company and the Trustee may treat the Persons in whose name Securities, including the Global Note, are registered as the owners thereof for the purpose of receiving such payments. Consequently, neither the Company nor the Trustee has or will have any responsibility or liability for the payment of such amounts to beneficial owners of Securities. Payments by the Participants to the beneficial owners of Securities will be governed by standing instructions and customary practice and will be the responsibility of the Depositary's Participants.

Section 3.13. Same-Day Settlement and Payment.

Payments in respect of the Securities represented by the Global Note (including principal, premium, if any, interest and liquidated damages, if any) shall be made in immediately available funds to the accounts specified by the Global Note Holder. With respect to Certificated Notes, the Paying Agent will make all payments of principal, premium, if any, interest, and liquidated damages, if any, in immediately available funds to the accounts specified by the Holders thereof, either at the office or agency of a Paying Agent or by mailing a check to each such Holder's registered address. The Securities represented by the Global Note are expected to trade in the Depositary's Same-Day Funds Settlement System, and secondary market trading activity in such Securities will, therefore, be required by the Depositary to be settled in immediately available funds.

Section 3.14. Legends.

All Global Notes shall bear the following legend:

Unless this certificate is presented by an authorized representative of the Depository Trust Company (together with its successors and assigns, the "Depositary") to the Company or its agent for registration of transfer, exchange, or payment and any certificate issued is registered in the name of Cede & Co. or to such other entity as is requested by an authorized representative of the Depositary (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of the Depositary), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

ARTICLE IV

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DEFEASANCE AND COVENANT DEFEASANCE

Section 4.1. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may, at its option by Board Resolution, at any time, with respect to the Securities, elect to have either Section 4.2 or Section 4.3 be applied to all of the Outstanding Securities (the "Defeased Securities"), upon compliance with the conditions set forth below in this Article IV.

Section 4.2. Defeasance and Discharge.

Upon the Company's exercise under Section 4.1 of the option applicable to this Section 4.2, both the Company and any other obligor on the Securities shall be deemed to have been discharged from their obligations with respect to the Defeased Securities on the date the conditions set forth below are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company and any other obligor of the Securities shall be deemed to have paid and discharged the entire indebtedness represented by the Defeased Securities, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 4.5 and the other Sections of this Indenture referred to in (a) and (b) below, and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company and upon written request, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of Defeased Securities to receive, solely from the trust fund described in Section 4.4 and as more fully set forth in such Section, payments in respect of the principal of, premium, if any, and interest on such Securities when such payments are due, (b) the Company's obligations with respect to such Defeased Securities under Section 3.4, 3.5, 3.6, 10.2 and 10.3, (c) the rights, powers, trusts, duties, indemnities and immunities of the Trustee hereunder, and (d) this Article IV. Subject to compliance with this Article IV, the Company may exercise its option under this Section 4.2 notwithstanding the prior exercise of its option under Section 4.3 with respect to the Securities.

Section 4.3. Covenant Defeasance.

Upon the Company's exercise under Section 4.1 of the option applicable to this Section 4.3, both the Company and any other obligor on the Securities shall be released from their obligations under any covenant or provision contained in Sections 10.5 through 10.17, inclusive with respect to the Defeased Securities on and after the date the conditions set forth below are satisfied (hereinafter, "covenant defeasance"), and the Defeased Securities shall thereafter be deemed to be not "Outstanding" for the purposes of any direction, waiver, consent or declaration or Act of Holders (and the consequences of any thereof) in connection with such covenants and provisions, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the Defeased Securities, the Company and any other obligor of the Securities may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section or Article, whether directly or indirectly, by reason of any reference elsewhere herein or in such Defeased Securities to any such Section or Article or by reason of any reference in any such Section or Article to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.1(c), (d) or (e), but, except as specified above, the remainder of this Indenture and such Defeased Securities shall be unaffected thereby.

Section 4.4. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to application of either Section 4.2 or Section 4.3 to the Defeased Securities:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (a) United States dollars in an amount, (b) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (c) a combination thereof, in such amounts as will be sufficient, as reflected in the written report of a nationally

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recognized firm of independent public accountants or a nationally recognized investment banking firm delivered to the Trustee, to pay and discharge (and which shall be applied by the Trustee to pay and discharge) the principal of, premium, if any, and interest on the Defeased Securities on the Stated Maturity (or on any date after September 1, 2000 (such date being referred to as the "Defeasance Redemption Date"), if prior to electing either defeasance or covenant defeasance, the Company has delivered to the Trustee an irrevocable notice to redeem all of the outstanding Securities on the Defeasance Redemption Date) of such principal or installment of interest; provided that the Trustee (or such qualifying trustee) shall have been irrevocably instructed to apply such United States dollars or the proceeds of such U.S. Government Obligations to said payments with respect to the Securities. For this purpose, "U.S. Government Obligations" means securities that are (i) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

(2) In the case of an election under Section 4.2, the Company shall have delivered to the Trustee an Opinion of Independent Counsel in the United States to the effect that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of this Indenture, there has been a change in the applicable Federal income tax law, in either case to the effect that the Holders of the Outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(3) In the case of an election under Section 4.3, the Company shall have delivered to the Trustee an Opinion of Independent Counsel in the United States to the effect that the Holders of the Outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(4) No Default or Event of Default shall have occurred and be continuing on the date of such deposit;

(5) Such defeasance or covenant defeasance shall not cause the Trustee to have a conflicting interest with respect to any securities of the Company.

(6) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a Default under, this Indenture or any other material agreement or instrument to which the Company is a party or by which it is bound.

(7) The Company shall have delivered to the Trustee an Opinion of Independent Counsel in the United States to the effect that (A) the trust funds will not be subject to any rights of holders of Senior Indebtedness, including without limitation, those arising under this Indenture and (B) the defeasance trust does not violate the Investment Company Act of 1940 and after the passage of 123 days following the deposit the trust fund will not be subject to the effect of sections 547 and 550 of the United States Bankruptcy Code or section 15 of the New York Debtor and Creditor Law.

(8) The Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the holders of the Securities over the other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others.

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(9) No event or condition shall exist on the date of such deposit that would prevent the Company from making payments of the principal of, premium, if any, and interest on the Securities on the date of such deposit or at any time ending on the 123rd day after the date of such deposit.

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Independent Counsel, each to the effect that all conditions precedent provided for relating to either the defeasance under Section 4.2 or the covenant defeasance under Section 4.3 (as the case may be) have been complied with as contemplated by this Section 4.4.

Opinions of Counsel required to be delivered under this Section may have qualifications customary for opinions of the type required and counsel delivering such Opinions of Counsel may rely on certificates of the Company or government or other officials customary for opinions of the type required, which certificates shall be limited to matters of fact, including that various financial covenants have been complied with.

Section 4.5. Deposited Money and U.S. Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 10.3, all United States dollars and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee pursuant to Section 4.4 in respect of the Defeased Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 4.4 or the principal and interest received in respect thereof, other than any such tax, fee or other charge which by law is for the account of the Holders of the Defeased Securities.

Anything in this Article IV to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any United States dollars or U.S. Government Obligations held by it as provided in Section 4.4 which, in the opinion of a nationally recognized firm of independent public accountants or nationally recognized investment banking firm expressed in a written report delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect defeasance or covenant defeasance. In the event of an error in any calculation resulting in a withdrawal hereunder, the Company shall deposit an amount equal to the amount erroneously withdrawn as promptly as practicable after becoming aware of such error.

Section 4.6. Reinstatement.

If the Trustee or Paying Agent is unable to apply any United States dollars or U.S. Government Obligations in accordance with Section 4.2 or 4.3, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 4.2 or 4.3, as the case may be, until such time as the Trustee or Paying Agent is permitted to apply all such United States dollars or U.S. Government Obligations in accordance with Section 4.2 or 4.3, as the case may be; provided, however, that (a) if the Company makes any payment to the Trustee or Paying Agent of principal, premium, if any, or interest on any Security following the reinstatement of its obligations, the Trustee or Paying Agent shall promptly pay any such amount to the Holders of the Securities and the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the United States dollars and U.S. Government Obligations held by the Trustee or Paying Agent and (b) the Trustee or Paying Agent shall return all such United States dollars and U.S. Government Obligations to the Company promptly after receiving a Company Request therefor at any time, if the Trustee or Paying Agent receives written notice from the Company that such reinstatement of the Company's obligations has occurred and continues to be in effect at such time.

ARTICLE V

REMEDIES

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Section 5.1. Events of Default.

"Event of Default," wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body);

(a) there shall be a default in the payment of any interest on any Security when it becomes due and payable, and such default shall continue for a period of 30 days;

(b) there shall be a default in the payment of the principal of or premium, if any, on any Security at its Stated Maturity (upon acceleration, optional or mandatory redemption, repurchase pursuant to a Change of Control Offer, an offer in respect of Excess Proceeds or otherwise);

(c) (i) there shall be a default in the performance, or breach, of any covenant or agreement of the Company under this Indenture (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with in Section 5.1(a) or (b) or in clauses (ii), (iii) or (iv) of this Section 5.1(c)) and such default or breach shall continue for a period of 30 days after written notice of such failure requiring the Company to remedy the same has been given, by certified mail, (x) to the Company by the Trustee or (y) to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Outstanding Securities; (ii) there shall be a default in the performance or breach of the provisions of Article VIII; (iii) the Company shall have failed to make or consummate an Offer in accordance with the provisions of Section 10.12 or (iv) the Company shall have failed to make or consummate a Change of Control Offer in accordance with the provisions of Section 10.13;

(d) (i) any default in the payment of the principal, premium, if any, or interest on any Indebtedness shall have occurred under any agreements, indentures or instruments under which the Company or any Subsidiary then has outstanding Indebtedness in excess of $5 million when the same shall become due and payable and continuation of such default after any applicable grace period and, if not already matured at its final maturity in accordance with its terms, the holder of such Indebtedness shall have no right to accelerate such Indebtedness or (ii) an event of default as defined in any of the agreements, indentures or instruments described in clause (i) of this Section 5.1(d) shall have occurred and the Indebtedness thereunder, if not already matured at its final maturity in accordance with its terms, shall have been accelerated;

(e) one or more judgments, orders or decrees for the payment of money in excess of $2.5 million, either individually or in the aggregate (net of amounts for which an insurance company has agreed that it is liable) shall be entered against the Company or any Subsidiary or any of their respective properties and shall not be discharged and either (i) any creditor shall have commenced an enforcement proceeding upon such judgment, order or decree or (ii) there shall have been a period of 90 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal or otherwise, shall not be in effect;

(f) there shall have been the entry by a court of competent jurisdiction of (i) a decree or order for relief in respect of the Company or any Material Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law or (ii) a decree or order adjudging the Company or any Material Subsidiary bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or any Material Subsidiary under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or any Material Subsidiary or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief shall continue to be in effect, or any such other decree or order shall be unstayed and in effect, for a period of 90 consecutive days;

(g) (i) the Company or any Material Subsidiary commences a voluntary case or proceeding under any applicable Bankruptcy Law or any other case or proceeding to be adjudicated bankrupt or insolvent, (ii) the Company or any Material Subsidiary consents to the entry of a decree or order for relief in respect of the Company or such Material Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding against it, (iii) the

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Company or any Material Subsidiary files a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, (iv) the Company or any Material Subsidiary (A) consents to the filing of such petition or the appointment of, or taking possession by, a custodian, receiver, liquidator, assignee, trustee, sequestrator, or similar official of the Company or such Material Subsidiary or of any substantial part of its property, (B) makes an assignment for the benefit of creditors or (C) admits in writing its inability to pay its debts generally as they become due or (v) the Company or any Material Subsidiary takes any corporate action in furtherance of any such actions in this Section 5.1(g);

(h) any holder or holders of at least $5 million in aggregate principal amount of Indebtedness of the Company or any Subsidiary after a default under such Indebtedness shall notify the Trustee of the intended sale or disposition of any assets of the Company or any Subsidiary that have been pledged to or for the benefit of such holder or holders to secure such Indebtedness or shall commence proceedings, or take any action (including by way of set-off), to retain in satisfaction of such Indebtedness or to collect on, seize, dispose of or supply in satisfaction of Indebtedness, assets of the Company or any Subsidiary (including funds on deposit or held pursuant to lock-box and other similar arrangements); or

(i) the Company shall fail to redeem the Existing Notes within 45 days after the date of the original issuance of the Securities.

Section 5.2. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Sections 5.1(f) and (g)) occurs and is continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Outstanding Securities may declare all the Securities to be due and payable immediately in an amount equal to the principal amount of the Outstanding Securities, together with accrued and unpaid interest, if any, to the date the Securities shall have become due and payable, by a notice in writing to the Company (and to the Trustee, if given by Holders) and thereupon the Trustee may, at its discretion, proceed to protect and enforce the rights of the Holder of the Securities by appropriate judicial proceeding. If an Event of Default specified in Section 5.1(f) or (g) occurs and is continuing, then all the Securities shall ipso facto become and be immediately due and payable, in an amount equal to the principal amount of the Securities, together with accrued and unpaid interest, if any, to the date the Securities become due and payable, without any declaration or other act on the part of the Trustee or any Holder.

At any time after such declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as provided hereinafter in this Article, the Holders of at least a majority in aggregate principal amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

(a) the Company has paid or deposited with the Trustee a sum sufficient to pay:

(i) all sums paid or advanced by the Trustee under Section 6.6 and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel,

(ii) all overdue interest on all Securities, and

(iii) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Securities; and

(b) all Events of Default, other than the non-payment of principal of the Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent Default or impair any right consequent thereon.

Section 5.3. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if:

(a) default is made in the payment of any interest on any

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Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(b) default is made in the payment of the principal of or premium, if any, on any Security at the Stated Maturity (upon acceleration, optional or mandatory redemption, required repurchase or otherwise) thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities the whole amount then due and payable on such Securities for principal and premium, if any, and interest, with interest upon the overdue principal and premium, if any, and, to the extent that payment of such interest shall be legally enforceable, upon overdue installments of interest, at the rate borne by the Securities.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders under this Indenture by such appropriate private or judicial proceedings as the Trustee shall deem most effectual to protect and enforce such rights, and may enforce any other proper remedy, subject however to Section 5.12.

The rights and remedies under this Section 5.3 are in addition to the other rights and remedies under this Article V.

Section 5.4. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of principal, and premium, if any, and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding; and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due if for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.6.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, composition or other similar arrangement affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 5.5. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the

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possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which judgment has been recovered.

Section 5.6. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article or otherwise on behalf of the Holders or the Trustee pursuant to this Article or through any proceeding or any arrangement or restructuring in anticipation or in lieu of any proceeding contemplated by this Article shall be applied, subject to the applicable law, in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal, premium, if any, or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 6.6;

SECOND: To the payment in full of the amounts then due and unpaid upon the Securities for principal, premium, if any, and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium, if any, and interest; and

THIRD: The balance, if any, to the Person or Persons entitled thereto as a court of competent jurisdiction shall direct, or to the Company, provided that all sums due and owing to the Holders and the Trustee have been paid in full as required by this Indenture.

Section 5.7. Limitation on Suits.

No Holder of any Securities shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture or the Securities, or for the appointment of a receiver or trustee, or for any remedy hereunder, unless:

(a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such Holder or Holders have offered, and if requested have provided, to the Trustee an indemnity satisfactory to the Trustee in its sole discretion against the costs, expenses and liabilities to be incurred in compliance with such request,

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner provided in this Indenture and for the equal and ratable benefit of all the Holders.

Section 5.8. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right on the terms stated herein, which is absolute and unconditional, to receive payment of the principal of, premium, if any, and (subject to Section 3.7) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 5.9. Restoration of Rights and Remedies.

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If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, (a) the Company and any other obligor under the Securities, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder, and (b) thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10. Rights and Remedies Cumulative.

Except as provided in Section 3.6, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 5.12. Control by Holders.

The Holders of not less than a majority in aggregate principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, provided that:

(a) such direction shall not be in conflict with any rule of law or with this Indenture (including, without limitation, Section 5.7) or expose the Trustee to personal liability; and

(b) subject to the provisions of Section 315 of the Trust Indenture Act, the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 5.13. Waiver of Past Defaults.

The Holders of not less than a majority in aggregate principal amount of the Outstanding Securities may, on behalf of the Holders of all the Securities, waive any past Default hereunder and its consequences, except a Default:

(a) in the payment of the principal of, premium, if any, or interest on any Security, or

(b) in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the Holder of each Outstanding Security affected by such modification or amendment.

Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 5.14. Undertaking for Costs.

All parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorney's fees, against any party litigant in such suit, having due regard to

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the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities, or to any suit instituted by any Holder for the enforcement of the payment of the principal of, premium, if any, or interest on any Security on or after the respective Stated Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

Section 5.15. Waiver of Stay, Extension or Usury Laws.

Each of the Company and any other obligor under the Securities covenants (to the extent enforceable under law) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, the automatic stay under section 362 of the United States Bankruptcy Code or any other stay or extension law or any usury or other similar law wherever enacted, now or at any time hereafter in force, which would prohibit or forgive the Company or any other obligor under the Securities from paying all or any portion of the principal of, premium, if any, or interest on the Securities contemplated herein or in the Securities or which may affect the covenants or the performance of this Indenture; and each of the Company and any other obligor under the Securities (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.16. Remedies Subject to Applicable Law.

All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law in the premises, and all the provisions of this Indenture are intended to be subject to applicable mandatory provisions of law which may be controlling in the premises and to be limited to the extent necessary so that they will not render this Indenture invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law.

ARTICLE VI

THE TRUSTEE

Section 6.1. Notice of Defaults.

Within 30 days after a Responsible Officer of the Trustee receives notice of the occurrence of any Default, the Trustee shall transmit by mail to all Holders or any other persons entitled to receive reports pursuant to Trust Indenture Act Section 313(c) notice of such Default, unless such Default shall have been cured or waived. Except in the case of a Default or Event of Default in payment of the principal of, premium, if any, or interest on any Security, the Trustee may withhold and shall be protected in withholding such notice if and so long as the board of directors of the Trustee, the executive committee of the board of directors of the Trustee or a committee of Responsible Officers of the Trustee in good faith determines that withholding the notice is in the interests of the Holders; provided that the Trustee shall have no obligation to present such question for determination by its board of directors or any such committee.

Section 6.2. Certain Rights of Trustee.

Subject to the provisions of Trust Indenture Act Section 315(a) through 315(d):

(a) the Trustee, in the absence of willful misconduct or negligence on its part, may rely conclusively on, and shall be protected in acting or refraining from acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, security, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

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(c) wherever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to the taking, suffering or omitting of any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) in the absence of bad faith or negligence on its part, may rely conclusively upon an Officers' Certificate and/or an Opinion of Counsel that conforms to the requirements of this Indenture;

(d) the Trustee may consult with counsel and any written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith without negligence and in reliance thereon in accordance with such advice or Opinion of Counsel;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee in its sole discretion against the costs, expenses and liabilities which might be incurred therein or thereby in compliance with such request or direction;

(f) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture other than any liabilities arising out of the negligence or willful misconduct of the Trustee;

(g) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, appraisal, bond, debenture, security, coupon, security or other paper or document; but the Trustee in its discretion may make such further inquiry or investigation in accordance with any of the provisions of this Indenture into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine such relevant books, records and premises of the Company as may be reasonable, personally or by agent or attorney;

(h) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent (other than an agent who is an employee of the Trustee) or attorney appointed with due care by it hereunder; and

(i) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights and powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 6.3. Trustee Not Responsible for Recitals, Dispositions of Securities or Application of Proceeds Thereof.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or the Securities, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder and that the statements made by it in a Statement of Eligibility and Qualification on Form T-1 supplied to the Company are true and accurate subject to the qualifications set forth therein. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 6.4. Trustee and Agents May Hold Securities; Collections; etc.

The Trustee, any Paying Agent, Security Registrar or any other agent of the company, in its individual or any other capacity, may become the owner or pledgee of Securities, with the same rights it would have if it were not the Trustee, Paying Agent, Security Registrar or such other agent and, subject to Trust Indenture Act Sections 310 and 311, may otherwise deal with the Company and receive, collect, hold and retain collections from the Company

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with the same rights it would have if it were not the Trustee, Paying Agent, Security Registrar or such other agent.

Section 6.5. Money Held in Trust.

All moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by mandatory provisions of law. Except for funds or securities deposited with the Trustee pursuant to Article IV, the Trustee shall only be required to invest moneys received by the Trustee, until used with the directions of the Company.

Section 6.6. Compensation and Indemnification of Trustee and Its Prior Claim.

The Company covenants and agrees to pay to the Trustee promptly upon request, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it hereunder (which, to the extent lawful, shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) and the Company covenants and agrees to reimburse the Trustee and each predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by or on behalf of it in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, bad faith or willful misconduct. When the Trustee incurs expenses and renders services in connection with an Event of Default specified in Section 5.1(f) or Section 5.1(g), the expenses (including the reasonable compensation and the expenses and disbursements of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or state bankruptcy, insolvency or other similar law. The Company also covenants to indemnify the Trustee and each predecessor Trustee, and their respective officers, agents and employees for, and to hold them harmless against, any claim, loss, liability, tax, assessment or other governmental charge (other than taxes applicable to the Trustee's compensation hereunder) or expense incurred without negligence, bad faith or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder and its duties hereunder, including enforcement of this Section 6.6 and also including any liability which the Trustee may incur as a result of the Company's failure to withhold, pay or report any tax, assessment or other governmental charge, and the costs and expenses of defending itself against or investigating any claim of liability in the premises. The obligations of the Company under this Section to compensate and indemnify the Trustee and each predecessor Trustee and to pay or reimburse the Trustee and each predecessor Trustee for expenses, disbursements and advances shall constitute an additional obligation hereunder and shall survive the satisfaction and discharge of this Indenture and the resignation or removal of the Trustee and each predecessor Trustee.

Section 6.7. Conflicting Interests.

The Trustee shall comply with the provisions of Section 310(b) of the Trust Indenture Act.

Section 6.8. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be eligible to act as Trustee under Trust Indenture Act Section 310(a) and which shall have a combined capital and surplus of at least $100.0 million. If the Trustee publishes reports of condition at least annually, pursuant to law or to the requirements of Federal, state, territorial or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.9. Resignation and Removal; Appointment of Successor Trustee.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 6.10.

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(b) The Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice thereof to the Company. Upon receiving such notice of resignation, the Company shall use its best efforts to promptly appoint a successor Trustee by Board Resolution or written instrument executed by authority of the Board of Directors of the Company, a copy of which shall be delivered to the resigning Trustee and a copy to the successor Trustee. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may, or any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper, appoint a successor Trustee.

(c) The Trustee may be removed at any time by an Act of the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with the provisions of Trust Indenture Act Section 310(b) after written request therefor by the Company or by any Holder who has been a bona fide Holder of the Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 6.9 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation; then, in any case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 5.14, any Holder of any security who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Trustee for any cause, the Company, by a Board Resolution or written instrument executed by authority of the Board of Directors of the Company, shall use its best efforts to promptly appoint a successor Trustee and shall comply with the applicable requirements of Section 6.11. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, the Company or a court of competent jurisdiction has not appointed a successor Trustee, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, and the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders of the Securities and accepted appointment in the manner hereinafter provided, any Holder of a Security who has been a bona fide Holder for at least six months may, subject to Section 5.14, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Securities as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office or agent hereunder.

Section 6.10. Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Trustee with respect to the Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or

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removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all rights, powers, trusts and duties of the retiring Trustee under this Indenture; but, nevertheless, on the written request of the Company or the successor Trustee, upon payment of its charges then unpaid, such retiring Trustee shall pay over to the successor Trustee all moneys at the time held by it hereunder and shall execute and deliver an instrument transferring to such successor Trustee all such rights, powers, duties and obligations.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights and powers. Any Trustee ceasing to act shall, nevertheless, retain a prior claim upon all property or funds held or collected by such Trustee or such successor Trustee to secure any amounts then due such Trustee pursuant to the provisions of Section 6.6.

No successor Trustee with respect to the Securities shall accept appointment as provided in this Section 6.10 unless at the time of such acceptance such successor Trustee shall be eligible to act as Trustee under the provisions of Trust Indenture Act Section 310(a) and this Article VI and shall have a combined capital and surplus of at least $100.0 million.

Upon acceptance of appointment by any successor Trustee as provided in this Section 6.10, the Company shall give notice thereof to the Holders of the Securities, by mailing such notice to such Holders at their addresses as they shall appear on the Security Register. If the acceptance of appointment is substantially contemporaneous with the resignation, then the notice called for by the preceding sentence may be combined with the notice called for by Section 6.10. If the Company fails to give such notice within 10 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be given at the expense of the Company.

Section 6.11. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided that such corporation shall be eligible under Trust Indenture Act Section 310(a) and this Article VI and shall have a combined capital and surplus of at least $100,000,000.

In case at the time such successor to the Trustee shall succeed to the Trusts created by this Indenture any of the Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee and deliver such Securities so authenticated; and, in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificate shall have the full force which it is anywhere in the Securities or in this Indenture provided that the certificate of the Trustee shall have; provided that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, amalgamation, conversion or consolidation.

Section 6.12. Preferential Collection of Claims Against Company.

If and when the Trustee shall be or become a creditor of the Company (or other obligor under the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). In particular, the Trustee shall comply with the Trust Indenture Act Section 311(a), excluding any creditor relationship listed in Trust Indenture Act Section 311(b). A Trustee who has resigned or been removed shall be subject to Trust Indenture Act Section 311(a) to the extent indicated therein.

ARTICLE VII

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.1. Company to Furnish Trustee Names and Addresses of

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Holders.

The Company will furnish or cause to be furnished to the Trustee:

(a) semiannually, not more than 10 days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date; and

(b) at such other times as the Trustee may reasonably request in writing, within 30 days after receipt by the Company of any such request, a list of similar form and content to that in Subsection (a) hereof as of a date not more than 15 days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be the Security Registrar, no such list need be furnished.

Section 7.2. Disclosure of Names and Addresses of Holders.

Holders may communicate pursuant to Trust Indenture Act Section 312(b) with other Holders with respect to their rights under this Indenture or the Securities, and the Trustee shall comply with Trust Indenture Act Section 312(b). The Company, the Trustee, the Registrar and any other Person shall have the protection of Trust Indenture Act Section 312(c). Further, every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any information as to the names and addresses of the Holders in accordance with Trust Indenture Act Section 312, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Trust Indenture Action Section 312.

Section 7.3. Reports by Trustee.

(a) Within 60 days after May 15 of each year commencing with the first May 15 after the issuance of Securities, the Trustee, if so required under the Trust Indenture Act shall transmit by mail to all Holders in the manner and to the extent provided in Trust Indenture Act Section 313(c), a brief report dated as of such May 15 in accordance with and with respect to the matters required by Trust Indenture Act Section 313(a). The Trustee shall also transmit by mail to the Holders, in the manner and to the extent provided in Trust Indenture Act Section 313(c), a brief report in accordance with and with respect to the matters required by Trust Indenture Act Section 313(b)(2).

(b) A copy of each report transmitted to Holders pursuant to this Section 7.3 shall, at the time of such transmission, be mailed to the Company and filed with each stock exchange, if any, upon which the Securities are listed and also with the Commission.

Section 7.4. Reports by Company.

The Company shall:

(a) file with the Trustee, in accordance with Section 10.17 hereof, and in any event within 30 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Company is required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall (i) deliver to the Trustee annual audited financial statements of the Company and its Subsidiaries, prepared on a consolidated basis in conformity with GAAP, within 120 days after the end of each fiscal year of the Company, and (ii) file with the Trustee and the Commission, in accordance with, and so long as not prohibited by, the rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(b) file with the Trustee and the Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants for this Indenture as is required from time to time by such rules and regulations (including such

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information, documents and reports referred to in Trust Indenture Act Section 314(a)); and

(c) within 30 days after the filing thereof with the Trustee, transmit by mail to all Holders in the manner and to the extent provided in Trust Indenture Act Section 313(c), such summaries of any information, documents and reports required to be filed by the Company pursuant to Section 10.18 hereunder and subsections (a) and (b) of this Section as is required and not prohibited by rules and regulations prescribed from time to time by the Commission.

ARTICLE VIII

CONSOLIDATION, MERGER, SALE OF ASSETS

Section 8.1. Company May Merge, Consolidate etc., Only on Certain Terms.

The Company shall not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets to any Person or group of affiliated Persons, or permit any of its Subsidiaries to enter into any such transaction or transactions if such transaction or transactions, in the aggregate, would result in a sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Company and its Subsidiaries on a Consolidated basis to any other Person or group of affiliated Persons, unless: (i) either (a) the Company shall be the continuing corporation or (b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Company and its Subsidiaries on a Consolidated basis (the "Surviving Entity") shall be a corporation duly organized and validly existing under the laws of the United States of America, any state thereof or the District of Columbia and such Person assumes by a supplemental indenture in a form reasonably satisfactory to the Trustee all the obligations of the Company under the Securities and this Indenture, and this Indenture shall remain in full force and effect; (ii) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; (iii) immediately after giving effect to such transaction, the Consolidated Net Worth of the Company (or the Surviving Entity if the Company is not the continuing obligor under the Indenture) is equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction; (iv) immediately before and immediately after giving effect to such transaction on a pro forma basis (on the assumption that the transaction occurred on the first day of the four-quarter period immediately prior to the consummation of such transaction with the appropriate adjustments with respect to the transaction being included in such pro forma calculation), the Company (or the Surviving Entity if the Company is not the continuing obligor under the Indenture) could incur $1.00 of additional Indebtedness under the provisions of Section 10.8 (other than Permitted Indebtedness); and (v) the Company shall have delivered, or caused to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of counsel, each to the effect that such consolidation, merger, transfer, lease or other transaction and the supplemental indenture in respect thereto comply with the provisions described in this Section 8.1 and that all conditions precedent herein provided for in this Section 8.1 relating to such transaction have been complied with. Notwithstanding any provision to the contrary contained in this Indenture, including without limitation the agreements and restrictions contained in this Article VIII and the agreements and covenants elsewhere contained herein, the Company shall not be prevented, restricted or limited in any way from merging with and into Haynes Holdings, Inc. ("Holdings").

Section 8.2. Successor Substituted.

Upon any consolidation or merger, or any sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets on a Consolidated basis of the Company in accordance with Section 8.1 with respect to which the Company is not the continuing corporation, the successor Person formed by such consolidation or into which the Company is merged or the successor Person to which such sale, assignment, conveyance, transfer, lease or disposition is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under

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this Indenture, with the same effect as if such successor had been named as the Company herein. When a successor assumes all the obligations of its predecessor under this Indenture or the Securities, the predecessor shall be released from those obligations; provided that, in the case of a transfer by lease, the predecessor shall not be released from the payment of principal and interest on the Securities.

Any successor to the Company described in the foregoing paragraph may cause to be signed, and may issue either in its own name or in the name of the Company, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor, instead of the Company, and subject to the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall delivered any Securities which previously shall have been signed and delivered by the officers of the Company to the Trustee for authentication, and any Securities which such successor thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution of this Indenture.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.1. Supplemental Indentures and Agreements without Consent of Holders.

Without the consent of any Holders, the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto in form and substance reasonably satisfactory to the Trustee, for any of the following purposes:

(a) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities;

(b) to add to the covenants of the Company for the benefit of the Holders, or to surrender any right or power conferred upon the Company in this Indenture or the Securities;

(c) to cure any ambiguity or to correct or supplement any provision in this Indenture or the Securities which may be defective or inconsistent with any other provision in this Indenture or the Securities;

(d) to comply with the requirements of the Commission in order to effect or maintain the qualification of this Indenture under the Trust Indenture Act, as contemplated by Section 9.5 or otherwise;

(e) to add a guarantor of the Indenture Obligations;

(f) to evidence and provide the acceptance of the appointment of a successor Trustee hereunder;

(g) to mortgage, pledge, hypothecate or grant a security interest in favor of the Trustee for the benefit of the Holders as additional security, for the payment and performance of the Indenture Obligations, in any property or assets, including any which are required to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted, to the Trustee pursuant to this Indenture or otherwise; and

(h) to clarify any other provisions with respect to matters or questions arising under this Indenture or the Securities; provided that, in each case, such clarification or provision thus made shall not adversely affect the interests of the Holders.

Section 9.2. Supplemental Indentures and Agreements with Consent of Holders.

Except as permitted by Section 9.1, with the consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities, by Act of said Holders delivered to the Company and the Trustee, the Company and the Trustee may (i) enter into an indenture or indentures supplemental hereto in form and substance reasonably satisfactory to the Trustee, for the purpose of adding any provisions to or amending, modifying or

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changing in any manner or eliminating any of the provisions of this Indenture or the Securities (including, but not limited to, for the purpose of modifying in any manner the rights of the Holders under this Indenture or the Securities) or (ii) waive compliance with any provision in this Indenture or the Securities (other than waivers of past Defaults covered by Section 5.13 and waivers of covenants which are covered by Section 10.19); provided, however, that no such supplemental indenture, agreement or instrument shall, without the consent of the Holder of each Outstanding Security affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Security or waive a default in the payment of the principal or interest on any Security or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which the principal of any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment after the Stated Maturity thereof;

(b) amend, change or modify the obligation of the Company to make and consummate an offer in accordance with Section 10.12, including amending, changing or modifying any of the provisions or definitions with respect thereto;

(c) amend, change or modify the obligation of the Company to make and consummate an offer in accordance with Section 10.13, including amending, changing or modifying any of the provisions or definitions with respect thereto;

(d) amend, change or modify the ability of the Company to make and consummate an offer in accordance with Section 10.14, including amending, changing or modifying any of the provisions or definitions with respect thereto;

(e) reduce the percentage in principal amount of the Outstanding Securities, the consent of whose Holders is required for any such supplemental indenture or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture or certain Defaults hereunder and their consequences provided for in this Indenture;

(f) modify any of the provisions of this Section or Section 5.13 or 10.18, except to increase the percentage of Outstanding Securities required for such actions or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Security affected thereby;

(g) except as otherwise permitted under Article VIII, consent to the assignment or transfer by the Company of any of its rights and obligations under this Indenture; or

(h) amend or modify any of the provisions of this Indenture in any manner which subordinates the Securities in right of payment to other Indebtedness of the Company.

Upon the written request of the Company, accompanied by a copy of a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Holders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 9.3. Execution of Supplemental Indentures and Agreements.

In executing, or accepting the additional trusts created by, any supplemental indenture, agreement or instrument permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Trust Indenture Act Section 315(a) through 315(d) and Section 6.3 hereof) shall be fully protected in relying upon, an Opinion of Counsel and an Officers' Certificate to the effect that the execution of such supplemental indenture, agreement or instrument is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture, agreement or instrument which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

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Section 9.4. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 9.5. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 9.6. Reference in Securities to Supplemental Indentures.

Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities modified so as to conform to any such supplemental indenture, in the opinion of the Trustee and the Board of Directors, may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

Section 9.7. Record Date.

If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any supplemental indenture, agreement or instrument or any waiver, and shall promptly notify the Trustee of any such record date. If a record date is fixed, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to consent to such supplemental indenture, agreement or instrument or waiver or to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. The record date shall be a date no more than 30 days prior to the first solicitation of Holders generally in connection therewith and no later than the date such solicitation is completed. No such consent shall be valid or effective for more than six months after such record date. Subject to applicable law, until any supplemental indenture, agreement, instrument or waiver becomes effective, or a consent to it by a Holder of a Security shall cease to be valid and effective as set forth in the preceding sentence, such consent is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

ARTICLE X

COVENANTS

Section 10.1. Payment of Principal, Premium and Interest.

The Company will duly and punctually pay the principal of, premium, if any, and interest on the Securities in accordance with the terms of the Securities and this Indenture.

Section 10.2. Maintenance of Office or Agency.

The Company will maintain an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The office of the Trustee at 101 West Washington Street, Suite 655 South, Indianapolis, Indiana 46255, shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company will give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

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The Company may from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes, and may from time to time rescind such designation. The Company will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such office or agency.

Section 10.3. Money for Security Payments to be Held in Trust.

The Company will, at least one Business Day prior to each due date of the principal of, premium, if any, or interest on, any Securities, deposit with a Paying Agent (which shall not be the Company) a sum in same day funds sufficient to pay the principal, premium, if any, or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of such action or any failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(a) hold all sums held by it for the payment of the principal of, premium, if any, or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(b) give the Trustee notice of any Default by the Company (or any other obligor upon the Securities) in the making of any payment of principal, premium, if any, or interest;

(c) at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent and account for any funds disbursed; and

(d) acknowledge, accept and agree to comply in all aspects with the provisions of this Indenture relating to the duties, rights and disabilities of such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Company Order direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent in trust for the payment of the principal of, premium, if any, or interest on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest has become due and payable shall promptly be paid to the Company upon Company Request; and the Holders of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment to the Company, may at the expense of the Company cause to be published once, in The New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will promptly be repaid to the Company.

Section 10.4. Corporate Existence.

Subject to Article VIII, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and related rights and franchises (charter and statutory) of the Company and each Subsidiary; provided, however, that the Company shall not be required to preserve any such right or franchise or the corporate existence of any such Subsidiary if the Board of Directors of the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries as a whole and that the loss thereof would not reasonably be expected to have a material adverse effect on the ability of the Company to perform its obligations hereunder; and provided,

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further, however, that the foregoing shall not prohibit a sale, transfer or conveyance of a Subsidiary or any of its assets in compliance with the terms of this Indenture.

Section 10.5. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, on or before the date the same shall become due and payable, (a) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary shown to be due on any return of the Company or any Subsidiary or otherwise assessed or upon the income, profits or property of the Company or any Security and (b) all material lawful claims for labor, materials and supplies, which, if unpaid, would by law become a Lien upon the property of the Company or any Subsidiary, except for any Lien permitted to be incurred under Section 10.11; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings properly instituted and diligently conducted and in respect of which appropriate reserves (in the good faith judgment of management of the Company) are being maintained in accordance with GAAP consistently applied.

Section 10.6. Maintenance of Properties.

The Company will cause all material properties owned by the Company or any Subsidiary or used or held for use in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order (ordinary wear and tear excepted) and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be consistent with sound business practice and reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided, however, that nothing in this Section 10.6 shall prevent the Company from discontinuing the maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of the business of the Company and its Subsidiaries and not reasonably expected to have a material adverse effect on the ability of the Company to perform its obligations hereunder.

Section 10.7. Insurance.

The Company will at all times keep all of its and its Subsidiaries' properties which are of an insurable nature reasonably self-insured or insured with insurers, believed by the Company to be responsible, against loss or damage to the extent that property of similar character is usually so insured by corporations similarly situated and owning like properties in the same general geographic areas in which the Company and its Subsidiaries operate, except where the failure to do so would not reasonably be expected to have a material adverse effect on the condition (financial or otherwise), earnings or business affairs of the Company and its Subsidiaries, taken as a whole.

Section 10.8. Limitation on Indebtedness.

(a) The Company will not, and will not permit any of its Subsidiaries to, create, issue, assume, guarantee, or otherwise in any manner become directly or indirectly liable for or with respect to or otherwise incur (collectively, "incur") any Indebtedness, including any Acquired Indebtedness (other than Permitted Indebtedness); provided, however, and subject to paragraph (b) below in the case of Indebtedness of any Subsidiary, the Company and its Subsidiaries will be permitted to incur Indebtedness if the Consolidated Fixed Charge Coverage Ratio for the Company for the four full fiscal quarters immediately preceding the incurrence of such Indebtedness taken as one period (and after giving pro forma effect to (i) the incurrence of such Indebtedness and (if applicable) the application of the net proceeds therefrom, including to refinance other Indebtedness, as if such Indebtedness was incurred, and the application of such proceeds occurred, at the beginning of such four-quarter period; (ii) the incurrence, repayment or retirement of any other Indebtedness by the Company and its Subsidiaries since the first day of such four-quarter period as if such Indebtedness was incurred, repaid or retired at the beginning of such four-quarter period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such four-quarter period); (iii) in the case of Acquired Indebtedness, the related acquisition; and (iv) any acquisition or disposition by the Company and its Subsidiaries of any company or any business or any assets out of the ordinary course of business, or any related repayment of Indebtedness, in each case since the first day of such four- quarter period,

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assuming such acquisition or disposition and any such related prepayment had been consummated on the first day of such four-quarter period) is at least equal to 2.00 to 1.00 during the period from the date hereof to the second anniversary of the date hereof, and 2.25 to 1.00 thereafter (each such ratio defined herein as the "Applicable Coverage Ratio").

(b) The Company will not permit any of its Subsidiaries to incur any Indebtedness other than Permitted Subsidiary Indebtedness.

Section 10.9. Limitation on Restricted Payments.

(a) The Company will not, and will not permit any Subsidiary to, directly or indirectly:

(i) declare or pay any dividend on, or make any distribution to holders of, any shares of the Company's Capital Stock (other than dividends or distributions payable solely in shares of its Qualified Capital Stock or in options, warrants or other rights to acquire such Qualified Capital Stock;

(ii) purchase, redeem or otherwise acquire or retire for value, directly or indirectly, any shares of the Capital Stock of the Company or any Affiliate of the Company (other than the Capital Stock of any Wholly-Owned Subsidiary of the Company) or options, warrants or other rights to acquire such Capital Stock;

(iii) make any principal payment on, or repurchase, redeem, defease, retire or otherwise acquire for value, prior to any scheduled principal payment, sinking fund or maturity, any Subordinated Indebtedness;

(iv) declare or pay any dividend or distribution on any Capital Stock of any Subsidiary to any Person (other than the Company or any of its Wholly-Owned Subsidiaries) or purchase, redeem or otherwise acquire or retire for value any Capital Stock of any Subsidiary held by any Person (other than the Company or any of its Wholly-Owned Subsidiaries);

(v) incur, create or assume any guarantee of Indebtedness of any Affiliate of the Company (other than a Wholly-Owned Subsidiary of the Company); or

(vi) make any Investment in any Person (other than any Permitted Investments)

(any of the foregoing payments described in clauses (i) through (vi) and not excepted therefrom, collectively, "Restricted Payments") unless after giving effect to the proposed Restricted Payment (the amount of any such Restricted Payment, if other than cash, as determined by the Board of Directors of the Company, whose determination shall be conclusive and evidenced by a board resolution), (1) no Default or Event of Default shall have occurred and be continuing and such Restricted Payment shall not be an event which is, or after notice or lapse of time or both, would be, an "event of default" under the terms of any Indebtedness of the Company or its Subsidiaries; (2) immediately before and immediately after giving effect to such transaction on a pro forma basis, the Company could incur $1.00 of additional Indebtedness (other than Permitted Indebtedness) under the provisions described under Section 10.8; and (3) the aggregate amount of all such Restricted Payments declared or made after the date of the Indenture does not exceed the sum of:

(A) 50% of the aggregate cumulative Consolidated Net Income of the Company accrued on a cumulative basis during the period beginning on the first day of the Company's fiscal quarter commencing prior to the date of the Indenture and ending on the last day of the Company's last fiscal quarter ending prior to the date of the Restricted Payment (or, if such aggregate cumulative Consolidated Net Income shall be a loss, minus 100% of such loss); plus

(B) the aggregate Net Cash Proceeds received after the date of the Indenture by the Company as capital contributions to the Company (other than from any of its Subsidiaries); plus

(C) the aggregate Net Cash Proceeds received after the date of the Indenture by the Company from the issuance or sale (other than to any of its Subsidiaries) of its shares of Qualified Capital Stock or any options, warrants or rights to purchase such shares of Qualified Capital Stock of the Company (except, in each case, to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Pari Passu or Subordinated Indebtedness as set forth below); plus

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(D) the aggregate Net Cash Proceeds received after the date of the Indenture by the Company (other than from any of its Subsidiaries) upon the exercise of any options or warrants to purchase shares of Qualified Capital Stock of the Company; plus

(E) the aggregate Net Cash Proceeds received after the date of the Indenture by the Company from debt securities or Redeemable Capital Stock that have been converted into or exchanged for Qualified Capital Stock of the Company, to the extent such debt securities or Redeemable Capital Stock are originally sold for cash, plus the aggregate Net Cash Proceeds received by the Company at the time of such conversion or exchange.

(b) Notwithstanding the foregoing, and in the case of clauses (ii), (iii) and (iv) below, as long as no Default shall have occurred and be continuing, the foregoing provisions shall not prohibit:

(i) the payment of any dividend within 60 days after the date of declaration thereof, if at such date of declaration such payment would be permitted by the provisions of paragraph (a) of this Section or paragraph (vi) below and such payment shall be deemed to have been paid on such date of declaration for purposes of the calculation required by paragraph (a) of this Section;

(ii) the repurchase, redemption, or other acquisition or retirement of any shares of any class of Capital Stock of the Company in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds of, a substantially concurrent issuance and sale for cash (other than to a Subsidiary) of other shares of Qualified Capital Stock of the Company; provided that the Net Cash Proceeds from the issuance of such shares of Qualified Capital Stock are excluded from the calculation pursuant to clause (3)(C) of paragraph (a) of this Section;

(iii) any repurchase, redemption, defeasance, retirement or acquisition for value or payment of principal of any Subordinated Indebtedness in exchange for, or out of the net proceeds of, a substantially concurrent issuance and sale for cash (other than to any Subsidiary of the Company) of any Qualified Capital Stock of the Company provided that the Net Cash Proceeds from the issuance of such shares of Qualified Capital Stock are excluded from clause (3)(C) of paragraph (a) of this Section;

(iv) the repurchase, redemption, defeasance, retirement, refinancing, acquisition for value or payment of principal of any Subordinated Indebtedness (other than Redeemable Capital Stock) (a "refinancing") through the issuance of new Subordinated Indebtedness provided that any such new Subordinated Indebtedness (1) shall be in a principal amount that does not exceed the principal amount so refinanced (or, if such Subordinated Indebtedness provides for an amount less than the principal amount thereof to be due and payable upon a declaration or acceleration thereof, then such lesser amount as of the date of determination), plus the lesser of (I) the stated amount of any premium or other payment required to be paid in connection with such a refinancing pursuant to the terms of the Subordinated Indebtedness being refinanced or (II) the amount of premium or other payment actually paid at such time to refinance the Subordinated Indebtedness, plus, in either case, the amount of expenses of the Company incurred in connection with such refinancing; (2) has an Average Life to Stated Maturity greater than the remaining Average Life to Stated Maturity of the Securities; (3) has a Stated Maturity for its final scheduled principal payment later than the Stated Maturity for the final scheduled principal payment of the Securities; and (4) is expressly subordinated in right of payment to the Securities at least to the same extent as the Subordinated Indebtedness to be refinanced;

(v) the redemption by the Company of its 13 % Senior Subordinated Notes due 1999 within 45 days after the date of the Indenture;

(vi) the declaration and payment of dividends on the Capital Stock of the Company of up to an amount equal to 6% of the proceeds (after underwriting discounts, commissions, and issuance expenses) received at any time from any public offering of such Capital Stock; and

(vii) distributions to Holdings to enable Holdings to repurchase Capital Stock or options to purchase Capital Stock of Holdings from current or former directors, officers and employees (or their respective estates and beneficiaries) pursuant to put rights held by them as a result of death, disability, retirement or termination of employment (including, without

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limitation, any interest and other expenses related thereto) up to an amount not to exceed an aggregate of $500,000 in any fiscal year of the Company.

Section 10.10. Limitation on Transactions with Affiliates.

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Company (other than the Company or a Wholly-Owned Subsidiary) unless (i) such transaction or series of transactions is in writing on terms that are no less favorable to the Company or such Subsidiary, as the case may be, than would be available in a comparable transaction in arm's-length dealings with an unrelated third party and (ii) with respect to any transaction or series of transactions involving aggregate payments or value in excess of $1,000,000, the Company delivers an Officers' Certificate to the Trustee certifying that such transaction or series of related transactions complies with clause (i) above and such transaction or series of related transactions has been approved by a majority of the Disinterested Directors of the Board of Directors of the Company. In addition to the foregoing, with respect to a transaction or series of related transactions involving aggregate payments or value equal to or greater than $2.5 million, the Company must deliver to the Trustee a written opinion from an Independent Financial Advisor stating that such transaction or series of transactions are fair from a financial point of view. This covenant will not restrict the Company from (a) redeeming or paying dividends in respect of its Capital Stock permitted under Section 10.9 hereunder, (b) making loans or advances to officers of the Company for bona fide business purposes of the Company not in excess of $1.0 million in the aggregate at any one time outstanding, and (c) paying advisory and transaction fees to MLGA in amounts that are in accordance with past practices and in the ordinary course of business for the rendering of financial advice and services in connection with acquisitions, dispositions, and financings by the Company.

Section 10.11. Limitation on Liens.

The Company will not, and will not permit any Subsidiary to, directly or indirectly, create, incur, affirm or suffer to exist any Lien of any kind upon any of its property or assets (including any intercompany notes), now owned or acquired after the date of this Indenture, or any income or profits therefrom, except if the Securities are directly secured equally and ratably with (or prior to in the case of Liens with respect to Subordinated Indebtedness) the obligation or liability secured by such Lien, excluding, however, from the operation of the foregoing any of the following:

(a) any Lien existing as of the date of this Indenture;

(b) any Lien arising by reason of (1) any judgment, decree or order of any court, so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired; (2) taxes not yet delinquent or which are being contested in good faith; (3) security for payment of workers' compensation or other insurance; (4) good faith deposits in connection with tenders, leases, contracts (other than contracts for the payment of money); (5) zoning restrictions, easements, licenses, reservations, title defects, rights of others for rights of way, utilities, sewers, electric lines, telephone or telegraph lines, and other similar purposes, provisions, covenants, conditions, waivers, restrictions on the use of property or minor irregularities of title (and with respect to leasehold interests, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of the leased property, with or without consent of the lessee), none of which materially impairs the use of any parcel of property material to the operation of the business of the Company or any Subsidiary or the value of such property for the purpose of such business; (6) deposits to secure public or statutory obligations, or in lieu of surety or appeal bonds, or (7) operation of law in favor of mechanics, materialmen, laborers, employees or suppliers, incurred in the ordinary course of business for sums which are not yet delinquent or are being contested in good faith by negotiations or by appropriate proceedings which suspend the collection thereof;

(c) any Lien on property of the Company or any Subsidiary securing the New Credit Facility;

(d) any Lien securing Acquired Indebtedness created prior

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to (and not created in connection with, or in contemplation of) the incurrence of such Indebtedness by the Company or any Subsidiary;

(e) any Lien to secure the performance of bids, trade contracts, leases (including, without limitation, statutory and common law landlord's liens), statutory obligations, surety and appeal bonds, letters of credit and other obligations of a like nature and incurred in the ordinary course of business of the Company or any Subsidiary;

(f) any Lien securing Indebtedness permitted to be incurred pursuant to clause (vi) of the definition of "Permitted Indebtedness" and which is not prohibited to be incurred under Section 10.8;

(g) any Lien securing obligations under hedging agreements that the Company enters into in the ordinary course of business for the purpose of protecting its production against fluctuations in commodity prices;

(h) any Lien securing Indebtedness permitted to be incurred under Interest Rate Agreements or otherwise incurred to hedge interest rate risk;

(i) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (a) through (h) so long as no additional collateral is granted as security thereby.

Section 10.12. Limitation on Sale of Assets.

(a) The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, consummate an Asset Sale unless (i) at least 85% of the proceeds from such Asset Sale are received in cash and (ii) the Company or such Subsidiary receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the shares or assets sold (as determined by the Board of Directors of the Company and evidenced in a board resolution).

(b) If all or a portion of the Net Cash Proceeds of any Asset Sale are not required to be applied to repay permanently any Indebtedness under the New Credit Facility then outstanding, the Company determines not to apply such Net Cash Proceeds to the permanent prepayment of such Indebtedness under the New Credit Facility or if no such Indebtedness under the New Credit Facility is then outstanding, then the Company may within 6 months of the Asset Sale, invest the Net Cash Proceeds in properties and assets that (as determined by the Board of Directors) replace the properties and assets that were the subject of the Asset Sale or in properties and assets that will be used in the businesses of the Company or its Subsidiaries existing on the date of the Indenture or reasonably related thereto. The amount of such Net Cash Proceeds neither used to permanently repay or prepay Indebtedness under the New Credit Facility nor used or invested as set forth in this paragraph constitutes "Excess Proceeds."

(c) When the aggregate amount of Excess Proceeds equals $5.0 million or more, the Company shall within 20 business days apply the Excess Proceeds to the repayment of the Securities and any Pari Passu Indebtedness required to be repurchased under the instrument governing such Pari Passu Indebtedness as follows: (a) the Company shall make an offer to purchase (an "Offer") from all holders of the Securities in accordance with the procedures set forth in this Indenture the maximum principal amount (expressed as a multiple of $1,000) of Securities that may be purchased out of an amount (the "Security Amount") equal to the product of such Excess Proceeds multiplied by a fraction, the numerator of which is the outstanding principal amount of the Securities, and the denominator of which is the sum of the outstanding principal amount of the Securities and such Pari Passu Indebtedness (subject to proration in the event such amount is less than the aggregate Offered Price (as defined herein) of all Securities tendered) and (b) to the extent required by such Pari Passu Indebtedness to reduce permanently the principal amount of such Pari Passu Indebtedness, the Company shall make an offer to purchase or otherwise repurchase or redeem Pari Passu Indebtedness (a "Pari Passu Offer") in an amount (the "Pari Passu Debt Amount") equal to the excess of the Excess Proceeds over the Security Amount; provided that in no event shall the Pari Passu Debt Amount exceed the principal amount of such Pari Passu Indebtedness plus the amount of any premium required to be paid to repurchase such Pari Passu Indebtedness. The offer price shall be payable in cash in an amount equal to 100% of the principal amount of the Securities plus accrued and unpaid interest, if any, to the date (the "Offer Date") such Offer is consummated (the "Offered Price"), in accordance with the procedures set forth

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in this Indenture. To the extent that the aggregate Offered Price of the Securities tendered pursuant to the Offer is less than the Security Amount relating thereto or the aggregate amount of Pari Passu Indebtedness that is purchased is less than the Pari Passu Debt Amount (the amount of such shortfall, if any, constituting a "Deficiency"), the Company shall use such Deficiency in the business of the Company and its Subsidiaries. Upon completion of the purchase of all the Securities tendered pursuant to an Offer and repurchase of the Pari Passu Indebtedness pursuant to a Pari Passu Offer, the amount of Excess Proceeds, if any, shall be reset at zero.

(d) Whenever the Excess Proceeds received by the Company exceed $5.0 million, such Excess Proceeds shall, prior to the purchase of Securities or any Pari Passu Indebtedness described in paragraph (c) above, be set aside by the Company in a separate account pending (i) deposit with the depository or a paying agent of the amount required to purchase the Securities or Pari Passu Indebtedness tendered in an Offer or a Pari Passu Offer, (ii) delivery by the Company of the Offered Price to the holders of the Securities or Pari Passu Indebtedness tendered in an Offer or a Pari Passu Offer and (iii) application, as set forth above, of Excess Proceeds in the business of the Company and its Subsidiaries. Such Excess Proceeds may be invested in Temporary Cash Investments, provided that the maturity date of any such investment made after the amount of Excess Proceeds exceeds $5.0 million shall not be later than the Offer Date. The Company shall be entitled to any interest or dividends accrued, earned or paid on such Temporary Cash Investments, provided that the Company shall not withdraw such interest from the separate account if an Event of Default has occurred and is continuing.

(e) If the Company becomes obligated to make an Offer pursuant to clause (c) above, the Securities shall be purchased by the Company, at the option of the holders thereof, in whole or in part in integral multiples of $1,000, on a date that is not earlier than 45 days and not later than 60 days from the date the notice is given to holders, or such later date as may be necessary for the Company to comply with the requirements under the Exchange Act, subject to proration in the event that the Security Amount is less than the aggregate Offered Price of all Securities tendered.

(f) The Company shall comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act, and any other applicable securities laws or regulations in connection with an Offer.

(g) The Company will not, and will not permit any Subsidiary to, create or permit to exist or become effective any restriction (other than restrictions existing under Indebtedness as in effect on the date of the Indenture as such Indebtedness may be refinanced from time to time) that would materially impair the ability of the Company to make an Offer to purchase the Securities or, if such Offer is made, to pay for the Securities tendered for purchase.

(h) Within 20 business days after the date on which the amount of Excess Proceeds equals or exceeds $5.0 million the Company shall send by first-class mail, post prepaid, to the Trustee and to each Holder of the Securities, at such Holder's address appearing in the Security Register, a notice stating or including:

(A) that the Holder has the right to require the Company to repurchase, subject to proration, part or all of such Holder's Securities at the Offered Price;

(B) the Offer Date;

(C) the instructions a Holder must follow in order to have its Securities purchased in accordance with paragraph (c) of this Section; and

(D) (i) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q, as applicable, and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report, other than Current Reports describing Asset Sales otherwise described in the offering materials (or corresponding successor reports) (or in the event the Company is not required to prepare any of the foregoing Forms, the comparable information required pursuant to Section 10.17), (ii) a description of material developments in the Company's business subsequent to the date of the latest of such Reports, (iii) if material, appropriate pro forma financial information, and (iv) such other information, if any, concerning the business of the Company and its Subsidiaries which the Company in good faith believes will enable such Holders to make an informed investment decision regarding the Offer;

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(E) the Offered Price;

(F) the names and addresses of the Paying Agent and the offices or agencies referred to in Section 10.2;

(G) that Securities must be surrendered at least three Business Days prior to the Purchase Date to the Paying Agent or to an office or agency referred to in Section 10.2 to collect payment;

(H) that any Securities not tendered will continue to accrue interest and that unless the Company defaults in the payment of the Offered Price, any Security accepted for payment pursuant to the Offer shall cease to accrue interest on and after the Offer Date; and

(I) the procedures for withdrawing a tender.

(i) Holders electing to have Securities purchased hereunder will be required to surrender such Securities at the address specified in the notice at least three Business Days prior to the Offer Date. Holders will be entitled to withdraw their election to have their Securities purchased pursuant to this Section 10.12 if the Company receives, not later than three Business Days prior to the Offer Date, a telegram, telex, facsimile transmission or letter setting forth (1) the name of the Holder, (2) the certificate number of the Security in respect of which such notice of withdrawal is being submitted, (3) the principal amount of the Security (which shall be $1,000 or an integral multiple thereof) delivered for purchase by the Holder as to which his election is to be withdrawn, (4) a statement that such Holder is withdrawing such Holder's election to have such principal amount of such Security purchased, and (5) the principal amount, if any, of such Security (which shall be $1,000 or an integral multiple thereof) that remains subject to the original notice of the Offer and that has been or will be delivered for purchase by the Company.

(j) The Company shall (i) not later than the Offer Date, accept for payment Securities or portions thereof tendered pursuant to the Offer, (ii) not later than 10:00 a.m. (New York time) on the Offer Date, deposit with the Trustee or with a Paying Agent an amount of money in same day funds (or New York Clearing House funds if such deposit is made prior to the Offer Date) the lesser of the Security Amount and an amount sufficient to pay the aggregate Offered Price of all the Securities or portions thereof which are to be purchased on that date and (iii) not later than 10:00 a.m. (New York Time) on the Offer Date, deliver to the Paying Agent an Officers' Certificate stating the Securities or portions thereof accepted for payment by the Company.

The Trustee and the Paying Agent shall return to the Company any cash that remains unclaimed after the Business Day following the Offer Date, together with interest, if any, thereon, held by them for the payment of the Offered Price; provided, however, that, (x) to the extent that the aggregate amount of cash deposited by the Company with the Trustee in respect of an Offer exceeds the aggregate Offered Price of the Securities or portions thereof to be purchased, then the Trustee shall hold such excess for the Company and (y) unless otherwise directed by the Company in writing, promptly after the Business Day following the Offer Date the Trustee shall return any such excess to the Company together with interest or dividends, if any, thereon.

(k) Securities to be purchased shall, on the Offer Date, become due and payable at the Offered Price and from and after such date (unless the Company shall default in the payment of the Offered Price) such Securities shall cease to bear interest. The Offered Price shall be paid to such Holder promptly following the later of the Offer Date and the time of delivery of such Security to the relevant Paying Agent at the office of such Paying Agent by the Holder thereof in the manner required. Upon surrender of any such Security for purchase in accordance with the foregoing provisions, such Security shall be paid by the Company at the Offered Price; provided, however, that installments of interest whose Stated Maturity is on or prior to the Offer Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such on the relevant Regular Record Dates according to the terms and the provisions of Section 3.7; provided, further, that Securities to be purchased are subject to proration in the event the Security Amount is less than the aggregate Offered Price of all Securities tendered for purchase, with such adjustments as may be appropriate by the Trustee so that only Securities in denominations of $1,000 or integral multiples thereof shall be purchased. If any Security tendered for purchase in accordance with the terms of this Section shall not be so paid upon

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surrender thereof by deposit of funds with the Trustee or a Paying Agent in accordance with paragraph (j) above, the principal thereof (and premium, if any, thereon) shall, until paid, bear interest from the Offer Date at the rate borne by such Security. Any Security that is to be purchased only in part shall be surrendered to a Paying Agent in accordance with the terms of this Section at the office of such Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute and the trustee shall authenticate and deliver to the Holder of such Security, without service charge, one or more new Securities of any authorized denomination as requested by such Holder in an aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

Section 10.13. Purchase of Securities upon a Change of Control.

(a) If a Change of Control shall occur at any time, then each Holder shall have the right to require that the Company purchase such Holder's Securities, pursuant to an offer described in subsection (b) of this Section (a "Change of Control Offer"), in whole or in part in integral multiples of $1,000, at a purchase price (the "Change of Control Purchase Price") in cash in an amount equal to 101% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of purchase (the "Change of Control Purchase Date"), in accordance with the procedures set forth in paragraphs (b), (c), (d) and (e) of this Section.

(b) Within 30 days following any Change of Control, the Company shall notify the Trustee thereof and give written notice (a "Change of Control Purchase Notice") of such Change of Control to each Holder by first-class mail, postage prepaid, to the Trustee and to each Holder, at his address appearing in the Security Register stating or including:

(A) that a Change of Control has occurred, the date of such event, and that such Holder has the right to require the Company to repurchase such Holder's Securities at the Change of Control Purchase Price;

(B) the circumstances and relevant facts regarding such Change of Control (including but not limited to information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control, if any);

(C) that the Change of Control Offer is being made pursuant to Section 10.13(a) and that all Securities properly tendered pursuant to the Change of Control Offer will be accepted for payment at the Change of Control Offer Purchase Price;

(D) the Change of Control Purchase Date which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed or such later date as may be necessary for the Company to comply with the requirements under the Exchange Act;

(E) (i) the most recently filed Annual Report on Form 10-K (including audited consolidated financial statements) of the Company, the most recent subsequently filed Quarterly Report on Form 10-Q, as applicable, and any Current Report on Form 8-K of the Company filed subsequent to such Quarterly Report (or in the event the Company is not required to prepare any of the foregoing Forms, the comparable information required to be prepared by the Company pursuant to Section 10.17), (ii) a description of material developments in the Company's business subsequent to the date of the latest of such reports and (iii) such other information, if any, concerning the business of the Company and its Subsidiaries which the Company in good faith believes will enable such Holders to make an informed investment decision regarding the Change of Control Offer;

(F) the Change of Control Purchase Price;

(G) the names and addresses of the Paying Agent and the offices or agencies referred to in Section 10.2;

(H) that Securities must be surrendered at least three Business Days prior to the Change of Control Purchase Date to the Paying Agent at the office of the Paying Agent or to an office or agency referred to in Section 10.2 to collect payment;

(I) that the Change of Control Purchase Price for any Security which has been properly tendered and not withdrawn will be paid

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promptly following the Change of Control Purchase Date;

(J) the procedures for withdrawing a tender of Securities and Change of Control Purchase Notice;

(K) that any Security not tendered will continue to accrue interest; and

(L) that, unless the Company defaults in the payment of the Change of Control Purchase Price, any Security accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest on and after the Change of Control Purchase Date.

(c) Upon receipt by the Company of the proper tender of Securities, each Holder of a Security in respect of which such proper tender was made shall (unless the tender of such Security is properly withdrawn) thereafter be entitled to receive solely the Change of Control Purchase Price with respect to such Security. Upon surrender of any such Security for purchase in accordance with the foregoing provisions, such Security shall be paid by the Company at the Change of Control Purchase Price; provided, however, that installments of interest whose Stated Maturity is on or prior to the Change of Control Purchase Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such on the relevant Regular Record Dates according to the terms and the provisions of Section 3.7. If any Security tendered for purchase in accordance with the provisions of this Section shall not be so paid upon surrender thereof by deposit of funds with the Paying Agent in accordance with paragraph (d) below, the principal thereof (and premium, if any, thereon) shall, until paid, bear interest from the Change of Control Purchase Date at the rate borne by such Security. Holders electing to have Securities purchased will be required to surrender such Securities to the Paying Agent at the address specified in the notice at least three Business Days prior to the Change of Control Purchase Date. Any Security that is to be purchased only in part shall be surrendered to a Paying Agent in accordance with the provisions of this Section at the office of such Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, one or more new Securities of any authorized denomination as requested by such Holder in an aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

(d) The Company shall (i) not later than the Change of Control Purchase Date, accept for payment Securities or portions thereof tendered pursuant to the Change of Control Offer, (ii) not later than 10:00 a.m. (New York time) on the Change of Control Purchase Date, deposit with Paying Agent an amount of cash sufficient to pay the aggregate Change of Control Purchase Price of all the Securities or portions thereof which are to be purchased as of the Change of Control Purchase Date and (iii) not later than 10:00 a.m. (New York time) on the Change of Control Purchase Date, deliver to the Paying Agent an Officers' Certificate stating the Securities or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail or deliver to Holders of Securities so accepted payment in an amount equal to the Change of Control Purchase Price of the Securities purchased from each such Holder. Any Securities not so accepted shall be promptly mailed or delivered by the Paying Agent at the Company's expense to the Holder thereof. The Company will publicly announce the results of the Change of Control Offer on the Change of Control Purchase Date. For purposes of this Section 10.13 the Company shall choose a Paying Agent which shall not be the Company.

(e) A tender made in response to a Change of Control Purchase Notice may be withdrawn before or after delivery by the Holder to the Paying Agent at the office of the Paying Agent of the Security to which such Change of Control Purchase Notice relates, by means of a written notice of withdrawal delivered by the Holder to the Paying Agent at the office of the Paying Agent or to the office or agency referred to in Section 10.2 to which the related Change of Control Purchase Notice was delivered not later than three Business Days prior to the Change of Control Purchase Date specifying, as applicable:

(1) the name of the Holder;

(2) the certificate number of the Security in respect of which such notice of withdrawal is being submitted;

(3) the principal amount of the Security (which shall be

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$1,000 or an integral multiple thereof) delivered for purchase by the Holder as to which such notice of withdrawal is being submitted;

(4) a statement that such Holder is withdrawing such Holder's election to have such principal amount of such Security purchased; and

(5) the principal amount, if any, of such Security (which shall be $1,000 or an integral multiple thereof) that remains subject to the original Change of Control Purchase Notice and that has been or will be delivered for purchase by the Company.

(f) The Trustee and the Paying Agent shall return to the Company any cash that remains unclaimed, together with interest or dividends, if any, thereon, held by them for the payment of the Change of Control Purchase Price; provided, however, that (x) to the extent that the aggregate amount of cash deposited by the Company pursuant to clause (ii) of paragraph (d) above exceeds the aggregate Change of Control Purchase Price of the Securities or portions thereof to be purchased, then the Trustee shall hold such excess for the Company and (y) unless otherwise directed by the Company in writing, promptly after the Business Day following the Change of Control Purchase Date, the Trustee shall return any such excess to the Company together with interest, if any, thereon.

(g) The Company shall comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act, and any other applicable securities laws or regulations in connection with a Change of Control Offer.

(h) Notwithstanding the occurrence of a Change of Control, the Company shall not be obligated to repurchase the Securities pursuant to a Change of Control Offer, or otherwise comply with this Section 10.13, if the Company has elected to redeem all of the Securities in accordance with Article XI.

Section 10.14. Optional Redemption Upon Change of Control.

The Securities will be redeemable, at the option of the Company, in whole or in part at any time within 180 days after a Change of Control upon not less than 30 nor more than 60 days' prior notice to each holder of the Securities to be redeemed, at a redemption price equal to the sum of (i) the then outstanding principal amount thereof plus (ii) accrued and unpaid interest, if any, to the redemption date plus (iii) the Applicable Premium. Any optional redemption by the Company upon a Change of Control shall be effected in accordance with the redemption procedures set forth in Article XI hereof.

"Applicable Premium" with respect to the Securities is defined as the greater of (i) 1.0% of the then outstanding principal amount of such Securities and (ii) the excess of (A) the present value of the required interest and principal payments due on such Securities, computed using a discount rate equal to the Treasury Rate plus the Applicable Spread, over (B) the then outstanding principal amount of such Securities.

"Applicable Spread" is defined as 75 basis points.

"Treasury Rate" is defined as the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled by and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two business days prior to the date fixed for prepayment (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the then remaining Average Life of the Securities; provided, that if the Average Life of the Securities is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the Average Life of the Securities is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Section 10.15. Limitation on Issuance and Sale of Preferred Stock of Subsidiaries.

The Company will not permit (a) any Subsidiary of the Company to issue any Preferred Stock (other than to the Company or any Wholly-Owned Subsidiary) or (b) any Person (other than the Company or any Wholly-Owned

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Subsidiary) to own any Preferred Stock of any Subsidiary.

Section 10.16. Limitation on Dividends and Other Payment Restrictions Affecting Subsidiaries.

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Subsidiary of the Company to (i) pay dividends, in cash or otherwise, or make any other distribution on its Capital Stock, (ii) pay any Indebtedness owed to the Company or a Subsidiary of the Company, (iii) make any Investment in the Company or a Subsidiary of the Company or (iv) transfer any of its properties or assets to the Company or any Subsidiary, except (a) any encumbrance or restriction pursuant to an agreement in effect on the date of the Indenture and listed on Schedule I hereto; (b) any encumbrance or restriction, with respect to a Subsidiary that is not a Subsidiary of the Company on the date of the Indenture, in existence at the time such Person becomes a Subsidiary of the Company and, in the case of clauses (a) and (b), not incurred in connection with, or in contemplation of, such Person becoming a Subsidiary; and (c) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (a) and (b), or in this clause (c); provided that the terms and conditions of any such encumbrances or restrictions are not materially less favorable to the holders of the Securities than those under or pursuant to the agreement evidencing the Indebtedness so extended, renewed, refinanced or replaced.

Section 10.17. Provision of Financial Statements.

Whether or not the Company is subject to Section 13(a) or 15(d) of the Exchange Act, the Company will, to the extent permitted under the Exchange Act, file with the Commission the annual reports, quarterly reports and other documents which the Company would have been required to file with the Commission pursuant to such Section 13(a) or 15(d) if the Company were so subject, such documents to be filed with the Commission on or prior to the respective dates (the "Required Filing Dates") by which the Company would have been required so to file such documents if the Company were so subject. The Company will also in any event (x) within 15 days of each Required Filing Date (i) transmit by mail to all Holders, as their names and addresses appear in the Security Register, without cost to such Holders and (ii) file with the Trustee copies of the annual reports, quarterly reports and other documents which the Company would have been required to file with the Commission pursuant to Section 13(a) or 15(d) of the Exchange Act if the Company were subject to such Sections and (y) if filing such documents by the Company with the Commission is not permitted under the Exchange Act, promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective holder of Securities.

Section 10.18. Statement by Officers as to Default.

(a) The Company will deliver to the Trustee, on or before a date not more than 45 days after the end of each fiscal quarter and not more than 90 days after the end of each fiscal year of the Company ending after the date hereof, a written statement signed by two executive officers of the Company, one of whom shall be the principal executive officer, principal financial offer or principal accounting officer of the Company, stating whether or not, after a review of the activities of the Company during such year or such quarter and of the Company's performance under this Indenture, to the best knowledge, based on such review, of the signers thereof, the Company has fulfilled all its obligations and is in compliance with all conditions and covenants under this Indenture throughout such year or quarter, as the case may be, and, if there has been a Default, specifying each Default and the nature and status thereof.

(b) When any Default or Event of Default has occurred and is continuing, or if the Trustee or any Holder or the trustee for or the holder of any other evidence of Indebtedness of the Company or any Subsidiary gives any notice or takes any other action with respect to a claimed default, the Company shall deliver to the Trustee by registered or certified mail or by telegram, telex or facsimile transmission followed by hard copy an Officers' Certificate specifying such Default, Event of Default, notice or other action, the status thereof and what action the Company is taking or proposes to take with respect thereto, within five Business Days of its occurrence.

Section 10.19. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any

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covenant or condition set forth in Sections 10.5 through 10.11 and Section 10.15 through 10.17 if, before or after the time for such compliance, the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding waive such compliance in such instance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE XI

REDEMPTION OF SECURITIES

Section 11.1. Right of Redemption.

The Securities may be redeemed, at the election of the Company, as a whole at any time or from time to time in part, on or after September 1, 2000, subject to the conditions and at the Redemption Prices specified in the form of Security, together with accrued and unpaid interest, if any, to the Redemption Date (subject to the right of Holders of record on relevant Regular Record Dates and Special Record Dates to receive interest due on relevant Interest Payment Dates). In addition, prior to September 1, 1999, in the event one or more Public Equity Offerings of the Company are consummated, the Company may redeem in the aggregate up to a maximum of 35% of the initial aggregate principal amount of the Securities with the net proceeds thereof at a Redemption Price equal to 111.625% of the principal amount thereof plus accrued and unpaid interest to the Redemption Date; provided that, after giving effect thereto, at least $85.0 million aggregate principal amount of the Securities remain outstanding.

Section 11.2. Applicability of Article.

Redemption of Securities at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

Section 11.3. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities pursuant to Section 11.1 shall be evidenced by a Company Order and an Officers' Certificate. In case of any redemption at the election of the Company, the Company shall, not less than 45 nor more than 60 days prior to the Redemption date fixed by the Company (unless a shorter notice period shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Securities to be redeemed.

Section 11.4. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities are to be redeemed, the particular Securities or portions thereof to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee (or such shorter period as the Trustee may agree upon), from the Outstanding Securities not previously called for redemption, by lot or such other method as the Trustee shall deem fair and reasonable, and the amounts to be redeemed may be equal to $1,000 or any integral multiple thereof.

The Trustee shall promptly notify the Company and each Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

Notwithstanding anything else in this Section, any redemption pursuant to the provisions relating to one or more Public Equity Offerings shall be made on a pro rata basis or on as nearly a pro rata basis as practicable (subject to any procedures of the Depositary).

Section 11.5. Notice of Redemption.

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Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at the address appearing in the Security Register.

All notices of redemption shall state:

(a) the Redemption Date;

(b) the Redemption Price;

(c) if less than all Outstanding Securities are to be redeemed, the identification of the particular Securities to be redeemed;

(d) in the case of a Security to be redeemed in part, the principal amount of such Security to be redeemed and that after the Redemption Date upon surrender of such Security, a new Security or Securities in the aggregate principal amount equal to the unredeemed portion thereof will be issued;

(e) that Securities called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;

(f) that on the Redemption Date the Redemption Price will become due and payable upon each such Security or portion thereof to be redeemed, and that (unless the Company shall default in payment of the Redemption Price) interest thereon shall cease to accrue on and after said date;

(g) the place or places where such Securities are to be surrendered for payment of the Redemption Price; and

(h) the CUSIP number, if any, relating to such Securities.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's written request, by the Trustee in the name and at the expense of the Company. If the Company elects to give notice of redemption, it shall provide the Trustee with a certificate stating that such notice has been given in compliance with the requirements of this Section 11.5.

Such notice if mailed in the manner herein provided shall be conclusively presumed to have been given, whether or not the Holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the Holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Section 11.6. Deposit of Redemption Price.

On or prior to 10:00 a.m. (New York time) on the Business Day preceding any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money in same day funds sufficient to pay the Redemption Price of, and, except if the Redemption Date shall be an Interest Payment Date, accrued interest on, all the Securities or portions thereof which are to be redeemed on that date. The Trustee or the Paying Agent shall hold in trust for, and return to, the Company promptly after the Business Day following the Redemption Date all interest or dividends, if any, earned on amounts deposited with the Trustee or the Paying Agent remaining after the payment of the aggregate Redemption Price for all securities to be redeemed.

Section 11.7. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified and from and after such date (unless the Company shall not have deposited funds in accordance with Section 11.6 in respect of the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price together with accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such on the relevant Regular Record Dates according to the terms and the provisions of Section 3.7.

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If any Security called for redemption shall not be so paid upon surrender thereof for redemption, by deposit or segregation of funds in accordance with Section 11.6, the principal and premium, if any, shall, until paid, bear interest from the Redemption Date at the rate borne by such Security.

Section 11.8. Securities Redeemed or Purchased in Part.

Any Security which is to be redeemed or purchased only in part shall be surrendered to the Paying Agent at the office or agency maintained for such purpose pursuant to Section 10.2 (with, if the Company, the Security Registrar or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company, the Security Registrar or the Trustee, as the case may be, duly executed by the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate principal amount equal to, and in exchange for, the unredeemed portion of the principal of the Security so surrendered that is not redeemed or purchased.

ARTICLE XII

SATISFACTION AND DISCHARGE

Section 12.1. Satisfaction and Discharge of Indenture.

This Indenture shall cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Securities herein expressly provided for) and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(a) either:

(1) all the Securities theretofore authenticated and delivered (other than (i) lost, stolen or destroyed Securities which have been replaced or paid as provided in Section 3.6 and (ii) Securities for whose payment United States dollars have theretofore been deposited in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 10.3) have been delivered to the Trustee for cancellation; or

(2) all Securities not theretofore delivered to the Trustee for cancellation:

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust an amount sufficient (as confirmed in a written report of a nationally recognized firm of independent public accountants or a nationally recognized investment banking firm) to pay and discharge the entire indebtedness on the Securities not theretofore delivered to the Trustee for cancellation, including principal of, premium, if any, and accrued interest on such Securities at such Maturity, Stated Maturity or Redemption Date;

(b) the Company has paid all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each to the effect that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with and that such satisfaction and discharge will not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement to which the Company is a party or by which the Company is bound.

Notwithstanding the satisfaction and discharge of this Indenture,

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the obligations of the Company to the Trustee under Section 6.6 and, if United States dollars shall have been deposited with the Trustee pursuant to subclause (2) of Subsection (a) of this Section, the obligations of the Trustee under Section 12.2 and the last paragraph of Section 10.3 shall survive.

Section 12.2. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 10.3, all United States dollars deposited with the Trustee pursuant to Section 12.1 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal of, premium, if any, and interest on the Securities for whose payment such United States dollars have been deposited with the Trustee.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

HAYNES INTERNATIONAL, INC.

By: /s/ Michael D. Austin

Name: Michael D. Austin
Title: President, CEO

Attest: /s/ Joseph F. Barker

Name: Joseph F. Barker
Title: V.P. - Finance

NATIONAL CITY BANK,
as Trustee

By: /s/ Faith Berning

Name: Faith Berning
Title: Vice President

Attest: /s/ Karen Franklin

Name: Karen Franklin
Title: Trust Officer

STATE OF)
) ss.:
COUNTY OF)

On the day of August 1996, before me personally came , to me known, who, being by me duly sworn, did depose and say that he resides at ; that he is of Haynes International, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of such corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed pursuant to authority of the Board of Directors of such corporation; and that

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he signed his name thereto pursuant to like authority.

(NOTARIAL SEAL)

STATE OF)
) ss.:
COUNTY OF)

On the day of August 1996, before me personally came , to me known, who, being by me duly sworn, did depose and say that he resides at ; that he is an authorized officer of National City Bank, one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of such corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed pursuant to authority of the Board of Directors of such corporation; and that he signed his name thereto pursuant to like authority.

(NOTARIAL SEAL)

SCHEDULE I

Restrictions on Dividends of Subsidiaries

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Exhibit 4.02 Form of 11 5/8% Senior Note Due 2004.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY OR ITS SUCCESSORS AND ASSIGNS (THE "DEPOSITARY") TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

HAYNES INTERNATIONAL, INC.

11e% Senior Notes due 2004

No. 420877 AD 4 $ 140,000,000

HAYNES INTERNATIONAL, INC., a Delaware corporation (herein called the "Company," which term includes any successor), for value received, hereby promises to pay to CEDE & Co. or registered assigns, the principal sum of $140,000,000 United States dollars on September 1, 2004, at the office or agency of the Company referred to below, and to pay interest thereon from August 23, 1996 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, semiannually on March 1 and September 1 of each year commencing March 1, 1997 at the rate of 11e% per annum, in United States dollars, until the principal hereof is paid or duly provided for.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be February 15 or August 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so paid, or duly provided for, and interest on such defaulted interest at the interest rate borne by the Securities, to the extent lawful, shall forthwith cease to be payable to the Holder in whose name such Security is registered as of such Regular Record Date, and may be paid on the Special Payment Date to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date to be fixed by the Trustee (and for which notice shall be given to Holders of Securities not less than 10 days prior to such Special Record Date) or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

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Payment of the principal of, premium, if any, and interest on this Security will be made at the office or agency of the Company maintained for that purpose, or at such other office or agency of the Company as may be maintained for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the address of the Person entitled thereto as such address shall appear on the Security Register. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been duly executed by the Trustee referred to on the reverse hereof or by the authenticating agent appointed as provided in the Indenture by manual signature, this Security shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by the manual or facsimile signature of its authorized officers and its corporate seal to be affixed or reproduced hereon.

Dated: August 23, 1996

HAYNES INTERNATIONAL, INC.

By:

Attest:

Secretary

This Security is one of the duly authorized issue of Securities of the Company designated as its 11e% Senior Notes due 2004 (herein called the "Securities"), limited (except as otherwise provided in the Indenture referred to below) in aggregate principal amount to $140.0 million, which may be issued under and are subject to the terms of an indenture (herein called the

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"Indenture") dated as of August 23, 1996 between the Company and National City Bank, as trustee (together with any successor trustee under the Indenture, the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties, obligations and immunities thereunder of the Company, the Trustee and the Holders, and of the terms upon which the Securities are, and are to be, authenticated and delivered.

The Indenture contains provisions for defeasance at any time of (a) the entire Indebtedness on this Security and (b) certain covenants and related Defaults and Events of Default thereunder, in each case upon compliance with certain conditions set forth therein.

The Securities are subject to redemption at any time on or after September 1, 2000, at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' prior notice in amounts of $1,000 or an integral multiple thereof at the following redemption prices (expressed as percentages of the principal amount), if redeemed during the 12-month period beginning September 1 of the years indicated below:

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Year	Redemption Price
2000	105.813%
2001	102.906%

</TABLE>

and thereafter at 100% of the principal amount, in each case together with accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on relevant record dates to receive interest due on an interest payment date).

In addition, prior to September 1, 1999, in the event one or more Public Equity Offerings of the Company are consummated, the Company may redeem in the aggregate up to a maximum of 35% of the initial aggregate principal amount of the Securities with the net proceeds thereof at a Redemption Price equal to 111.625% of the principal amount thereof plus accrued and unpaid interest to the Redemption Date; provided that, after giving effect thereto,

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at least $85.0 million aggregate principal amount of Securities remains outstanding.

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If less than all of the Securities are to be redeemed, the Trustee shall select the Securities or portions thereof to be redeemed pro rata, by lot or by any other method the Trustee shall deem fair and reasonable, provided that, any redemption pursuant to the provisions relating to a sale of the Common Stock of the Company pursuant to one or more Public Equity Offerings shall be made on a pro rata basis or on as nearly a pro rata basis as practicable (subject to any procedures of the Depositary).

If a Change of Control shall occur at any time, then each holder of Securities shall have the right to require that the Company purchase such holder's Securities in whole or in part in integral multiples of $1,000, at a purchase price in cash in an amount equal to 101% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of purchase pursuant to the offer procedures set forth in the Indenture.

In addition, if a Change of Control shall occur at any time, then the Company shall, within 180 days after a Change of Control and upon not less than 30 nor more than 60 days' prior notice to each holder of Securities, have the right to purchase the Securities, in whole or in part, at a redemption price equal to the sum of (i) the then outstanding principal amount plus (ii) accrued and unpaid interest, if any, to the Redemption Date, plus (iii) a premium defined as the greater of (a) 1.0% of the then outstanding principal amount of the Securities and (b) the excess of (1) the present value of the required payments on the Securities, computed using a discount rate equal to the Treasury Rate plus 75 basis points, over (2) the then outstanding principal amount of the Securities.

Under certain circumstances, in the event the Net Cash Proceeds that are received by the Company from any Asset Sale, and that are not applied within the time periods set forth in the Indenture to repay or prepay permanently any Indebtedness under the New Credit Facility then outstanding or invested in properties or assets that replace the assets sold or that are used in the businesses of the Company or its Subsidiaries, equal or exceed $5.0 million, the Company will be required to offer, pursuant to the offer procedures set forth in the Indenture, to apply such proceeds to the repayment of the Securities at 100% of the principal amount of such Securities, plus accrued and unpaid interest, if any, to the date of purchase and to the repayment of certain Indebtedness ranking pari passu with the Securities.

In the case of any redemption of Securities, interest installments whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities of record as of the close of business on the relevant Regular Record Date or Special Record Date referred to on the face hereof. Securities (or portions thereof) for whose redemption and payment provision is made in accordance with the Indenture shall cease to bear interest from and after the Redemption Date.

In the event of redemption of this Security in part only, a new

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Security or Securities for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

If an Event of Default shall occur and be continuing, the principal amount of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions (including certain amendments permitted without the consent of any Holders) as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Indenture and the Securities at any time with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and the Securities and certain past Defaults under the Indenture and their consequences. Any such consent or waiver by or on behalf of the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company or any other obligor under the Securities (in the event such other obligor is obligated to make payments in respect of the Securities), which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Security at the times, place, and rate, and in the coin or currency, herein prescribed.

As set forth in, and subject to, the provisions of the Indenture, no Holder of any Security will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless (a) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default, (b) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, (c) the Trustee shall not have received from the Holders of a majority in principal amount of the Outstanding Securities a direction inconsistent with such request and (d) the Trustee shall have failed to institute such proceeding within 60 days; provided, however, that such limitations do not
-------- -------
apply to a suit instituted by the Holder hereof for the enforcement of payment of the principal of (and premium, if any) or any interest on this Security on or after the respective due dates expressed herein.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable on the Security Register of the Company, upon surrender of this Security for

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registration of transfer at the office or agency of the Company maintained for such purpose or at such other office or agency of the Company as may be maintained for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, the Securities are exchangeable for a like aggregate principal amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any registration of transfer or exchange or redemption of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security is overdue, and none of the Company, the Trustee nor any agent shall be affected by notice to the contrary.

Upon any consolidation or merger, or any sale, assignment, conveyance, transfer or disposition (other than pursuant to a lease) of all or substantially all of the properties and assets of the Company in accordance with the Indenture, subject to the terms and conditions of the Indenture, the successor Person to such transaction shall become the obligor on this Security, and the Company shall be discharged from all obligations and covenants under this Security and the Indenture.

All terms used in this Security which are defined in the Indenture and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

The Company will furnish to any holders of the Securities upon written request and without charge a copy of the Indenture. All requests may be made to Haynes International, Inc., 1020 West Park Avenue, Kokomo, Indiana 46904-9013.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

This is one of the Securities referred to in the within-mentioned Indenture.

National City Bank,

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as Trustee

By:
Authorized Signatory

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EXHIBIT 10.19
Amended and Restated Loan Agreement by and among CoreStates Bank, N.A. and Congress Financial Corporation (Central), as Lenders, Congress Financial Corporation (Central), as Agent of Lenders, and Haynes International, Inc., as Borrower.

[Execution Copy]

AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

BY AND AMONG

CORESTATES BANK, N.A.
CONGRESS FINANCIAL CORPORATION (CENTRAL)
AS LENDERS

CONGRESS FINANCIAL CORPORATION (CENTRAL)
AS AGENT FOR LENDERS

AND

HAYNES INTERNATIONAL, INC.
AS BORROWER

DATED: AUGUST 23, 1996

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AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Amended and Restated Loan and Security Agreement dated August 23, 1996 is entered into by and among CoreStates Bank, N.A., a national banking association ("CoreStates"), Congress Financial Corporation (Central), an Illinois corporation ("Congress", and together with CoreStates, each individually, a "Lender" and, collectively, "Lenders"), Congress as agent for Lenders (in such capacity, "Agent") and Haynes International, Inc., a Delaware corporation ("Borrower").

W I T N E S S E T H :

WHEREAS, Borrower and Congress entered into certain financing arrangements pursuant to which Congress made loans and advances and provided other financial accommodations to Borrower as set forth in the Loan and Security Agreement, dated August 11, 1994, between Borrower and Congress and the other agreements, documents and instruments executed and/or delivered in connection therewith;

WHEREAS, each Lender is willing to agree (severally and not jointly) to make loans and provide financial accommodations to Borrower on a pro rata basis according to its Commitment (as defined below) and, in connection therewith, Congress has assigned or is about to assign all of its right, title and interest in and to the financing arrangements with Borrower to Agent and Lenders as set forth in the Assignment and Assumption Agreement, dated of even date herewith, between Congress, as assignor, and Agent and Lenders, as assignees, and Borrower has acknowledged and consented to such assignment pursuant to the Acknowledgment of Assignment, dated of even date herewith, by Borrower to Congress, Agent and Lenders;

WHEREAS, Borrower has requested that the financing arrangements be amended to increase the Maximum Credit, decrease the interest rate payable by Borrower to Lenders, extend the term of the arrangements and be amended in other respects and Agent and Lenders are willing to agree to increase the Maximum Credit, decrease the interest rate, extend the term of the arrangements and agree to such other amendments, subject to the terms and conditions contained herein;

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

SECTION 1. DEFINITIONS

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All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural. All references to Borrower, Agent and Lenders pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words "hereof", "herein", "hereunder", "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The words "ratable" or "ratably" or words of similar import when used in this Agreement shall refer to a sharing or allocation based on the respective Pro Rata Shares (as defined below) of Lenders. An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 12.3 or cured in a manner satisfactory to Agent as acknowledged by Agent to Borrower in writing. Any accounting term used herein unless otherwise defined in this Agreement shall have the meaning customarily given to such term in accordance with GAAP. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 "Accounts" shall mean all of Borrower's now owned and hereafter acquired or arising accounts, contract rights related thereto, and any other rights to payment for the sale or lease of goods or rendition of services whether or not they have been earned by performance and including all assets, however arising, which are due to Borrower from any affiliate of Borrower.

1.2 "Adjusted Consolidated Interest Expense" shall mean, without duplication, for any period, as applied to any person, the sum of (a) the interest expense of such Person and its consolidated Subsidiaries for such period, on a consolidated basis, including, without limitation, amortization of debt discount, the net cost under interest rate contracts (including amortization of discounts), the interest portion of any deferred payment obligation and accrued interest, plus (b) the interest component of obligations under Capital Leases paid, accrued and/or scheduled to be paid or accrued by such person during such period, and all capitalized interest of such person and its consolidated Subsidiaries, in each case as determined in accordance with GAAP.

1.3 "Adjusted Eurodollar Rate" shall mean, with respect to each Interest Period for any Eurodollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) determined by dividing (a) the Eurodollar Rate for such Interest Period by (b) a percentage equal to: (i) one (1) minus (ii) the Reserve Percentage. For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of United States dollars in a non-United States or an international banking office of Reference Bank used to fund a Eurodollar Rate Loan or any Eurodollar Rate Loan made with the proceeds of such deposit, whether or not the Reference Bank actually holds or has made any such deposits or loans. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

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1.4 "Adjusted Net Worth" shall mean as to any Person, at any time, calculated in accordance with GAAP (except as otherwise specifically set forth below), on a consolidated basis for such Person and its Subsidiaries (if any), the amount equal to the sum of: (a) difference between: (i) the aggregate net book value of all assets of such Person and its Subsidiaries, calculating the book value of inventory for this purpose on a last-in-first-out basis, after deducting from such book values all appropriate reserves in accordance with GAAP (including all reserves for doubtful receivables, obsolescence, depreciation and amortization) and (ii) the aggregate amount of the indebtedness and other liabilities of such Person and its Subsidiaries, including tax and other proper accruals plus (b) the principal amount of the indebtedness then outstanding evidenced by the Senior Notes.

1.5 "Affiliate" shall mean with respect to any Person, (a) any other Person which, directly or indirectly, controls, is controlled by or is under common control with, such Person; (b) any other Person which beneficially owns or holds, directly or indirectly, five (5%) percent or more of any class of voting stock of such Person; or (c) any other Person, five (5%) percent or more of any class of the voting stock (or if such Person is not a corporation, five (5%) percent or more of the equity interest) of which is beneficially owned or held, directly or indirectly, by such Person. The term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used herein, means the possession, directly or indirectly, of the power in any form to direct or cause the direction of the management and policies of the Person in question.

1.6 "Agent" shall mean Congress in its capacity as agent on behalf of Lenders pursuant to the terms hereof and any replacement or successor agent hereunder.

1.7 "Annual Cash Amount" shall mean $1,000,000.

1.8 "Asset Sale" shall mean any sale, issuance, conveyance, transfer, lease or other disposition (including, without limitation, by way of merger, consolidation or Sale and Leaseback Transaction), directly or indirectly, in one or a series of related transactions, of (a) any Capital Stock of any Subsidiary of Borrower; (b) all or substantially all of the properties or assets of any division or line of business of Borrower or any of its Subsidiaries; or (c) any other properties or assets of Borrower or any of its Subsidiaries, other than in the ordinary course of business; provided, that, the sale of any material portion of the facilities of Borrower in Kokomo, Indiana, Arcadia, Louisiana or Openshaw, England shall be deemed to be not in the ordinary course of business. For the purposes of this definition, the term "Asset Sale" shall not include any transfer of properties and assets that is governed by the provisions described under "Consolidation, Merger, Sale of Assets" of the Senior Note Indenture (as in effect on the date hereof) or that is of Borrower to any wholly-owned Subsidiary of Borrower, or of any Subsidiary of Borrower to Borrower or to any wholly-owned Subsidiary of Borrower or for which the fair market value of any transferred properties or assets is less than $1,000,000.

1.9 "Assignee" shall have the meaning set forth in Section 14.6 hereof.

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1.10 "Assignment Agreement" shall mean the Assignment and Assumption Agreement, dated of even date herewith, by and among Congress as assignor and Agent and Lenders as assignees, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.11 "Availability Reserves" shall mean, as of any date of determination, such amounts as Agent may from time to time establish and revise in good faith reducing the amount of Loans and Letter of Credit Accommodations which would otherwise be available to Borrower under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Agent in good faith, do or are reasonably likely to adversely affect either (i) the Collateral or any other property which is security for the Obligations or its value, or the security interests and other rights in the Collateral of Agent held for itself and the ratable benefit of Lenders (including the enforceability, perfection and priority thereof) or (ii) have a reasonable likelihood of adversely affecting the business or assets of Borrower or any Obligor or (b) to reflect Agent's good faith belief that any collateral report or financial information furnished by or on behalf of Borrower or any Obligor to Agent is or may have been incomplete, inaccurate or misleading in any material respect or (c) in respect of any state of facts which Agent determines in good faith constitutes an Event of Default or Agent determines in good faith has a reasonable likelihood of constituting an Event of Default, with notice or passage of time or both.

1.12 "Borrower Debt Offering" shall mean the initial offering by Borrower to the public of the Senior Notes pursuant to the effective registration statements under the Securities Act originally filed by Borrower with the Securities and Exchange Commission on June 7, 1996, and on August 20, 1996, in each case as amended to the time of effectiveness.

1.13 "Blocked Accounts" shall have the meaning set forth in Section 6.3 hereof.

1.14 "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks are authorized or required to close under the laws of the State of New York or the Commonwealth of Pennsylvania, and a day on which the Reference Bank and Agent are open for the transaction of business, except that if a determination of a Business Day shall relate to any Eurodollar Rate Loans, the term Business Day shall also exclude any day on which banks are closed for dealings in dollar deposits in the London interbank market or other applicable Eurodollar Rate market.

1.15 "Capital Leases" shall mean, as applied to any Person, any leases of (or any agreement conveying the right to use) any property (whether real, personal or mixed) by such person as lessee which, in accordance with GAAP, is required to be reflected as a liability on the balance sheet of such person.

1.16 "Capital Stock" shall mean any and all shares, interests, participations or other equivalents (however designated) of corporate stock or partnership interests and any options or warrants with respect to any of the foregoing.

1.17 "Change of Control" shall mean the occurrence of any of the

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following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than fifty (50%) percent of the total outstanding Voting Stock of Borrower; (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the board of directors of Borrower (together with any new directors whose election to such board or whose nomination for election by the shareholders of the Borrower, was approved by a vote of sixty-six and two-thirds (66 2/3%) percent of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of such board of directors then in office; (c) Borrower consolidates with, or merges with or into, another person (other than Parent) or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person, or any person consolidates with, or merges with or into, Borrower, in any such event pursuant to a transaction in which the outstanding Voting Stock of Borrower is converted into or exchanged for cash, securities or other property, except for any such transaction where (i) the outstanding Voting Stock of Borrower is converted into or exchanged for (A) Voting Stock of the surviving or transferee corporation (other than Capital Stock which by its terms or by the terms of any instrument related thereto is or upon the occurrence of any event or passage of time would be required to be redeemed prior to the stated maturity of the Senior Notes or is redeemable at the option of the holder thereof at any time prior to such stated maturity or is convertible into or exchangeable for debt securities at any time prior to any such stated maturity at the option of the holder thereof) or (B) cash, securities and other property in an amount which could be paid by Borrower as a dividend or other distribution to holders of any shares of Capital Stock of Borrower or payments on subordinated indebtedness or any investment permitted under the Senior Note Indenture and (ii) immediately after which no "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than fifty (50%) percent of the total Voting Stock of the surviving or transferee corporation; or (d) Borrower is liquidated or dissolved or adopts a plan of liquidation or dissolution (other than in a transaction which complies with the provisions of Article VIII of the Senior Note Indenture as in effect on the date hereof).

1.18 "Code" shall mean the Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.19 "Collateral" shall have the meaning set forth in Section 6 hereof.

1.20 "Commitment" shall have the meaning set forth in Section 3.5

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hereof.

1.21 "Commitment Percentage" shall mean, as to each Lender, the percentage of the Maximum Credit provided for hereunder represented by such Lender's Commitment. The Commitment Percentage of each Lender signing this Agreement is set forth on the signature pages hereto below each Lender's respective signature (provided, that, prior to the Redemption Date, each Lender's Commitment shall be fifty (50%) percent of the amount of such Lender's Commitment set forth on the signature pages hereto below such Lender's signature).

1.22 "Congress" shall mean Congress Financial Corporation (Central), an Illinois corporation, in its individual capacity and its successors and assigns.

1.23 "Consolidated Income Tax Expense" shall mean, for any period, as applied to any person, the provision for Federal, State, local and foreign income taxes of such person and its consolidated Subsidiaries for such period as determined in accordance with GAAP.

1.24 "Consolidated Net Income" shall mean, for any period, as applied to any person, the consolidated net income (or loss) of such person and its consolidated Subsidiaries for such period as determined in accordance with GAAP, adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication, (a) all extraordinary gains or losses (less all fees and expenses relating thereto); (b) the portion of net income (or loss) of such person and its consolidated Subsidiaries allocable to minority interests in unconsolidated persons to the extent that cash dividends or distributions have not actually been received by such person or one of its consolidated Subsidiaries; (c) net income (or loss) of any person combined with Borrower or any of its Subsidiaries on a "pooling of interests" basis attributable to any period prior to the date of combination; (d) any gain or loss, net of taxes, realized upon the termination of any employee pension benefit plan; (e) net gains or losses (less all fees and expenses relating thereto) in respect of dispositions of assets other than in the ordinary course of business; (f) the expenses recognized in connection with the payment of the prepayment premiums related to the redemption of the Existing Notes as required hereunder; (g) the expenses recognized in connection with the termination of and repayment of amounts outstanding under the Existing Congress Agreement; (h) the expenses recognized related to amortization of fees and other charges in connection with the acquisition of the Capital Stock of Borrower by MLGA Fund II, L.P. on August 31, 1989; (i) an amount equal to the excess of (A) the interest expense incurred on the Existing Notes during the period following the consummation of the Borrower Debt Offering and prior to the Redemption Date over (B) the interest income earned on the proceeds from the Borrower Debt Offering designated for the redemption of the Existing Notes during the same period; or (j) the net income of any Subsidiary to the extent that the declaration of dividends or similar distributions by such Subsidiary of such income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Subsidiary or its shareholders.

1.25 "Consolidated Non-Cash Charges" shall mean, for any period, as

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applied to any person, the aggregate depreciation, amortization and other non-cash charges of such person and its consolidated Subsidiaries for such period, as determined in accordance with GAAP (excluding any non-cash charge that requires an accrual or reserve for cash charges for any future period and all non-cash charges incurred in connection with the valuation of inventory on a last-in-first-out basis).

1.26 "CoreStates" shall mean CoreStates Bank, N.A., a national banking association, and its successors and assigns.

1.27 "Credit Facility" shall mean, collectively, the secured Loans and Letter of Credit Accommodations provided for hereunder or under the other Financing Agreements.

1.28 "EBITDA" shall mean, for any period, as applied to Borrower, the sum of the Consolidated Net Income, Adjusted Consolidated Interest Expense, Consolidated Income Tax Expense and Consolidated Non-Cash Charges deducted in computing Consolidated Net Income, in each case, for such period, of Borrower and its Subsidiaries on a consolidated basis, all determined in accordance with GAAP.

1.29 "Eligible Accounts" shall mean Accounts created by Borrower which are and continue to satisfy the criteria set forth below as determined by Agent in good faith. In general, Accounts shall be Eligible Accounts if:

(a) such Accounts arise from the actual and bona fide sale and delivery of goods by Borrower or rendition of services by Borrower in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts are not unpaid more than sixty (60) days after the original due date thereof;

(c) such Accounts are not unpaid more than ninety (90) days after the date of the original invoice for them;

(d) such Accounts comply with the terms and conditions contained in Section 8.2(c) of this Agreement;

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

(f) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, or, at Agent's option, up to $5,000,000 of otherwise Eligible Accounts where the chief executive offices of the account debtor(s) are located outside the United States, if: (i) the account debtor has delivered to Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Agent, sufficient to cover such Account, in form and substance satisfactory to Lender and, if required by Agent, the original of such letter of credit has been delivered to Agent or Agent's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Agent, or (ii) such Account is subject to credit insurance payable to Agent, for itself and the

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ratable benefit of Lenders, issued by an insurer and on terms and in an amount acceptable to Agent or (iii) such Account is otherwise acceptable in all respects to Agent (subject to such lending formula with respect thereto as Agent may determine);

(g) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Agent shall have received an agreement in writing from the account debtor, in form and substance satisfactory to Agent confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;

(h) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of setoff against such Accounts (except that to the extent the account debtor engages in transactions which may give rise to a right of setoff, the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owing by Borrower to such account debtor may be deemed Eligible Accounts);

(i) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;

(j) such Accounts are subject to the first priority, valid and perfected security interest of Agent, for itself and the ratable benefit of Lenders and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;

(k) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an Affiliate of Borrower directly or indirectly, including, without limitation, CabVal, a New York general partnership or K.A.M. Specialties, Inc., a Florida corporation;

(l) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Agent's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner determined by Agent in good faith to be satisfactory;

(m) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;

(n) such Accounts of a single account debtor or its affiliates do not constitute more than fifteen (15%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts);

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(o) such Accounts are not owed by an account debtor who has Accounts unpaid more than sixty (60) days after the original due date of the invoice for them which constitute more than fifty (50%) percent of the total Accounts of such account debtor;

(p) such Accounts are owed by account debtors whose total indebtedness to Borrower does not exceed the credit limit with respect to such account debtors as determined in good faith by Agent from time to time based on the good faith determination by Agent of the financial condition of the account debtor and its ability to satisfy its obligations to Borrower (but the portion of the Accounts not in excess of such credit limit may still be deemed Eligible Accounts); and

(q) such Accounts are owed by account debtors deemed creditworthy at all times by Agent, as determined by Agent in good faith.

General criteria for Eligible Accounts may be established and revised from time to time by Agent in good faith based on events, conditions, circumstances or risks which Agent in good faith determines are reasonably likely to affect the Accounts, the value of the Accounts or the security interests and other rights in the Accounts of Agent, for itself and the ratable benefit of Lenders, and for which no Availability Reserve has been established. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.30 "Eligible Inventory" shall mean Inventory consisting of finished goods held for resale in the ordinary course of the business of Borrower, raw materials for such finished goods and work-in-process and semi-finished goods which satisfy and continue to satisfy the criteria set forth below as determined by Agent in good faith. In general, Eligible Inventory shall not include (a) components which are not part of finished goods; (b) spare parts for equipment; (c) packaging and shipping materials; (d) supplies used or consumed in Borrower's business; (e) Inventory at premises other than those owned and controlled by Borrower, except if Agent shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Agent, acknowledging the first priority security interest in the Inventory of Agent, for itself and the ratable benefit of Lenders, waiving security interests and claims by such person against the Inventory and permitting Agent access to, and the right to remain on, the premises so as to exercise the rights and remedies of Agent, for itself and the ratable benefit of Lenders, and otherwise deal with the Collateral; (f) Inventory subject to a security interest or lien in favor of any person other than Agent, for itself and the ratable benefit of Lenders, except those permitted in this Agreement; (g) bill and hold goods; (h) unserviceable, obsolete or slow moving Inventory; (i) Inventory which is not subject to the first priority, valid and perfected security interest of Agent, for itself and the ratable benefit of Lenders; (j) returned, damaged and/or defective Inventory; or (k) Inventory purchased or sold on consignment. General criteria for Eligible Inventory may be established and revised from time to time by Agent in good faith based on events, conditions, circumstances or risks which Agent in good faith determines are reasonably likely to affect the Inventory, the value of the Inventory or the security interests and other rights in the Inventory of

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Agent, for itself and the ratable benefit of Lenders, and for which no Availability Reserve has been established. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.31 "Employee Notes" shall mean, collectively, promissory notes issued by Borrower payable to Parent from time to time to fund all or a portion of the purchase price to be paid by Parent for Parent Common Stock, or options to purchase Parent Common Stock, owned by existing or former employees of Borrower; provided, that, each such note (a) shall bear interest at a rate not to exceed one and one-half (1-1/2%) percent per annum in excess of the Prime Rate in effect from time to time, (b) shall not require any principal payments prior to six (6) months after the date on which this Agreement shall terminate pursuant to Section 14.1(a) and (c) shall be subordinated in right of payment to the full and final payment of all of the Obligations on terms and conditions acceptable to Lender.

1.32 "Environmental Laws" shall mean all federal, state, district, local and foreign laws, rules, regulations, ordinances, and consent decrees relating to health, safety, hazardous substances, pollution and environmental matters, as now or at any time hereafter in effect, applicable to Borrower's business and facilities (whether or not owned by it), including laws relating to emissions, discharges, releases or threatened releases of pollutants, contamination, chemicals, or hazardous, toxic or dangerous substances, materials or wastes into the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals, or hazardous, toxic or dangerous substances, materials or wastes.

1.33 "Equipment" shall mean all of Borrower's now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.34 "ERISA" shall mean the United States Employee Retirement Income Security Act of 1974, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.35 "ERISA Affiliate" shall mean any person required to be aggregated with Borrower or any of its Subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code.

1.36 "Eurodollar Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Adjusted Eurodollar Rate in accordance with the terms hereof.

1.37 "Eurodollar Rate" shall mean with respect to the Interest Period for a Eurodollar Rate Loan, the interest rate per annum equal to the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) at which

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Reference Bank is offered deposits of United States dollars in the London interbank market (or other Eurodollar Rate market selected by Borrower and approved by Agent) on or about 9:00 a.m. (New York City time) two (2) Business Days prior to the commencement of such Interest Period in amounts substantially equal to the principal amount of the Eurodollar Rate Loans requested by and available to Borrower in accordance with this Agreement, with a maturity of comparable duration to the Interest Period selected by Borrower.

1.38 "Excess Availability" shall mean the amount, as determined by Agent calculated at any time, equal to: (a) the Total Availability minus (b) the sum of: (i) the amount of all then outstanding and unpaid Obligations, plus (ii) the aggregate amount of all trade payables of Borrower which are more than thirty (30) days past due as of such time.

1.39 "Excess Refinancing Proceeds Account" shall mean Account No. 5299047, established and maintained by Borrower at The First National Bank of Chicago, and shall include all notes, certificates of deposit, instruments, securities and other personal property, if any, representing from time to time the investment of the funds held in such account, and any proceeds thereof, to the extent such investments constitute investments permitted in Section 10.10(b) hereof.

1.40 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.41 "Existing Congress Agreement" shall mean the Loan and Security Agreement, dated August 11, 1994, between Congress and Borrower and all amendments thereto, including, without limitation, Amendment No. 1 to Loan and Security Agreement, dated February 9, 1995, between Borrower and Congress and Amendment No. 2 to Loan and Security Agreement, dated February 12, 1996, between Borrower and Congress.

1.42 "Existing Notes" shall mean collectively, the Existing Senior Notes and the Existing Subordinated Notes.

1.43 "Existing Senior Note Collateral" shall mean, collectively, all of the property and assets pledged to the Existing Senior Note Trustee by the Borrower pursuant to the "Collateral Documents" (as defined in the Existing Senior Note Indenture as in effect on the date hereof) as set forth in Schedule 1.43 hereto.

1.44 "Existing Senior Note Collateral Account" means account no. 92200803 maintained by Borrower with Key Bank, National Association, formerly known as Society National Bank, Indiana.

1.45 "Existing Senior Note Indenture" shall mean the Indenture, dated as of July 1, 1993, by and between the Existing Senior Note Trustee and Borrower, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.46 "Existing Senior Note Trustee" shall mean Mellon Bank, F.S.B., a federal savings bank, in its capacity as trustee under the Existing Senior

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Note Indenture, and any successor trustee appointed pursuant to the terms of the Existing Senior Note Indenture.

1.47 "Existing Senior Notes" shall mean collectively, the 11-1/4% Senior Secured Notes due 1998, Series B, issued by Borrower in the aggregate principal amount of $50,000,000 pursuant to the Existing Senior Note Indenture, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.48 "Existing Subordinated Note Indenture" shall mean the Indenture, dated as of August 31, 1989, among the Existing Subordinated Note Trustee and Haynes Acquisition Corporation, a Delaware corporation, as supplemented by a First Supplement to Indenture, dated August 31, 1989, a Second Supplement to Indenture, dated February 2, 1990, a Third Supplement to Indenture, dated February 9, 1995 and a Fourth Supplement to Indenture, dated January 31, 1996, in each case between the Existing Subordinated Note Trustee and Borrower (for itself and as successor by merger to Haynes Acquisition Corporation), as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.49 "Existing Subordinated Notes" shall mean, collectively, the 13-1/2% Senior Subordinated Notes due 1999 issued by Borrower in the aggregate principal amount of $100,000,000 pursuant to the Existing Subordinated Note Indenture, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.50 "Existing Subordinated Note Trustee" shall mean Fleet National Bank of Connecticut, as successor to Shawmut Bank, Connecticut, National Association, as successor to The Connecticut National Bank, a national banking association, in its capacity as trustee under the Existing Subordinated Note Indenture, and any successor trustee appointed pursuant to the terms of the Existing Subordinated Note Indenture.

1.51 "Event of Default" shall mean the occurrence or existence of any event or condition described in Section 11.1 hereof.

1.52 "Financing Agreements" shall mean, collectively, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower or any Obligor in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.53 "Foreign Subsidiary" shall mean a Subsidiary of Borrower that is organized under the laws of a jurisdiction outside of the United States of America or the District of Columbia and that has its principal place of business outside the United States of America.

1.54 "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the circumstances as of the date of determination consistently

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applied, except that, for purposes of Section 10.15 hereof, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Agent prior to the date hereof.

1.55 "Hazardous Materials" shall mean any hazardous, toxic or dangerous substances, materials and wastes, including, without limitation, hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including, without limitation, materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (including, without limitation any that are or become classified as hazardous or toxic under any Environmental Law).

1.56 "Information Certificate" shall mean the Information Certificate of Borrower constituting Exhibit A hereto containing material information with respect to Borrower, its business and assets provided by or on behalf of Borrower to Agent and Lenders in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.57 "Interest Period" shall mean for any Eurodollar Rate Loan, a period of thirty (30) days, sixty (60) days, or ninety (90) days duration as Borrower may elect, the exact duration to be determined in accordance with the customary practice in the applicable Eurodollar Rate market; provided, that, Borrower may not elect an Interest Period which will end after the last day of the then-current term of this Agreement.

1.58 "Interest Rate" shall mean, subject to Section 4.1 hereof, as to Prime Rate Loans, a rate of three-quarters of one (3/4%) percent per annum in excess of the Prime Rate and, as to Eurodollar Rate Loans, a rate of two and three-quarters (2 3/4%) percent per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrower as in effect three (3) Business Days after the date of receipt by Agent of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower); provided, that, the Interest Rate shall mean the rate of two and three- quarters (2 3/4%) percent per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of four and three-quarters (4 3/4%) percent per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Agent's option, without notice, (a) for the period (i) on and after the date of termination or non-renewal hereof and until such time as all Obligations are indefeasibly paid in full (notwithstanding entry of any judgment against Borrower), or (ii) the date of the occurrence of any Event of Default and for so long as such Event of Default is continuing as determined by Agent and (b) on the Loans at any time outstanding in excess of the amounts available to Borrower under Section 3 (whether or not such excess(es), arise or are made with or without Agent's or any Lender's knowledge or consent and whether made before or after an Event of Default).

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1.59 "Inventory" shall mean all of Borrower's now owned and hereafter acquired inventory, goods, merchandise, and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work-in-process, semi-finished goods, finished goods, returned and repossessed goods, and materials and supplies of any kind, nature or description which are or might be consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such inventory, goods, merchandise and such other personal property, and all documents of title or other documents representing them.

1.60 "LC Limit" shall mean (a) at all times prior to the Redemption Date, the amount equal to: (i) $10,000,000 minus (ii) the aggregate amount of the indebtedness of Borrower and its Subsidiaries outstanding at such time in respect of surety bonds, reimbursement obligations in respect of standby letters of credit which are issued for purposes similar to those for which surety bonds are issued and appeal bonds required in the ordinary course of business or in connection with the enforcement of rights or claims of Borrower or any Subsidiary of Borrower (but not including any such reimbursement obligations arising in connection with the Letter of Credit Accommodations) and (b) at all times on and after the Redemption Date, the amount equal to $10,000,000.

1.61 "LC Loans" shall mean the loans now or hereafter made by Agent or any Lender to or for the benefit of Borrower at any time prior to the Redemption Date arising pursuant to payment made by Agent or any Lender to any beneficiary or issuer of any of the Letter of Credit Accommodations as set forth in Section 3.2 hereof.

1.62 "Letter of Credit Accommodations" shall mean, with respect to the Credit Facility, the letters of credit or other guarantees which are from time to time either (a) issued or opened by Agent or any Lender for the account of Borrower or any Obligor or (b) with respect to which Agent or any Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by Borrower of its obligations to such issuer.

1.63 "Loans" shall mean the Revolving Loans and the LC Loans.

1.64 "Maximum Credit" shall mean the amount of $50,000,000, except, that, at all times prior to the Redemption Date, the term "Maximum Credit" shall mean $25,000,000.

1.65 "Mortgage Documents" shall mean, individually and collectively, each of the following (as the same may hereafter exist and may thereafter be amended, modified, supplemented, extended, renewed, restated or replaced): (a) the Mortgage, Security Agreement, Assignment of Leases and Rents and Financing Statement by Borrower in favor of Lender with respect to the Real Property and related assets of Borrower in Kokomo, Howard County, Indiana and the Environmental Disclosure Document for Transfer of Real Property prepared by Borrower in connection with such Real Property, and (b) the Collateral Mortgage Note in the amount of $50,000,000 issued by Borrower, the Act of Collateral Pledge Agreement by Borrower in favor of Lender and the Act of Collateral Mortgage by Borrower in favor of Lender with respect to the Real Property and related assets of Borrower in Arcadia, Bienville Parish,

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Louisiana.

1.66 "Net Amount of Eligible Accounts" shall mean the gross amount of Eligible Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.

1.67 "Obligations" shall mean any and all Loans, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by Borrower to Agent or any Lender and/or any of their affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any case with respect to Borrower under the United States Bankruptcy Code or any similar statute (including, without limitation, the payment of interest and other amounts which would accrue and become due but for the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Agent or any Lender.

1.68 "Obligor" shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Borrower.

1.69 "Parent" shall mean Haynes Holdings, Inc., a Delaware corporation, and its successors and assigns.

1.70 "Parent Common Stock" shall mean the Capital Stock of Parent, consisting of its common stock, par value $0.01 per share.

1.71 "Participant" shall have the meaning set forth in Section 14.6 hereof.

1.72 "Payment Account" shall have the meaning set forth in Section 7.3 hereof.

1.73 "Permitted Holders" shall mean MLGA Fund II, L.P., a Delaware limited partnership and its Affiliates.

1.74 "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including, without limitation, any corporation which elects subchapter S status under the Code), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.75 "Prime Rate" shall mean the rate from time to time publicly announced by CoreStates, or its successors, at its office in Philadelphia, Pennsylvania, as its prime rate, whether or not such announced rate is the

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best rate available at such bank.

1.76 "Prime Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Prime Rate in accordance with the terms thereof.

1.77 "Pro Rata Share" shall mean, with respect to each Lender, its proportionate share of the Loans and the risk under Letter of Credit Accommodations, based on its Commitment Percentage.

1.78 "Public Equity Offering" shall mean any underwritten public offering of common stock of Borrower or Parent pursuant to a registration statement filed pursuant to the Securities Act which offering is consummated after the date hereof.

1.79 "Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

1.80 "Real Property" shall mean all now owned and hereafter acquired real property of Borrower, including leasehold interests, together with all buildings, structures and other improvements located thereon and all licenses, easements and appurtenances and all leases and rents and condemnation awards relating thereto, all as more particularly described in the Mortgage Documents, located in Kokomo, Howard County, Indiana and Arcadia, Bienville Parish, Louisiana.

1.81 "Receivables" shall mean the Accounts, together with: (a) all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; (b) proceeds of any letters of credit issued in connection with any Account and naming Borrower as beneficiary; (c) to the extent constituting proceeds of, related to or arising in connection with Accounts or Inventory, contract rights, chattel paper, instruments, notes, general intangibles and all forms of obligations owing to Borrower (and including obligations owing to Borrower by its Subsidiaries and Affiliates); (d) guarantees and other security for any of the foregoing and rights of stoppage in transit, replevin, and reclamation; and (e) other rights or remedies of an unpaid vendor, lienor or secured party.

1.82 "Records" shall mean all of Borrower's present and future books, records, ledger cards, data processing records, computer software and other property and general intangibles at any time evidencing or relating to the Receivables and Inventory and other personal property referred to in Sections 6.1(a), 6.1(b), 6.1(c), 6.1(d) and Section 6.1(f) hereof.

1.83 "Redeemable Capital Stock" means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, is or upon the happening of any event or passage of time would be, required to be redeemed prior to the date specified in the Senior Note Indenture as the fixed date on which the principal of the Senior Notes is due and payable or is redeemable at the option of the holder thereof at any time prior to any such date specified in the Senior Note Indenture, or is convertible into or exchangeable for debt securities at any time prior to any such date specified in the Senior Note Indenture at the option of the holder thereof.

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1.84 "Redemption Date" shall have the meaning set forth in Section 3.3 hereof.

1.85 "Redemption Escrow Accounts" shall mean the deposit accounts described on Schedule 1.85 hereto in which the proceeds of the Borrower Debt Offering shall be held prior to the Redemption Date.

1.86 "Reference Bank" shall mean CoreStates, or such other bank as Agent may from time to time designate.

1.87 "Required Lenders" shall mean, as of any date of determination thereof, Lenders holding more than fifty (50%) percent of the aggregate outstanding principal amount of Loans and outstanding Letter of Credit Accommodations, or, if there are no Loans or Letter of Credit Accommodations outstanding, then such term shall mean Lenders having aggregate Commitment Percentages of more than fifty (50%) percent.

1.88 "Revolving Loan Limit" shall mean $20,000,000.

1.89 "Revolving Loans" shall mean the loans now or hereafter made to or for the benefit of Borrower by Lenders or, at Agent's option, by Agent for the ratable account of Lenders, on a revolving basis pursuant to the Credit Facility (involving advances, repayments and readvances) as set forth in Section 3.1 hereof.

1.90 "Sale and Leaseback Transaction" shall mean any transaction or series of related transactions pursuant to which Borrower or a Subsidiary of Borrower sells or transfers any property or asset in connection with the leasing, or the resale against installment payments, of such property or asset to Borrower or such Subsidiary.

1.91 "Securities Act" shall mean the Securities Act of 1933, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder related thereto.

1.92 "Senior Note Indenture" shall mean the Indenture, dated of even date herewith, by and between the Senior Note Trustee and Borrower, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.93 "Senior Notes" shall mean, collectively, the 11 5/8% Senior Notes due 2004, issued by Borrower in the aggregate principal amount of $140,000,000 pursuant to the Senior Note Indenture, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.94 "Senior Note Trustee" shall mean National City Bank, a national banking association, in its capacity as trustee under the Senior Note Indenture, and any successor trustee appointed pursuant to the terms of the Senior Note Indenture.

1.95 "Subscription Agreement" shall mean the Stock Subscription Agreement, dated as of August 31, 1989, by and among Borrower, Parent and the

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persons named therein or added as a party thereto, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.96 "Subsidiary" shall mean, with respect to any Person, any corporation, limited or general partnership, trust, association or other business entity of which an aggregate of at least a majority of the outstanding Capital Stock or other interests entitled to vote in the election of the board of directors of such corporation (irrespective of whether, at the time, Capital Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency), managers, trustees or other controlling persons, or an equivalent controlling interest therein, of such Person is, at the time, directly or indirectly, owned by such Person and/or one or more Subsidiaries of such Person.

1.97 "Total Availability" shall mean (a) at all times prior to the Redemption Date, the amount equal to: (i) the sum of (A) sixty (60%) percent of the Value of Eligible Inventory consisting of finished goods and raw materials for such finished goods plus (B) forty-five (45%) percent of the Value of Eligible Inventory consisting of work-in-process and semi-finished goods (the "WIP Amount") plus (C) eighty-five (85%) percent of the Net Amount of Eligible Accounts minus (ii) any Availability Reserves; provided, that, for purposes of determining Total Availability at all times prior to the Redemption Date, at no time shall the WIP Amount exceed $10,000,000 and (b) at all times on and after the Redemption Date, the amount equal to: (i) the sum of (A) eighty-five (85%) percent of the Net Amount of Eligible Accounts, plus (B) sixty (60%) percent of the Value of Eligible Inventory consisting of finished goods and raw materials for such finished goods, plus (C) forty-five (45%) percent of the Value of Eligible Inventory consisting of work-in-process and semi-finished goods, minus (ii) any Availability Reserves.

1.98 "Value" shall mean, as determined by Agent in good faith, with respect to Inventory, the lower of (a) cost computed on a first-in-first-out basis in accordance with GAAP or (b) market value.

1.99 "Voting Stock" shall mean Capital Stock of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency.)

SECTION 2. ACKNOWLEDGEMENT AND RESTATEMENT

2.1 Existing Obligations. Borrower hereby acknowledges, confirms and agrees that Borrower is indebted to Lenders (as assignees of Congress pursuant to the Assignment Agreement) for Loans to Borrower under the Existing Congress Agreement, as of the close of business on August 22, 1996, in the aggregate principal amount of $13,562,147 and the aggregate amount of $2,774,553 in respect of Letter of Credit Accommodations, together with all interest accrued and accruing thereon (to the extent applicable), and all costs, expenses and other charges relating thereto, all of which are unconditionally owing by

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Borrower to Lenders, without offset, defense or counterclaim of any kind, nature or description whatsoever.

2.2 Acknowledgement of Security Interest. Borrower hereby acknowledges, confirms and agrees that (a) Agent, for itself and the ratable benefit of Lenders, has and shall continue to have a security interest in and lien upon the Collateral heretofore granted to Agent as assignee of Congress under the Assignment Agreement pursuant to the Existing Congress Agreement, as well as any Collateral granted hereunder or under the other Financing Agreements or otherwise granted to or held by Agent or any Lender, and (b) the liens and security interests of Agent in the Collateral shall be deemed to be continuously granted and perfected from the earliest date of the granting and perfection of such liens and security interests, whether directly to Agent or to Agent as assignee of Congress under the Assignment Agreement or otherwise.

2.3 Existing Congress Agreement. Borrower hereby acknowledges, confirms and agrees that: (a) the Existing Congress Agreement has been duly executed and delivered by Borrower and is in full force and effect as of the date hereof; (b) the agreements and obligations of Borrower contained in the Existing Congress Agreement constitute the legal, valid and binding obligations of Borrower enforceable against it in accordance with its terms and Borrower has no valid defense to the enforcement of such obligations; and (c) Agent and Lenders are entitled to all of the rights, remedies and benefits provided for in or arising pursuant to the Existing Congress Agreement.

2.4 Restatement.

(a) Except as otherwise stated in Section 2.2 hereof and this Section 2.4, as of the date hereof, the terms, conditions, agreements, covenants, representations and warranties set forth in the Existing Congress Agreement are hereby amended and restated in their entirety, and as so amended and restated, replaced and superseded, by the terms, conditions, agreements, covenants, representations and warranties set forth in this Agreement, except that nothing herein or in the other Financing Agreements shall impair or adversely affect the continuation of the liability of Borrower for the Obligations heretofore incurred and the security interests, liens and other interests in the Collateral heretofore granted, pledged and/or assigned by Borrower to Agent (whether directly to Agent or to Agent as assignee of Congress under the Assignment Agreement or otherwise).

(b) The amendment and restatement contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of any of the obligations, liabilities and indebtedness of Borrower evidenced by or arising under the Existing Congress Agreement, and the liens and security interests securing such other obligations, liabilities and indebtedness, which shall not in any manner be impaired, limited, terminated, waived or released.

(c) All loans, advances and other financial accommodations under the Existing Congress Agreement and all other Obligations of Borrower to Congress outstanding and unpaid as of the date hereof pursuant to the Existing Congress Agreement or otherwise shall be deemed Obligations of Borrower pursuant to the terms hereof, and shall constitute and be deemed either Revolving Loans, Letter of Credit Accommodations or LC Loans to Borrower to

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the same extent and in the same amount as such Obligations were deemed to be under the Existing Congress Agreement.

SECTION 3. CREDIT FACILITIES

3.1 Loans.

(a) Subject to, and upon the terms and conditions contained herein, each of Lenders severally (and not jointly) agrees to fund its Pro Rata Share of Revolving Loans to Borrower from time to time under the Credit Facility in amounts requested by Borrower up to:

(i) at all times prior to the Redemption Date, the lesser of: (A) the amount equal to (1) the Total Availability minus (2) the outstanding Letter of Credit Accommodations and LC Loans or (B) the Revolving Loan Limit, and

(ii) at all times on and after the Redemption Date, the lesser of: (A) the Total Availability or (B) the Maximum Credit.

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

(c) Except in Agent's discretion, (i) the aggregate amount of the Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the Maximum Credit as then in effect and (ii) at all times prior to the Redemption Date, the aggregate amount of the Revolving Loans shall not exceed the Revolving Loan Limit. In the event that the outstanding amount of any component of the Loans, or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations, exceeds the amounts available under the lending formulas, the Revolving Loan Limit, the LC Limit or the Maximum Credit, as applicable, such event shall not limit, waive or otherwise affect any rights of Agent and Lenders in that circumstance or on any future occasions and Borrower shall, upon demand by Agent, which may be made at any time or from time to time, immediately repay to Agent, for the ratable benefit of Lenders, the entire amount of any such excess(es) for which payment is

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demanded.

3.2 Letter of Credit Accommodations.

(a) Subject to, and upon the terms and conditions contained herein, at the request of Borrower, pursuant to the Credit Facility, Agent agrees, for the ratable risk of each Lender according to its Pro Rata Share, to provide or arrange for Letter of Credit Accommodations in accordance with its customary procedures and practices for the account of Borrower containing terms and conditions acceptable to Agent and the issuer thereof up to: (i) at all times prior to the Redemption Date, the lesser of: (A) the amount equal to (1) the Total Availability minus (2) the outstanding Revolving Loans and (B) the LC Limit as then in effect, and (ii) at all times on and after the Redemption Date, the LC Limit as then in effect. All Letter of Credit Accommodations shall be for standby letters of credit which are issued for purposes similar to those for which surety bonds are issued and appeal bonds required in the ordinary course of business or in connection with the enforcement of rights or claims of Borrower or any Subsidiary of Borrower. Any payments made by Agent or Lenders to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations prior to the Redemption Date shall constitute LC Loans to Borrower pursuant to this Section 3.

(b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Borrower shall pay to Agent, for the benefit of Lenders, a letter of credit fee at a rate equal to one and three-quarters (1-3/4%) percent per annum on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Borrower to pay such fee shall survive the termination or non-renewal of this Agreement.

(c) No Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, the amount equal to the Total Availability minus the then outstanding amount of the Loans, subject to the Maximum Credit and the LC Limit, is equal to or greater than one hundred (100%) percent of the face amount of the proposed Letter of Credit Accommodations and all other commitments and obligations made or incurred by Agent or any Lender with respect thereto. Effective on the issuance of each Letter of Credit Accommodation, an Availability Reserve shall be established in an amount equal to one hundred (100%) percent of the face amount of such Letter of Credit Accommodation and all other commitments and obligations made or incurred by Agent or any Lender with respect thereto.

(d) Except in Agent's discretion, the aggregate amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Agent and Lenders in connection therewith and the LC Loans shall not at any time exceed the LC Limit. At any time an Event of Default exists or has occurred, Agent may require Borrower to either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Agent, for itself and the ratable benefit of Lenders, for the Letter of Credit Accommodations, and in either case, the Loans otherwise

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available to Borrower shall not be reduced as provided in Section 3.2(c) to the extent of such cash collateral.

(e) Borrower shall indemnify and hold Agent and Lenders harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Agent or any Lender may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including, but not limited to, any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation. Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed Borrower's agent. Borrower assumes all risks for, and agrees to pay, all foreign, Federal, State and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Borrower hereby releases and holds Agent and Lenders harmless from and against any acts, waivers, errors, delays or omissions, whether caused by Borrower, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 3.2(e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.

(f) Nothing contained herein shall be deemed or construed to grant Borrower any right or authority to pledge the credit of Agent or any Lender in any manner. Agent and Lenders shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Agent unless Agent has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Borrower shall be bound by any interpretation made in good faith by Agent, or any other issuer or any correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of Borrower. Agent shall have the sole and exclusive right and authority to, and Borrower shall not: (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, and (ii) at all times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Agent may take such actions either in its own name or in Borrower's name.

(g) Any rights, remedies, duties or obligations granted or undertaken by Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by Borrower to Agent and Lenders. Any duties or obligations undertaken by Agent and Lenders to any issuer or

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correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Agent or any Lender in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been undertaken by Borrower to Agent or the applicable Lender(s) and to apply in all respects to Borrower.

3.3 Increase in Maximum Credit. The Maximum Credit shall increase from $25,000,000 to $50,000,000 on the date of the redemption by Borrower of the Existing Notes (the "Redemption Date"), provided, that, each of the following conditions is satisfied in a manner reasonably satisfactory to Agent:

(a) the Existing Notes shall be redeemed on the date set forth in the written notices of redemption given on the date hereof to the holders of the Existing Notes in accordance with the applicable provisions of the Existing Senior Note Indenture and the Existing Subordinated Note Indenture;

(b) the initial Loans to Borrower on the Redemption Date shall be used to pay the amount required to be paid by Borrower to redeem the Existing Notes as provided for herein, after all of the net cash proceeds received by Borrower from the Borrower Debt Offering have been used to redeem the Existing Notes;

(c) Agent shall have received evidence, in form and substance reasonably satisfactory to Agent, that on the Redemption Date, the sum of (i) the then remaining proceeds of the net cash proceeds received by Borrower from the Borrower Debt Offering together with any interest or dividends thereon (all of which shall be available without restriction or condition for payment to the holders of the Existing Notes) plus (ii) the amount equal to (A) the Excess Availability as of such date minus (B) $5,000,000, is equal to or greater than the amount required to pay in full all principal, interest, premiums and any other amounts required to be paid to redeem the Existing Notes in accordance with the applicable provisions of the Existing Senior Note Indenture and the Existing Subordinated Note Indenture; and

(d) Agent shall have received evidence, in form and substance reasonably satisfactory to Agent, that Agent has valid perfected and first priority security interests in and mortgages and liens upon the Real Property, the Equipment and the related assets as described on Schedule 3.3 hereto, subject only to the security interests and liens permitted herein or in the other Financing Agreements;

(e) all requisite corporate action and proceedings in connection with the grant to Agent of a security interest in and mortgage and lien upon the Real Property, the Equipment and the related assets described on Schedule 3.3 hereto, shall be reasonably satisfactory in form and substance to Agent, and Agent shall have received all information and copies of all documents, including, without limitation, records of requisite corporate actions and proceeds which Agent may have reasonably requested in connection therewith, such documents where requested by Agent or its counsel to be certified by appropriate corporate officers or governmental authorities;

(f) Agent shall have received, in form and substance reasonably satisfactory to Agent, a valid and effective title insurance policy issued by a company and agent acceptable to Agent (i) insuring the priority, amount and

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sufficiency of the appropriate Mortgage Documents, (ii) insuring against matters that would be disclosed by surveys and (iii) containing any legally available endorsements, assurances or affirmative coverage requested by Agent for protection of its interests;

(g) Agent shall have received, in form and substance reasonably satisfactory to Agent, an amendment to this Agreement to amend the definition of Collateral to include the Real Property, the Equipment and the related assets described on Schedule 3.3 hereto and such other matters as Agent may reasonably request, duly authorized, executed and delivered by Borrower;

(h) Agent shall have received, in form and substance reasonably satisfactory to Agent, an equipment security agreement granting to Agent, for the ratable benefit of Lenders, a security interest in and lien upon the Equipment and related assets described on Schedule 3.3 hereto, and containing such other terms and provisions with respect thereto as Agent may reasonably require, related Uniform Commercial Code financing statements, the Mortgage Documents and such other agreements, documents and instruments as Agent may reasonably require in connection therewith, in each case duly authorized, executed and delivered by Borrower;

(i) Agent shall have received, in form and substance reasonably satisfactory to Agent, such opinion letters of counsel to Borrower with respect to the agreements delivered to Lender pursuant to Section 3.3(h) above and such other matters related thereto as Agent may reasonably request; and

(j) no Event of Default or act, condition or event which with notice or passage of time or both would constitute an Event of Default shall exist or have occurred.

3.4 Availability Reserves. All Loans otherwise available to Borrower pursuant to the lending formulas and subject to the Maximum Credit and other applicable limits hereunder shall be subject to Agent's continuing right to establish and revise Availability Reserves as provided in this Agreement.

3.5 Commitments. The aggregate amount of each Lender's share of the Loans and Letter of Credit Accommodations shall not exceed the amount set forth below such Lender's signature on the signature pages hereto, as the same may from time to time be amended with the written acknowledgment of Agent. Such amount for each Lender is referred to herein as such Lender's "Commitment", provided, that, prior to the Redemption Date, (a) each Lender's Commitment shall be fifty (50%) percent of such amount and (b) the aggregate amount of each Lender's share of the Loans and Letter of Credit Accommodations shall not exceed fifty (50%) percent of the amount set forth below such Lender's signature on the siganture pages hereto.

SECTION 4. INTEREST AND FEES

4.1 Interest.

(a) Borrower shall pay to Agent, for the ratable benefit of Lenders, interest on the outstanding principal amount of the non-contingent Obligations at the Interest Rate. All interest accruing hereunder on and

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after the date of any Event of Default or termination or non-renewal hereof shall be payable on demand.

(b) Borrower may from time to time request that Prime Rate Loans be converted to Eurodollar Rate Loans or that any existing Eurodollar Rate Loans continue for an additional Interest Period. Such request from Borrower shall specify the amount of the Prime Rate Loans which will constitute Eurodollar Rate Loans (subject to the limits set forth below) and the Interest Period to be applicable to such Eurodollar Rate Loans. Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Agent of such a request from Borrower, such Prime Rate Loans shall be converted to Eurodollar Rate Loans or such Eurodollar Rate Loans shall continue, as the case may be, provided, that, (i) no Event of Default, or act, condition or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing, (ii) no party hereto shall have sent any notice of termination or non-renewal of this Agreement, (iii) Borrower shall have complied with such customary procedures as are established by Agent and specified by Agent to Borrower from time to time for requests by Borrower for Eurodollar Rate Loans, (iv) no more than four (4) Interest Periods may be in effect at any one time, (v) the aggregate amount of the Eurodollar Rate Loans must be in an amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof, (vi) the maximum amount of the Eurodollar Rate Loans at any time requested by Borrower shall not exceed the amount equal to seventy-five (75%) percent of the lowest principal amount of the Loans which it is anticipated will be outstanding during the applicable Interest Period, in each case as determined by Agent (but with no obligation of Agent and Lenders to make such Revolving Loans) and (vii) Agent shall have determined that the Interest Period or Adjusted Eurodollar Rate is available to Agent through the Reference Bank and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrower. Any request by Borrower to convert Prime Rate Loans to Eurodollar Rate Loans or to continue any existing Eurodollar Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Agent, Lenders and Reference Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable Eurodollar Rate market to fund any Eurodollar Rate Loans, but the provisions hereof shall be deemed to apply as if Agent, Lenders and Reference Bank had purchased such deposits to fund the Eurodollar Rate Loans.

(c) Any Eurodollar Rate Loans shall automatically convert to Prime Rate Loans upon the last day of the applicable Interest Period, unless Agent has received and approved a request to continue such Eurodollar Rate Loan at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any Eurodollar Rate Loans shall, at Agent's option, upon notice by Agent to Borrower, convert to Prime Rate Loans in the event that (i) an Event of Default or an act, condition or event which with the notice or passage of time or both would constitute an Event of Default, shall exist, (ii) this Agreement shall terminate or not be renewed, or (iii) the aggregate principal amount of the Prime Rate Loans which have previously been converted to Eurodollar Rate Loans or existing Eurodollar Rate Loans continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed either (A) the aggregate principal amount of the Loans then outstanding, or (B) Loans then available to Borrower under Section 3 hereof. Borrower shall pay to Agent, for itself and the ratable benefit of

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Lenders, upon demand by Agent (or Agent may, at its option, charge any loan account of Borrower) any amounts required to compensate Agent, Lenders, the Reference Bank or any Participant for any loss (including loss of anticipated profits), cost or expense incurred by such person, as a result of the conversion of Eurodollar Rate Loans to Prime Rate Loans pursuant to any of the foregoing.

(d) Interest shall be payable by Borrower to Agent, for itself and the ratable benefit of Lenders, monthly in arrears not later than the first day of each calendar month and shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. The interest rate on non- contingent Obligations (other than Eurodollar Rate Loans) shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such Prime Rate is announced based on the Prime Rate in effect on the last day of the month in which any such change occurs. In no event shall charges constituting interest payable by Borrower to Agent, for itself and the ratable benefit of Lenders exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any such part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

(e) In the event that the EBITDA of Borrower for any four (4) consecutive fiscal quarters (treated as a single accounting period) ending on or after September 30, 1996 calculated based on the financial statements of Borrower for such period which are delivered to Agent in accordance with Section 9.6 hereof is greater than $34,000,000 (which as to the four (4) consecutive fiscal quarters ending September 30, 1996 shall be calculated based on the drafts of the audited financial statements to be provided by Borrower to Agent), then effective as of the first day of the month after the date of the receipt by Agent of such financial statements the Interest Rate based on the Prime Rate and the Adjusted Eurodollar Rate shall each be reduced by one-quarter of one (1/4%) percent per annum (except such reduction shall be effective as of the end of the applicable Interest Period as to any then outstanding Eurodollar Rate Loans) and for so long thereafter as the EBITDA of Borrower shall be greater than $34,000,000 for the immediately preceding four (4) consecutive quarters (treated as a single accounting period). In the event that the EBITDA of Borrower for any four (4) consecutive fiscal quarters of Borrower shall thereafter be less than or equal to $34,000,000, the Interest Rate shall increase to the percentages set forth in Section 1.58 hereof effective as of the first day of the month after the date of receipt by Agent of the financial statements of Borrower as described above until such time (if ever) as the EBITDA of Borrower for any four (4) consecutive fiscal quarters (treated as a single accounting period) again exceeds $34,000,000 calculated based on the financial statements of Borrower for such period.

4.2 Closing Fee. Borrower shall pay to Agent, for the benefit of Lenders, as a closing fee the amount of $375,000, which shall be fully earned as of and payable on the date hereof.

4.3 Servicing Fee. Borrower shall pay to Agent, for its own account, monthly a servicing fee in an amount equal to $3,000 in respect of Agent's services for each month (or part thereof) during the term of the Credit Facility and for so long thereafter as any of the Obligations are outstanding,

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which fee shall be fully earned as of and payable in advance on the date hereof and on the first day of each month hereafter.

4.4 Unused Line Fee. Borrower shall pay to Agent, for the benefit of Lenders, monthly an unused line fee at all times prior to the Redemption Date, at a rate equal to three-eighths of one (3/8%) percent per annum calculated upon the amount by which the Maximum Credit (as then in effect) exceeds the average daily principal balance of the outstanding Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) and at all times on and after the Redemption Date, at a rate equal to three-eighths of one (3/8%) percent per annum calculated on the amount by which $40,000,000 exceeds the average daily principal balance of the outstanding Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof), in each case while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

4.5 Changes in Laws and Increased Costs of Loans.

(a) Notwithstanding anything to the contrary contained herein, all Eurodollar Rate Loans shall, upon notice by Agent to Borrower, convert to Prime Rate Loans in the event that (i) any change in applicable law or regulation (or the interpretation or administration thereof) shall either (A) make it unlawful for Agent, any Lender, Reference Bank or any Participant to make or maintain Eurodollar Rate Loans or to comply with the terms hereof in connection with the Eurodollar Rate Loans, or (B) shall result in the increase in the costs to Agent, any Lender, Reference Bank or any Participant of making or maintaining any Eurodollar Rate Loans by an amount deemed by Agent to be material, or (C) reduce the amounts received or receivable by Agent in respect thereof, by an amount deemed by Agent to be material or (ii) the cost to Agent, any Lender, Reference Bank or any Participant of making or maintaining any Eurodollar Rate Loans shall otherwise increase by an amount deemed by Agent to be material. Borrower shall pay to Agent, for itself and the ratable benefit of Lenders, upon demand by Agent (or Agent may, at its option, charge any loan account of Borrower) any amounts required to compensate Agent, any Lender, the Reference Bank or any Participant for any loss (including loss of anticipated profits), cost or expense incurred by such person as a result of the foregoing, including, without limitation, any such loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain the Eurodollar Rate Loans or any portion thereof. A certificate of Agent setting forth the basis for the determination of such amount necessary to compensate Agent as aforesaid shall be delivered to Borrower and shall be conclusive, absent manifest error.

(b) If any payments or prepayments in respect of the Eurodollar Rate Loans are received by Agent, other than on the last day of the applicable Interest Period (whether pursuant to acceleration, upon maturity or otherwise), including any payments pursuant to the application of collections under Section 7.3 or any other payments made with the proceeds of Collateral, Borrower shall pay to Agent upon demand by Agent (or Agent may, at its option, charge any loan account of Borrower) any amounts required to compensate Agent, any Lender, the Reference Bank or any Participant for any additional loss (including loss of anticipated profits), cost or expense incurred by such person as a result of such prepayment or payment, including, without

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limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain such Eurodollar Rate Loans or any portion thereof.

SECTION 5. CONDITIONS PRECEDENT

5.1 Conditions Precedent to Initial Loans and Letter of Credit Accommodations. Each of the following is a condition precedent to Lenders (or Agent on behalf of Lenders) making the initial Loans and providing the initial Letter of Credit Accommodations hereunder:

(a) Agent shall have received evidence, in form and substance satisfactory to Agent, that (i) Borrower has validly issued and sold the Senior Notes pursuant to the Borrower Debt Offering and the transactions contemplated in connection with such offering have been consummated in compliance with all applicable laws and regulations and all necessary consents and approvals in connection therewith have been obtained and are in full force and effect, (ii) the Senior Notes and all agreements, documents and instruments relating thereto have been duly authorized, executed and delivered by the parties thereto and (iii) Borrower has received from or on behalf of the holders of the Senior Notes cash or other immediately available funds in the aggregate amount of not less than approximately $132,000,000 constituting the net cash proceeds after transaction costs paid on the date hereof of the issuance of the Senior Notes pursuant to the Borrower Debt Offering, and (iv) such net cash proceeds have been deposited in the Redemption Escrow Accounts and such amounts are held in such accounts free and clear of any right of setoff, lien, claim, security interest or other encumbrance and there are no restrictions, limitations or conditions on the right of Borrower to withdraw or use such funds, except as otherwise provided herein;

(b) Agent shall have received the Assignment Agreement, duly authorized, executed and delivered by the parties thereto;

(c) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Agent, and Agent shall have received all information and copies of all documents, including, without limitation, records of requisite corporate action and proceedings which Agent may have requested in connection therewith, such documents where requested by Agent or its counsel to be certified by appropriate corporate officers or governmental authorities;

(d) no material adverse change shall have occurred in the assets, business or prospects of Borrower since the date of Agent's latest field examination and no change or event shall have occurred which would impair the ability of Borrower or any Obligor in any material respect to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Agent or Lenders to enforce the Obligations or realize upon the Collateral;

(e) Agent shall have completed a field review of the Records and such other information with respect to the Collateral as Agent may require to determine the amount of Loans available to Borrower, the results of which shall be satisfactory to Agent, not more than three (3) Business Days prior to

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the date hereof;

(f) Agent shall have received, in form and substance satisfactory to Agent and Lenders, all consents, waivers, acknowledgments and other agreements from third persons which Agent may deem necessary or desirable in order to permit, protect and perfect its security interests in and liens upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including, without limitation, acknowledgements by lessors, processors, mortgagees and warehousemen of the security interests of Agent in the Collateral, waivers by such persons of any security interests, liens or other claims by such persons to the Collateral and agreements permitting Agent access to, and the right to remain on, the premises to exercise the rights and remedies of Agent and Lenders and otherwise deal with the Collateral;

(g) Agent shall have received evidence of insurance and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Agent and Lenders, and certificates of insurance policies and/or endorsements naming Agent, for itself and the ratable benefit of Lenders, as loss payee;

(h) Agent shall have received, in form and substance satisfactory to Agent, such opinion letters of counsel to Borrower with respect to the redemption of the Existing Notes, the Borrower Debt Offering, the Financing Agreements and such other matters related thereto as Agent may reasonably request; and

(i) the other Financing Agreements and all instruments and documents hereunder and thereunder shall have been duly executed and delivered to Agent and Lenders in form and substance satisfactory to Agent.

5.2 Conditions Precedent to All Loans and Letter of Credit Accommodations. Each of the following is an additional condition precedent to Lenders (or Agent on behalf of Lenders) making Loans and/or providing Letter of Credit Accommodations to Borrower, including the initial Loans and Letter of Credit Accommodations and any future Loans and Letter of Credit Accommodations:

(a) all representations and warranties contained herein and in the other Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and

(b) no Event of Default and no act, condition or event which, with notice or passage of time or both, would constitute an Event of Default, shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto.

SECTION 6. GRANT OF SECURITY INTEREST

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6.1 To secure payment and performance of all Obligations, Borrower hereby grants to Agent, for itself and the ratable benefit of Lenders, a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Agent, for itself and the ratable benefit of Lenders, and also confirms, reaffirms and restates its prior grant to Agent, for itself and the ratable benefit of Lenders, as assignee of Congress under the Assignment Agreement, of a continuing security interest in, a lien upon, and a right of setoff against, in each case as security, the following property and interests in property of Borrower, whether now owned or hereafter acquired or existing, and wherever located (collectively, the "Collateral"):

(a) all Receivables;

(b) all Inventory;

(c) all monies, securities and other personal property, now or hereafter held or received by, or in transit to, Agent, any Lender or any of their Affiliates or a bailee of Agent, any Lender or any of their Affiliates from or for Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including, without limitation, all of Borrower's deposit accounts, credits and balances with Agent, any Lender or any of their Affiliates at any time existing;

(d) all of Borrower's deposit accounts (other than the Senior Note Collateral Account and the Excess Refinancing Proceeds Account prior to the Redemption Date and at all times the Redemption Escrow Accounts) with any financial institutions with which Borrower maintains deposits;

(e) all Records; and

(f) all accessions to, substitutions for and replacements, products and proceeds of any of the foregoing, and all proceeds of such proceeds and products, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty, or guaranty payable with respect to any of the foregoing, all proceeds of insurance, and all money and other personal property obtained as a result of any claims against third parties or any legal action or proceeding with respect to any of the foregoing.

6.2 Notwithstanding anything contained herein to the contrary, the Collateral shall not include the following: (a) prior to the Redemption Date, the Senior Note Collateral Account, (b) prior to the Redemption Date, the Excess Refinancing Proceeds Account and the amounts on deposit therein on the date hereof, constituting certain of the proceeds from the loans to Borrower under the Credit Agreement, dated as of August 31, 1989, by and among Borrower, certain financial institutions identified therein and Bank of America National Trust and Savings Association, as agent for such financial institutions and earnings thereon and all notes, certificates of deposit, instruments, securities and other personal property, if any, representing from time to time the investment of the funds held in such account, and any proceeds thereof, to the extent such investments constitute investments permitted under Section 10.10(b) hereof, and (c) the Redemption Escrow Accounts and the amounts on deposit therein on the date hereof to the extent constituting proceeds of the Borrower Debt Offering and interest and dividends

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thereon.

SECTION 7. COLLECTION AND ADMINISTRATION

7.1 Borrower's Loan Account. Agent shall maintain one or more loan account(s) on its books in which shall be recorded (a) all Loans, Letter of Credit Accommodations and other Obligations and the Collateral, (b) all payments made by or on behalf of Borrower and (c) all other appropriate debits and credits as provided in this Agreement, including, without limitation, fees, charges, costs, expenses and interest. All entries in the loan account(s) shall be made in accordance with Agent's customary practices as in effect from time to time.

7.2 Statements. Agent shall render to Borrower each month a statement setting forth the balance in Borrower's loan account(s) maintained by Agent for Borrower pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Agent but shall, absent manifest errors or omissions, be considered correct and deemed accepted by Borrower and conclusively binding upon Borrower as an account stated except to the extent that Agent receives a written notice from Borrower of any specific exceptions of Borrower thereto within thirty (30) days after the date such statement has been mailed by Agent. Until such time as Agent shall have rendered to Borrower a written statement as provided above, the balance in Borrower's loan account(s) shall be presumptive evidence of the amounts due and owing to Agent by Borrower to Agent and Lenders.

7.3 Collection of Accounts.

(a) Borrower shall establish and maintain, at its expense, blocked accounts or lockboxes and related blocked accounts (in either case, "Blocked Accounts"), as Agent may specify, with such banks as are acceptable to Agent into which Borrower shall promptly deposit and direct its account debtors to directly remit all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form in which such payments are made, whether by cash, check or other manner. The banks at which the Blocked Accounts are established shall enter into an agreement, in form and substance satisfactory to Agent, providing that all items received or deposited in the Blocked Accounts are the property of Agent and Lenders according to their interests hereunder, that the depository bank has no lien upon, or right to setoff against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein and that the depository bank will wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into the Blocked Accounts to such bank account of Agent as Agent may from time to time designate for such purpose ("Payment Account"). Borrower agrees that all payments made to such Blocked Accounts or other funds received and collected by Agent, whether on the Accounts or as proceeds of Inventory or other Collateral shall be the property of Agent and Lenders according to their interests hereunder.

(b) For purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final

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collection) to the Obligations one (1) Business Day following the date of receipt of immediately available funds by Agent in the Payment Account. For purposes of calculating the amount of the Loans available to Borrower such payments will be applied (conditional upon final collection) to the Obligations on the Business Day of receipt by Agent in the Payment Account, if such payments are received within sufficient time (in accordance with Agent's usual and customary practices as in effect from time to time) to credit Borrower's loan account on such day, and if not, then on the next Business Day.

(c) Borrower and all of its shareholders, directors, employees, agents, subsidiaries and other Affiliates shall, acting as trustee for Agent, receive, as the property of Agent and Lenders according to their interests hereunder, any monies, checks, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts, or remit the same or cause the same to be remitted, in kind, to Agent. In no event shall the same be commingled with Borrower's own funds. Borrower agrees to reimburse Agent and Lenders on demand for any amounts owed or paid to any bank at which a Blocked Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts arising out of Agent or Lenders' payments to or indemnification of such bank or person. The obligation of Borrower to reimburse Agent and Lenders for such amounts pursuant to this Section 7.3 shall survive the termination or non-renewal of this Agreement.

7.4 Payments.

(a) All Obligations shall be payable to the Payment Account as provided in Section 7.3 or such other place as Agent may designate from time to time. Agent may apply payments received or collected from Borrower or for the account of Borrower (including, without limitation, the monetary proceeds of collections or of realization upon any Collateral) to such of the Obligations, whether or not then due, in such order and manner as Agent determines. Borrower shall make all payments in respect of the Obligations as set forth in Section 10.9(f)(v)(A)(1) hereof. At Agent's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged directly to the loan account(s) of Borrower. Borrower shall make all payments to Agent on the Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind.

(b) In addition, and not in limitation of the obligations of Borrower to make any other payments hereunder or under the other Financing Agreements, on or before the Redemption Date, Borrower shall pay to Lender for application to the Obligations all amounts held in the Excess Refinancing Proceeds Account. Borrower shall not use any of the funds held in such account as of the date hereof for any other purpose.

(c) If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Agent or any Lender is

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required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Agent or such Lender. Borrower shall be liable to pay to Agent and each Lender, and does hereby indemnify and hold Agent and each Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 7.4 shall remain effective notwithstanding any contrary action which may be taken by Agent in reliance upon such payment or proceeds.

(d) This Section 7.4 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

7.5 Sharing of Payments, Etc.

(a) Borrower agrees that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim Agent or a Lender may otherwise have, each Lender shall be entitled, at its option (but subject, as among Agent and Lenders, to the provisions of Section 13.3(b) hereof), to offset balances held by it for the account of Borrower at any of its offices, in dollars or in any other currency, against any principal of or interest on any Loans owed to such Lender or any other amount payable to such Lender hereunder, that is not paid when due (regardless of whether such balances are then due to Borrower), in which case it shall promptly notify Borrower and Agent thereof; provided, that, such Lender's failure to give such notice shall not affect the validity thereof.

(b) If any Lender (including Agent) shall obtain from Borrower payment of any principal of or interest on any Loan owing to it or payment of any other amount under this Agreement or any other Financing Agreement through the exercise of any right of setoff, banker's lien or counterclaim or similar right or otherwise (other than from Agent as provided herein), and, as a result of such payment, such Lender shall have received more of its Pro Rata Share of the principal of or interest on the Loans or such other amounts then due hereunder or thereunder by Borrower to such Lender than the percentage thereof received by any other Lender, it shall promptly pay to Agent, for the benefit of Lenders, the amount of such excess and simultaneously purchase from such other Lenders a participation in the Loans or such other amounts, respectively, owing to such other Lenders (or such interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) in accordance with their respective Pro Rata Shares. Amounts received by Agent under this Section 7.5(b) hereof shall be treated as a payment received from Borrower under Section 7.5(b) hereof. To such end all Lenders shall make appropriate adjustments among themselves (by the resale of participation sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) Borrower agrees that any Lender so purchasing such a participation (or direct interest) may exercise, in a manner consistent with this Section 7.5, all rights of setoff, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such

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Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of Borrower. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 7.5 applies, such Lender shall, to the extent practicable, assign such rights to Agent for the benefit of Lenders and, in any event, exercise its rights in respect of such secured claim in a manner consistent with the rights of Lenders entitled under this Section 7.5 to share in the benefits of any recovery on such secured claim.

7.6 Authorization to Make Loans. Agent is authorized to make the Loans and provide the Letter of Credit Accommodations, for the account and risk of Lenders, based upon telephonic or other instructions received from anyone purporting to be an officer of Borrower or other authorized person or, at the discretion of Agent, if such Loans are necessary to satisfy any Obligations. If a beneficiary draws under any of the Letter of Credit Accommodations, Agent, for the account and risk of Lenders, is authorized to make an LC Loan to Borrower in an amount equal to the amount drawn under such Letter of Credit Accommodation and to pay the proceeds of such LC Loan to the beneficiary of such Letter of Credit Accommodation or to the issuer of such Letter of Credit Accommodation in satisfaction of such draw. All requests for Loans or Letter of Credit Accommodations hereunder shall specify the date on which the requested advance Loan to be made or Letter of Credit Accommodations established (which day shall be a Business Day) and the amount of the requested Loan or Letter of Credit Accommodation, as the case may be. Requests received after 11:00 a.m. Chicago time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrower when deposited to the credit of Borrower or otherwise disbursed or established in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement.

7.7 Settlement Procedures.

(a) In order to administer the Credit Facility in an efficient manner and to minimize the transfer of funds between Agent and Lenders, Agent shall, subject to the terms of Section 7.7 below, make available, on behalf of Lenders, the full amount of the Loans requested or charged to Borrower's loan account(s) or otherwise to be advanced by Lenders pursuant to the terms hereof, without any requirement of prior notice to Lenders of the proposed Loans.

(b) With respect to all Loans made by Agent on behalf of Lenders as provided in this Section 7.7, the amount of each Lender's Pro Rata Share of the outstanding Loans shall be computed weekly, and shall be adjusted upward or downward on the basis of the amount of the outstanding Loans as of 5:00 P.M. (Chicago time) on the Business Day immediately preceding the date of each settlement computation; provided, that, Agent retains the absolute right at any time or from time to time to make the above described adjustments at

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intervals more frequent than weekly. Agent shall deliver to each of the Lenders after the end of each week, or at such lesser period or periods as Agent shall determine, a summary statement of the amount of outstanding Loans for such period (such week or lesser period or periods being hereinafter referred to as a "Settlement Period"). If the summary statement is sent by Agent and received by a Lender prior to 12:00 Noon (Chicago time) then such Lender shall make the settlement transfer described in this Section by no later than 2:00 P.M. (Chicago time) on the day such summary statement was sent, and if such summary statement is sent by Agent and received by a Lender after 12:00 Noon (Chicago time), such Lender shall make such settlement transfer by no later than 2:00 P.M. (Chicago time) on the next Business Day following the date of receipt. If, as of the end of any Settlement Period, the amount of a Lender's Pro Rata Share of the outstanding Loans is more than such Lender's Pro Rata Share of the outstanding Loans as of the end of the previous Settlement Period, then such Lender shall forthwith (but in no event later than the time set forth in the preceding sentence) transfer to Agent by wire transfer in immediately available funds the amount of the increase; alternatively, if the amount of a Lender's Pro Rata Share of the outstanding Loans in any Settlement Period is less than the amount of such Lender's Pro Rata Share of the outstanding Loans for the previous Settlement Period, Agent shall forthwith transfer to such Lender by wire transfer in immediately available funds the amount of the decrease. The obligation of each of the Lenders to transfer such funds and effect such settlement shall be irrevocable and unconditional and without recourse to or warranty by Agent. Each of Agent and Lenders agrees to mark its books and records at the end of each Settlement Period to show at all times the dollar amount of its Pro Rata Share of the outstanding Loans and Letter of Credit Accommodations.

(c) To the extent that Agent has made any such amounts available and the settlement described above shall not yet have occurred, upon repayment of any Loans by Borrower, Agent may apply such amounts repaid directly to any amounts made available by Agent pursuant to this Section 7.7. In lieu of weekly or more frequent settlements, Agent may at any time require each Lender to provide Agent with immediately available funds representing its Pro Rata Share of each Loan, prior to Agent's disbursement of such Loan to Borrower.

(d) Because Agent, on behalf of Lenders, may be advancing or may be repaid Loans prior to the time when Lenders will actually advance or be repaid Loans, interest and fees with respect to the outstanding Loans shall be allocated by Agent to each Lender (including Agent), and the amount of each Lender's (including Agent's) Pro Rata Share shall be computed daily, in accordance with the amount of the outstanding Loans actually advances by and repaid to each Lender (including Agent) on each day during each Settlement Period and shall accrue from and including the date such Loans are advanced by Agent to but excluding the date such Loans are repaid by Borrower in accordance with the terms of this Agreement or actually settled by the applicable Lender as described in this Section 7.7. Provided that such Lender has made all payments required to be made by it under this Agreement and the other Financing Agreements, Agent will pay to such Lender, by wire transfer to such Lender not later than 12:00 noon (Chicago time) on or about the tenth (10th) day of each month, such Lender's Pro Rata Share of interest and fees actually received and collected from Borrower for the benefit of Lenders.

(e) Nothing in this Section 7.7 or elsewhere in this Agreement or

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the other Financing Agreements shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Commitment hereunder or to prejudice any rights that Borrower may have against any Lender as a result of any default by any Lender hereunder in fulfilling its Commitment.

7.8 Use of Proceeds. The initial Loans hereunder shall arise pursuant to the assignment by Congress to Agent and Lenders of the loans outstanding under the existing financing arrangements of Borrower with Congress as set forth in the Assignment Agreement. All other Loans made or Letter of Credit Accommodations provided by Agent or Lenders to Borrower pursuant to the provisions hereof shall be used by Borrower only for general operating, working capital and other proper corporate purposes of Borrower not otherwise prohibited by the terms hereof, except, that, on the Redemption Date, after all of the net cash proceeds received by Borrower from the Borrower Debt Offering have been used to redeem the Existing Notes as provided for herein, certain of the proceeds of the Loans may be used to pay the amounts required to be paid by Borrower to redeem the Existing Notes as provided for herein not to exceed $17,500,000. None of the proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation G of the Board of Governors of the Federal Reserve System, as amended.

SECTION 8. COLLATERAL REPORTING AND COVENANTS

8.1 Collateral Reporting. Borrower shall provide Agent with the following documents in a form satisfactory to Agent: (a) on a regular basis as required by Agent, a schedule of Accounts; (b) on a monthly basis or more frequently as Agent may request, (i) perpetual inventory reports, (ii) inventory reports by category and (iii) agings of accounts payable, (c) upon Agent's request, (i) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements, (ii) copies of shipping and delivery documents, and (iii) copies of purchase orders, invoices and delivery documents for Inventory acquired by Borrower; (d) agings of accounts receivable on a monthly basis or more frequently as Agent may request; and (e) such other reports as to the Collateral as Agent shall request from time to time. If any of Borrower's records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper or other agent, Borrower hereby irrevocably authorizes such service, contractor, shipper or agent to deliver such records, reports, and related documents to Agent and to follow Agent's instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

8.2 Accounts Covenants.

(a) Borrower shall notify Agent promptly of: (i) any material delay in Borrower's performance of any of its obligations to any account debtor or the assertion of any claims, offsets, defenses or counterclaims by any account debtor, or any disputes with account debtors, or any settlement, adjustment or

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compromise thereof, (ii) all material adverse information relating to the financial condition of any account debtor obtained by Borrower pursuant to the diligent exercise by Borrower of its credit procedures in accordance with past practices and (iii) any event or circumstance which, to Borrower's knowledge, would cause the Account not to satisfy the criteria for Eligible Accounts set forth herein. No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Agent's consent, except in the ordinary course of Borrower's business in accordance with practices and policies previously disclosed in writing to Agent. So long as no Event of Default exists or has occurred and is continuing, Borrower shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Agent shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.

(b) Borrower shall promptly report to Agent any return of Inventory by an account debtor. At any time that Inventory is returned, reclaimed or repossessed, the related Account shall not be deemed an Eligible Account to the extent of the portion of the Account which relates to the sale by Borrower to the account debtor of the returned, reclaimed or repossessed Inventory. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, Borrower shall, upon Agent's request, (i) hold the returned Inventory in trust for Agent, (ii) segregate all returned Inventory from all of its other property, (iii) dispose of the returned Inventory solely according to Agent's instructions, and (iv) not issue any credits, discounts or allowances with respect thereto without Agent's prior written consent.

(c) With respect to each Account: (i) the amounts shown on any invoice delivered to Agent or schedule thereof delivered to Agent shall be true and complete, (ii) no payments shall be made thereon except payments immediately delivered to Agent pursuant to the terms of this Agreement, (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Agent in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of Borrower's business in accordance with practices and policies previously disclosed to Agent, (iv) there shall be no setoffs, deductions, contras, defenses, counterclaims or disputes existing or asserted with respect thereto except as reported to Agent in accordance with the terms of this Agreement, (v) none of the transactions giving rise thereto will violate any applicable State or Federal law or regulation, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

(d) Agent shall have the right at any time or times, in Agent's name or in the name of a nominee of Agent, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

(e) Borrower shall deliver or cause to be delivered to Agent, with appropriate endorsement and assignment, with full recourse to Borrower, all chattel paper and instruments which Borrower now owns or may at any time

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acquire as a payment on or with respect to any Account immediately upon Borrower's receipt thereof, except as Agent may otherwise agree.

(f) Agent may, at any time or times that an Event of Default exists or has occurred and is continuing, (i) notify any or all account debtors that the Accounts have been assigned to Agent and that Agent has a security interest therein, for itself and the ratable benefit of Lenders, and Agent may direct any or all accounts debtors to make payment of Accounts directly to Agent, for itself and the ratable benefit of Lenders, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and neither Agent nor any Lender shall be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (iv) take whatever other action Agent may deem necessary or desirable for the protection of its and Lenders' interests. At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Agent, for itself and the ratable benefit of Lenders, and are payable directly and only to Agent, for itself and the ratable benefit of Lenders, and Borrower shall deliver to Agent such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Agent may require.

8.3 Inventory Covenants. With respect to the Inventory: (a) Borrower shall at all times maintain inventory records reasonably satisfactory to Agent, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrower's cost therefor and daily withdrawals therefrom and additions thereto; (b) Borrower shall conduct a physical count of the Inventory at least once each year, but at any time or times as Agent may request on or after an Event of Default, and promptly following such physical inventory shall supply Agent with a report in the form and with such specificity as may be reasonably satisfactory to Agent concerning such physical count; (c) Borrower shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Agent, except for sales of Inventory in the ordinary course of Borrower's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) upon Agent's request, Borrower shall, at its expense, no more than once in any twelve (12) month period, but at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent written reports or appraisals as to the Inventory in form, scope and methodology acceptable to Agent and by an appraiser acceptable to Agent, addressed to Agent or upon which Agent is expressly permitted to rely; (e) Borrower shall produce, use, store and maintain the Inventory, with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including, but not limited to, the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto); (f) Borrower assumes all responsibility and liability arising from or relating to the production, use,

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sale or other disposition of the Inventory; (g) Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate Borrower to repurchase such Inventory; (h) Borrower shall keep the Inventory in good and marketable condition; and (i) Borrower shall not, without prior written notice to Agent, acquire or accept any Inventory on consignment or approval, except, that, Borrower may acquire or accept Inventory on consignment; provided, that, each of the following conditions is satisfied: (i) the aggregate value of such Inventory shall not exceed $4,000,000 at any time, (ii) the consignor of such Inventory shall not have any claim or interest in any Receivables, (iii) all of such consigned Inventory shall, at all times, be reported to Agent as consigned Inventory (and not included in any reports as Inventory of Borrower), and (iv) such consigned Inventory shall, at all times, be conspicuously labelled or otherwise marked as "consigned" Inventory and shall be physically separated from Inventory owned by Borrower in designated segregated areas of Borrower's facilities used solely for the purpose of storing such consigned Inventory.

8.4 Equipment Covenants. With respect to the Equipment: (a) upon Agent's request, Borrower shall, at its expense, at any time or times as Agent may request on or after an Event of Default, deliver or cause to be delivered to Agent written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Agent by an appraiser acceptable to Agent; (b) Borrower shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (c) Borrower shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (d) the Equipment is and shall be used in Borrower's business and not for personal, family, household or farming use; (e) Borrower shall not remove any Equipment from the locations set forth or permitted herein except to another such location and except for the movement of motor vehicles used by or for the benefit of Borrower in the ordinary course of business; (f) the Equipment is now and shall remain personal property and Borrower shall not permit any of the Equipment to be or become a part of or affixed to real property; and (g) Borrower assumes all responsibility and liability arising from the use of the Equipment.

8.5 Power of Attorney. Borrower hereby irrevocably designates and appoints Agent (and all persons designated by Agent) as Borrower's true and lawful attorney-in-fact, and authorizes Agent, in Borrower's or Agent's name, to: (a) at any time an Event of Default exists or has occurred and is continuing (i) demand payment on Accounts or other proceeds of Inventory or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of Borrower's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as Agent deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor, (viii) notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by Agent (after two (2) days prior written notice to Borrower), and open and dispose of all mail addressed to Borrower, and (ix) do all acts and things which are necessary, in Agent's determination, to fulfill Borrower's obligations under this Agreement and the other Financing Agreements and (b) at any time for the purpose of exercising

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its rights hereunder, under the other Financing Agreements and under applicable law, as determined in good faith by Agent (including, without limitation, the handling and monitoring of the Collateral and proceeds of the Collateral, exercising its remedies hereunder, under the other Financing Agreements and applicable law, and protecting its rights in the Collateral): (i) take control in any manner of any item of payment or proceeds thereof, (ii) have access to any lockbox or postal box into which Borrower's mail is deposited, (iii) endorse Borrower's name upon any items of payment or proceeds thereof with respect to the Collateral and deposit the same in the Agent's account for application to the Obligations, (iv) endorse Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral, (v) sign Borrower's name on any verification of Accounts and notices thereof to account debtors and (vi) execute in Borrower's name and file any UCC financing statements or amendments thereto. Borrower hereby releases Agent and each Lender and their officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Agent's or any Lender's own gross negligence or wilful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

8.6 Right to Cure. Agent may, at its option, (a) cure any default by Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against Borrower, (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (c) pay any amount, incur any expense or perform any act which, in Agent's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Agent and Lenders with respect thereto. Agent may add any amounts so expended to the Obligations and charge Borrower's account therefor, such amounts to be repayable by Borrower on demand. Agent shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Borrower. Any payment made or other action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

8.7 Access to Premises. From time to time as requested by Agent, at the cost and expense of Borrower, (a) Agent or its designee shall have complete access to all of Borrower's premises during normal business hours and after notice to Borrower, or at any time and without notice to Borrower if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrower's books and records, including, without limitation, the Records, and (b) Borrower shall promptly furnish to Agent such copies of such books and records or extracts therefrom as Agent may request, and (c) use during normal business hours such of Borrower's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 9. REPRESENTATIONS AND WARRANTIES

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Borrower hereby represents and warrants to Agent and Lenders the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations to Borrower hereunder:

9.1 Corporate Existence, Power and Authority; Subsidiaries. Borrower is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Borrower's financial condition, results of operation or business or the rights of Agent or any Lender, in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within Borrower's corporate powers, have been duly authorized and are not in contravention of law or the terms of Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Borrower is a party or by which Borrower or its property are bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of Borrower enforceable in accordance with their respective terms. Borrower does not have any Subsidiaries except as set forth on the Information Certificate.

9.2 Financial Statements; No Material Adverse Change. All financial statements relating to Borrower which have been or may hereafter be delivered by Borrower to Agent or Lenders have been prepared in accordance with GAAP and fairly present in all material respects the financial condition and the results of operation of Borrower as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Borrower to Agent and Lenders prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Borrower, since the date of the most recent audited financial statements furnished by Borrower to Agent and Lenders prior to the date of this Agreement.

9.3 Chief Executive Office; Collateral Locations. The chief executive office of Borrower and Borrower's Records concerning Accounts are located only at the address set forth below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of Borrower to establish new locations in accordance with Section 10.2 below. The Information Certificate correctly identifies any of such locations which are not owned by Borrower and sets forth the owners and/or operators thereof and to the best of Borrower's knowledge, the holders of any mortgages on such locations.

9.4 Priority of Liens; Title to Properties. The security interests and liens granted to Agent, for itself and the ratable benefit of Lenders, under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the liens indicated on Schedule 9.4 hereto and the other liens permitted under Section 9.8 hereof. Borrower has good and marketable title to all of its properties and assets subject to no liens,

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mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Agent, for itself and the ratable benefit of Lenders, and such others as are specifically listed on Schedule 9.4 hereto or permitted under Section 10.8 hereof.

9.5 Tax Returns. Borrower has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extensions of Federal, State or local income taxes except as previously disclosed in writing to Agent). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

9.6 Litigation. Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of Borrower's knowledge threatened, against or affecting Borrower, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Borrower's knowledge threatened, against Borrower or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Borrower would result in any material adverse change in the assets, business or prospects of Borrower or would impair the ability of Borrower to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Agent to enforce any Obligations or realize upon any Collateral.

9.7 Compliance with Other Agreements and Applicable Laws. Borrower is not in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound and Borrower is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority.

9.8 Employee Benefits.

(a) Borrower has not engaged in any transaction in connection with which Borrower or any of its ERISA Affiliates could be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code, including any accumulated funding deficiency described in Section 9.8(c) hereof and any deficiency with respect to vested accrued benefits described in Section 9.8(d) hereof.

(b) No liability to the Pension Benefit Guaranty Corporation has been or is expected by Borrower to be incurred with respect to any employee benefit plan of Borrower or any of its ERISA Affiliates. There has been no reportable event (within the meaning of Section 4043(b) of ERISA) or any other

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event or condition with respect to any employee benefit plan of Borrower or any of its ERISA Affiliates which presents a risk of termination of any such plan by the Pension Benefit Guaranty Corporation.

(c) As of the last day of the most recent fiscal year of such plan, full payment has been made of all amounts which Borrower or any of its ERISA Affiliates is required under Section 302 of ERISA and Section 412 of the Code to have paid under the terms of each employee benefit plan as contributions to such plan , and no accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any employee benefit plan, including any penalty or tax described in Section 9.8(a) hereof and any deficiency with respect to vested accrued benefits described in Section 9.8(d) hereof.

(d) As of the last day of the most recent fiscal year of such plan, the current value of all vested accrued benefits under all employee benefit plans maintained by Borrower that are subject to Title IV of ERISA does not exceed the current value of the assets of such plans allocable to such vested accrued benefits, including any penalty or tax described in Section 9.8(a) hereof and any accumulated funding deficiency described in Section 9.8(c) hereof. The terms "current value" and "accrued benefit" have the meanings specified in ERISA.

(e) Neither Borrower nor any of its ERISA Affiliates is or has ever been obligated to contribute to any "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA) that is subject to Title IV of ERISA, except as set forth on Schedule 9.8 hereof.

9.9 Environmental Compliance.

(a) Except as set forth on Schedule 9.9 hereto, Borrower has not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law or any license, permit, certificate, approval or similar authorization thereunder and the operations of Borrower comply in all material respects with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.

(b) Except as set forth on Schedule 9.9 hereto, there has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any governmental authority or any other person nor is any pending or to the best of Borrower's knowledge threatened, with respect to any non-compliance with or violation of the requirements of any Environmental Law by Borrower or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects Borrower in any material respect or its business, operations or assets or any properties at which Borrower has transported, stored or disposed of any Hazardous Materials in any material respect.

(c) Borrower has no material liability (contingent or otherwise) in connection with a release, spill or discharge, actual or to the best of

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Borrower's knowledge threatened, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.

(d) Borrower has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with the operations of Borrower under any Environmental Law and all of such licenses, permits, certificates, approvals or similar authorizations are valid and in full force and effect.

9.10 Capitalization; Senior Notes.

(a) All of the issued and outstanding shares of Capital Stock of Borrower are directly and beneficially owned and held as of the date hereof by Parent and have been duly authorized and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind (other than, prior to the Redemption Date, the lien in favor of the Existing Senior Note Trustee for the benefit of the holders of the Existing Senior Notes under the Existing Senior Note Indenture). As of the date hereof, ninety and six-tenths (90.6%) percent of all of the issued and outstanding shares of Capital Stock of Parent are directly and beneficially owned and held by MLGA Fund II, L.P.

(b) The Senior Notes have been duly authorized, issued and delivered by Borrower and all agreements, documents and instruments related thereto, including, but not limited to, the Senior Note Indenture, have been duly authorized, executed and delivered and the transactions contemplated thereunder performed in accordance with their terms by the respective parties thereto in all material respects, including the fulfillment (not merely the waiver except as disclosed in writing to Agent) of all conditions precedent set forth therein. All actions and proceedings required by the Senior Notes and the agreements, documents and instruments related thereto, applicable law or regulation have been taken and the transactions required thereunder have been duly and validly taken and consummated.

(c) The execution and delivery of the Senior Notes, the Senior Note Indenture and any of the instruments and documents to be delivered pursuant thereto, and the consummation of the transactions therein contemplated, and compliance with the provisions thereof, does not violate and will not violate any law or regulation or any order or decree of any court or governmental instrumentality in any material respect or does or will conflict with or result in the breach of, or constitute a default in any material respect under, any indenture, mortgage, deed of trust, agreement or instrument to which Borrower or any of its Affiliates is a party or may be bound, or result in the creation or imposition of any lien, charge or encumbrance upon any of the property of Borrower (except as specifically contemplated or permitted hereunder or under the other Financing Agreements) or violate any provision of the Certificate of Incorporation or By-Laws of Borrower or any of its Affiliates.

(d) No court of competent jurisdiction has issued any injunction, restraining order or other order which prohibits consummation of the issuance of the Senior Notes and the transactions described therein and no governmental or other action or proceeding has been threatened or commenced, seeking any

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injunction, restraining order or other order which seeks to void or otherwise modify the Senior Notes, the Senior Note Indenture or the transactions described therein. Borrower has delivered, or caused to be delivered, to Agent, true, correct and complete copies of the Senior Note Indenture, the Senior Notes and all other agreements, documents and instruments existing as of the date hereof relating thereto.

(e) All net cash proceeds from the Borrower Debt Offering are held in the Redemption Escrow Accounts free and clear of all claims, liens, pledges and encumbrances of any kind, nature or description whatsoever. The proceeds from the Borrower Debt Offering are not subject to any restrictions or conditions relative to the transfer or use thereof (except as provided for herein) and Borrower has the right to transfer and deliver the proceeds from the Borrower Debt Offering, free and clear of any liens, encumbrances, restrictions or conditions. The proceeds from the Borrower Debt Offering are not subject to setoff, counterclaim, defense, allowance or adjustment or to dispute, objection or complaint.

(f) Borrower is solvent and will continue to be solvent after the creation of the Obligations, the security interests of Agent and the other transactions contemplated hereunder, is able to pay its debts as they mature and has (and has reason to believe it will continue to have) sufficient capital (and not unreasonably small capital) to carry on its business and all businesses in which it is about to engage. The assets and properties of Borrower at a fair valuation and at their present fair salable value are, and will be, greater than the indebtedness of Borrower, including subordinated and contingent liabilities computed at the amount which, to the best of Borrower's knowledge, represents an amount which can reasonably be expected to become an actual or matured liability.

9.11 Redemption of Existing Notes.

(a) As of the date hereof, Borrower has notified the Existing Senior Note Trustee and the Existing Subordinated Note Trustee of the redemption date for each of the Existing Senior Notes and the Existing Subordinated Notes, respectively, and that all of the principal amount of the Existing Notes are to be redeemed and such notice has been given in the form of the officer's certificate and as otherwise required under the terms of the Existing Senior Note Indenture and Existing Subordinated Note Indenture, respectively. The Existing Senior Note Trustee and the Existing Subordinated Note Trustee have each agreed that the receipt of such notice by each of them as of the date hereof is satisfactory notice to have the Existing Notes redeemed on the date which is thirty (30) days after the date hereof.

(b) As of the date hereof, Borrower has mailed or cause to be mailed a notice of redemption to each holder of the Existing Notes, which notice identifies the notes to be redeemed, the redemption date and otherwise complies with the requirements of Section 3.03 of the Existing Senior Notes Indenture and Section 3.03 of the Existing Subordinated Note Indenture. The redemption date set forth in such notice is September 23, 1996. As of the date hereof, Borrower has segregated and holds in trust money which when added to the Loans anticipated by Borrower to be available hereunder to be used for such purpose (not to exceed $17,500,000) will be sufficient to pay the redemption price of and accrued interest and premiums on all of the Existing

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Notes on the Redemption Date. The portion of such money which will not be borrowed hereunder is held in the Redemption Escrow Accounts until such time as it shall be paid to each holder of the Existing Notes.

(c) The redemption of the Existing Notes has been duly authorized by Borrower. All actions and proceedings required by the Existing Senior Note Indenture and the Existing Subordinated Note Indenture and the agreements, documents and instruments related thereto, and applicable law or regulation, for the redemption of the Existing Notes on the date which is thirty (30) days after the date hereof in accordance with the terms thereof have been taken.

(d) The issuance of the redemption notices with respect to the Existing Notes and the redemption of the Existing Notes does not violate and will not violate any law or regulation or order or decree of any court or governmental instrumentality and does not and will not conflict with or result in the breach of, or constitute a default in any respect under any indenture, mortgage, deed of trust, agreement or instrument to which Borrower or any of its Affiliates is a party or may be bound. Borrower has taken, or caused to be taken, all actions and proceedings required to redeem and repay all obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Notes, including, but not limited to, appropriate shareholder and board approvals and notices to trustees or other representatives of the holders of the Existing Notes, in accordance with the terms and conditions of the Existing Senior Note Indenture and Existing Subordinated Note Indenture and any related agreements, documents and instruments and all applicable laws and regulations. No court of competent jurisdiction has issued any injunction, restraining order or other order which prohibits the redemption of the Existing Notes or repayment of the obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Notes, and no governmental action or proceeding has been threatened or commenced, seeking to prevent or in any way limit the redemption or repayment thereof. Borrower has delivered, or caused to be delivered, to Agent, true, correct and complete copies of all notices, documents and agreements relating to the redemption and repayment of such obligations, liabilities and indebtedness.

9.12 Accuracy and Completeness of Information. All information furnished by or on behalf of Borrower in writing to Agent or Lenders in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including, without limitation, all information in the Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse effect on the business, assets or prospects of Borrower, which has not been fully and accurately disclosed to Agent and Lenders in writing.

9.13 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Agent and Lenders on the date of each additional borrowing or other credit accommodation hereunder and shall be conclusively presumed to have been relied on by Agent and Lenders regardless

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of any investigation made or information possessed by Agent and Lenders. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Borrower shall now or hereafter give, or cause to be given, to Agent and Lenders.

SECTION 10. AFFIRMATIVE AND NEGATIVE COVENANTS

10.1 Maintenance of Existence. Borrower shall, and shall cause each Subsidiary to, at all times preserve, renew and keep in full force and effect its corporate existence and rights and franchises with respect thereto (provided, that, Borrower may merge with and into Parent to the extent permitted in Section 10.7(a) hereof) and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Borrower shall give Agent thirty (30) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and Borrower shall deliver to Agent a copy of the amendment to the Certificate of Incorporation of Borrower providing for the name change certified by the Secretary of State of the jurisdiction of incorporation of Borrower as soon as it is available.

10.2 New Collateral Locations. Borrower may open any new location within the continental United States provided Borrower (a) gives Agent thirty (30) days prior written notice of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Agent such agreements, documents, and instruments as Agent may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including, without limitation, UCC financing statements.

10.3 Compliance with Laws, Regulations, Etc.

(a) Borrower shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe in all material respects all requirements of any Federal, State or local governmental authority, including, without limitation, ERISA, the Occupational Safety and Health Act of 1970, as amended, the Fair Labor Standards Act of 1938, as amended, and all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including, without limitation, all of the Environmental Laws.

(b) Borrower shall establish and maintain, at its expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by employees or agents of Borrower who are familiar with the requirements of the Environmental Laws. Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by Borrower to Agent. Borrower shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Agent on such response.

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(c) Borrower shall give both oral and written notice to Agent immediately upon Borrower's receipt of any notice of, or Borrower's otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material which violates or may violate any Environmental Law or requires any report thereof under any Environmental Law or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by Borrower or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or (D) any other environmental, health or safety matter, which directly affects Borrower or its business, operations or assets or any properties at which Borrower transported, stored or disposed of any Hazardous Materials.

(d) Without limiting the generality of the foregoing, whenever Agent reasonably determines that there is non-compliance, or any condition which requires any action by or on behalf of Borrower in order to avoid any material non-compliance, with any Environmental Law, upon Agent's request Borrower shall at Borrower's expense: (i) cause an independent environmental engineer acceptable to Agent to conduct such tests of the site where Borrower's non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Agent a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof and (ii) provide to Agent a supplemental report of such engineer whenever the scope of such non-compliance, or Borrower's response thereto or the estimated costs thereof, shall change in any material respect; provided, that, in the event Borrower shall fail to comply with Agent's request, Agent may take any of the actions described in this Section 10.3(d) at Borrower's expense.

(e) Borrower shall indemnify and hold harmless Agent and Lenders, their respective directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including attorneys' fees and legal expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including, without limitation, the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of Borrower and the preparation and implementation of any closure, remedial or other required plans. Borrower shall cooperate in all respects with Agent and Lenders in connection with such indemnification by Borrower of Agent and Lenders and the other persons as provided herein, including, but not limited to, promptly delivering or causing to be delivered to Agent and Lenders such information as Agent and Lenders may, in good faith, request, and allowing Agent and Lenders or their representatives or agents access during normal business hours upon one (1) day prior notice to any of the premises, personnel or books and records of Borrower as Agent and Lenders may require, at Borrower's expense. All covenants and indemnifications in this Section 10.3(e) shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

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10.4 Payment of Taxes and Claims. Borrower shall, and shall cause each Subsidiary to, duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books. Borrower and its Subsidiaries shall be liable for any tax or penalties imposed on Agent or any Lender as a result of the financing arrangements provided for herein and Borrower agrees to indemnify and hold Agent and each Lender harmless with respect to the foregoing, and to repay to Agent and each Lender on demand the amount thereof, and until paid by Borrower such amount shall be added and deemed part of the Loans, provided, that, nothing contained herein shall be construed to require Borrower or its Subsidiaries to pay any income or franchise taxes attributable to the income of Agent or any Lender from any amounts charged or paid hereunder to Agent or any Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

10.5 Insurance. Borrower shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Agent as to form, amount and insurer. Borrower shall furnish certificates, policies or endorsements to Agent as Agent shall require as proof of such insurance, and, if Borrower fails to do so, Agent is authorized, but not required, to obtain such insurance at the expense of Borrower. All such insurance policies shall provide for at least thirty (30) days prior written notice to Agent of any cancellation or reduction of coverage and that Agent may act as attorney for Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Borrower shall cause Agent and each Lender to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and Borrower shall obtain non-contributory lender's loss payable endorsements to all such insurance policies in form and substance satisfactory to Agent. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Agent, for itself and the ratable benefit of Lenders, as their interests may appear and further specify that Agent, for itself and the ratable benefit of Lenders, shall be paid regardless of any act or omission by Borrower or any of its affiliates. At its option, Agent may apply any insurance proceeds received by Agent at any time to the cost of repairs or replacement of Collateral and/or to payment of the Obligations, whether or not then due, in any order and in such manner as Agent may determine or hold such proceeds as cash collateral for the Obligations.

10.6 Financial Statements and Other Information.

(a) Borrower shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Borrower and its Subsidiaries in accordance with GAAP and Borrower shall furnish or cause to be furnished to Agent: (i) within thirty (30) days after the end of each fiscal month,

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monthly unaudited consolidated financial statements, and unaudited consolidating financial statements (including in each case balance sheets, statements of income and loss and statements of shareholders' equity), all in reasonable detail, fairly presenting in all material respects the financial position and the results of the operations of Borrower and its Subsidiaries as of the end of and through such fiscal month and (ii) within ninety (90) days after the end of each fiscal year, audited consolidated financial statements and audited consolidating financial statements of Borrower and its Subsidiaries (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of Borrower and its Subsidiaries as of the end of and for such fiscal year, together with the opinion of independent certified public accountants, which accountants shall be an independent accounting firm selected by Borrower and reasonably acceptable to Agent that such financial statements have been prepared in accordance with GAAP, and present fairly in all material respects the results of operations and financial condition of Borrower and its Subsidiaries as of the end of and for the fiscal year then ended.

(b) Borrower shall promptly notify Agent in writing of the details of (i) any material loss or damage to any of the Collateral not otherwise reported by Agent to Borrower pursuant to the terms hereof, or any investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in Borrower's business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Event of Default or act, condition or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.

(c) Borrower shall promptly after the sending or filing thereof furnish or cause to be furnished to Agent copies of all reports which Borrower sends to its stockholders generally and copies of all reports and registration statements which Borrower files with the Securities and Exchange Commission, any national securities exchange or the National Association of Securities Dealers, Inc.

(d) Borrower shall furnish or cause to be furnished to Agent and Lenders such budgets, forecasts, projections and other information respecting the Collateral and the business of Borrower, as Agent may, from time to time, reasonably request. Agent and Lenders are hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Borrower to any court or other government agency or, subject to Section 14.7 hereof, to any Participant or Assignee or prospective Participant or Assignee. Borrower hereby irrevocably authorizes and directs all accountants or auditors to deliver to Agent and Lenders, at Borrower's expense, copies of the financial statements of Borrower and any reports or management letters prepared by such accountants or auditors. Any documents, schedules, invoices or other papers delivered to Agent and Lenders may be destroyed or otherwise disposed of by Agent and Lenders one (1) year after the same are delivered to Agent and Lenders except as otherwise designated by Borrower to Agent and Lenders in writing.

10.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Borrower

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shall not, and shall not permit any Subsidiary to, directly or indirectly:

(a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, except, that Borrower may merge with and into Parent, provided, that, (i) as of the effective date of the merger and after giving effect thereto, no Event of Default, or act, condition or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred, (ii) Agent shall have received true, correct and complete copies of all agreements, documents and instruments relating to such merger, including, but not limited to, the certificate of merger as filed with the appropriate Secretary of State, (iii) the surviving entity shall immediately upon the effectiveness of the merger expressly assume in writing pursuant to an agreement, in form and substance satisfactory to Agent, all of the Obligations and the Financing Agreements and execute and deliver such other agreements, documents and instruments as Agent may request in connection therewith, (iv) the surviving entity shall, immediately before and immediately after giving effect to such transaction or series of transactions, have a Adjusted Net Worth (including, without limitation, any indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction or series of transactions) equal to or greater than the Adjusted Net Worth of Borrower immediately prior to such transaction or series of transactions and (v) the surviving entity shall not become obligated with respect to any indebtedness, nor any of its property become subject to any lien, unless Borrower could incur such indebtedness or create such lien hereunder; or

(b) sell, assign, lease, transfer, abandon or otherwise dispose of any stock or indebtedness to any other Person or any of its assets to any other Person (except for (i) sales of Inventory in the ordinary course of business, (ii) the sale by Borrower of its approximately 100 acres of undeveloped farm land in Kokomo, Indiana, (iii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of Borrower, and (iv) the sale by Borrower and its Subsidiaries of fixed assets (other than sales of fixed assets as permitted in Sections 10.7(b)(ii) and (iii) above) with an aggregate net book value not exceeding $750,000 in any fiscal year of Borrower or its Subsidiaries; or

(c) form or acquire any Subsidiaries; or

(d) wind up, liquidate or dissolve; or

(e) agree to do any of the foregoing.

10.8 Encumbrances. Borrower shall not, and shall not permit any Subsidiary to, create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including, without limitation, the Collateral, except:

(a) the security interests and liens of Agent, for itself and the ratable benefit of Lenders;

(b) liens securing the payment of taxes not yet payable or liens for taxes not in excess of $250,000, the validity of which are being contested

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in good faith by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books;

(c) non-consensual statutory liens (other than liens securing the payment of taxes or imposed under ERISA or any Environmental Laws) arising in the ordinary course of Borrower's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Borrower, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books;

(d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Borrower as presently conducted thereon or materially impair the value of the real property which may be subject thereto;

(e) purchase money security interests in Equipment (including Capital Leases) and purchase money mortgages on real estate not to exceed $5,000,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Borrower other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be;

(f) prior to the Redemption Date, the security interests and liens in favor of the Existing Senior Note Trustee on the Existing Senior Note Collateral to secure the indebtedness permitted under Section 10.9(d) below, provided, that, as of the Redemption Date such security interests and liens shall be released and terminated in a manner satisfactory to Lender;

(g) liens incurred or deposits made in the ordinary course of the business of Borrower to the extent required in connection with workers' compensation, unemployment insurance, social security and other similar laws consistent with the past practices of Borrower prior to the date hereof;

(h) liens to secure the performance of tenders, contracts (other than contracts for the payment of money) or leases, or surety and appeal bonds in each case incurred in the ordinary course of business consistent with the past practices of Borrower prior to the date hereof; and

(i) the security interests and liens set forth on Schedule 9.4 hereto.

10.9 Indebtedness. Borrower shall not, and shall not permit any Subsidiary to, incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except:

(a) the Obligations;

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(b) trade obligations and normal accruals in the ordinary course of business not more than thirty (30) days past due, or with respect to which Borrower or any Subsidiary, as the case may be, is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to Borrower and with respect to which adequate reserves have been set aside on its books;

(c) purchase money indebtedness (including Capital Leases) to the extent not incurred or secured by liens (including Capital Leases) in violation of any other provision of this Agreement;

(d) prior to the Redemption Date, indebtedness of Borrower evidenced by the Existing Senior Notes issued by Borrower pursuant to the Existing Senior Note Indenture; provided, that,

(i) such indebtedness shall not exceed the aggregate principal amount of $50,000,000 (less the aggregate amount of all repayments or repurchases of principal in respect thereof) plus interest thereon at the rate set forth in Existing Senior Notes (as in effect on the date hereof) and prepayment or redemption premiums with respect thereto as set forth in the Existing Senior Notes (as in effect on the date hereof),

(ii) Borrower shall not make any payments in respect of such indebtedness, except, that, by no later than September 23, 1996, Borrower shall redeem all of the Existing Senior Notes in accordance with the terms of the Existing Senior Note Indenture and repay all of such indebtedness with a portion of the proceeds received by Borrower from the issuance of the Senior Notes pursuant to the Borrower Debt Offering and after the application of such proceeds from the issuance of the Senior Notes, with proceeds of Loans hereunder, and on and after the Redemption Date, Borrower shall have no further obligations, liabilities and indebtedness under or in connection with the Existing Senior Notes, the Existing Senior Note Indenture or any related agreements, documents or instruments, all of which shall be cancelled and terminated and of no further force and effect,

(iii) Borrower shall not, directly or indirectly,

(A) amend, modify, alter or change the terms of the Existing Senior Notes, the Existing Senior Note Indenture or any related agreement, document or instrument,

(B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, except for the redemption and repayment of all of such indebtedness in accordance with the terms set forth in Section 10.9(d)(ii) above,

(iv) Borrower has sent a notice of redemption as required under and in accordance with the terms of the Existing Senior Note Indenture and Borrower shall not revoke, rescind, modify or terminate such notice or take any other action which would adversely affect the ability or the right of Borrower to redeem the Existing Senior Notes or repay such indebtedness in accordance with the terms set forth in Section 10.9(d)(ii) above, and

(v) Borrower shall furnish to Agent all notices, demands or other

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materials concerning such indebtedness either received by Borrower or on its behalf, promptly after receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be;

(e) prior to the Redemption Date, indebtedness of Borrower evidenced by the Existing Subordinated Notes issued by Borrower pursuant to the Existing Subordinated Note Indenture, provided, that,

(i) such indebtedness is and shall at all times remain unsecured,

(ii) the Obligations constitute and shall at all times constitute "Senior Indebtedness" as such term is defined in the Existing Subordinated Note Indenture,

(iii) such indebtedness shall not exceed $90,000,000 (less the aggregate amount of all repayments or repurchases of principal in respect thereof) plus interest thereon at the rate set forth in the Existing Subordinated Notes (as in effect on the date hereof) and prepayment or redemption premiums with respect thereto as set forth in the Existing Subordinated Notes (as in effect on the date hereof),

(iv) such indebtedness is subject to, and subordinate in right of payment to, the right of Agent and Lenders to receive the prior payment in full of all of the Obligations to the extent set forth in Section 10.02 of the Existing Subordinated Note Indenture (as in effect on the date hereof),

(v) Borrower shall not make any payments in respect of such indebtedness, except, that, by no later than September 23, 1996, Borrower shall redeem all of the Existing Subordinated Notes in accordance with the terms of the Existing Subordinated Note Indenture and repay all of such indebtedness with a portion of the proceeds received by Borrower from the issuance of the Senior Notes pursuant to the Borrower Debt Offering and after the application of such proceeds from the issuance of the Senior Notes, with proceeds of Loans hereunder, and on and after the Redemption Date, Borrower shall have no further obligations, liabilities and indebtedness under or in connection with the Existing Subordinated Notes, the Existing Subordinated Note Indenture or any related agreements, documents and instruments, all of which shall be cancelled and terminated and of no further force and effect,

(vi) Borrower shall not, directly or indirectly,

(A) amend, modify, alter or change any terms of the Existing Subordinated Notes, the Existing Subordinated Note Indenture or any related agreement, document or instrument, or

(B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, except for the redemption and repayment of all of such indebtedness in accordance with the terms set forth in Section 10.9(e)(v) above,

(vii) Borrower has sent a notice of redemption as required under and in accordance with the terms of the Existing Subordinated Note Indenture and Borrower shall not revoke, rescind, modify or terminate such notice or take any other action which would adversely affect the ability or the right of

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Borrower to redeem the Existing Subordinated Notes or repay such indebtedness in accordance with the terms set forth in Section 10.9(e)(v) above,

(viii) Borrower shall furnish to Agent all notices, demands or other materials in connection with such indebtedness either received by Borrower or on its behalf, promptly after the receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be;

(f) indebtedness of Borrower evidenced by the Senior Notes issued by Borrower pursuant to the Senior Note Indenture; provided, that,

(i) such indebtedness shall not exceed the aggregate principal amount of $140,000,000 (less the aggregate amount of all repayments or purchases of principal in respect thereof) plus interest thereon at the rate set forth in the Senior Notes (as in effect on the date hereof or as hereafter amended to reduce such rate) and prepayment and redemption premiums with respect thereto as set forth in the Senior Notes (as in effect on the date hereof or as amended to reduce such prepayment or redemption premiums or defer or extend the due date of any payment thereunder),

(ii) Lender shall have received true, correct and complete copies of the Senior Note Indenture and all related agreements, documents and instruments,

(iii) Borrower shall only make regularly scheduled payments of principal and interest, or to the extent permitted under Section 10.9(f)(v) below, other payments, in respect of such indebtedness in accordance with the terms of the Senior Notes as in effect on the date hereof,

(iv) Borrower shall not, directly or indirectly, amend, modify, alter or change the terms of the Senior Notes, the Senior Note Indenture or any related agreements, documents or instruments, except that Borrower may, after not less than ten (10) Business Days prior written notice to Lender, amend or modify the terms thereof so long as: (A) either (1) such amendment or modification does not in any manner adversely affect Lender or any rights of Lender as determined in good faith by Lender and confirmed by Lender to Borrower in writing or (2) Lender has consented in writing to such amendment or modification, and (B) such amendment or modification does not relate to the terms of payment of the indebtedness evidenced thereby, the amount of such indebtedness, the interest rate or any fees or charges or any collateral with respect thereto or make any terms thereof more restrictive or burdensome than as in effect on the date hereof, as determined in good faith by Lender and confirmed by Lender to Borrower in writing,

(v) Borrower shall not, directly or indirectly, redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, or make any other payments in respect thereof, except:

(A) purchases of Senior Notes required to be made under the terms of the Senior Note Indenture (as in effect on the date hereof): (1) to the extent of net cash proceeds received by Borrower from an Asset Sale and including any Sale and Leaseback Transaction, provided, that, any such net cash proceeds shall first be applied to the Obligations to the extent such

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assets sold or otherwise disposed of pursuant to the Asset Sale constitute Collateral, (2) as a result of a Change in Control or (3) to the extent of net cash proceeds received by Borrower from a Public Equity Offering up to the maximum of thirty-five (35%) percent of the initial aggregate principal amount of the Senior Notes at a redemption price equal to one hundred eleven and six hundred twenty-five thousandths (111.625%) percent of the principal amount thereof plus accrued and unpaid interest to the redemption date, provided, that, after giving effect thereto, at least $85,000,000 aggregate principal amount of Senior Notes remain outstanding,

(B) purchases of Senior Notes at the option of Borrower in open market transactions, provided, that, each of the following conditions is satisfied as determined by Agent as of the date of each such purchase and after giving effect thereto: (1) no Event of Default, or act, condition or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred, (2) either: (aa) the amounts used to pay for the purchase of the Senior Notes consist only of the net cash proceeds received by Borrower from a Public Equity Offering or (bb) there are no Loans outstanding, (3) Excess Availability shall be not less than $5,000,000, (4) Lender shall have received not less than two (2) Business Days prior written notice of the intent of Borrower to make any such purchases,

(vi) Borrower shall furnish to Lender all notices, demands or other materials concerning such indebtedness either received by Borrower or on its behalf, promptly after receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be;

(g) indebtedness of each Foreign Subsidiary in an aggregate amount not to exceed $2,000,000 at any one time outstanding (such amount to be determined at the date of incurrence and without regard to subsequent fluctuations in exchange rates); provided, that, (i) indebtedness of all Foreign Subsidiaries shall not exceed $6,000,000 in the aggregate at any one time outstanding (such amount to be determined at the date of incurrence and without regard to subsequent fluctuations in exchange rates) and (ii) none of such indebtedness shall be secured by any property of Borrower or any of its Subsidiaries, other than property of Foreign Subsidiaries;

(h) indebtedness arising after the date hereof evidenced by the Employee Notes; provided, that, Borrower should deliver to Agent true, correct and complete copies of any Employee Notes promptly upon the execution thereof by Borrower;

(i) indebtedness of Borrower to its Subsidiaries arising pursuant to loans by such Subsidiaries to Borrower permitted pursuant to Section 10.10 below; and

(i) indebtedness of Subsidiaries of Borrower to other Subsidiaries of Borrower arising pursuant to loans by such Subsidiaries to such other Subsidiaries permitted pursuant to Section 9.10 below.

10.10 Loans, Investments, Guarantees, Etc. Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or

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indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except:

(a) the endorsement of instruments for collection or deposit in the ordinary course of business;

(b) investments in (i) readily marketable obligations of or obligations guaranteed by the United States of America or issued by any agency thereof and backed by the full faith and credit of the United States of America, (ii) readily marketable direct obligations issued by any state of the United States of America or any political subdivision thereof having a rating in one of the two highest rating categories obtainable from either Moody's Investors Service, Inc. or Standard & Poor's Corporation, (iii) commercial paper having a rating in one of the two highest rating categories of Moody's Investors Services, Inc. or Standard & Poor's Corporation, (iv) certificates of deposit issued by, bankers' acceptances and deposit accounts of, and time deposits with, commercial banks of recognized standing chartered in the United States of America or Canada with capital, surplus and undivided profits aggregating in excess of $500,000,000, (v) agreements to sell or repurchase securities of the kind described in clauses (i) and (ii) above, and (vi) shares of money market funds that invest solely in investments of the kind described in clauses (i) through (v) above; provided, that, as to any of the foregoing, unless waived in writing by Lender, Borrower shall take such actions as are deemed necessary by Agent to perfect the security interest of Agent, for itself and ratably on behalf of Lenders in such investments (other than such investments in the Senior Note Collateral Account and the Excess Refinancing Proceeds Account);

(c) the existing equity investments of Borrower as of the date hereof in its Subsidiaries as of the date hereof;

(d) prior to the Redemption Date, the investments of Borrower in the Existing Senior Note Collateral Account and the Existing Excess Refinancing Proceeds Account; provided, that, (i) Borrower shall not, and shall not permit any Subsidiary to, after the date hereof, make any payments into or deposits of any further cash or other property into the Existing Excess Refinancing Proceeds Account, (ii) Borrower shall not, and shall not permit any Subsidiary to, after the date hereof, make any payments into or deposits of any further cash or other property into the Existing Senior Note Collateral Account except as required under the terms of the Existing Senior Note Indenture as in effect on the date hereof and (iii) as of the Redemption Date, all such investments shall not be subject to any security interest, lien or other claim in connection with the Existing Senior Notes or the Existing Senior Note Indenture;

(e) loans by any Subsidiary of Borrower to Borrower or loans by any Subsidiary of Borrower to any other Subsidiary of Borrower (and, as to any loans to Borrower, Borrower shall not repay all or any portion of such loans without the prior written consent of Agent);

(f) stock or obligations issued to Borrower by any Person (or the representative of such Person) in respect of indebtedness of such Person owing

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to Borrower in connection with the insolvency, bankruptcy, receivership or reorganization of such Person or a composition or readjustment of the debts of such Person; provided, that, the original of any such stock or instrument evidencing such obligations shall be promptly delivered to Agent, upon Agent's request, together with such stock power, assignment or endorsement by Borrower as Agent may request;

(g) obligations of account debtors to Borrower arising from Accounts which are past due evidenced by a promissory note made by such account debtor payable to Borrower; provided, that, promptly upon the receipt of the original of any such promissory note by Borrower, such promissory note shall be endorsed to the order of Agent, for itself and ratably on behalf of Lenders, by Borrower and promptly delivered to Agent as so endorsed;

(h) loans and advances by Borrower or its Subsidiaries to employees of Borrower or its Subsidiaries not to exceed the principal amount of $100,000 in the aggregate at any time outstanding for: (i) reasonable and necessary work-related travel or other ordinary business expenses to be incurred by such employees in connection with their work for Borrower and (ii) reasonable and necessary relocation expenses of such employees (including home mortgage financing for relocated employees);

(i) guarantees by any Subsidiary of Borrower of the Obligations in favor of Agent, for itself and the ratable benefit of Lenders; and

(j) the guarantees set forth in the Information Certificate.

10.11 Dividends and Redemptions. Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, declare or pay any dividends on account of shares of any class of capital stock of Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing, except, that:

(a) any Subsidiary of Borrower may declare and pay any dividends or make any other distributions to its shareholders in respect of shares of any class of capital stock; and

(b) Borrower may declare and pay any dividends or make any other distributions to its shareholders in respect of shares of any class of Capital Stock, provided, that, each of the following conditions is satisfied, as determined in good faith by Agent:

(i) no Event of Default shall have occurred and be continuing and such declaration and payment of dividends or other distribution to its shareholders shall not be an event which is, or after notice or lapse of time or both, would be, an event of default under the terms of any indebtedness of Borrower or its Subsidiaries,

(ii) immediately before and immediately after giving effect to

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such transaction on a pro forma basis, Borrower could incur $1.00 of additional indebtedness (other than Permitted Indebtedness as such term is defined in the Senior Note Indenture) under the terms of Section 10.8 of the Senior Note Indenture,

(iii) on the date of any such payment and after giving effect thereto, Excess Availability shall be not less than $5,000,000, and

(iv) the aggregate amount of all such dividends or other such distributions to its shareholders declared or made after the date hereof shall not exceed the sum of: (A) fifty (50%) percent of the aggregate cumulative Consolidated Net Income of Borrower accrued on a cumulative basis during the period beginning on the first day of Borrower's fiscal quarter commencing prior to the date hereof and ending on the last day of Borrower's last fiscal quarter ending prior to the date of the payment of the dividends or other such distributions to its shareholders (or, if such aggregate cumulative Consolidated Net Income shall be a loss, minus one hundred (100%) percent of such loss), plus (B) the aggregate net cash proceeds received after the date hereof by Borrower as capital contributions to Borrower (other than from any of its Subsidiaries), plus (C) the aggregate net cash proceeds received after the date hereof by Borrower from the issuance or sale (other than to any of its Subsidiaries) of its shares of Qualified Capital Stock or any options, warrants or rights to purchase such shares of Qualified Capital Stock of Borrower (except, in each case, to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or other indebtedness), plus (D) the aggregate net cash proceeds received after the date hereof by Borrower (other than from any of its Subsidiaries) upon the exercise of any options or warrants to purchase shares of Qualified Capital Stock of Borrower, plus (E) the aggregate net cash proceeds received after the date hereof by Borrower from debt securities or Redeemable Capital Stock that have been converted into or exchanged for Qualified Capital Stock of Borrower, to the extent such debt securities or Redeemable Capital Stock are originally sold for cash, plus the aggregate net cash proceeds received by Borrower at the time of such conversion or exchange, provided, that, any such aggregate cash proceeds used by Borrower to redeem or repurchase Senior Notes shall not be included in the amounts provided for herein;

(c) Borrower may declare and pay dividends or make other distributions to Parent in respect of the shares of Capital Stock of Borrower owned by Parent to permit Parent to pay Federal, State and local income taxes applicable to Borrower and its Subsidiaries; provided, that, (i) such payments shall not exceed the lesser of (A) actual payments by Parent for Federal, State and local income taxes and (B) the amount of taxes which would have been payable by Borrower if it were the parent of a separate affiliated group of which its Subsidiaries were members and (ii) the proceeds of such dividends or other distributions shall be used by Parent to pay such taxes within five (5) business days after the receipt of such proceeds by Parent;

(d) Borrower may declare and pay dividends or make other distributions to Parent in respect of the shares of Capital Stock of Borrower owned by Parent to pay franchise taxes and reasonable administrative expenses (including reasonable professional fees and expenses) that benefit Borrower or its Subsidiaries; provided, that, (i) no Event of Default, or act, condition or event which with notice or passage of time or both would constitute an

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Event of Default shall exist or have occurred, (ii) the aggregate amount of all such franchise taxes and administrative expenses paid in any fiscal year of Borrower shall not exceed $130,000, (iii) such administrative expenses shall not include any amounts for management services rendered by Morgan Lewis Githens & Ahn, Inc., or its Affiliates or management services provided by third parties which are duplicative of any such services rendered by Morgan Lewis Githens & Ahn, Inc., or its Affiliates for the benefit of Borrower or a Subsidiary of Borrower, and (iv) the proceeds of such dividends or other distributions shall be used by Parent to pay such taxes and expenses within five (5) business days after the receipt of such proceeds by Parent;

(e) Borrower may declare and pay dividends or make other distributions to Parent in respect of the shares of Capital Stock of Borrower owned by Parent to permit the repurchase of Parent Common Stock or options to purchase Parent Common Stock from employees of Borrower (other than employees who are Affiliates or employees of MLGAL Partners L.P. (the sole general partner of MLGA Fund II, L.P.) or any successor partnership into which it is reorganized and its Affiliates); provided, that, (i) no Event of Default or act, condition or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred, (ii) such dividends or other distributions shall be in the form of cash or Employee Notes and the amount of cash expended for all such repurchases in any fiscal year of Borrower shall not exceed the Annual Cash Amount for such fiscal year plus the unexpended Annual Cash Amount, if any, for the immediately preceding fiscal year (it being understood that a repurchase in a specified fiscal year shall be charged first to the unexpended Annual Cash Amount, if any, pertaining to the preceding fiscal year and then to the Annual Cash Amount, if any, pertaining to such fiscal year), (iii) each such repurchase is occasioned by the death, permanent disability or termination of employment of the holder of Parent Common Stock or options to purchase Parent Common Stock pursuant to the Subscription Agreement, (iv) such repurchase occurs during the time during which Borrower has an option to repurchase such shares under such Subscription Agreement and the amount of the repurchase price specified in such Subscription Agreement (subject to any adjustment to such purchase price thereunder resulting from a future recapitalization (or transaction in the nature of a recapitalization) of the Borrower), (v) if Employee Notes have been issued in connection with the repurchase of Parent Common Stock or options to purchase Parent Common Stock in accordance with the foregoing, any unexpended Annual Cash Amount that is available to the Borrower for the payment of dividends or other distributions to Parent pursuant to this Section 10.11(e) may be used to repay such Employee Notes (without any prepayment premium), and the Annual Cash Amount available to the Borrower for the payment of such distributions shall be reduced by the amount of the principal paid in connection with the prepayment of such Employee Notes, and (vi) the proceeds of such dividends or other distributions are used by Parent to repurchase Parent Common Stock or options to purchase Parent Common Stock as provided above within five (5) Business Days after the receipt of such proceeds by Parent.

10.12 Transactions with Affiliates. Borrower shall not enter into any transaction for the purchase, sale or exchange of property or the rendering of any service to or by any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than Borrower would

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obtain in a comparable arm's length transaction with an unaffiliated person; provided, that, the foregoing shall not apply to any transfer by any Subsidiary of Borrower of the properties or assets of such Subsidiary to Borrower or any other Subsidiary of Borrower. Any cash or other property or consideration required to be paid or furnished by Borrower to any Subsidiary of Borrower as a result of such transfer of properties or assets to Borrower shall be on fair and reasonable terms no less favorable to Borrower than Borrower would obtain in a comparable arm's length transaction with an unaffiliated person.

10.13 Proceeds of Borrower Debt Offering; Redemption of Existing Notes.

(a) All net cash proceeds from the issuance and sale by Borrower of the Senior Notes pursuant to the Borrower Debt Offering shall be segregated from all other funds of Borrower and held in trust in the Redemption Escrow Accounts, which accounts have been established and shall be used solely for the purpose of holding such funds. In no event shall the funds held in such accounts be commingled with Borrower's own funds. Borrower shall not, and shall not permit any of its Subsidiaries or Affiliates to, withdraw any amounts held in the Redemption Escrow Accounts, except for the purpose solely of the redemption or repayment in full of all obligations, liabilities and indebtedness of Borrower evidenced or arising under or in connection with Existing Notes in accordance with the terms thereof and in accordance with the terms of the Existing Senior Note Indenture, the Existing Subordinated Note Indenture and all related agreements, documents and instruments. No consent or approval of any governmental or regulatory authority, nor any consent or approval of any other third party is or shall be necessary for the payment of the amounts held in such account to the holders of the Existing Notes for the payment and satisfaction in full of such indebtedness. Borrower shall give the Existing Senior Note Trustee and Existing Subordinated Note Trustee the irrevocable and express right and authorization to withdraw the amounts on deposit in the account for the purpose of the redemption or repayment of all such obligations. Borrower shall not create, incur, assume or suffer to exist any right of setoff, pledge, lien, security interest, charge or other encumbrance or claim of any nature whatsoever on or with respect to any of the amounts on deposit in such account or any restriction, limitation or condition relative to the transfer thereof other than as set forth herein.

(b) By no later than September 23, 1996, Borrower shall redeem or cause the redemption of the Existing Notes and the payment and unconditional satisfaction in full of all obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Notes, the Existing Senior Note Indenture and the Existing Subordinated Note Indenture and all related agreements, documents and instruments as required under the terms hereof. All amounts required to be paid to so redeem the Existing Notes (excluding expenses) shall not exceed $148,500,000 and shall be paid from the funds held in the Redemption Escrow Accounts which constitute the proceeds received by Borrower from the issuance of the Senior Notes pursuant to the Borrower Debt Offering and from proceeds of certain Loans hereunder on the terms and conditions provided for herein.

(c) On the Redemption Date, Agent shall receive evidence, in form and substance reasonably satisfactory to Agent, that (i) all of the Existing

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Senior Notes shall have been redeemed in accordance with the terms of the Existing Senior Note Indenture and all obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Senior Notes, the Existing Senior Note Indenture and all related agreements, documents and instruments have been paid and satisfied in full in an amount not to exceed $55,500,000, (ii) all of the Existing Senior Notes have been redeemed with a portion of the net cash proceeds received by Borrower from the Borrower Debt Offering, together with interest or dividends thereon, and together with the proceeds of the initial Loans on the Redemption Date in accordance with the terms and conditions contained herein, (iii) the Existing Senior Notes and the Existing Senior Note Indenture have been cancelled and terminated and are of no further force and effect and Borrower and its Affiliates have no further obligations, liabilities or indebtedness in connection therewith, and (iv) the Existing Senior Note Trustee and the holders of the Existing Senior Notes have terminated and released any and all of their respective security interests or other interests pursuant to such arrangements in and to any assets and properties of Borrower and any Obligor, and shall have delivered termination and release documents to effectuate the same, including, but not limited to, UCC-3 termination statements for all financing statements previously filed by or on behalf of any of them and satisfactions and releases of mortgages, deed to secure debt and deeds of trust for all mortgages, deeds to secure debt and deeds of trust previously filed by or on behalf of any of them.

(d) On the Redemption Date, Agent shall receive evidence, in form and substance reasonably satisfactory to Agent, that (i) all of the Existing Subordinated Notes have been redeemed in accordance with the terms of the Existing Subordinated Note Indenture and all obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Subordinated Notes have been paid and satisfied in full in an amount not to exceed $93,000,000, (ii) all of the Existing Subordinated Notes have been redeemed with a portion of the net cash proceeds received by Borrower from the Borrower Debt Offering, together with any interest or dividends thereon, and together with the proceeds of the initial Loans on the Redemption Date in accordance with the terms and conditions contained herein and (iii) the Existing Subordinated Notes and the Existing Subordinated Note Indenture have been cancelled and terminated and are of no further force and effect and Borrower and its Affiliates have no further obligations, liabilities or indebtedness in connection therewith.

10.14 Compliance with ERISA.

(a) Borrower shall not with respect to any "employee pension benefit plans" maintained by Borrower or any of its ERISA Affiliates: (i) terminate any of such employee pension benefit plans so as to incur any liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA, (ii) allow or suffer to exist any prohibited transaction involving any of such employee pension benefit plans or any trust created thereunder which would subject Borrower or such ERISA Affiliate to a tax or penalty or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA, (iii) fail to pay to any such employee pension benefit plan any contribution which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such plan, (iv) allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any

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such employee pension benefit plan, (v) allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any such employee pension benefit plan that is a single employer plan, which termination could result in any liability to the Pension Benefit Guaranty Corporation or (vi) incur any withdrawal liability with respect to any multiemployer pension plan.

(b) As used in this Section 10.14, the term "employee pension benefit plans," "employee benefit plans", "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Section 4975 of the Code and ERISA.

10.15 Adjusted Net Worth. Borrower shall, at all times, maintain Adjusted Net Worth of not less than $1,000,000.

10.16 Excess Availability. At all times prior to the Redemption Date, the Excess Availability shall be, after giving effect to any Loans and Letter of Credit Accommodations requested by Borrower, not less than the amount equal to: (a) the aggregate redemption price and all other amounts required to redeem the Existing Notes, and pay and satisfy in full all of the obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Notes minus (b) the amounts held in the Redemption Escrow Accounts constituting proceeds received by Borrower from the issuance of the Senior Notes pursuant to the Borrower Debt Offering which shall be available to pay the redemption price and all other amounts required to redeem the Existing Notes and pay and satisfy in full all of the obligations, liabilities and indebtedness of Borrower evidenced by or arising under or in connection with the Existing Notes. For purposes of this Section 10.16, the Maximum Credit used in the calculation of Excess Availability shall be $50,000,000.

10.17 Costs and Expenses. Borrower shall pay to Agent on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Agent's rights of Agent, for itself and the ratable benefit of Lenders, in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including, but not limited to: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) costs and expenses and fees for title insurance and other insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, together with Agent's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with

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obtaining payment of the Obligations, enforcing the security interests and liens of Agent, for itself and the ratable benefit of Lenders, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Agent and/or Lenders arising out of the transactions contemplated hereby and thereby (including, without limitation, preparations for and consultations concerning any such matters); (g) all out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by Agent during the course of periodic field examinations of the Collateral and Borrower's operations, plus a per diem charge at the rate of $600 per person per day for Agent's examiners in the field and office; and (h) the fees and disbursements of counsel (including legal assistants) to Agent and Lenders in connection with any of the foregoing.

10.18 Further Assurances. At the request of Agent at any time and from time to time, Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof, of Agent, for itself and the ratable benefit of Lenders, in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Agent may at any time and from time to time request a certificate from an officer of Borrower representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Agent, each Lender may, at its option, cease to make any further Loans or provide any further Letter of Credit Accommodations until Agent has received such certificate and, in addition, Agent has determined that such conditions are satisfied. Where permitted by law, Borrower hereby authorizes Agent and Lenders to execute and file one or more UCC financing statements signed only by Agent or any of Lenders.

SECTION 11. EVENTS OF DEFAULT AND REMEDIES

11.1 Events of Default. The occurrence or existence of any one or more of the following events are referred to herein individually as an "Event of Default", and collectively as "Events of Default":

(a) Borrower fails to pay when due any of the Obligations or fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements;

(b) any representation, warranty or statement of fact made by Borrower to Agent and Lenders in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;

(c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of Agent and any or all of Lenders;

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(d) any judgment for the payment of money is rendered against Borrower or any Obligor in excess of $500,000 in any one case or in excess of $1,000,000 in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Borrower or any Obligor or any of their assets;

(e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or Borrower or any Obligor, which is a partnership or corporation, dissolves or suspends or discontinues doing business;

(f) Borrower or any Obligor becomes insolvent (however defined or evidenced), makes an assignment for the benefit of creditors, makes or sends notice of a bulk transfer or calls a meeting of its creditors or principal creditors;

(g) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;

(h) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by Borrower or any Obligor or for all or any part of its property; or

(i) any default by Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Agent or any of Lenders, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favor of any person other than Agent or any of Lenders (including, without limitation, the Existing Senior Note Indenture, the Existing Subordinated Note Indenture and the Senior Note Indenture), which default continues for more than the applicable cure period, if any, with respect thereto, or any default by Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Lender, which default continues for more than the applicable cure period, if any, with respect thereto;

(j) a Change of Control shall occur;

(k) the indictment or threatened indictment of Borrower or any Obligor under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings (other than proceedings contemplated by

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Section 11.1(g) hereof) against Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of Borrower or such Obligor;

(l) there shall be a material adverse change in the business or assets or the occurrence of any event or condition which, in Agent's good faith determination, has a reasonable likelihood of resulting in a material adverse change in the business or assets of Borrower or any Obligor after the date hereof; or

(m) there shall be an event of default under any of the other Financing Agreements.

11.2 Remedies.

(a) At any time an Event of Default exists or has occurred and is continuing, Agent and Lenders shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the Uniform Commercial Code and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Agent and Lenders hereunder, under any of the other Financing Agreements, the Uniform Commercial Code or other applicable law, are cumulative, not exclusive and enforceable, in Agent's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by Borrower of this Agreement or any of the other Financing Agreements. Agent and Lenders may, at any time or times, proceed directly against Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral. Agent, for itself and the ratable benefit of Lenders, is hereby granted a license or other right to use, without charge, the Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter, or any similar property, in completing production of, advertising or selling any Collateral.

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Agent may, in its discretion (i) accelerate the payment of all Obligations and demand immediate payment thereof to Agent (provided, that, upon the occurrence of any Event of Default described in Sections 11.1(g) and 11.1(h), all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require Borrower, at Borrower's expense, to assemble and make available to Agent any part or all of the Collateral at any place and time designated by Agent, (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including, without limitation, entering into contracts with respect thereto, public or private sales at any exchange,

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broker's board, at any office of Agent or elsewhere) at such prices or terms as Agent may deem reasonable, for cash, upon credit or for future delivery, with Agent or any Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Borrower, which right or equity of redemption is hereby expressly waived and released by Borrower and/or (vii) terminate this Agreement. If any of the Collateral is sold or leased by Agent upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Agent, for itself and the ratable benefit of Lenders. If notice of disposition of Collateral is required by law, five (5) days prior notice by Agent to Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Borrower, to the extent permitted by law, waives any other notice. In the event Agent institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Borrower waives the posting of any bond which might otherwise be required.

(c) In the event that Borrower is for any reason deemed domiciled in or any of the Collateral is located in, the State of Louisiana or any security interest created by this Agreement or any of the other Financing Agreements is required to be governed by, and interpreted in accordance with, the laws of the State of Louisiana, if an Event of Default occurs:

(i) Agent and Lenders shall have all remedies available to a secured party under the Louisiana Commercial Laws Secured Transaction, La. R.S. 10:9-101 et seq. in addition to the remedies provided in this Agreement and any of the other Financing Agreements or any other applicable law.

(ii) For purposes of executory process under the laws of the State of Louisiana, Borrower hereby acknowledges the Obligations and confesses judgment in favor of Agent, for itself and the ratable benefit of Lenders, for the full amount of the Obligations, including, without limitation, principal, interest, expenses, reasonable attorneys' fees, and all other fees, and consents that judgment be rendered and signed whether during term of court or in vacation for the full amount of the Obligations.

(iii) Borrower hereby expressly waives, to the extent permitted by Louisiana law: (A) the benefit of appraisement provided for in Articles 2332, 2336, 2723 and 2724 of the Louisiana Code of Civil Procedure conferring such benefits, (B) the demand and three (3) days delay accorded by Articles 2639 and 2721 of the Louisiana Code of Civil Procedure, (C) the notice of seizure required by Articles 2293 and 2721 of the Louisiana Code of Civil Procedure, (D) the three (3) days delay provided in Articles 2331 and 2722 of the Louisiana Code of Civil Procedure, (E) the benefit of the other provisions of Articles 2331, 2722 and 2723 of the Louisiana Code of Civil Procedure, (F) the benefit of the provisions of any other articles of the Louisiana Code of Civil Procedure not specifically mentioned above, and (G) all rights of division and discussion with respect to the Obligations.

(iv) In the event Agent elects, at its option, to enter suit via ordinaria on the Obligations, in addition to the foregoing confession of judgment, Borrower hereby waives citation, other legal process, and legal

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delays and hereby consents that judgment for all amounts due on the Obligations, including, without limitation, principal, interest, expenses, attorneys' fees and all other fees, be rendered and signed immediately, whether during the court's term or during vacation.

(v) Pursuant to La. R.S. 9:5136 et seq., Borrower hereby designates Agent or any employee, agent, or other person named by Agent at the time of seizure to serve as keeper, pending judicial sale, of any Collateral of which seizure is effected by Agent under the laws of the State of Louisiana. The keeper's fees shall be determined by the court before which the proceedings are pending and shall be secured by this Agreement and the other Financing Agreements.

(vi) At any time on or after the occurrence of an Event of Default, Agent and Lenders may proceed by summary process against Borrower to obtain possession of any instruments and documents included in the Collateral to exercise Agent's and Lender's right to sell the instruments and documents pursuant to La.R.S. 10:9-503(1)(b), to enforce the instruments and documents as provided by La. R.S. 10:9-207 and 9-502, or to obtain the endorsement of Borrower on the instruments and documents. Agent and Lenders may sell, in the manner and with the effect as provided by La. R.S. 10:9-504, the following Collateral: (A) goods included in the Collateral or that are in Agent's or any Lender's possession or that have been voluntarily delivered or surrendered to Agent or any Lender by Borrower, either before or after an Event of Default and (B) instruments, documents and Accounts included in the Collateral. To the maximum extent permitted by applicable law, Borrower waives all claims, damages and demands against Agent and Lender arising out of the repossession, retention, or sale of the Collateral, except those resulting from actions taken or not taken by Agent and Lenders that are found pursuant to a final non-appealable order of a court of competent jurisdiction to constitute gross negligence or wilful misconduct.

(vii) Borrower agrees that the Collateral may be sold at one or more sales, whether judicial, public or private. Borrower agrees that in the event of a judicial sale of Collateral, notice of the judicial sale given pursuant to the Louisiana Revised Statutes and the Louisiana Code of Civil Procedure is reasonable notification of the sale. In the event of a public sale of the Collateral, Agent shall have the right to conduct the sale on Borrower's premises or elsewhere and shall have the right to use Borrower's premises without charge for such sale for such time or times as Agent may see fit.

(viii) Agent and Lenders shall have the right to cause all and singular the Collateral to be seized and sold under executory process without appraisement, appraisement being hereby expressly waived, as an entirety or in parcels, as Agent may determine, to the highest bidder for cash.

(d) Agent may apply the cash proceeds of Collateral actually received by Agent from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Agent may elect, whether or not then due. Borrower shall remain liable to Agent for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

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(e) Without limiting the foregoing, upon the occurrence of an Event of Default, Agent and Lenders may, at their option, without notice, (i) cease making Loans or arranging for Letter of Credit Accommodations or reduce the lending formulas or amounts of Loans and Letter of Credit Accommodations available to Borrower and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Agent or Lenders to Borrower.

SECTION 12. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

12.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Illinois (without giving effect to principles of conflicts of law).

(b) Borrower, Agent and Lenders irrevocably consent and submit to the non-exclusive jurisdiction of the Circuit Court of Cook County, Illinois and the United States District Court for the Northern District of Illinois and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Agent shall have the right to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction which Agent deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Borrower or its property).

(c) To the extent permitted by law, Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Agent's option, by service upon Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Borrower shall appear in answer to such process, failing which Borrower shall be deemed in default and judgment may be entered by Agent against Borrower for the amount of the claim and other relief requested.

(d) BORROWER, AGENT AND LENDERS EACH HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES

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HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. BORROWER, AGENT AND LENDERS EACH HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT BORROWER, AGENT OR ANY OF LENDERS MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Neither Agent nor any Lender shall have any liability to Borrower (whether in tort, contract, equity or otherwise) for losses suffered by Borrower in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Agent, that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Agent and each of Lenders shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement.

12.2 Waiver of Notices. Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Borrower which Agent may elect to give shall entitle Borrower to any other or further notice or demand in the same, similar or other circumstances.

12.3 Amendments and Waivers. Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Agent. Agent shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Agent. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Agent of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Agent or any Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

12.4 Waiver of Counterclaims. Borrower waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other then compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

12.5 Indemnification. Borrower shall indemnify and hold Agent, Lenders and their directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any

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litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including, without limitation, amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion which it is permitted to pay under applicable law to Agent and/or the affected Lender(s) in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

SECTION 13. THE AGENT

13.1 Appointment, Powers and Immunities. Each Lender hereby irrevocably appoints and authorizes Agent to act as its agent hereunder and under the other Financing Agreements with such powers as are specifically delegated to Agent by the terms of this Agreement and of the other Financing Agreements, together with such other powers as are reasonably incidental thereto. Agent (a) shall have no duties or responsibilities except those expressly set forth in this Agreement and in the other Financing Agreements, and shall not by reason of this Agreement or any other Financing Agreement be a trustee or fiduciary for any Lender; (b) shall not be responsible to Lenders for any recitals, statements, representations or warranties contained in this Agreement or in any other Financing Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement or any other Financing Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Financing Agreement or any other document referred to or provided for herein or therein or for any failure by Borrower or any Obligor or any other Person to perform any of its obligations hereunder or thereunder; and (c) shall not be responsible to Lenders for any action taken or omitted to be taken by it hereunder or under any other Financing Agreement or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. Agent may deem and treat the payee of any note as the holder thereof for all purposes hereof unless and until the assignment thereof pursuant to an agreement (if and to the extent permitted herein) in form and substance satisfactory to Agent shall have been delivered to and acknowledged by Agent.

13.2 Reliance by Agent. Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telecopy, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by Agent. As to any matters not expressly provided for by this Agreement or any other Financing

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Agreement, Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by Required Lenders or all of Lenders as is required in such circumstance, and such instructions of such Lenders and any action taken or failure to act pursuant thereto shall be binding on all Lenders.

13.3 Events of Default.

(a) Agent shall not be deemed to have knowledge or notice of the occurrence of an Event of Default or other failure of a condition precedent to the Loans and Letter of Credit Accommodations hereunder, unless and until Agent has received written notice from a Lender or Borrower specifying such Event of Default or any unfulfilled condition precedent, and stating that such notice is a "Notice of Default or Failure of Condition". In the event that Agent receives such a Notice of Default or Failure of Condition, Agent shall give prompt notice thereof to Lenders. Agent shall (subject to Section 13.7) take such action with respect to any such Event of Default or failure of condition precedent as shall be directed by Required Lenders; provided that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to or by reason of such Event of Default or failure of condition precedent, as it shall deem advisable in the best interest of Lenders. Without limiting the foregoing, and notwithstanding the existence or occurrence and continuance of an Event of Default or any other failure to satisfy any of the conditions precedent set forth in Section 5 of this Agreement to the contrary, the Agent may, but shall have no obligation to, continue to make Loans and issue or cause to be issued Letter of Credit Accommodations for the ratable account and risk of Lenders from time to time if Agent believes making such Loans or issuing or causing to be issued such Letter of Credit Accommodations is in the best interests of Lenders.

(b) Except with the prior written consent of Agent, no Lender may assert or exercise any enforcement right or remedy in respect of the Loans, Letter of Credit Accommodations or other Obligations, as against Borrower or any Obligor or any of the Collateral or other property of Borrower or any Obligor.

13.4 Rights as a Lender. With respect to its Commitment and the Loans made and Letter of Credit Accommodations issued or caused to be issued by it (and any successor acting as Agent), so long as the Agent shall be a Lender hereunder, it shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include Agent in its individual capacity as Lender hereunder. Congress (and any successor acting as Agent) and its Affiliates may (without having to account therefor to any Lender) lend money to, make investments in and generally engage in any kind of business with Borrower and Obligors (and any of their Subsidiaries or Affiliates) as if it were not acting as Agent, and Congress and its Affiliates may accept fees and other consideration from Borrower and Obligors for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

13.5 Indemnification. Lenders agree to indemnify Agent (to the extent not reimbursed by Borrower hereunder and without limiting the Obligations of

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Borrower hereunder) ratably, in accordance with their Pro Rata Shares, for any and all claims of any kind and nature whatsoever that may be imposed on, incurred by or asserted against Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Financing Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including the costs and expenses that Agent is obligated to pay hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents, provided, that, no Lender shall be liable for any of the foregoing to the extent it arises from the gross negligence or willful misconduct of the party to be indemnified as determined by a final non-appealable judgment of a court of competent jurisdiction.

13.6 Non-Reliance on Agent and Other Lenders. Each Lender agrees that it has, independently and without reliance on Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of Borrower and any Obligors and has made its own decision to enter into this Agreement and that it will, independently and without reliance upon Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Financing Agreements. Agent shall not be required to keep itself informed as to the performance or observance by Borrower or any Obligor of any term or provision of this Agreement or any of the other Financing Agreements or any other document referred to or provided for herein or therein or to inspect the properties or books of Borrower or any Obligor. Agent will use reasonable efforts to provide Lenders with any information received by Agent from Borrower which is required to be provided to Lenders hereunder, with a copy of any Notice of Default or Failure of Condition received by Agent from Borrower or any Lender and with a copy of any notice of an Event of Default delivered by Agent to Borrower; provided, that, Agent shall not be liable to any Lender for any failure to do so, except to the extent that such failure is attributable to Agent's own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction. Except for notices, reports and other documents expressly required to be furnished to Lenders by Agent hereunder, Agent shall not have any duty or responsibility to provide any Lender with any other credit or other information concerning the affairs, financial condition or business of Borrower or any of its Subsidiaries (or any of their affiliates) that may come into the possession of Agent or any of its Affiliates.

13.7 Failure to Act. Except for action expressly required of Agent hereunder and under the other Financing Agreements, Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from Lenders of their indemnification obligations under Section 13.5 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

13.8 Resignation of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, Agent may resign at any time by giving notice thereof to Lenders and Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Agent with the consent of Borrower, which consent shall not be unreasonably withheld,

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conditioned or delayed. If no successor Agent shall have been so appointed by the Required Lenders, and/or so consented to by Borrower and the appointment accepted by such successor Agent within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of Lenders, appoint (without the consent of Borrower) a successor Agent that shall be a bank, commercial finance company or other financial institution. Upon the acceptance of any appointment as Agent hereunder by a successor Agent in accordance with the terms hereof, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 13 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

13.9 Consents and Releases of Collateral under Financing Agreements. Except as otherwise provided in Section 14.9 hereof with respect to certain amendments or modifications to this Agreement, Agent may consent to any modification, supplement or waiver under any of the Financing Agreements; provided, that, without the prior consent of each Lender, Agent shall not release any Collateral or otherwise terminate any security interest in or lien upon any of the Collateral under any of the Financing Agreements, except that no such consent shall be required, and Agent is hereby authorized (i) to release any security interest in or lien upon any of the Collateral which is the subject of a disposition permitted hereunder or under the other Financing Agreements, or (ii) to release, in any fiscal year of Borrower, any security interest in or lien upon any of the Collateral the value of which does not exceed $5,000,000.

13.10 Collateral Matters.

(a) Except as otherwise expressly provided for in this Agreement, Agent shall have no obligation whatsoever to any Lender or any other Person to investigate, confirm or assure that the Collateral exists or is owned by Borrower or any Obligor or is cared for, protected or insured or has been encumbered, or that any particular items of Collateral meet the eligibility criteria applicable in respect of the Loans or Letter of Credit Accommodations hereunder, or whether any particular Availability Reserves are appropriate, or that the liens and security interests granted to Agent herein or pursuant hereto or otherwise have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the other Financing Agreements, it being understood and agreed that in respect of the Collateral, or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in the Collateral as a Lender and that Agent shall have no duty or liability whatsoever to any other Lender, other than liability for its own gross negligence or willful misconduct as determined by a final non-appealable judgment of a court of competent jurisdiction.

(b) Each Lender hereby appoints each other Lender as agent for the purpose of perfecting the security interest of Agent in assets which, in

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accordance with Article 9 of the Uniform Commercial Code can be perfected only by possession. Should any Lender (other than Agent) obtain possession of any such Collateral, such Lender shall notify Agent thereof and, promptly upon Agent's request therefor, shall deliver such Collateral to Agent or in accordance with Agent's instructions.

SECTION 14. TERM OF AGREEMENT; MISCELLANEOUS

14.1 Term.

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the date which is the third anniversary of the date of this Agreement (the "Renewal Date"), and from year to year thereafter, unless sooner terminated pursuant to the terms hereof. Agent or Borrower may terminate this Agreement and the other Financing Agreements effective on the Renewal Date or on the anniversary of the Renewal Date in any year by giving to the other party at least sixty (60) days prior written notice; provided, that, this Agreement and all other Financing Agreements must be terminated simultaneously. Upon the effective date of termination or non-renewal of the Financing Agreements, Borrower shall pay to Agent, for itself, and the ratable benefit of Lenders, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Agent for itself and the ratable benefit of Lenders, in such amounts as Agent determines are reasonably necessary to secure Agent and Lenders from loss, cost, damage or expense, including attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Agent and Lenders have not yet received final and indefeasible payment. Such cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Agent, as Agent may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next business day, if the amounts so paid by Borrower to the bank account designated by Agent are received in such bank account later than 12:00 noon, Chicago time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Borrower of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Agent's continuing security interest in the Collateral, for itself and the ratable benefit of Lenders, and the rights and remedies of Agent hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid.

(c) If for any reason this Agreement is terminated prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof, Borrower agrees to pay to Agent for the benefit of Lenders upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective

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in the period indicated:

<TABLE>

<CAPTION>

<C>	<S> Amounts	<C> Periods
(i)	Three (3%) percent of the Maximum Credit	From the date hereof to and including August 23, 1997
(ii)	Two (2%) percent of the Maximum Credit	From August 24, 1997 to and including August 23, 1998
(iii)	One (1%) percent of the Maximum Credit	From August 24, 1998 to and including August 22, 1999

</TABLE>

Such early termination fee shall be presumed to be the amount of damages sustained by Lenders as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. The early termination fee provided for in this Section 14.1 shall be deemed included in the Obligations. In the event of the termination of this Agreement and the other Financing Agreements prior to the Renewal Date and the full and final repayment of all of the Obligations and the delivery of cash collateral for contingent obligations, the early termination fee payable by Borrower to Agent, for the benefit of Lenders, shall be reduced to an amount equal to fifty (50%) percent of the early termination fee otherwise payable if each of the following conditions is satisfied: (i) no Event of Default (or act, condition or event which with notice or passage of time or both would constitute an Event of Default) shall exist or have occurred, (ii) Agent shall have received not less than thirty (30) days prior written notice of the intention of Borrower to so terminate this Agreement and the other Financing Agreements and (iii) the full repayment of the Obligations is received upon the consummation of the sale by Borrower of all of its assets or the sale by the owners of Borrower of all of the Capital Stock of Borrower or pursuant to a merger after giving effect to which the current owners of Borrower no longer own or hold any Capital Stock of Borrower, in any case, in a bona fide arm's length transaction and commercially reasonable prices and terms with a person other than an Affiliate.

14.2 Senior Indebtedness. This Agreement, which is the instrument creating and evidencing the Obligations and pursuant to which the same are outstanding, hereby expressly provides that the Obligations are and shall be in all respects senior in right of payment to the Securities (as such term is defined in the Existing Subordinated Note Indenture) and the Obligations are and shall be "Senior Indebtedness" (as such term is defined in the Existing Subordinated Note Indenture).

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14.3 Notices. All notices, requests and demands hereunder shall be in writing and (a) made to Agent and Lenders at their addresses set forth below and to Borrower at its chief executive office set forth below, or to such other address as any such party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

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

14.5 Successors and Assigns. This Agreement and the other Financing Agreements shall be binding on and shall inure to the benefit of Borrower, Agent, Lenders, and their respective successors and assigns, except as otherwise provided herein or therein. Borrower may not assign, delegate, transfer, hypothecate or otherwise convey its rights, benefits, obligations or duties hereunder or under any of the Financing Agreements without the prior express written consent of Agent and all Lenders. Any such purported assignment, transfer, hypothecation or other conveyance by Borrower without such prior express written consent shall be void. No Lender may assign its rights and obligations under this Agreement (or any part thereof) without the prior written consent of all Lenders and Agent, except as permitted under Section 14.6(b) hereof. Any purported assignment by a Lender without such prior express consent or compliance with Section 14.6(b) where applicable, shall be void. The terms and provisions of this Agreement and the other Financing Agreements are for the purpose of defining the relative rights and obligations of Borrower, Agent and Lenders with respect to the transactions contemplated hereby and there shall be no third party beneficiaries of any of the terms and provisions of this Agreement or any of the other Financing Agreements.

14.6 Assignments and Participations.

(a) Any Lender may, in the ordinary course of its commercial banking or finance business and in accordance with applicable law, at any time sell to one or more banks, commercial finance companies or other financial institutions ("Participants"), participating interests in all or a portion of its rights and obligations under this Agreement and the other Financing Agreements (including all or a part of its interest in the Obligations). In the event of any such sale by a Lender of a participating interest to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such obligations for all purposes under this Agreement and the other Financing Agreements, and Borrower and Agent shall continue to deal

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solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Financing Agreements. Borrower agrees that if amounts outstanding under this Agreement are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall, to the maximum extent permitted by applicable law, be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement; provided that, in purchasing such participating interest, such Participant shall be deemed to have agreed to share with Lenders the proceeds thereof as provided in Section 7.5 hereof. Notwithstanding anything to the contrary contained herein, no Lender shall grant any participation under which the Participant shall have rights to approve any amendment to or waiver of or consent under this Agreement or the other Financing Agreements, except with the consent of Agent.

(b) Any Lender may, in accordance with applicable law, at any time and from time to time assign to any Lender or any of its Affiliates, or in connection with the sale of its business or all or substantially all of its loan portfolio, with the written consent of Agent to a bank, commercial finance company or other financial institution (an "Assignee") all (or, with the consent of Agent, less than all), of its Commitment, rights and obligations under this Agreement and the other Financing Agreements, pursuant to an assignment agreement, in form and substance satisfactory to Agent, executed by such Assignee and such assigning Lender and delivered to Agent for its acceptance and recording in its records. Upon such execution, delivery, acceptance and recording, from and after the effective date determined pursuant to such assignment agreement, the Assignee thereunder shall be a party hereto and, to the extent provided in such assignment agreement, (i) have the rights and obligations of a Lender hereunder with a Commitment and Commitment Percentage as set forth therein, and (ii) the assigning Lender thereunder shall, to the extent provided in such assignment agreement, be released from its obligations under this Agreement (and, in the case of an assignment agreement covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such assigning Lender shall cease to be a party hereto).

(c) Agent, on behalf of the Borrower, shall maintain at the address of Agent referred to on the signature page of this Agreement, a copy of each such assignment agreement delivered to it and a record of the names and addresses of the Lenders and the Commitments of each Lender from time to time. Such records maintained by Agent shall be conclusive, in the absence of manifest error, and Borrower, Agent and Lenders may treat each Person whose name appears in such records as the owner of a Loan or other Obligations hereunder as the owner thereof for all purposes of this Agreement and the other Financing Agreements, notwithstanding any notice to the contrary. The Agent's records under this Section 14.6 shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an assignment agreement executed by an assigning Lender and an Assignee, Agent shall (i) promptly accept such assignment agreement and (ii) on the effective date determined pursuant thereto record the information contained therein in Agent's records and give

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notice of such acceptance and recordation to Lenders and Borrower. On or prior to such effective date, Borrower, at its own expense, shall execute and deliver to Agent (in exchange for notes of the assigning Lender) new notes to the order of such Assignee corresponding to the Commitment assumed by it pursuant to such assignment agreement and, if the assigning Lender has retained a Commitment hereunder, a new note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new notes shall be dated the date hereof and shall otherwise be in the form of the notes replaced thereby. The notes surrendered to Agent shall be returned by Agent to Borrower marked "cancelled".

(e) Except as otherwise provided in this Section 14.6, no Lender shall, as between Borrower and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Obligations owed to such Lender. Any Lender permitted to sell assignments and participations under this Section 14.6 may furnish any information concerning Borrower and its Subsidiaries and Affiliates in the possession of that Lender from time to time to Assignees and Participants (including, prospective Assignees and Participants).

(f) Borrower shall assist any Lender permitted to sell assignments or participations under this Section 14.6 in whatever manner reasonably necessary in order to enable or effect any such assignment or participation, including (but not limited to) the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested and the delivery of informational materials, appraisals or other documents for, and the participation of relevant management in meetings and conference calls with, potential Assignees or Participants. Borrower shall certify the correctness, completeness and accuracy of all descriptions of Borrower and its affairs provided, prepared or reviewed by Borrower that are contained in any selling materials and all other information provided by it and included in such materials.

14.7 Confidentiality.

(a) Agent and each Lender shall use all reasonable efforts to keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices, any non-public information supplied to it by Borrower pursuant to this Agreement which is clearly and conspicuously marked as confidential at the time such information is furnished by Borrower to Agent or such Lender, provided, that, nothing contained herein shall limit the disclosure of any such information: (i) to the extent required by statute, rule, regulation, subpoena or court order, (ii) to bank examiners and other regulators, auditors and/or accountants, (iii) in connection with any litigation to which Agent or such Lender is a party, (iv) to any Assignee or Participant (or prospective Assignee or Participant) so long as such Assignee or Participant (or prospective Assignee or Participant) shall have first agreed in writing to treat such information as confidential in accordance with this Section 14.7, or (v) to counsel for Agent or such Lender or any Participant or Assignee (or prospective Participant or Assignee).

(b) In no event shall this Section 14.7 or any other provision of

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this Agreement or applicable law be deemed: (i) to apply to or restrict disclosure of information that has been or is made public by Borrower or any third party without breach of this Section 14.7 or otherwise become generally available to the public other than as a result of a disclosure in violation hereof, (ii) to apply to or restrict disclosure of information that was or becomes available to Agent or any Lender on a non-confidential basis from a person other than Borrower, (iii) require Agent or any Lender to return any materials furnished by Borrower to Agent or any Lender or (iv) prevent Agent or any Lender from responding to routine informational requests in accordance with the Code of Ethics for the Exchange of Credit Information promulgated by The Robert Morris Associates or other applicable industry standards relating to the exchange of credit information. The obligations of Agent and Lenders under this Section 14.7 shall supersede and replace the obligations of Agent or any Lender under any confidentiality letter signed prior to the date hereof.

14.8 Modification of Agreement. Neither this Agreement nor any other Financing Agreement nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by Agent and the Required Lenders; except, that, any change, waiver, discharge or termination with respect to the following shall require the consent of all Lenders: (a) the extension of the scheduled final maturity of any Loan, or any portion thereof, or reduction in the rate or extension of the time of payment of interest thereon or fees (other than as a result of waiving or not requiring the applicability of any post-default increase in interest rates or fees for outstanding Letter of Credit Accommodations or increased interest rates on Loans in excess of the amounts then available to Borrower), or reduction in the principal amount thereof, or increase in the Commitment of any Lender over the amount thereof then in effect or provided hereunder (it being understood that a waiver of any Event of Default shall not constitute a change in the terms of any Commitment of any Lender); (b) the release of a material amount of the Collateral (except as expressly required by the Financing Agreements and except as permitted under Section 13.9 hereof), (c) the amendment, modification or waiver of any provision of this Section 14.8; (d) the reduction of any percentage specified in the definition of Required Lenders; (e) the consent to the assignment or transfer by Borrower of any of its rights and obligations under this Agreement; or (f) the increase in the stated advance percentage under the lending formulas contained in the definition of Total Availability. Any Lender who does not consent to a proposed amendment, consent or waiver requiring each Lender's approval, as contemplated by clauses (a) through (f) above, agrees that, if such amendment, waiver or consent has been approved by the Required Lenders, then, with the consent of the Agent, any other Lender or Lenders shall have the right to purchase, in accordance with the terms otherwise applicable to permitted assignment under Section 14.6, all of such non-consenting Lender's Commitment and interests in the Loans (and in the Collateral and the Financing Agreements) at their par value. No provision of Section 13 may be amended without the prior written consent of Agent.

14.9 Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements,

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understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any conflict between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

[INTENTIONALLY LEFT BLANK]

<TABLE>

<CAPTION>

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

<S> <C>

BORROWER

HAYNES INTERNATIONAL, INC.

By: /s/ J. F. Barker

Title:Vice President of Finance

1020 West Park Avenue
Kokomo, Indiana 46904-9013
Attention: Chief Financial Officer
Telecopier No.: 317-456-6905

LENDERS

CONGRESS FINANCIAL CORPORATION (CENTRAL), in its individual capacity and as Agent	CORESTATES BANK, N.A.
By: /s/ Kenneth Sands	By:/s/ Myron Landau
Title:Senior Vice President	Title:Vice President
Address:	Address:
100 South Wacker Drive Chicago, Illinois 60606 Attention: Mr. William H. Bloom	1339 Chestnut Street Philadelphia, Pennsylvania 19107 Attention: Mr. Myron Landau

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Telecopier No.: 312-332-0424	Telecopier No.: (215) 973-2633
Commitment:	Commitment:
30,000,000	$ 20,000,000
Commitment Percentage:	Commitment Percentage:

</TABLE>

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Exhibit 12.01 Statement re: computation of ratio of earnings to fixed charges.

<TABLE>

<CAPTION>

Haynes International, Inc.
Ratio of Earnings Before Fixed Charges to Fixed Charges

<S>	<C>	<C> 1992	<C> 1993	<C> 1994
Line 1	Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	($28,091)	($11,717)	($60,446)
Line 2	Interest on indebtedness	19,211	16,792	18,236
Line 3	Amortization of debt issuance costs	1,333	2,120	1,680
Line 4	Total earnings before fixed charges (Line 1 plus Line 2 plus Line 3)	($7,547)	$ 7,195	($40,530)
Line 5	Interest on indebtedness	$ 19,211	$ 16,792	$ 18,236
Line 6	Amortization of debt issuance costs	1,333	2,120	1,680
Line 7	Total fixed charges (Line 5 plus Line 6)	$ 20,544	$ 18,912	$ 19,916
Ratio of earnings before fixed charges to fixed charges (Line 4 divided by Line 7)		N/A *	N/A *	N/A *

<S>	<C> 1995	<C> 1996
Line 1	($5,458)	$ 160
Line 2	18,789	20,638
Line 3	1,444	1,353
Line 4	$ 14,775	$ 22,151
Line 5	$ 18,789	$ 20,638
Line 6	1,444	1,353
Line 7	$ 20,233	$ 21,991
Ratio of earnings before fixed charges to fixed charges (Line 4 divided by Line 7)	N/A *	1.01

<FN>

* Earnings before fixed charges were insufficient to cover fixed charges.

</TABLE>

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<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
HAYNES INTERNATIONAL, INC.
FINANCIAL DATA SCHEDULE
(dollars in thousands, except per share data)

The schedule contains summary financial information extracted from the consolidated financial statements of Haynes International, Inc. and is qualified in its entirety by reference to such financial statements.
</LEGEND>

<S>	<C>	<C>
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