

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-30**  
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FILER

**MARTIN INDUSTRIES INC /DE/**

CIK: **942143** | IRS No.: **630133054** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-26228** | Film No.: **02646818**  
SIC: **3433** Heating equipment, except electric & warm air furnaces

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FLORENCE AL 35630

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FLORENCE AL 35630  
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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

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

FOR 13-WEEK PERIOD ENDED MARCH 30, 2002

COMMISSION FILE NO. 0-26228

MARTIN INDUSTRIES, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

63-0133054

-----  
(State or other jurisdiction of  
incorporation or organization)

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

301 EAST TENNESSEE STREET  
FLORENCE, ALABAMA

35630

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(256) 767-0330

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

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 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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

8,577,483 shares of Common Stock, \$0.01  
par value, as of May 14, 2002

MARTIN INDUSTRIES, INC.

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## PART 1 FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

MARTIN INDUSTRIES, INC.  
CONDENSED BALANCE SHEETS  
(Unaudited)  
ASSETS

&lt;TABLE&gt;

&lt;CAPTION&gt;

	March 30, 2002	December 31, 2001
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash	\$ 3,000	\$ 0
Accounts and notes receivable, less allowance for doubtful accounts of \$1,206,000 and \$1,278,000, respectively	2,640,000	3,654,000
Inventories	5,932,000	6,414,000
Refundable income taxes	350,000	0
Prepaid expenses and other assets	665,000	305,000
	-----	-----
Total current assets	9,590,000	10,373,000
	-----	-----
Property, plant and equipment, net	7,755,000	8,189,000
	-----	-----
Cash surrender value of life insurance	1,496,000	1,344,000
	-----	-----
Other	150,000	300,000
	-----	-----
Total other non-current assets	1,646,000	1,644,000
	-----	-----
Total assets	\$ 18,991,000	\$ 20,206,000
	=====	=====

&lt;/TABLE&gt;

The accompanying notes are an integral part of these condensed balance sheets.

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MARTIN INDUSTRIES, INC.  
CONDENSED BALANCE SHEETS  
(Unaudited)  
LIABILITIES AND STOCKHOLDERS' EQUITY

&lt;TABLE&gt;

&lt;CAPTION&gt;

	March 30, 2002	December 31, 2001
	-----	-----
<S>	<C>	<C>
LIABILITIES		
Current Liabilities:		
Short-term borrowings	\$ 5,943,000	\$ 5,567,000
Capital lease obligations	46,000	52,000
Accounts payable	5,764,000	5,491,000
Accrued liabilities:		
Payroll and employee benefits	1,636,000	1,635,000
Product liability	1,018,000	1,036,000
Warranty	215,000	218,000
Workers' compensation	806,000	819,000
Other	617,000	931,000
	-----	-----
Total current liabilities	16,045,000	15,749,000
	-----	-----
Deferred compensation	1,742,000	1,745,000

Life insurance policy loans	1,305,000	1,305,000
	-----	-----
Total non-current liabilities	3,047,000	3,050,000
	-----	-----
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	0	0
Common stock, \$.01 par value; 20,000,000 shares authorized; 9,769,628 shares issued at March 30, 2002 and 9,768,500 at December 31, 2001	98,000	98,000
Paid-in capital	24,580,000	24,580,000
Accumulated deficit	(20,990,000)	(19,482,000)
	-----	-----
	3,688,000	5,196,000
Less:		
Treasury stock at cost (1,192,145 shares at March 30, 2002 and December 31, 2001)	3,789,000	3,789,000
	-----	-----
Total stockholders' equity	(101,000)	1,407,000
	-----	-----
Total liabilities and stockholders' equity	\$ 18,991,000	\$ 20,206,000
	=====	=====

</TABLE>

The accompanying notes are an integral part of these condensed balance sheets.

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MARTIN INDUSTRIES, INC.  
CONDENSED STATEMENTS  
OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)

	13-WEEK PERIOD ENDED	
	MARCH 30, 2002	MARCH 31, 2001
	-----	-----
<S>	<C>	<C>
NET SALES	\$ 7,092,000	\$ 7,226,000
Cost of sales	6,821,000	7,735,000
	-----	-----
GROSS PROFIT (LOSS)	271,000	(509,000)
	-----	-----
Operating expenses:		
Selling	861,000	1,742,000
General and administrative	1,262,000	1,325,000
Non-cash ESOP compensation	0	63,000
Loss on abandonment of subsidiary	0	6,055,000
	-----	-----
	2,123,000	9,185,000
	-----	-----
OPERATING LOSS	(1,852,000)	(9,694,000)
Gain on sales of assets	(138,000)	0
Interest expense	144,000	262,000
Interest and other income	0	(24,000)
	-----	-----
LOSS BEFORE INCOME TAXES	(1,858,000)	(9,932,000)
Credit for income taxes	(350,000)	0
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (1,508,000)	\$ (9,932,000)
Gain (loss) from discontinued operations, net of tax	0	1,463,000
	-----	-----
NET LOSS	\$ (1,508,000)	\$ (8,469,000)

## BASIC AND DILUTED PER SHARE DATA:

Income (loss) from continuing operations	\$ (.18)	\$ (1.25)
Income (loss) from discontinued operations	0	.18
Net loss	\$ (.18)	\$ (1.07)
Weighted average number of common shares outstanding	8,576,910	7,921,426

&lt;/TABLE&gt;

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

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MARTIN INDUSTRIES, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	13-WEEK PERIOD ENDED	
	MARCH 30, 2002	MARCH 31, 2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,508,000)	\$ (8,469,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on abandonment of subsidiary	0	6,055,000
Depreciation and amortization	467,000	605,000
Gain on sales of assets	(3,000)	0
Provision (credit) for doubtful accounts and notes receivable	(23,000)	(47,000)
Increase in refundable income taxes	(350,000)	0
Non-cash ESOP compensation	0	63,000
Other changes in operating assets and liabilities	1,081,000	(799,000)
Net cash used in operating activities	(336,000)	(2,592,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(33,000)	(94,000)
Proceeds from sales of assets	3,000	5,000
Net cash used in investing activities	(30,000)	(89,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net short-term borrowings	375,000	2,689,000
Payments on capital lease obligations	(6,000)	(6,000)
Net cash provided by financing activities	369,000	2,683,000
NET INCREASE IN CASH	3,000	2,000
CASH AT THE BEGINNING OF THE PERIOD	0	3,000
CASH AT THE END OF THE PERIOD	\$ 3,000	\$ 5,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 133,000	\$ 233,000
Income taxes	\$ 0	\$ 0

&lt;/TABLE&gt;

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

MARTIN INDUSTRIES, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)

## 1. BASIS OF PRESENTATION

## Unaudited Interim Condensed Financial Statements

The accompanying unaudited interim condensed financial statements of Martin Industries, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and are presented in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X. The financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2001 included on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 2002.

In the opinion of management, the unaudited interim condensed financial statements included herein reflect all adjustments necessary to present fairly the information set forth therein. The Company's business is seasonal and cyclical with the potential for significant fluctuations in quarterly earnings; therefore, the results of operations for the 2002 and 2001 interim periods presented are not necessarily indicative of results for the full year.

## Fiscal Periods

The Company's fiscal quarters end on the Saturday nearest each calendar quarter-end. The Company utilizes a December 31 fiscal year-end.

## Basis of Presentation

Due to the transfer of shares of the Company's Canadian subsidiary to the subsidiary's manager and sole director effective January 1, 2001, certain prior year amounts have been reclassified to conform with the current year's presentation.

## 2. INVENTORIES

The Company uses the first in, first out ("FIFO") method of accounting for its inventories. Management believes the FIFO method provides an accurate measurement of inventory valuation and operating results. Inventory costs include material, labor and overhead, and the Company evaluates raw materials, purchased parts, work-in-process and finished goods to ensure that inventory is not recorded at amounts in excess of estimated net realizable value. Inherent in the estimates of net realizable value are management's estimates related to the Company's customer demand, product mix and salvage value. At March 30, 2002 and December 31, 2001, the reserve for excess and obsolete inventory was \$927,000 and \$1,058,000, respectively. An analysis of inventories at March 30, 2002 and December 31, 2001 follows:

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<TABLE> <CAPTION>	March 30, 2002	December 31, 2001
<S>	<C>	<C>
Inventories valued at first-in, first-out ("FIFO") cost:		
Raw materials and purchased parts	\$ 3,391,000	\$ 3,157,000
Work-in-process	796,000	778,000
Finished goods	1,745,000	2,479,000
	\$ 5,932,000	\$ 6,414,000
	=====	=====

</TABLE>

## 3. INCOME TAXES

The Company has net deferred tax assets resulting primarily from net operating loss ("NOL") carryforwards in United States jurisdictions of approximately \$39 million expiring in fiscal years 2019 through 2021.

The Company establishes valuation allowances in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, and will continually review the adequacy of the valuation allowance.

In assessing the valuation allowance established at December 31, 2001, the Company concluded that it should fully reserve its net deferred tax assets as a result of continuing losses from operations and realization of the assets was not considered more likely than not. At March 30, 2002 and December 31, 2001, the valuation allowance for deferred taxes was approximately \$18 million and \$17 million, respectively.

Congress passed and President Bush signed the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) into law in March, 2002. The tax provisions in the new law extend the NOL carryback period to five years for NOLs arising in tax years ending in 2001 and 2002. As a result of the new law, the Company expects to obtain an income tax refund of approximately \$350,000 from the Internal Revenue Service.

#### 4. EARNINGS PER SHARE

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS has been computed based on the weighted average number of shares outstanding, including the effect of outstanding stock options, if dilutive, in each respective year. A reconciliation of shares as the denominator of the basic EPS computation to the diluted EPS computation is as follows:

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<TABLE>  
<CAPTION>

	13-Week Period Ended	
	March 30, 2002	March 31, 2001
<S>	<C>	<C>
Weighted average shares-basic and diluted, excluding ESOP and stock options effects	5,889,681	5,755,379
Weighted average effect of ESOP shares committed to be released	2,687,229	2,166,047
Weighted average number of common shares outstanding-basic and diluted	8,576,910	7,921,426

</TABLE>

Options outstanding of 426,823 and 630,514 for the 13-week period ended March 30, 2002 and March 31, 2001, respectively, were not included in the table above as they were anti-dilutive.

#### 5. COMMITMENTS AND CONTINGENCIES

On February 1, 1996, 1166081 Ontario Inc., a former subsidiary of the Company, acquired all of the capital stock of Hunter Technologies, Inc. ("Hunter") for a purchase price of approximately \$1,943,000 that included \$850,000 in cash, \$729,000 in promissory notes payable and \$364,000 paid into escrow. The escrow fund was established at the closing to make funds available to meet the sellers' indemnification obligations to the Company. During the first quarter of 1997, the Company notified certain of the sellers that it was withholding payment on the promissory notes held by them pending resolution of certain issues with the holders of the notes arising out of the purchase transaction. The Company also claimed the entire amount in escrow and instituted litigation to recover these amounts and additional amounts from certain sellers in the purchase transaction, and certain of the sellers sued to enforce collection of their notes.

During 1998, the Company effected a settlement with all but two of the former shareholders, and a contingent settlement with these two. The contingent settlement with the two former shareholders will result (if the contingency is satisfied and that portion of the settlement effectuated) in receipt by the Company of an additional \$106,000 (including interest), and cancellation of notes and accrued interest totaling approximately \$234,000.

With regard to the foregoing, on February 20, 2002, the Company transferred the shares of its wholly-owned subsidiary, 1166081 Ontario Inc. to Roger Vuillod. All shares of Hunter are held by 1166081 Ontario Inc. Under the terms of the transfer, Mr. Vuillod assumed all obligations and liabilities

associated with the ownership of the shares of 1166081 Ontario Inc. The transfer of shares of 1166081 Ontario Inc. did not effect a transfer of the Company's rights and obligations under the contingent settlement noted above.

The Company is a party to various legal proceedings that are incidental to its business. Certain of these cases filed against the Company and other companies engaged in businesses similar to the

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Company often allege, among other things, product liability, personal injury and breach of contract and warranty. These kinds of suits sometimes seek the imposition of large amounts of compensatory and punitive damages and trials by jury. In the opinion of management, after consultation with legal counsel responsible for these matters, the ultimate liability, if any, with respect to the proceedings in which the Company is currently involved is not presently expected to have a material adverse affect on the Company. However, the potential exists for unanticipated material adverse judgments against the Company.

#### 6. SHORT-TERM BORROWINGS

Effective December 19, 2001, the Company entered into an amended bank line of credit agreement with its principal lender for up to a maximum of \$7.5 million which has been utilized to finance inventories, receivables and operations. As of March 30, 2002 and December 31, 2001, the outstanding balance on the existing line of credit was \$5,943,000 and \$5,567,000, respectively. The line of credit is secured by the receivables, inventory and equipment of the Company. Interest on the line of credit is payable monthly at a variable rate based on the prime rate plus 2%.

On April 1, 2002, the Company received an extension from its primary lender of its current line of credit through July 1, 2002. The lender also agreed to waive the Company's current defaults of debt covenants contained in its loan agreement through March 31, 2002. The extension does not effect a change in the amount available to the Company under the line, which varies based on the value of certain assets securing the line that include the Company's equipment, inventory and accounts receivable. Under a previous extension, the Company agreed to pay to the lender a fee in the amount of \$100,000 in the event the Company was unable to obtain replacement financing on or before March 31, 2002. The lender has agreed to extend the payment of this fee until July 1, 2002 and, in the event the line of credit is paid in full on or before May 31, 2002, the fee will be reduced to \$50,000. In the event the Company does not repay the line of credit in full by June 30, 2002, the lender will receive warrants to purchase common stock in the Company equal to 10% of the Company's outstanding shares at an exercise price of \$0.14 per share. The Company also granted the lender a second mortgage in all of the real property of the Company.

On April 5, 2002, the Company entered into an agreement with M-TIN, LLC, a limited liability company controlled by three of its directors to provide a \$1.5 million term loan to the Company. The loan is for a six-month term, subject to renewal for an additional six months at the option of the Company provided that the Company pays a 5% renewal fee. The loan bears interest at an annual rate of 12% and is subject to a placement fee of 5% due at the funding of the loan and an additional 3% fee at repayment. The loan is secured by an unencumbered first mortgage in all of the real property of the Company. M-TIN, LLC has also agreed to make an additional \$500,000 line of credit available to the Company. The term of the line of credit will be the same as the term loan, including the option of the Company to extend the line for an additional six months. The line of credit will bear interest at an annual rate of 12% and also be subject to a placement fee equal to 5% of the available credit due when the documentation is delivered by the parties and an additional 3% fee due at repayment. The parties are presently completing the documentation for the line of credit.

The Company is in negotiations with a prospective lender and has received a non-binding proposal for a new asset-based, secured line of credit to replace its existing credit facility. In addition to the completion of the prospective lender's due diligence and negotiations with the Company, the

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prospective lender will require the Company to obtain additional financing or equity investment in the Company of approximately \$4.5 million (or \$2.5 million in excess of the existing \$1.5 million term loan and \$500,000 line of credit from M-TIN, LLC) as a condition to providing financing. The Company is pursuing this additional financing from M-TIN, LLC and has approved terms under which this amount may be made available. The Company is also pursuing other sources for this financing or equity investment. However, there can be no assurance that the Company will be able to consummate the transaction with the prospective lender, that M-TIN, LLC will agree to or be able to provide additional financing to the Company or that other sources will be identified or agree to provide the



necessary financing. The Company is also continuing to pursue a sale of the Company with the assistance of its investment bankers. However, there can be no assurance that any transaction will be completed.

See also Note 8 to Notes to Condensed Financial Statements, Going Concern Matters, below.

7. INDUSTRY SEGMENT INFORMATION

Under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, certain information is disclosed for the two reportable operating segments of the Company. The reportable segments were determined using the internal management reporting system. They are composed of the Company's significant sales segments. The home heating products segment includes vented and vent-free gas heaters and furnaces, pre-engineered gas and wood-burning fireplaces and gas logs. Following the disposition of the Company's Canadian subsidiaries in February 2002, the other products segment consists only of replacement parts for the home heating products segment. The accounting policies for each segment are the same as those used by the Company. The Company evaluates performance based on gross sales and gross margin. As such, the Company does not allocate other items of income or expense to the reportable operating segments. The results and identifiable net assets for the two reportable segments of the Company are included in the following table.

	Segment Information	
	13-Week Period Ended	
	March 30, 2002	March 31, 2001
<S>	<C>	<C>
Gross sales:		
Home heating products	\$ 6,967,000	\$ 6,911,000
Other products	190,000	387,000
	\$ 7,157,000	\$ 7,298,000
Reconciliation to net sales:		
Gross sales	\$ 7,157,000	\$ 7,298,000
Freight revenue	61,000	92,000
Discounts and royalties	(126,000)	(164,000)
Net sales	\$ 7,092,000	\$ 7,226,000
Gross margin:		
Home heating products	\$ 2,536,000	\$ 2,423,000
Other products	133,000	215,000
	\$ 2,669,000	\$ 2,638,000
Reconciliation to gross profit (loss):		
Gross margin	\$ 2,669,000	\$ 2,638,000
Freight revenue	61,000	92,000
Discounts and royalties	(126,000)	(164,000)
Fixed costs, variances, reserves & other	(2,333,000)	(3,075,000)
Gross profit (loss)	\$ 271,000	\$ (509,000)

</TABLE>

	March 30, 2002	March 31, 2001
<S>	<C>	<C>
Identifiable net assets (1) :		
Home heating products	\$ 12,964,000	\$ 17,757,000
Other products	723,000	941,000
Other (2)	2,726,000	4,256,000
	\$ 16,413,000	\$ 22,954,000

</TABLE>

- (1) Represents Property, Plant and Equipment and Inventory (each net respective reserves).
- (2) Represents amount attributable to the Company's corporate administration.

#### 8. GOING CONCERN MATTERS

The financial statements as of and for the year ended December 31, 2001 were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, as presented in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 2002, during the year ended December 31, 2001, the Company incurred a net loss of \$15.9 million. The Company also had short-term borrowings of \$5.6 million as of December 31, 2001. The balance is payable to the Company's primary lender under a bank line of credit agreement. The line of credit agreement has been extended through July 1, 2002 by the current bank lender. The Company is aggressively pursuing a more permanent form of financing. There can be no assurance, however, that any new credit arrangement will be finalized or further extensions granted beyond July 1, 2002.

Although the Company incurred a net loss in 2001, management continues to implement and focus on strategies to return the Company to profitability. During 2001, payroll expenses were reduced approximately \$3 million (on an annualized basis). The production variances experienced during fiscal 2000 improved significantly during 2001. However, the Company continued to experience overhead variances because, due to lower sales volume, production levels were not high enough to cover the overhead in the plant. The Company's operations have been, and continue to be, restructured in an attempt to bring costs in line with the expected level of sales. However, there can be no assurance that the Company's cost reductions will be successful, that the Company will be able to meet the needs and expectations of its customers, or that the Company will achieve a level of revenue that will allow it to return to profitability.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to comply with the terms of its existing credit line agreement, as extended, to obtain additional financing or refinancing as may be required, and ultimately to re-establish profitable operations.

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#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the unaudited interim condensed financial statements of the Company and notes thereto appearing elsewhere in this Form 10-Q. All references to the first quarter of 2002 and the first quarter of 2001 are referring to the 13-week periods ended March 30, 2002 and March 31, 2001, respectively.

#### OVERVIEW

On April 1, 2002, the Company received an extension from its primary lender of its current line of credit through July 1, 2002. The lender also agreed to waive the Company's current defaults of debt covenants contained in its loan agreement through March 31, 2002. The extension does not effect a change in the amount available to the Company under the line, which varies based on the value of certain assets securing the line that include the Company's equipment, inventory and accounts receivable. Under a previous extension, the Company agreed to pay to the lender a fee in the amount of \$100,000 in the event the Company was unable to obtain replacement financing on or before March 31, 2002. The lender has agreed to extend the payment of this fee until July 1, 2002 and, in the event the line of credit is paid in full on or before May 31, 2002, the fee will be reduced to \$50,000. In the event the Company does not repay the line of credit in full by June 30, 2002, the lender will receive warrants to purchase common stock in the Company equal to 10% of the Company's outstanding shares at an exercise price of \$0.14 per share. The Company also granted the lender a second mortgage in all of the real property of the Company.

On April 5, 2002, the Company entered into an agreement with M-TIN, LLC, a limited liability company controlled by three of its directors to provide a \$1.5 million term loan to the Company. The loan is for a six-month term, subject to renewal for an additional six months at the option of the Company provided that the Company pays a 5% renewal fee. The loan bears interest at an annual rate of 12% and is subject to a placement fee of 5% due at the funding of the loan and an additional 3% fee at repayment. The loan is secured by an

unencumbered first mortgage in all of the real property of the Company. M-TIN, LLC has also agreed to make an additional \$500,000 line of credit available to the Company. The term of the line of credit will be the same as the term loan, including the option of the Company to extend the line for an additional six months. The line of credit will bear interest at an annual rate of 12% and also be subject to a placement fee equal to 5% of the available credit due when the documentation is delivered by the parties and an additional 3% fee due at repayment. The parties are presently completing the documentation for the line of credit.

The Company is in negotiations with a prospective lender and has received a non-binding proposal for a new asset-based, secured line of credit to replace its existing credit facility. In addition to the completion of the prospective lender's due diligence and negotiations with the Company, the prospective lender will require the Company to obtain additional financing or equity investment in the Company of approximately \$4.5 million (or \$2.5 million in excess of the existing \$1.5 million term loan and proposed \$500,000 line of credit from M-TIN, LLC) as a condition to providing financing. The Company is pursuing this additional financing from M-TIN, LLC and has approved terms under which this amount may be made available. The Company is also pursuing other sources for this financing or equity investment. However, there can be no assurance that the Company will be able to consummate the transaction with

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the prospective lender, that M-TIN, LLC will agree to or be able to provide additional financing to the Company or that other sources will be identified or agree to provide the necessary financing. The Company is also continuing to pursue a sale of the Company with the assistance of its investment bankers. However, there can be no assurance that any transaction will be completed.

Congress passed and President Bush signed the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) into law in March, 2002. The tax provisions in the new law extend the NOL carryback period to five years for NOLs arising in tax years ending in 2001 and 2002. As a result of the new law, the Company expects to claim an income tax refund of approximately \$350,000 from the Internal Revenue Service.

As a result of the \$15.9 million net loss incurred during fiscal 2001, and the fact that there can be no assurance that any new credit arrangement will be finalized or further extensions granted beyond the current extension, the Company received a going concern qualification from its independent public accountants in connection with its audited financial statements for the year ended December 31, 2001, as described more fully in the Report of Independent Public Accountants included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2002.

The Company has in place an Executive Protection package of insurance coverage, including Directors' and Officers' Liability, Employment Practices Liability, Fiduciary Liability and Crime policies ("D&O policy"). The current carrier issued one-year renewal policies on July 11, 2001. Since that renewal, the market has continued to harden and as of January 2002, renewal rates for D&O coverage were being increased 30 to 50% over the previous year, deductibles have increased significantly and coverage limits have been reduced. There can be no assurance that coverage will be offered to the Company, or, if coverage is offered, that the Company will be able to afford adequate coverage at available rates. The current D&O policy has a 90-day extended reporting period available for a premium of one-half the annual rate. In the event the Company is unable to purchase Directors' and Officers' liability insurance, there can be no assurance that the Company's directors will continue to serve on the Company's board. The resignation of all or a substantial number of the Company's directors would have a material adverse effect on the Company's operations.

On February 20, 2002, the Company transferred the shares of its wholly-owned subsidiary, 1166081 Ontario Inc., to Roger Vuillod, the manager and sole director of the Company's Canadian subsidiary Hunter Technologies Inc. ("Hunter"). 1166081 Ontario Inc. holds all of the shares in Hunter. In connection with this transfer, the Company also assigned \$4.3 million in intercompany debt, which Hunter owed to the Company, to Mr. Vuillod. According to the terms of the assignment, as Mr. Vuillod collects payment on the debt, he is required to pay a percentage of the collection to the Company. In connection with the transaction with Mr. Vuillod, the Company assigned to Hunter the assets used in the manufacture and distribution of NuWay do-it-yourself trailers, which have been manufactured by Hunter since the fourth quarter of 2000. Under the terms of the share transfer, Mr. Vuillod assumed all obligations and liabilities associated with the ownership of the shares of the Canadian subsidiaries.

As used in the following discussion and elsewhere in this Quarterly Report, the term "gross sales" reflects total customer invoices billed by the Company for the applicable period, net of any customer sales credits issued. The term "net sales" as used herein and elsewhere in this Quarterly Report, reflects gross sales less deductions for cash discounts and royalties paid by the Company.

## RESULTS OF OPERATIONS

The following tables set forth, for the periods indicated, information derived from the Company's financial statements expressed as a percentage of net sales.

	13-Week Period Ended	
	March 30, 2002	March 31, 2001
	-----	-----
<S>	<C>	<C>
Net sales	100.0%	100.0%
Cost of sales	96.2	107.0
	-----	-----
Gross profit (loss)	3.8	(7.0)
	-----	-----
Operating expenses:		
Selling	12.1	24.1
General and administrative	17.8	18.3
Non-cash ESOP compensation expense	0	.9
Loss on abandonment of subsidiary	0	83.8
	-----	-----
	29.9	127.1
	-----	-----
Operating loss	(26.1)	(134.1)
Gain on sales of assets	1.9	0
Net interest and other income	(2.0)	3.3
	-----	-----
Loss before income taxes	(26.2)	(137.4)
Credit for income taxes	4.9	0.0
	-----	-----
Loss from continuing operations	(21.3)	(137.4)
Income from discontinued operations	0	20.2
	-----	-----
Net income (loss)	(21.3)%	(117.2)%
	=====	=====

&lt;/TABLE&gt;

## 13-WEEK PERIOD ENDED MARCH 30, 2002 COMPARED TO 13-WEEK PERIOD ENDED MARCH 31, 2001

## Net Sales

Net sales in the 13-week period ended March 30, 2002 decreased to \$7.1 million from \$7.2 million in the 13-week period ended March 31, 2001, a decrease of \$100,000, or 1.4%.

Home Heating Products. Gross sales of home heating products increased to \$6,967,000 in the first quarter of 2002 from \$6,911,000 in the first quarter 2001, an increase of \$56,000 or .8%. Home heating products sales remained relatively stable despite difficult economic conditions that caused housing starts and improvements to falter.

Other Products. Gross sales of other products decreased \$197,000, or 50.9%, in the first quarter of 2002 to \$190,000 as compared to \$387,000 in the first quarter of 2001. The decrease in sales is primarily due to a reduction in OEM business.

## Gross Profit (Loss)

Gross profit in the first quarter of 2002 was \$271,000 as compared to a gross loss of \$509,000 in the first quarter of 2001, an increase of \$780,000. Gross margin, defined as gross sales less production costs, increased slightly to \$2,669,000 in the first quarter of 2002 from \$2,638,000 in the first quarter of 2001.

Home Heating Products. The gross margin on sales of home heating products in the first quarter of 2002 was \$2.5 million, or 35.7% of home heating sales. The

gross margin on home heating products in the first quarter of 2001 was \$2.4 million, or 34.8% of home heating sales. The slight increase in gross margin percentage was primarily the result of the increase in gross sales of higher margin wood burning fireplaces and unvented fireboxes.

Other Products. The gross margin on sales of other products in the first quarter of 2002 was \$133,000 or 70% of other sales. The gross margin on sales of other products in the first quarter of 2001 was \$215,000, or 55.6% of other products sales. The increase in gross margin percentage in the other segment was primarily the result of a price increase in home heating replacement parts in August 2001.

#### Selling Expenses

Selling expenses in the first quarter of 2002 decreased to \$861,000 from \$1.7 million in the first quarter of 2001, a decrease of \$881,000, or 50.6%, primarily as a result of a decrease in advertising and promotion expenses of \$509,000 a decrease in commission expense of \$229,000 and a decrease in personnel and administrative expenses of \$143,000. Selling expenses as a percentage of net sales decreased to 12.1% in the first quarter of 2002 from 24.1% in the first quarter of 2001, due to the decrease in selling expenses verses stable net sales.

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#### General and Administrative Expenses

General and administrative expenses in the first quarter of 2002 decreased to \$1,262,000 from \$1,325,000 in the first quarter of 2001, a decrease of \$63,000, or 4.8%. The decrease was primarily the result of a reduction in personnel and related expenses of \$34,000, reduced professional services expense of \$15,000, and a reduction in supplies and other expense of \$25,000, partially offset by increases in contract help of \$11,000.

#### Non-cash ESOP Compensation Expense

Non-cash ESOP compensation expense was \$0 in the first quarter of 2002 as compared to \$63,000 in the first quarter of 2001 due to the payment in full of the principal and interest of the ESOP debt in the fourth quarter of 2001. Prior to the cancellation of the ESOP loan, shares owned by the ESOP were held in a suspense account. Shares of common stock were committed to be released from the ESOP's suspense account and credited to ESOP participants' accounts based on the ratio that the principal debt repayment of the ESOP loan bore to the original principal debt balance. The Company was required to recognize compensation expense each fiscal quarter in an amount equal to one-fourth of the number of shares of common stock committed to be released from the ESOP's suspense account each year multiplied by the average fair market value of such shares during the period. In connection with the cancellation of the ESOP loan, all unallocated shares of common stock held in the ESOP's suspense account were credited to the ESOP participants' accounts.

#### Loss on Abandonment of Subsidiary

As a result of the transfer of the shares of 1166081 Ontario, Inc. to Mr. Roger Vuillod, effective January 1, 2001, the Company incurred a \$6.1 million loss on the abandonment of the subsidiary in the first quarter of 2001, as explained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on April 1, 2002. As the loss is nonrecurring, no expense was recorded for the first quarter of 2002.

#### Gain on Sale of Assets

The gain on sales of assets of \$138,000 is due to the final transfers of Broilmaster premium barbecue gas grill inventory to the purchaser of the Broilmaster line that occurred in the first quarter of 2002.

#### Interest Expense

Interest expense in the first quarter of 2002 was \$144,000 as compared to \$262,000 in the first quarter of 2001, a decrease of \$118,000, or 45%. The decrease was attributable to a decrease in average outstanding debt.

#### Interest and Other Income

Interest and other income in the first quarter of 2002 was \$0 as compared to \$23,000 in the first quarter of 2001, a decrease of \$23,000, or 100%. The decrease was attributable to a decrease in average outstanding investments.

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Due to the enactment of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) by Congress and President Bush in March, 2002, which extends the NOL carryback period to five years for NOLs arising in tax years ending in 2001 and 2002, the Company expects to obtain an income tax refund of approximately \$350,000 from the Internal Revenue Service.

#### Recent Accounting Pronouncements

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Business combinations initiated after June 30, 2001, must be accounted for under the provisions of these two statements. The Company must also apply these provisions to previously recorded business combinations as of January 1, 2001. The principal provisions of FAS 141 and FAS 142 are as follows:

- All business combinations initiated after June 30, 2001, will be accounted for using the "purchase" method, under which the identifiable assets and liabilities of the acquired business are recorded at their respective fair market values with the residual amount being recorded as goodwill. The "pooling-of-interests" method, under which the financial statements of the acquirer and the acquiree were combined as if the two businesses had always been one, will no longer be used.
- Goodwill and identifiable intangible assets will no longer be amortized over a maximum period of forty years. Goodwill will not be amortized but will instead be tested for impairment annually or upon the occurrence of certain "triggering events." Identifiable intangible assets will be amortized over their expected useful lives; those with indefinite expected useful lives will not be amortized. Identifiable intangible assets will continue to be tested for impairment under previously existing accounting standards.

The Company adopted FAS 141 and FAS 142 on January 1, 2002, and expects the adoption of these standards to have no material impact on its financial condition, results of operations or cash flows.

In August 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes both FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions for the disposal of a segment of a business contained in APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." FAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations. The provisions of FAS No. 144 are effective beginning in 2002 and the Company has not yet quantified the impact of adopting FAS No. 144 on its financial statements.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations from internally generated funds and borrowings under its bank lines of credit. The Company's primary capital requirements are for working capital, capital expenditures and debt service. In addition, the Company's ESOP provides that participants will have the option from time to time to cause the Company to repurchase shares distributed

to them from the ESOP for the then fair market value of the shares. Based on the amount of currently distributed shares, the Company anticipates that ESOP participants could require the Company to repurchase up to approximately 150,000 shares from time to time. The Company further estimates that ESOP participants eligible for retirement during the next five years could require the Company to repurchase approximately 35,000 shares of Common Stock per year over the next five years. However, these estimates rely on information currently available to the Company and there can be no assurance that the actual number of shares which the Company is obligated to repurchase will not be materially different from the Company's estimates.

The financial statements for the year ended December 31, 2001 were prepared on a going concern basis. As shown in the financial statements, as presented in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on April 1, 2002, during the year ended December 31, 2001, the Company incurred a net loss of \$15.9 million. The Company

has experienced significant losses during the previous four years, and these losses could continue during 2002. Such losses have resulted in the Company having negative net worth of \$101,000 at March 30, 2002. The Company's continuation as a going concern is dependent upon its ability to obtain replacement permanent financing from alternate sources. In addition, the Company must be able to generate sufficient cash flow to meet its obligations on a timely basis, must be able to comply with the terms of its existing credit line, and, if replaced, with the terms of its replacement financing, and ultimately must be able to return to profitable operations.

The Company finances interim working capital requirements with its bank line of credit with its principal lender. Interest on the line of credit is payable monthly at a rate of 2% in excess of the lender's prime rate. As of March 30, 2002, a maximum of \$7.5 million was available to the Company under its line of credit, with the actual amount available under the line of credit being based on the value from time to time of certain assets (i.e., the borrowing base) securing the line of credit. The line of credit is secured by the receivables, equipment and inventory of the Company. As of March 30, 2002, the outstanding balance was \$5.9 million with \$43,000 available.

The line of credit with the principal lender has been extended to July 1, 2002. The Company is currently not in compliance with certain debt covenants under its amended credit agreement with its principal lender. However, the Company has obtained a waiver of these covenants through March 31, 2002. See "Overview" above.

On April 5, 2002, the Company entered into an agreement with M-TIN, LLC, a limited liability company controlled by three of the Company's directors, to provide a \$1.5 million term loan to the Company. The loan is for a six-month term, subject to renewal for an additional six months at the option of the Company provided that the Company pays a 5% renewal fee. The loan bears interest at an annual rate of 12% and is subject to a placement fee of 5% due at the funding of the loan and an additional 3% fee at repayment. The loan is secured by an unencumbered first mortgage in all of the real property of the Company. M-TIN, LLC has also agreed to make an additional \$500,000 line of credit available to the Company. The term of the line of credit will be the same as the term loan, including the option of the Company to extend the line for an additional six months. The line of credit will bear interest at an annual rate of 12% and also be subject to a placement fee equal to 5% of the available credit due when the documentation is delivered by the parties and an additional 3% fee due at repayment. The parties are presently completing the documentation for the line of credit.

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Additionally, the Company expects to obtain an income tax refund of approximately \$350,000 from the Internal Revenue Service due to the enactment of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) by Congress and President Bush in March, 2002, which extends the NOL carryback period to five years for NOLs arising in tax years ending in 2001 and 2002.

The Company is in negotiations with a prospective lender and has received a non-binding proposal for a new asset-based, secured line of credit to replace its existing credit facility. Although the Company currently believes that funds generated from operations, together with the Company's line of credit and the \$1.5 million term loan and \$500,000 line of credit from M-TIN, LLC, should be sufficient to fund the Company's operating needs until July 1, 2002, there can be no assurance that the Company's liquidity position will not be adversely affected through July 1, 2002. Further, if the Company is not able to refinance its line of credit by July 1, 2002, or to obtain a further extension, the Company will be unable to continue to operate and its principal lender will have all rights and remedies provided for in the amended credit agreement between the lender and the Company. There can be no assurance that any new credit arrangements will be finalized or further extensions granted beyond July 1, 2002.

#### CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission has indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company believes that the following accounting policies fit this definition:

Allowance for doubtful accounts. Certain of the trade accounts receivable are subject to bad debt losses. A reserve has been recorded to reflect expected bad debt losses based on past experience with similar accounts receivable. The reserve is believed to be correct. However, it is possible that the accuracy of the reserve could be affected substantially due to changing economic conditions. The reserve is reviewed on a regular basis and adjusted as necessary to react to these changes as soon as possible. However, there can be no assurance that the Company will be able to accurately estimate bad debt

losses on its accounts receivable.

Excess and obsolete reserve. The Company has estimated that it has approximately \$1.0 million of raw material, purchased parts, and work-in-process inventory that has not been utilized in the production of finished goods, as well as finished goods that are not saleable items due to obsolescence. A reserve is calculated and then recorded using the prior year history of usage and sales to estimate excess inventory and on projections of future production and future sales to estimate obsolescence. The Company believes that the reserve is adequate. It is possible, however, that the adequacy could be materially affected in the future by factors such as customer demands and preferences, economic events, and governmental regulations.

Income taxes. The Company has a history of unprofitable operations from losses incurred in 2001 as well as prior years. These losses generated a sizeable federal tax net operating loss, or NOL, carry forward of approximately \$39 million. Generally accepted accounting principles require that a valuation allowance be recorded against the deferred tax asset associated with the NOL if it is "more likely than not" that the Company will not be able to apply the asset to taxes due on future earnings. Due to the amount of the deferred tax asset and the uncertainties of the prospects of the Company, the asset has not

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been recognized. However, due to the enactment of the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) by Congress and President Bush in March, 2002, which extends the NOL carryback period to five years for NOLs arising in tax years ending in 2001 and 2002, the Company expects to claim an income tax refund of approximately \$350,000 from the Internal Revenue Service. Additionally, it is possible that the Company may become profitable in the future in which case management may conclude that it is more likely than not that all or a portion of the deferred tax asset could be recouped. In that situation the tax asset would be recorded at net realizable value at that time and then provide for income taxes at a rate equal to the combined federal and state effective rates. Subsequent changes to the estimated net realizable value of the deferred tax asset could cause the provision for income taxes to vary significantly from period to period, although the cash tax payments would remain unaffected until the effect of the NOL is utilized.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates as part of its normal operations. Prior to the transfer of its Canadian subsidiaries in February 2002, the Company was also exposed to market risk from changes in foreign currency exchange rates. The Company has estimated its market risk exposures using sensitivity analyses assuming a 10% change in market rates.

#### FOREIGN CURRENCY EXCHANGE RATE RISK

Prior to the transfer of its Canadian operations in February 2002, the Company had assets, liabilities, operations and cash flows in the Canadian currency. Fluctuations in foreign currency exchange rates impact the U.S. dollar value of Canadian dollar assets, liabilities, operations and cash flows. The Company translated the Canadian dollar income statement to U.S. dollars using the average rate of exchange and translated the Canadian dollar balance sheet to U.S. dollars using the closing rate of exchange. Certain accounts (e.g., capital stock) were translated using an historical exchange rate. Consequently, unrealized foreign currency translation adjustments are reported as a separate component of stockholders' equity.

Because the Company has transferred all of its Canadian operations, the Company is no longer exposed to material market risks from changes in foreign currency change rates.

#### INTEREST RATE RISK

At March 30, 2002, the Company had \$5.9 million of debt outstanding at a variable interest rate of prime plus 2%. Therefore, the Company is exposed to interest rate fluctuations on the debt balance. A hypothetical increase of 10% (for example, the prime rate of 9.0% would increase to 9.90%) in the prime lending rate would not cause the Company's interest expense to increase significantly.

Certain statements contained in this section and the estimated amounts generated from the sensitivity analyses referred to above include forward-looking statements of market risk which assume that certain adverse market conditions may occur. Actual future market conditions may differ materially from such assumptions. Accordingly, the forward-looking statements should not be considered projections by the Company of future events or losses.

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## PART II. OTHER INFORMATION

## ITEM 5. OTHER INFORMATION

The Company has delayed the date for its 2002 annual meeting more than 30 days from the date of its 2001 annual meeting. The Company currently anticipates that the 2002 annual meeting will be held on Friday, August 23, 2002. Stockholders of the Company may submit proposals for consideration for inclusion in the proxy statement of the Company relating to the 2002 annual meeting. However, in order for such proposals to be considered for inclusion in the form of proxy and proxy statement of the Company relating to the 2002 annual meeting, the proposals must be received by the Company not later than May 21, 2002. According to the Company's By-laws, for a stockholder proposal to be properly brought before the 2002 annual meeting (other than a proposal to be considered for inclusion in the proxy materials), it must be delivered to the secretary of the Company no earlier than May 25, 2002, but no later than June 24, 2002.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

&lt;TABLE&gt;

<S>	<C>
*3(a)	Form of Restated Certificate of Incorporation of Martin Industries, Inc. which was filed as Exhibit 3(a) to the Registrant's Registration Statement on Form S-1 filed with the Commission on July 10, 1995 (Registration No. 33-90432).
*3(b)	Bylaws of Martin Industries, Inc. as amended and restated on May 16, 1997 which were filed as Exhibit 3(b) to the Registrant's Quarterly statement on Form 10-Q for the 26-week period ended June 28, 1997 (Commission File No. 0-26228).
*3(c)	Amendments to the By-laws of Martin Industries, Inc. which were filed as Exhibit 99.1 to the Company's Form 8-K on February 24, 1999 (Commission File No. 0-26228).
*4(a)	Article 4 of the Restated Certificate of Incorporation of Martin Industries, Inc. (included in Exhibit 3(a)).
*4(b)	Rights Agreement, dated as of February 23, 1999, between Martin Industries, Inc. and SunTrust Bank, Atlanta, Rights Agent, which was filed as Exhibit 1 to the Company's Registration Statement on Form 8-A (Commission File No. 0-26228).
*10(a)	Letter agreement of AmSouth Bank dated January 14, 2002, which was filed as Exhibit 10(nn) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
*10(b)	Share Transfer Agreement and Assignment of Intercompany Debt by and among Roger Vuillod, 1166081 Ontario Inc., Hunter Technology Inc., and Martin Industries, Inc. dated February 20, 2002, which was filed as Exhibit 2 to the Form 8-K filed by

&lt;/TABLE&gt;

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&lt;TABLE&gt;

<S>	<C>
	the Company with the Commission on March 7, 2002 (Commission File No. 0-26228).
10(c)	Letter Agreement of M-TIN, LLC dated April 4, 2002.
10(d)	\$1,500,000 Promissory Note made by Martin Industries, Inc. in favor of M-TIN, LLC dated April 4, 2002.
10(e)	Real Estate Mortgage, Security Agreement and Financing Statement by and between Martin Industries, Inc. and M-TIN, LLC dated April 4, 2002.
10(f)	Letter Agreement of AmSouth Bank dated April 1, 2002.
10(g)	Real Estate Mortgage, Security Agreement and Financing Statement by and between Martin Industries, Inc. and AmSouth Bank dated April 4, 2002.
10(h)	Subordination Agreement by and among Martin Industries, Inc., M-TIN, LLC and AmSouth Bank dated April 5, 2002.

(b) Reports on Form 8-K

On March 7, 2002, the Company filed a Current Report on Form 8-K in which the Company reported under Item 2 the transfer of all of the shares of its wholly-owned subsidiary, 1166081 Ontario Inc., an Ontario corporation ("1166081"), to Mr. Roger Vuillod. An unaudited pro forma condensed balance sheet as of September 29, 2001, an unaudited pro forma condensed statement of operations for the nine months ended September 29, 2001, and an unaudited pro forma condensed statement of operations for the year ended December 31, 2000 were included in the report.

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\* Incorporated by reference

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995:

With the exception of historical information, the matters and statements discussed, made or incorporated by reference in this Quarterly Report on Form 10-Q constitute forward-looking statements and are discussed, made or incorporated by reference, as the case may be, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Specifically, this Quarterly Report on Form 10-Q contains forward-looking statements regarding:

- the Company's efforts to obtain replacement financing and equity investment in, or a sale of, the Company;
- the Company's beliefs with respect to the funding of its operations during fiscal year 2002, including the period up to July 1, 2002;
- the Company's expectations with respect to its ability to obtain directors' and officers' liability insurance;

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- the likely benefits from cost reductions and plant consolidations;
- the short-term and long-term programs being undertaken by the Company and expectations regarding the future competitiveness of the Company's products;
- the Company's future ability to meet the needs and expectations of its customers;
- results in future quarters;
- the estimated reserve for excess and obsolete inventories;
- the utilization of deferred tax assets related to net operating loss carryforwards; and
- the Company's expectations and estimates regarding its interest rate risk.

Wherever possible, the Company has identified these forward-looking statements (as defined in Section 21E of the Securities Exchange Act of 1934) by words such as "anticipates," "may," "believes," "estimates," "projects," "expects," "intends," and words of similar import. In addition to the statement included in this Quarterly Report of Form 10-Q, the Company and its representatives may from time to time make other oral or written statements that are also forward-looking statements.

Forward-looking statements contained in this Quarterly Report on Form 10-Q and those that may be made in the future involve certain assumptions, risks and uncertainties that could cause actual results to differ materially from those included in or contemplated by the statements. In particular, there can be no assurance that, pending the securing of new financing, the Company will continue to generate funds or have credit available to it that is sufficient to continue to fund its operations; that the Company will be able to obtain replacement financing or equity investment in the Company; that the Company's cost reduction and plant consolidations will be successful or that the Company will achieve a level of revenue that will allow the Company to return to profitability; that the Company will be able to successfully implement or complete the short-term and long-term programs being undertaken by the Company; that the Company's new products will meet its expectations; that the Company will be able in the future

to meet the needs and expectations of its customers; that the Company will not exceed the estimated reserve for excess and obsolete inventories or will utilize deferred tax assets related to net operating loss carryforwards. These assumptions, risks and uncertainties include, but are not limited to, those associated with general economic cycles; the cyclical nature of the industries in which the Company operates and the factors related thereto, including consumer confidence levels, inflation, employment and income levels, the availability of credit, and factors affecting the housing industry; the potential in the Company's business to experience significant fluctuations in quarterly earnings; the Company's ability to generate cash or secure adequate financing to fund its operations; the Company's business strategy, including its strategy of pursuing new product development; potential losses from product liability and personal injury lawsuits; the effects of seasonality and weather conditions on the Company's home heating product sales and other sales; the effect of existing and new governmental and environmental regulations applicable to the Company; the dependence of the Company on key personnel; the highly competitive nature of each of the industries in which the Company operates; the volatility of the stock price at which outstanding shares of the Company may trade from time to time; and the other risks and uncertainties discussed or indicated in all documents filed by the Company with the Commission, including the Company's Annual Report on Form 10-K filed with the Commission on April 1, 2002. The Company expressly disclaims any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARTIN INDUSTRIES, INC.

Date: May 14, 2002

By /s/ James W. Truitt

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 James W. Truitt  
 Vice President and Chief Financial Officer  
 and Secretary  
 (Executed on behalf of Registrant and  
 as Principal Financial Officer)

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INDEX TO EXHIBITS

<TABLE> <CAPTION> Exhibit Number ----- <S>	Description of Exhibits ----- <C>	Page No. ----- <C>
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\* Incorporated by reference

[Letterhead of M-TIN, LLC]

April 4, 2002

Mr. James W. Truitt  
Vice President and Chief Financial Officer  
Martin Industries, Inc.  
Post Office Box 128  
Florence, Alabama 35631

Re: Proposed Loan from M-TIN, LLC

Dear Mr. Truitt:

The purpose of this letter to establish the terms pursuant to which M-TIN, LLC (the "Company") will provide financing to Martin Industries, Inc. ("Martin"). Our agreement to provide financing is as follows:

- A. The Company will provide a term loan in the principal amount of ONE MILLION FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,500,000.00) (the "Term Loan") to Martin pursuant to the execution and delivery by Martin of a promissory note payable to the order of the Company in substantially the form as attached hereto as Exhibit A (the "Note"). The Note shall be for a term of six (6) months with the option for Martin to extend the term for an additional six (6) months from the date of original termination upon the giving of thirty (30) days prior notice to the Company and the payment by Martin of an extension fee equal to five percent (5%) of the principal amount under the Note.
- B. The Term Loan shall be secured by a first mortgage (the "Mortgage") on the real property of Martin located in Colbert, Lauderdale and Limestone Counties in the State of Alabama (the "Mortgaged Property"). The mortgage shall be in substantially the form of the mortgage attached hereto as Exhibit B.
- C. The Note shall be due and payable in full upon the sale of all or substantially all of the assets of Martin or in the event Martin sells a sufficient amount of its capital stock (whether by tender offer, original issuance, or a single or series of related stock purchase and sale agreements and/or transactions) sufficient to confer on the purchaser or purchasers thereof (whether individually or in a group) the ability to elect a majority of Martin's Board of Directors or is party to a merger, consolidation or combination, other

than any merger, consolidation or combination that would result in the holders of the voting securities of Martin outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of Martin (or such surviving entity) outstanding immediately after such merger, consolidation or combination.

Martin Industries, Inc.

April 4, 2002

Page 2 of 2

- D. The rate of interest payable on the Note shall be TWELVE PERCENT (12%) per annum. Interest will be payable monthly. Principal will be payable in full upon the termination of the Note.
- E. Upon the funding of the loan contemplated hereby (the "Closing"), Martin will pay to the Company a fee equal to the greater amount of (i) SEVENTY FIVE THOUSAND AND NO/100 DOLLARS (\$75,000.00), or (ii) FIVE PERCENT (5%) of the amount funded under the Note. [Payable 2/3 (\$50,000.00) at closing and 1/3 (\$25,000.00) in thirty days from closing.]
- F. Upon the payment of the principal and interest outstanding on the Note, Martin shall pay to the Company a retirement fee equal to THREE PERCENT (3%) of the principal amount outstanding under the Note at the time of its repayment.
- G. Martin hereby represents and warrants to the Company that no material changes in the environmental condition in the Mortgaged Property have occurred since the Phase I environmental audits dated \_\_\_\_\_, 2001 (the "Environmental Audits"), copies of which have been provided to the Company. If requested by the Company, Martin shall cause to be prepared and delivered to the Company updated Phase I environmental audits with respect to the Mortgaged Property. Martin shall indemnify and hold the Company harmless from any liability arising out of environmental conditions which have arisen since the Environmental Audits.
- H. Within thirty (30) days following the funding of the Note, Martin shall provide to the Company a mortgagee's title policy, in form and content satisfactory to the Company in its reasonable discretion, insuring the Company's lien under the Mortgage.

I. Martin agrees to pay the attorney fees and other fees (including normal filing fees) incurred in connection with this financing transaction.

If you are in agreement with the terms contained herein, please sign one copy of this letter agreement and return it to me.

Very truly yours,

/s/ JOHN L. DUNCAN

John L. Duncan  
As Member of  
M-TIN, LLC

ACCEPTED AND AGREED TO BY:

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

-----  
James W. Truitt  
Its Vice President and  
Chief Financial Officer

## PROMISSORY NOTE

\$1,500,000.00

Florence, Alabama  
April 4, 2002

FOR VALUE RECEIVED, the undersigned Martin Industries, Inc., a Delaware corporation (the "Borrower"), promises to pay to the order of M-TIN, LLC, an Alabama limited liability company (the "Lender" or, together with any other holder of this Note, the "Holder"), at the office of the Lender at such place as the Holder may designate, the principal sum of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00), in legal tender of the United States of America and immediately available funds at the place payment is due. Interest, payable as provided below, shall accrue daily on the unpaid balance of said sum from the date hereof until the earlier of the date repaid or maturity of this Note at a per annum rate of twelve percent (12.0%). Interest shall be calculated on the basis of a 360-day year and the actual number of days elapsed.

Borrower promises to pay accrued interest on the unpaid amount of the principal sum of this Note on the 1st day of each month, commencing May 1, 2002 and at maturity. On October 4, 2002, the outstanding principal balance of this Note, together with all accrued but unpaid interest thereon, and all other sums owing under this Note which remain unpaid shall be due and payable; provided, that, Borrower shall have the option to extend the maturity date of this Note for six (6) months by giving notice to the Lender of such election not later than September 4, 2002 and paying an extension fee equal to five percent (5.0%) of the outstanding principal amount of the Note as of the original maturity date, which fee shall be due and payable on the original maturity date.

If any scheduled payment hereunder is in default ten (10) days or more, Borrower agrees to pay a late charge equal to five percent (5%) of the amount of the payment which is in default, but not less than \$.50 or greater than the maximum amount permitted by law.

If any payment of principal or interest on this Note shall become due on a Saturday, Sunday or any day on which the Holder of this Note is legally closed to business, such payment shall be made on the next succeeding business day, and interest shall continue to accrue on the entire unpaid balance of the principal sum of this Note until such payment is received by the Holder.

Time is of the essence with respect to the payment of every installment of principal and of interest hereunder and the performance of every other covenant made by the Borrower under this Note, the Mortgage (as hereinafter defined) and under any other agreement which secures the payment of this Note.



The Borrower may prepay the principal sum of this Note in full or in part only upon payment of a prepayment premium on the principal amount prepaid calculated by multiplying the amount prepaid by three percent (3.0%).

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This Note is the note referred to in, and is entitled to the security of that certain Real Estate Mortgage, Security Agreement and Financing Statement (the "Mortgage") on certain real property located in Colbert, Lauderdale and Limestone Counties, Alabama (the "Property") of even date herewith, executed and delivered to the Lender by Borrower.

The occurrence of any one or more of the following events shall constitute an Event of Default under this Note:

- (a) If the Borrower fails to pay any installment of principal or interest under this Note on the date the same is due and such failure shall continue for ten (10) days after written notice thereof is given to Borrower; or
- (b) If the Borrower breaches or fails to perform any covenant or warranty made by the Borrower in the Mortgage or any other instrument or agreement executed by the Borrower in connection herewith and such failure shall continue for thirty (30) days after written notice thereof is given to Borrower; or
- (c) If the Borrower fails to observe or perform any other covenant, condition or agreement under this Note or the Mortgage, or is otherwise in default under any of such documents, or if there shall occur any other default or Event of Default hereunder or thereunder or any condition or event which with the giving of notice or the passage of time, or both, would constitute such a default or Event of Default; or
- (d) (i) If a petition in bankruptcy is filed by or against Borrower, or a receiver or trustee of any of the property of Borrower is appointed; or (ii) if Borrower files a petition or an answer seeking reorganization under any of the provisions of the bankruptcy law or of any other law, state or federal, or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution, or liquidation law or statute, or admitting the material allegations of a petition filed against it in any proceeding under any such law; or (iii) if Borrower shall take any corporate, partnership or other action for the

purpose of effecting any of the foregoing, or enters into or consents to an arrangement with creditors, or makes an assignment for the benefit of creditors, or is adjudged insolvent by any state or federal court of competent jurisdiction; or (iv) if Borrower admits in writing its inability to pay its debts as they mature; or (v) if an order, judgment or decree shall be entered without the application, approval or consent of the debtor by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or of all or a substantial part of the properties or assets of Borrower, or appointing or ordering a receiver, trustee, or liquidation of Borrower; provided, however,

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that Borrower shall have sixty (60) days to have dismissed of record any involuntary petition filed against it; or

- (e) If any financial statement, warranty, representation or certificate made or furnished by the Borrower in or pursuant to the Mortgage or otherwise in connection with the indebtedness evidenced hereby should be materially false, incorrect, or incomplete when made; or
- (f) Except as may be provided in the Mortgage, if the Borrower sells, conveys or encumbers its interest in all or any portion of the Property without the prior written consent of the Lender, which consent may be withheld in the Lender's sole discretion; or
- (g) The Borrower shall sell, or enter into an agreement to sell, all or substantially all of its assets; or
- (h) The Borrower shall sell a sufficient amount of its capital stock (whether by tender offer, original issuance, or a single or series of related stock purchase and sale agreements and/or transactions) sufficient to confer on the purchaser or purchasers thereof (whether individually or in a group) the ability to elect a majority of the Board of Directors of the Borrower, or is party to a merger, consolidation or combination, other than any merger, consolidation or combination that would result in the holders of the voting securities of the Borrower outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the

Borrower (or such surviving entity) outstanding immediately after such merger, consolidation or combination; or

- (i) If any action whatsoever shall be taken, or if there shall be any occurrence which could or does have the effect of, terminating, dissolving or winding-up the business of the Borrower.

If any one or more of the foregoing Events of Default shall occur, the entire unpaid principal balance of this Note, together with accrued but unpaid interest thereon, at the option of the Holder of this Note, shall be and become due and payable immediately, and the Holder of this Note may proceed to exercise any remedy available to it at law or in equity.

The Borrower hereby waives demand, presentment, dishonor, notice of dishonor and any other requirement necessary to hold the Borrower obligated hereon. The Borrower hereby agrees that the obligations evidenced by this Note may, from time to time, in whole or in part, be released or modified without notice to, or reservation of rights against, any guarantor, and that any collateral now or hereafter held for the obligations of the Borrower under this Note may hereafter be released, compromised, or exchanged, and that the Holder may fail to perfect its lien or security

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interest in such collateral or may permit the perfection of its lien or security interest in such collateral to lapse, all without in any way affecting or releasing the liability of the Borrower under this Note.

The Borrower agrees to pay all intangibles taxes, documentary stamp taxes, recording fees or taxes and other taxes and fees due to any governmental authority in connection with the execution and delivery of this Note, the Mortgage, or any other agreement which provides collateral for this Note. The Borrower agrees to pay all costs and expenses, including reasonable attorneys' fees, incurred by the Holder of this Note in collecting or attempting to collect this Note after the occurrence of an Event of Default.

The Holder shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies under the Note, under any agreement which provides collateral for this Note, or under applicable law. The Holder may accept late payments and/or partial payments under this Note without waiving or otherwise impairing its right to require strict conformance to the terms hereof. All rights and remedies of the Holder under this Note, under any such agreement providing collateral for this Note, and under applicable law shall be cumulative and may be exercised successively or concurrently. This Note shall be governed by and construed in accordance with the laws of the United States and of the State of Alabama. Any provision of this Note which shall be deemed to be unenforceable or invalid under any such

law shall be ineffective to the extent of such unenforceability or invalidity without affecting the enforceability or validity of any other provision hereof.

Notwithstanding any provision of this Note or the Mortgage to the contrary, the parties intend that no provision of this Note or the Mortgage be interpreted, construed, applied or enforced so as to permit or require the payment or collection of interest, whether before or after maturity of this Note, in excess of the maximum rate permitted by the law applicable to this transaction (the "Maximum Permitted Rate"). If, however, any such provision is so interpreted, construed, applied or enforced, then the parties intend: (i) that such provision automatically shall be reformed nunc pro tunc so as to require payment only of interest at the Maximum Permitted Rate, and (ii) if the Holder of this Note has received interest payments in excess of such Maximum Permitted Rate, that the amount of such excess be credited nunc pro tunc in reduction of the principal amount of this obligation, together with interest at such Maximum Permitted Rate.

BORROWER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM, SETOFF, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING OUT OF OR IN ANY WAY PERTAINING OR RELATING TO THIS NOTE, THE MORTGAGE, OR ANY OTHER INSTRUMENT OR DOCUMENT EXECUTED OR DELIVERED IN CONNECTION WITH THIS NOTE, OR (ii) IN ANY WAY CONNECTED WITH OR PERTAINING OR RELATED TO OR INCIDENTAL TO ANY DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS NOTE, THE MORTGAGE, OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR IN CONNECTION WITH THE TRANSACTIONS RELATED HERETO OR CONTEMPLATED HEREBY OR THE EXERCISE OF EITHER PARTY'S RIGHTS AND REMEDIES HEREUNDER, IN ALL OF THE FOREGOING CASES WHETHER NOW

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EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE BORROWER AGREES THAT LENDER MAY FILE A COPY OF THIS NOTE WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED FOR AGREEMENT BETWEEN THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY, AND THAT ANY DISPUTE OR CONTROVERSY OF ANY KIND WHATSOEVER BETWEEN THEM SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

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IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its officer thereunto duly authorized on the date first above written with the intention that this Note shall constitute a sealed instrument.

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

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Its: Vice President and CFO  
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[SEAL]

Federal Tax ID Number: 63-0133054  
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This instrument prepared by:  
Kenneth T. Wyatt  
Bradley Arant Rose & White LLP  
2001 Park Place, Suite 1400  
Birmingham, Alabama 35203-2736

STATE OF ALABAMA )  
 :  
COLBERT, LAUDERDALE and  
LIMESTONE COUNTIES )

REAL ESTATE MORTGAGE, SECURITY AGREEMENT  
AND FINANCING STATEMENT

This Real Estate Mortgage, Security Agreement and Financing Statement is made and entered into on or as of the 4th day of April, 2002, by and between MARTIN INDUSTRIES, INC., a Delaware corporation (whether one or more, "Mortgagors"), whose address is 301 East Tennessee Street, Florence, Alabama 35631 and M-TIN, LLC, an Alabama limited liability company ("Mortgagee"), whose address is 205 South Seminary Street, Suite 301, Florence, AL 35630.

WITNESSETH:

WHEREAS, Mortgagors have become justly indebted to Mortgagee in the sum of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) together with interest thereon, as evidenced by a promissory note or notes of even date herewith.

NOW, THEREFORE, in consideration of the indebtedness described above and other valuable consideration to Mortgagors the receipt and sufficiency of which are hereby acknowledged, and in order to secure the payment and performance of the indebtedness described above, any extensions, renewals, modifications and increases thereof and substitutions therefor and all interest thereon, and all sums advanced by Mortgagee pursuant to the terms of this mortgage, and all other indebtedness (including future loans and advances) now or hereafter owed to Mortgagee by any of the undersigned, whether such indebtedness is primary or secondary, direct or indirect, contingent or absolute, matured or unmatured, joint or several, and otherwise secured or not (all of the foregoing being sometimes referred to collectively in this mortgage as the "Secured Indebtedness"), and to secure compliance with all the covenants and stipulations hereinafter contained, Mortgagors do hereby grant, bargain, sell, convey, assign, grant a security interest in, transfer and warrant unto Mortgagee the following described real property and rights (collectively the "Mortgaged Property").

- (a) Fee Property. All those certain lot(s), piece(s) or parcel(s) of land located in Colbert, Limestone and Lauderdale

Counties, Alabama more particularly described in Exhibit A, as the description of the same may be amended or supplemented from

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time to time, and all and singular the reversions and remainders in and to said land and the tenements, hereditaments, easements, rights-of-way or use, rights (including mineral and mining rights, and all water, oil and gas rights), privileges, royalties and appurtenances to said land, now or hereafter belonging or in anywise appertaining thereto, including any right, title, interest in, to or under any agreement or right granting, conveying or creating, for the benefit of said land, any easement, right or license in any way affecting other property and in, to or under any streets, ways, alleys, vaults, gores or strips of land adjoining said land or any parcel thereof, or in or to the air space over said land, all rights of ingress and egress by motor vehicles to parking facilities on or within said land, and all claims or demands of the Mortgagor either at law or in equity, in possession or expectancy of, in or to the same (all of the foregoing being hereinafter collectively called the "Fee Property").

- (b) Rights Under Lease. (i) The following leases: (A) that certain lease dated as of February 1, 1997, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 747, at page 749, (B) that certain lease dated as of December 1, 1964, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 642, at page 670, (C) that certain lease dated as of May 1, 1969, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 685, at page 207, (D) that certain lease dated as of June 14, 1973, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 714, at page 820, and (E) that certain lease dated as of August 1, 1978, between The Industrial Development Board of the City of Florence, as lessor, and the Borrower, as lessee, recorded in the Office of the Judge of Probate of Lauderdale County, Alabama, in Deed Book 1139, at

page 1133 (collectively hereinafter called the "Lease"), and the Mortgagor's leasehold estate and interest under the Lease in and to all those certain lot(s), piece(s) or parcel(s) of land described in the Lease and located in Limestone and Lauderdale Counties, Alabama more particularly described in Exhibit B, as the description of the same may be amended or supplemented from time to time, and all and singular the reversions and remainders in and to said land and the tenements, hereditaments, easements, rights-of-way or use, rights (including mineral, water, oil and gas rights), privileges, royalties and appurtenances to said land, now or hereafter belonging or in anywise appertaining thereto, including any right, title, interest of the Mortgagor in, to or under the Lease in any agreement or right granting, conveying or creating, for the benefit of said land, any easement, right or license in any way affecting other property and in, to or under any streets, ways, alleys, vaults, gores or strips of land adjoining said land or any parcel thereof, or in or to the air space over said land, all rights of ingress and egress by motor vehicles to parking facilities on or within said land, and all claims or demand of Mortgagor

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either at law or in equity, in possession or expectancy of, in or to the same (all of the foregoing being hereinafter collectively called the "Leasehold Property" and together with the Fee Property being called the "Land"); (ii) all other rights, titles and privileges under the Lease in and to the Leasehold Property, or any part thereof, including any reversions and remainders in and to the Mortgagor's interest in the leasehold Property; and (iii) any and all right, title and interest of the Mortgagor in and to (A) all modifications, extensions, renewals, supplements and restatements of the Lease; (B) all credits and deposits made thereunder; (C) all options and rights to renew or extend the same, including, but not limited to, the options contained in the Lease; (D) all options and rights to purchase or of first refusal with respect to the Leasehold Property, or any part thereof, including, but not limited to, the options and rights contained in the Lease; and (E) all other, further or additional title, estate, options, privileges, interest or rights that the Mortgagor may now or hereafter acquire in and to the Leasehold Property and the Lease.

(c) Improvements. All buildings, structures, facilities and other improvements now or hereafter located on the Land, and all



building material, building equipment and fixtures of every kind and nature now or hereafter located on the Land or attached to, contained in, or used in connection with, any such buildings, structures, facilities or other improvements, and all appurtenances and additions thereto and betterments, renewals, substitutions and replacements thereof, now owned by the Borrower or in which the Borrower has or shall acquire an interest (all of the foregoing being hereinafter collectively called the "Improvements," and together with the Land called the "Real Property").

- (d) Tenant Leases and Rents. (i) All leases, subleases, lettings and licenses, and other use and occupancy agreements, written or oral, covering any of the Real Property with respect to which the Mortgagor is the lessor, licensor or sublessor, including any of the same now in existence (all of the foregoing being hereinafter collectively called the "Existing Tenant Leases"), and any and all other such agreements hereinafter made or entered into (all the foregoing being hereinafter collectively called the "Tenant Leases"); (ii) any and all guaranties of the performance of the lessee, licensee, sublessee or occupant (all of the foregoing being hereinafter collectively called the "Tenants") under any of the Tenant Leases; (iii) the immediate and continuing right to collect and receive all of the rents, income, receipts, revenues, issues and profits now due or that may become due or to which the Mortgagor may now or shall hereafter (including during the period of redemption, if any) become entitled or may demand or claim, arising or issuing from or out of the Tenant Leases, the Real Property, or any part thereof, including minimum rents, additional rents, percentage rents, common area maintenance charges, parking charges, tax and insurance premium contributions, and liquidated damages following default, the premium payable by any Tenant upon the exercise of any cancellation privilege provided for in any of the Tenant Leases, and all proceeds payable under any policy of insurance covering loss of rents resulting from untenability caused by

destruction or damage to the Real Property, together with any and all rights and claims of any kind that the Mortgagor may have against any Tenant (all such moneys, rights and claims described in this section hereinafter collectively referred to as the "Rents"); provided, however, that so long as no Event of Default (as defined in the instruments evidencing the Secured Indebtedness) has occurred, the Mortgagor shall

have the right under a license granted hereby to collect, receive and retain the Rents, but no Rents shall be collected prior to the due date thereof; and (iv) any aware, dividend or other payment made hereafter to the Mortgagor in any court procedure involving any of the Tenants in any bankruptcy, insolvency or reorganization proceedings before any governmental authority and any and all payments made by Tenants in lieu of rent.

- (e) Insurance Policies. All policies of hazard insurance now or hereafter in effect that insure the Improvements, or any part thereof, together with all right, title and interest of the Mortgagor in and to each and every such policy, including any premiums paid and rights to returned premiums.
- (f) Condemnation Awards. All judgments, damages, settlements, awards, payments and compensation, including all interest thereon, together with the right to receive the same, that may be made or due to the Mortgagor or any subsequent owner of any of the Real Property, or any other property or rights conveyed or encumbered hereby, as a result of (i) the exercise of the right of eminent domain or condemnation, (ii) the alteration of the grade of any street or (iii) any other injury to or diminution or decrease in value of the Real Property, the Tenant Leases, the Rents or any other such property or rights.
- (g) Supplemental Documents. All changes, additions, supplements, modifications, amendments, extensions, renewals, revisions and guaranties to, of or for any agreement or instrument included in the foregoing.
- (h) Proceeds. All proceeds (including insurance proceeds) of any of the foregoing, or of any part thereof.

TO HAVE AND TO HOLD the same and every part thereof unto Mortgagee, its successors and assigns forever.

For the purpose of further securing the payment of all of the Secured Indebtedness Mortgagors represent, warrant, covenant and agree with Mortgagee, its successors and assigns, as follows:

1. That they are lawfully seized in fee and possessed of the Mortgaged Property subject to easements, restrictions, encumbrances of record, matters that would be revealed by a current survey, and liens for ad valorem taxes not yet due and payable, they have a good right to convey the

same as aforesaid, and they will warrant and forever defend the title of Mortgagee to the Mortgaged Property against the lawful claims of all persons whomsoever.

2. That they will pay when due all taxes, assessments, and other liens or mortgages, taking priority over this mortgage. If Mortgagors' interest in the Mortgaged Property or any part thereof is other than a freehold estate, Mortgagors agree to pay all rents and perform all covenants due to be paid and performed under the lease or other agreement whereby such interest is created exactly when due, to maintain such lease or agreement in full force and effect in accordance with its terms, and not to attempt to amend or terminate the lease or agreement without Mortgagee's prior written consent.

3. That they will keep the buildings and other improvements now or hereafter located on the Mortgaged Property and all building materials, appliances, equipment, fixtures and fittings now or hereafter located on the Mortgaged Property and the other personal property described above continuously insured against loss or damage, including loss by fire (including so-called extended coverage), wind and such other hazards (including flood and water damage) as Mortgagee may reasonably specify from time to time, with loss, if any, payable to Mortgagee under a standard mortgagee's clause providing at least thirty (30) days notice to Mortgagee before cancellation or lapse of such insurance, and will deposit with Mortgagee policies of such insurance or, at Mortgagee's election, certificates thereof, and will pay the premiums therefor as the same become due. Mortgagors may provide such insurance through an existing policy or a policy or policies independently obtained and paid for by Mortgagors. Mortgagee may, for reasonable cause, refuse to accept any policy of insurance offered or obtained by Mortgagors. Mortgagors shall give prompt notice in writing to Mortgagee of any loss or damage to the Mortgaged Property from any cause whatever. If Mortgagors fail to keep said property insured as above specified, Mortgagee may insure said property for its insurable value or the unpaid balance of the Secured Indebtedness against loss by fire, wind and other hazards for the benefit of Mortgagors and Mortgagee or for the benefit of Mortgagee alone, at Mortgagee's election. The proceeds of all insurance on the Mortgaged Property and the other personal property described above shall be paid by the insurer to Mortgagee, which is hereby granted full power to settle and compromise claims under all policies, to endorse in the name of Mortgagors any check or draft representing the proceeds of any such insurance, and to demand, receive and give receipt for all sums becoming due thereunder. Insurance proceeds collected by or paid to Mortgagee may be credited on the indebtedness secured by this mortgage, less costs of collection, or may be used in repairing or reconstructing the improvements on the Mortgaged Property, at Mortgagee's election. No crediting of insurance proceeds to the Secured Indebtedness and no application of insurance proceeds to repairing or reconstructing improvements on the Mortgaged Property shall extend or postpone the due date of any scheduled payments of the Secured Indebtedness or reduce the amount of such payments. In the event of a dispute with any insurer regarding coverage, the amount of any loss, or the like, Mortgagee may bring an action or join in any action against the insurer, at Mortgagee's election. If Mortgagee elects not to bring an action or to join in any action and Mortgagors

elect to pursue any claim or action against the insurer, Mortgagors agree to do so solely at their expense, and Mortgagors waive any right to require Mortgagee to join in the claim or action or to charge Mortgagee with any part of the expenses of the claim or action even if Mortgagee benefits from it.

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4. That they will take good care of the Mortgaged Property and the personal property described above and will not commit or permit any waste thereon or thereof, and they will keep the same repaired and at all times will maintain the same in as good condition as it now is, reasonable wear and tear alone excepted. If Mortgagors fail to make repairs to the Mortgaged Property, Mortgagee may make such repairs at Mortgagors' expense. Mortgagee, its agents and employees, may enter the Mortgaged Property and any improvements thereon at any reasonable time for the purpose of inspecting or repairing such improvements.

5. That upon failure of Mortgagors to perform any covenant herein made, Mortgagee shall have the right and power, at its election, to perform such act on behalf of Mortgagors, but Mortgagee shall have no duty to perform such act or to give notice of its intention not to perform, whether or not it has performed or given notice of its intention not to perform on one or more previous occasions. All amounts expended by Mortgagee for insurance or for the payment of taxes or assessments or to discharge liens or mortgages on the Mortgaged Property or other obligations of Mortgagors or to make repairs to the Mortgaged Property or any improvements thereon shall become a debt due Mortgagee, shall be payable at once without demand upon or notice to any person, shall bear interest at the rate of interest payable on the principal sum of the note described above, or if no such rate of interest is specified in the note, or if the rate specified would be unlawful, at the rate of 8% per annum from the date of payment by Mortgagee until date paid by Mortgagors, and such debt and the interest thereon shall be secured by this mortgage. Upon failure of Mortgagors to reimburse Mortgagee for all amounts so expended, at the election of Mortgagee and with or without notice to any person, Mortgagee may declare the entire Secured Indebtedness to be due and payable and may foreclose this mortgage as hereinafter provided or as provided by law.

6. That no delay or failure of Mortgagee to exercise any option to declare the maturity of any debt secured by this mortgage shall be deemed a waiver of the right to exercise such option or to declare such forfeiture either as to past, present or future defaults on the part of Mortgagors, and that the procurement of insurance or payment of taxes or other liens or assessments or performance of other obligations of Mortgagors by Mortgagee shall not constitute or be deemed to be a waiver of the right to accelerate the maturity of the Secured Indebtedness by reason of the failure of Mortgagors to procure such insurance or to pay such taxes, liens, or assessments or perform such other obligations, it being agreed by Mortgagors that no terms or conditions contained in this mortgage can be waived, altered or changed except

by a writing signed by Mortgagee.

7. That, unless Mortgagee's written consent has been obtained in advance, (a) Mortgagor will not cause or allow possession of the Mortgaged Property to be in any other person or entity to the exclusion of Mortgagors, (b) Mortgagor will not cut, remove, sell or contract to sell any standing timber from the Mortgaged Property, and (c) Mortgagor will not sell, assign, transfer, convey, lease, or sublet all or any part of the Mortgaged Property or any oil, gas or mineral rights or other interest therein, excluding only the creation of a lien or encumbrance expressly subordinate to this mortgage. Mortgagee may condition its consent to any such transfer of possession of, or an interest in, the Mortgaged Property upon the obligors' or transferee's agreeing to pay a greater rate of interest on all or any part of the

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Secured Indebtedness or to adjust the payment schedule of all or any part of the Secured Indebtedness, and upon Mortgagee's approval of the creditworthiness of the transferee and the transferee's payment to Mortgagee of a reasonable transfer or assumption fee.

8. That, except as otherwise expressly disclosed by Mortgagors to Mortgagee in writing on the date of this mortgage, no Hazardous Substance (as defined below) has been spilled, released, discharged, or disposed of on or under the Mortgaged Property by Mortgagors or, to the best of Mortgagors' knowledge, by any third party or any predecessor in interest or title to Mortgagors; no underground storage tanks, whether in use or not in use, are located in, on or under any part of the Mortgaged Property; Mortgagors and the Mortgaged Property are in compliance with all applicable local, state and federal environmental laws and regulations, and Mortgagors will at all times cause the Mortgaged Property to continue to be in compliance therewith; no notice has been received by Mortgagor from any governmental authority or any individual or entity claiming violation of any environmental protection law or regulation, or demanding compliance with any environmental protection law or regulation, or demanding payment, indemnity, or contribution for any environmental damage or injury to natural resources, relating in any way to the Mortgaged Property, and Mortgagors will notify Mortgagee promptly in writing if any such notice is hereafter received by Mortgagors; and any Hazardous Substance used or produced in Mortgagors' business will be used, produced, stored, and disposed of in strict compliance with all applicable environmental laws and regulations. Mortgagors will notify Mortgagee immediately if any Hazardous Substance is spilled, released or discovered on or under the Mortgaged Property, and Mortgagors will take or cause to be taken such remedial action and work as may be necessary to be performed on the Mortgaged Property in order to remedy such spilled, released or discovered Hazardous Substance and to obtain a certificate of remediation or other certificate of compliance from all applicable governmental authorities. Upon Mortgagee's request, Mortgagors will promptly obtain, at Mortgagors' expense, and deliver to Mortgagee an

environmental inspection report or update of a previous report, in form acceptable to Mortgagee, prepared by a competent and reputable environmental engineer reasonably satisfactory to Mortgagee. As used herein, the term "Hazardous Substance" includes, without limitation, any asbestos, urea formaldehyde foam insulation, explosive, radioactive material, hazardous material, hazardous waste, hazardous or toxic substance, or related or unrelated substance or material which is defined, regulated, controlled, limited or prohibited in or by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) (42 U.S.C. Sections 9601 et. seq.), the Hazardous Materials Transportation Act (49 U.S.C. Sections 1801 et. seq.), the Resource Conservation and Recovery Act (RCRA) (42 U.S.C. Section 6901 et. seq.), the Clean Water Act (33 U.S.C. Sections 1251 et. seq.), the Clean Air Act (42 U.S.C. Section 7401 et. seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et. seq.), as any of the foregoing is now or hereafter amended, or in any other federal, state or local environmental law, ordinance, rule or regulation now or hereafter in effect.

9. That Mortgagors will indemnify and hold Mortgagee harmless from and against any and all loss, cost, damage, claim, liability and expense (including attorneys' fees and litigation expenses) incurred by Mortgagee on account of breach by Mortgagors' of any representation, warranty or covenant set forth in the immediately preceding paragraph, or any other matter related to environmental conditions on, under or affecting the Mortgaged Property not heretofore disclosed to Mortgagee.

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10. That all of the covenants and agreements of Mortgagors herein contained shall extend to and bind their respective heirs, executors, administrators, successors and assigns, and that such covenants and agreements and all options, rights, privileges and powers herein given, granted or secured to Mortgagee shall inure to the benefit of Mortgagee and its successors and assigns. As used in this mortgage, the term "Mortgagors" also means "Mortgagors, or any of them"; the singular includes the plural, and vice versa; and the use of one gender includes all other genders. The obligations of Mortgagors hereunder are joint and several. The provisions of this mortgage and of the note or notes secured hereby are severable, and the invalidity or unenforceability of any provision of this mortgage or of any such note or notes shall not affect the validity and enforceability of the other provisions of this mortgage or of such note or notes. The remedies provided to Mortgagee herein are cumulative with the rights and remedies of Mortgagee under any other agreement, at law and in equity, and such rights and remedies may be exercised concurrently or consecutively. Time is of the essence with respect to every covenant contained in this mortgage. This mortgage also constitutes a financing statement, and a carbon or photostatic copy of this mortgage may be filed as a financing statement in any public office.

UPON CONDITION, HOWEVER, that if Mortgagors shall well and truly pay



and discharge all the Secured Indebtedness (including, without limitation, all extensions, renewals and increases of the original indebtedness and all future advances) as the same shall become due and payable and shall in all things do and perform all acts and covenants by them herein agreed to be done or performed in strict accordance with the tenor and effect thereof, and if there is no outstanding commitment or agreement by Mortgagee to make advances, incur obligations or otherwise give value under any agreement, including, without limitation, agreements providing for future advances, open-end, revolving or other lines of credit, or letters of credit, then and in that event only this conveyance and the security interest herein granted shall be and become null and void; but should default be made in the payment when due (whether as originally scheduled or upon acceleration of maturity) of the Secured Indebtedness or any part thereof or any renewals, extensions or increases thereof or any interest thereon or should default be made in the repayment of any sum expended by Mortgagee under the authority of any provision of this mortgage, or should the interest of Mortgagee in the Mortgaged Property or any of the personal property described above become endangered by reason of the enforcement of any lien or encumbrance thereon, or should a petition to condemn all or any part of the Mortgaged Property be filed by any authority, person or entity having power of eminent domain, or should any law, either state or federal, be passed imposing or authorizing the imposition of a specific tax upon this mortgage or the Secured Indebtedness or permitting or authorizing the deduction of any such tax from the principal or interest secured by this mortgage or by virtue of which any tax or assessment upon the Mortgaged Property shall be charged against the owner of this mortgage, or should at any time any of the covenants contained in this mortgage or in any note or other evidence of Secured Indebtedness be declared invalid or unenforceable by any court of competent jurisdiction, or should Mortgagors fail to do and perform any other act or thing herein required or agreed to be done, then in any of said events the whole of the Secured Indebtedness, or any portion or part thereof which may at said date not have been paid, with interest thereon, shall at once become due and payable and this mortgage subject to foreclosure at the option of Mortgagee, notice of the exercise of such option being hereby expressly waived by

Mortgagors, and Mortgagee shall have the right to enter upon and take possession of the Mortgaged Property and after or without taking such possession to sell the same (or such part or parts thereof as Mortgagee may from time to time elect to sell) at the front or main door to the courthouse of the County (or the division thereof) where said property, or any substantial and material part of said property, is located, at public outcry for cash, after first giving notice of the description of the property to be sold and the time, place and terms of such sale by publication once a week for three consecutive weeks prior to said sale in some newspaper published in the county or counties in which the property to be sold is located (or if no newspaper is published in any such county, then in a newspaper published in an adjoining

county); and upon the payment of the purchase price, Mortgagee or the auctioneer at said sale is authorized to execute to the purchaser for and in the name of Mortgagors a good and sufficient deed to the property sold. Mortgagee shall apply the proceeds of any sale or sales under this mortgage as follows: First, to the expenses of advertising, selling, preparing the property for sale, and conveying, including reasonable attorneys' fees (including attorneys' fees incurred by Mortgagee in connection with any proceeding seeking to enjoin the foreclosure of this mortgage or otherwise challenging the right of Mortgagee to foreclose this mortgage or sell any of the Mortgaged Property under this mortgage and attorneys' fees incurred in connection with any appeal); second, to the payment of any amounts that may have been expended or that may then be necessary to expend in paying insurance, taxes, assessments, and other liens and mortgages, and in making repairs, with interest thereon; third, to the payment of the Secured Indebtedness and interest thereon in such order as Mortgagee may elect, whether such debts shall or shall not have fully matured at the date of said sale; and fourth, the balance, if any, to be paid over to Mortgagors or to whomsoever then appears of record to be the owner of Mortgagors' interest in said property. Mortgagee may bid and become the purchaser of the Mortgaged Property at any sale hereunder. Mortgagors hereby waive any requirement that the Mortgaged Property be sold in separate tracts and agree that Mortgagee may, at its election, sell said property en masse regardless of the number of parcels hereby conveyed. The power of sale granted herein is a continuing power and shall not be fully exercised until all of the Mortgaged Property not previously sold shall have been sold or all of the indebtedness and other obligations secured hereby have been satisfied in full. And upon the occurrence of any such event described above, with respect to all of the Mortgaged Property which is personal property, Mortgagee shall have the rights and remedies of a secured party after default by its debtor under the Alabama Uniform Commercial Code, and shall have, without limitation, the right to take possession of any of the property herein transferred which is personal property and, with our without taking possession thereof, to sell the same at one or more public or private sales, or to proceed as to both the real property and personal property in accordance with Mortgagee's rights and remedies in respect of the real property, at the election of Mortgagee. At Mortgagee's request, Mortgagors agree to assemble such property and to make the same available to Mortgagee at such place as Mortgagee shall reasonably designate. Mortgagors hereby waive, to the extent permitted by law, any requirement of a judicial hearing and notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of said property, or of any part thereof, will be held and agree that any required notice which cannot be waived shall be sufficient if delivered to Mortgagors or mailed to Mortgagors at the address set forth above, or such other address as Mortgagors shall have furnished to Mortgagee in writing for that purpose, not less than ten days before the date of such sale or other intended disposition of said property.



IN WITNESS WHEREOF, the undersigned has caused this instrument to be executed (and its seal to be affixed hereto) by its officer(s) thereunto duly authorized, as of the day and year first above written.

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

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Its: Vice President - CFO  
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STATE OF ALABAMA                    )  
  :  
COUNTY OF LAUDERDALE            )

CORPORATE ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, hereby certify that James W. Truitt, whose name as Vice President - CFO of Martin Industries, Inc., a Delaware corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 5th day of April, 2002.

/s/ DIANE S. MCGEE

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Notary Public

[NOTARIAL SEAL]

My commission expires: 08-20-04  
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EXHIBIT A

Fee Property

Parcels II, V and VII (6 pages)

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EXHIBIT B

Leasehold Property

Parcels I and VI (3 pages)

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[Letterhead of AmSouth Bank]

April 1, 2002

Martin Industries, Inc.  
Attention: Mr. James W. Truitt  
Vice President and Chief Financial Officer  
P.O. Box 128  
Florence, Alabama 35631

Re: Line of Credit (Account #120435-524769); Loan Agreement dated January 7, 1993, as amended April 5, 1994, February 17, 1995, March 15, 1995, March 28, 1996, August 28, 1997, January 1, 2000, December 29, 2000, January 31, 2001, March 15, 2001, May 15, 2001, June 15, 2001, September 1, 2001, October 15, 2001, October 31, 2001, November 9, 2001, November 19, 2001, November 26, 2001, December 19, 2001 and January 11, 2002 (collectively "Loan Agreement") by and among Martin Industries, Inc. ("Martin Industries") and AmSouth Bank ("the Bank"). In this letter capitalized terms shall be given the meanings indicated in the Loan Agreement and/or in this letter.

Dear Mr. Truitt:

I am writing this letter to you concerning the indebtedness ("Indebtedness") referenced above of Martin Industries to the Bank and your recent request that the Loan Agreement be amended to effect an extension of the Line of Credit Termination Date. You have also requested a waiver of certain covenants included in the Loan Agreement.

In response to your requests, the Bank hereby amends the Loan Agreement as follows:

A. The definition of "Line of Credit Termination Date" in Section 1.02 is amended as follows:

LINE OF CREDIT TERMINATION DATE shall mean the earlier to occur of (a) the date on which an Event of Default occurs or (b) July 1, 2002 (or such later termination date as the Borrower and the Lender hereafter agree on in a written extension agreement pursuant to Section 3).

Effective as of April 1, 2002, all references in the Loan Documents to the "Loan Agreement" shall mean the Loan Agreement, as heretofore modified and amended and as further modified and amended hereby.

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In all other respects, the Loan Agreement shall remain in full force and effect in accordance with its terms.

In addition to the foregoing, the Bank waives any default or Event of Default arising out of the Borrower's failure to comply with Sections 8.09, 8.11, 8.12, 8.13 and 8.20 of the Loan Agreement with respect to the fiscal periods ended through March 31, 2002.

We are also aware that Martin Industries is in discussions to obtain financing in an amount of up to \$2.0 million from M-TIN, LLC (the "M-TIN Loan"). We understand that the indebtedness will be secured by a first mortgage in favor of

M-TIN, LLC on Martin Industries' real property located in the Alabama counties of Colbert, Limestone and Lauderdale (the "Properties"). We acknowledge and consent to Martin Industries obtaining the M-TIN Loan and waive the covenants contained in Sections 8.02 and 8.03 of the Loan Agreement dated January 7, 1993, as amended, with respect to the proposed transaction with M-TIN, LLC. We also waive with respect to the M-TIN Loan the agreement contained in our letter to Martin Industries dated October 22, 2001, which requires that one half of the proceeds of any loan obtained by Martin Industries which is secured by the Properties be paid to AmSouth Bank to reduce the Company's line of credit.

In addition, the Bank agrees that the payment of the fee in the amount of One Hundred Thousand and No/100 Dollars (\$100,000) due to be paid to the Bank by Martin Industries on April 1, 2002 (the "Maturity Fee"), is extended to July 1, 2002; provided, however, that if Martin Industries pays in full all amounts outstanding under the Line of Credit Note on or before April 30, 2002, Martin Industries shall not be obligated to pay the Maturity Fee; and, provided further, that if Martin Industries pays in full all amounts outstanding under the Line of Credit Note following April 30, 2002, but on or before May 31, 2002, Martin Industries shall be obligated to pay only one-half of the Maturity Fee (\$50,000.00).

To evidence the acceptance of the foregoing amendments and agreements on the terms and conditions set forth herein, please sign and return to me the enclosed copy of this letter agreement. By so signing the enclosed copy of this letter agreement, Martin Industries acknowledges and agrees to the following terms and conditions of such amendments and agreements:

1. This letter agreement shall not be deemed to be an accord and satisfaction of the Indebtedness or any other obligation owed to the Bank.
2. All collateral that now secures all or any of the Indebtedness shall continue to secure same. Nothing in this letter agreement diminishes any security interest or lien that the Bank has in any assets securing the Indebtedness. All of the collateral, rights, security, and guarantees that the Bank now has to secure any of the Indebtedness due from Martin Industries shall remain in full force and effect and are hereby ratified and confirmed.
3. The Bank reserves all of its rights and remedies under the Loan Agreement, the Security Documents, any other Loan Documents, and/or applicable law, in respect of any Event(s) of

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Default. The current non-exercise by the Bank of any rights and remedies which it may have shall not constitute a release or waiver of any of its rights and/or remedies or a release or waiver of any Event(s) of Default under the Loan Agreement, the Security Documents, or any other Loan Documents, except for the Waiver provided in this letter agreement. The Bank specifically reserves the right to invoke any and all rights and remedies at any time in its sole discretion.

4. Martin Industries hereby releases, satisfies, cancels, waives, acquits, and forever discharges the Bank, its directors, officers, employees, agents, attorneys, successors and assigns, of and from any and all claims, demands, actions, or causes of action of any kind or character, arising at any time in the past, up to and including the date of this letter agreement, which relate or pertain in any way to the Indebtedness and/or collection of them.
5. The Indebtedness is owed by Martin Industries to the Bank for the amount (exclusive of outstanding letters of credit, ACH exposures and the Bank's attorneys fees) herein stated and there are no defenses, setoffs, or counterclaims with respect thereto:

<TABLE>  
<CAPTION>

General Description	Obligation No.	Payoff as of 4/1/02
<S> Line of Credit	<C> #524769	<C> \$5,705,956.37

</TABLE>

6. Martin Industries agrees to pay the Indebtedness strictly and promptly in accordance with the terms of the applicable promissory notes or other debt instruments, as specifically modified by the Loan Agreement and this letter agreement.
7. Martin Industries shall pay to the Bank a fee in the total amount of Ten Thousand and No/100 Dollars (\$10,000.00), \$5,000 of which (the "Closing Fee") shall be payable upon the execution of this letter agreement and \$5,000 of which shall be payable on April 30, 2002. Subject to the terms and conditions otherwise applicable to the making of Advances under the Loan Agreement, Martin Industries may request and receive an Advance to pay the Closing Fee.
8. In the event Martin Industries does not pay in full all amounts outstanding under the Line of Credit on or before June 30, 2002, Martin Industries will issue to the Bank warrants to purchase common stock in Martin Industries equal to ten percent (10%) of the outstanding shares of Martin Industries for a per share purchase price to be agreed upon by the Bank and Martin Industries. Martin Industries and the Bank agree to negotiate in good faith and establish the per share purchase price on or before April 5, 2002. The failure by the parties to establish the per share purchase price by April 5, 2002, shall constitute an Event of Default under the Loan Agreement.
9. Martin Industries agrees to grant to the Bank a mortgage in the Properties (the "Second Mortgage"), subject to the first priority mortgage in favor of M-TIN, LLC. The Second

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Mortgage shall be subordinate to the mortgage in favor of M-TIN, LLC securing only the M-TIN Loan and shall further provide that it shall also be subordinated to any financing obtained by Martin Industries which replaces the M-TIN Loan, provided such substitute financing does not exceed \$2 million. The Bank will be subordinated to the amount of any such replacement financing in an amount which is the lesser of (i) the amount outstanding on the M-TIN Loan at the time of the replacement financing, or (ii) \$2 million. Further, in the event Martin Industries obtains replacement financing which is secured by the Properties and is in excess of \$2 million, Martin Industries shall pay to the Bank one half of the amount received in excess of \$2 million to reduce the Indebtedness. Martin Industries and the Bank will enter into documentation deemed necessary by the parties to effect the Second Mortgage on or before April 5, 2002.

10. Martin Industries agrees to pay to the Bank's counsel, Wilmer, Lee & Rowe, P.A., on or before April 30, 2002, all of its attorney's fees incurred in connection with this amendment, the Second Mortgage and/or the collection of the Indebtedness.

Very truly yours,

/s/ DARLENE CHANDLER

Darlene Chandler  
Vice President

cc: Denson N. Franklin III, Esq.  
S. Dagnal Rowe, Esq.

ACCEPTED AND AGREED TO BY:

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

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James W. Truitt  
Its Vice President and Chief Financial Officer

THE MAXIMUM PRINCIPAL AMOUNT OF INDEBTEDNESS SECURED BY THIS MORTGAGE IS TWO MILLION AND NO/100 DOLLARS (\$2,000,000.00), AS MORE PARTICULARLY DESCRIBED HEREIN.

This instrument prepared by:  
Kenneth T. Wyatt  
Bradley Arant Rose & White LLP  
2001 Park Place, Suite 1400  
Birmingham, Alabama 35203-2736

STATE OF ALABAMA )  
 )  
 )  
COLBERT, LAUDERDALE and )  
LIMESTONE COUNTIES )

REAL ESTATE MORTGAGE, SECURITY AGREEMENT  
AND FINANCING STATEMENT

This Real Estate Mortgage, Security Agreement and Financing Statement is made and entered into on or as of the 4th day of April, 2002, by and between MARTIN INDUSTRIES, INC., a Delaware corporation (whether one or more, "Mortgagors"), whose address is 301 East Tennessee Street, Florence, Alabama 35631 and AMSOUTH BANK, an Alabama banking corporation ("Mortgagee"), whose address is 1900 5th Avenue North, 6th Floor, Birmingham, Alabama 35203.

W I T N E S S E T H:  
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WHEREAS, Mortgagors have become justly indebted to Mortgagee in the sum of Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00) together with interest thereon, as evidenced by that certain Modified, Amended and Restated Line of Credit Note dated as of June 15, 2001 in the original principal amount of \$11,000,000.00, as amended to reduce the outstanding amount to \$7,500,000.00.

NOW, THEREFORE, in consideration of the indebtedness described above and other valuable consideration to Mortgagors the receipt and sufficiency of which are hereby acknowledged, and in order to secure the payment and performance of the indebtedness described above, any extensions, renewals, modifications and increases thereof and substitutions therefor and all interest thereon, and all sums advanced by Mortgagee pursuant to the terms of this mortgage, and all other indebtedness (including future loans and advances) now or

hereafter owed to Mortgagee by any of the undersigned, whether such indebtedness is primary or secondary, direct or indirect, contingent or absolute, matured or unmatured, joint or several, and otherwise secured or not (all of the foregoing being sometimes referred to collectively in this mortgage as the "Secured Indebtedness"), and to

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secure compliance with all the covenants and stipulations hereinafter contained, Mortgagors do hereby grant, bargain, sell, convey, assign, grant a security interest in, transfer and warrant unto Mortgagee the following described real property and rights (collectively the "Mortgaged Property").

- (a) Fee Property. All those certain lot(s), piece(s) or parcel(s) of land located in Colbert, Limestone and Lauderdale Counties, Alabama more particularly described in Exhibit A, as the description of the same may be amended or supplemented from time to time, and all and singular the reversions and remainders in and to said land and the tenements, hereditaments, easements, rights-of-way or use, rights (including mineral and mining rights, and all water, oil and gas rights), privileges, royalties and appurtenances to said land, now or hereafter belonging or in anywise appertaining thereto, including any right, title, interest in, to or under any agreement or right granting, conveying or creating, for the benefit of said land, any easement, right or license in any way affecting other property and in, to or under any streets, ways, alleys, vaults, gores or strips of land adjoining said land or any parcel thereof, or in or to the air space over said land, all rights of ingress and egress by motor vehicles to parking facilities on or within said land, and all claims or demands of the Mortgagor either at law or in equity, in possession or expectancy of, in or to the same (all of the foregoing being hereinafter collectively called the "Fee Property").
- (b) Rights Under Lease. (i) The following leases: (A) that certain lease dated as of February 1, 1997, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 747, at page 749, (B) that certain lease dated as of December 1, 1964, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 642, at page 670, (C) that certain lease dated as of May 1, 1969, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as



lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 685, at page 207, (D) that certain lease dated as of June 14, 1973, between The Industrial Development Board of the City of Athens, as lessor, and the Mortgagor, as lessee, recorded in the Office of the Judge of Probate of Limestone County, Alabama, in Deed Book 714, at page 820, and (E) that certain lease dated as of August 1, 1978, between The Industrial Development Board of the City of Florence, as lessor, and the Borrower, as lessee, recorded in the Office of the Judge of Probate of Lauderdale County, Alabama, in Deed Book 1139, at page 1133 (collectively hereinafter called the "Lease"), and the Mortgagor's leasehold estate and interest under the Lease in and to all those certain lot(s), piece(s) or parcel(s) of land described in the Lease and located in Limestone and Lauderdale Counties, Alabama more particularly described in Exhibit B, as the description of the same may be amended or supplemented from time to time, and all and singular the reversions and remainders in and to said land and the tenements, hereditaments, easements, rights-of-way or use, rights (including mineral, water, oil and gas rights), privileges, royalties and appurtenances to said land, now or hereafter belonging or in anywise appertaining thereto, including any

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right, title, interest of the Mortgagor in, to or under the Lease in any agreement or right granting, conveying or creating, for the benefit of said land, any easement, right or license in any way affecting other property and in, to or under any streets, ways, alleys, vaults, gores or strips of land adjoining said land or any parcel thereof, or in or to the air space over said land, all rights of ingress and egress by motor vehicles to parking facilities on or within said land, and all claims or demand of Mortgagor either at law or in equity, in possession or expectancy of, in or to the same (all of the foregoing being hereinafter collectively called the "Leasehold Property" and together with the Fee Property being called the "Land"); (ii) all other rights, titles and privileges under the Lease in and to the Leasehold Property, or any part thereof, including any reversions and remainders in and to the Mortgagor's interest in the leasehold Property; and (iii) any and all right, title and interest of the Mortgagor in and to (A) all modifications, extensions, renewals, supplements and restatements of the Lease; (B) all credits and deposits made thereunder; (C) all options and rights to renew or extend the same, including, but not limited to, the options contained in the Lease; (D) all options and

rights to purchase or of first refusal with respect to the Leasehold Property, or any part thereof, including, but not limited to, the options and rights contained in the Lease; and (E) all other, further or additional title, estate, options, privileges, interest or rights that the Mortgagor may now or hereafter acquire in and to the Leasehold Property and the Lease.

- (c) Improvements. All buildings, structures, facilities and other improvements now or hereafter located on the Land, and all building material, building equipment and fixtures of every kind and nature now or hereafter located on the Land or attached to, contained in, or used in connection with, any such buildings, structures, facilities or other improvements, and all appurtenances and additions thereto and betterments, renewals, substitutions and replacements thereof, now owned by the Borrower or in which the Borrower has or shall acquire an interest (all of the foregoing being hereinafter collectively called the "Improvements," and together with the Land called the "Real Property").
- (d) Tenant Leases and Rents. (i) All leases, subleases, lettings and licenses, and other use and occupancy agreements, written or oral, covering any of the Real Property with respect to which the Mortgagor is the lessor, licensor or sublessor, including any of the same now in existence (all of the foregoing being hereinafter collectively called the "Existing Tenant Leases"), and any and all other such agreements hereinafter made or entered into (all the foregoing being hereinafter collectively called the "Tenant Leases"); (ii) any and all guaranties of the performance of the lessee, licensee, sublessee or occupant (all of the foregoing being hereinafter collectively called the "Tenants") under any of the Tenant Leases; (iii) the immediate and continuing right to collect and receive all of the rents, income, receipts, revenues, issues and profits now due or that may become due or to which the Mortgagor may now or shall hereafter (including during the period of redemption, if any) become entitled or may demand or claim, arising or issuing from or out of the Tenant Leases, the Real Property, or any part thereof, including minimum rents, additional rents,

percentage rents, common area maintenance charges, parking charges, tax and insurance premium contributions, and liquidated damages following default, the premium payable by any Tenant upon the exercise of any cancellation privilege provided for in any of the Tenant Leases, and all proceeds

payable under any policy of insurance covering loss of rents resulting from untenability caused by destruction or damage to the Real Property, together with any and all rights and claims of any kind that the Mortgagor may have against any Tenant (all such moneys, rights and claims described in this section hereinafter collectively referred to as the "Rents"); provided, however, that so long as no Event of Default (as defined in the instruments evidencing the Secured Indebtedness) has occurred, the Mortgagor shall have the right under a license granted hereby to collect, receive and retain the Rents, but no Rents shall be collected prior to the due date thereof; and (iv) any award, dividend or other payment made hereafter to the Mortgagor in any court procedure involving any of the Tenants in any bankruptcy, insolvency or reorganization proceedings before any governmental authority and any and all payments made by Tenants in lieu of rent.

- (e) Insurance Policies. All policies of hazard insurance now or hereafter in effect that insure the Improvements, or any part thereof, together with all right, title and interest of the Mortgagor in and to each and every such policy, including any premiums paid and rights to returned premiums.
- (f) Condemnation Awards. All judgments, damages, settlements, awards, payments and compensation, including all interest thereon, together with the right to receive the same, that may be made or due to the Mortgagor or any subsequent owner of any of the Real Property, or any other property or rights conveyed or encumbered hereby, as a result of (i) the exercise of the right of eminent domain or condemnation, (ii) the alteration of the grade of any street or (iii) any other injury to or diminution or decrease in value of the Real Property, the Tenant Leases, the Rents or any other such property or rights.
- (g) Supplemental Documents. All changes, additions, supplements, modifications, amendments, extensions, renewals, revisions and guaranties to, of or for any agreement or instrument included in the foregoing.
- (h) Proceeds. All proceeds (including insurance proceeds) of any of the foregoing, or of any part thereof.

TO HAVE AND TO HOLD the same and every part thereof unto Mortgagee, its successors and assigns forever.

This mortgage is given to secure the Secured Indebtedness; provided, however, that notwithstanding anything to the contrary contained herein: (i) the maximum principal amount of indebtedness secured by this mortgage (the "Principal Indebtedness") shall be limited to the sum of Two Million and No/100 Dollars (\$2,000,000.00) (the "Maximum Principal Amount") of the

Secured Indebtedness outstanding from time to time; and (ii) the limitation contained in this paragraph shall pertain only to the Principal Indebtedness and shall not be construed as limiting the amount of interest, fees, expenses, indemnified amounts and other Secured Indebtedness secured hereby that are not Principal Indebtedness, it being the intention of the parties to this mortgage that this mortgage shall secure any Principal Indebtedness remaining unpaid at the time of foreclosure up to the Maximum Principal Amount, plus interest thereon, all costs of collection and all other amounts (except Principal Indebtedness in excess of the Maximum Principal Amount) included in the Secured Indebtedness. This Mortgage shall secure the last remaining unpaid portion of the Secured Indebtedness and therefore (i) the security of this Mortgage shall not be diminished by any prepayment or repayment of the Secured Indebtedness, and (ii) this Mortgage shall remain in full force and effect until all of the Secured Indebtedness are paid in full and all other obligations secured hereby are paid and performed in full.

This mortgage is junior and subordinate to that certain first mortgage granted to M-TIN, LLC, an Alabama limited liability company, recorded in the office of the judge of probate of Lauderdale County at \_\_\_\_\_, \_\_\_\_\_, and in the office of the judge of probate of Colbert County at \_\_\_\_\_, \_\_\_\_\_, and in the office of the judge of probate of Limestone County at \_\_\_\_\_, \_\_\_\_\_ (hereinafter called the "Prior Mortgage"). It is specifically agreed that in the event default should be made in the payment of principal, interest or any other sums payable under the terms and provisions of the Prior Mortgage, Mortgagee shall have the right without notice to anyone, but shall not be obligated, to make good such default by paying whatever amounts may be due under the terms of the Prior Mortgage so as to put the same in good standing, and any and all payments so made shall be added to the obligations secured by this mortgage and the obligations (including all such payments) shall be immediately due and payable, at the option of Mortgagee, and this Mortgage shall be subject to foreclosure in all respects as provided by law and by the provisions hereof.

For the purpose of further securing the payment of all of the Secured Indebtedness Mortgagors represent, warrant, covenant and agree with Mortgagee, its successors and assigns, as follows:

1. That they are lawfully seized in fee and possessed of the Mortgaged Property subject to easements, restrictions, and encumbrances of record, matters that would be revealed by a current survey, and liens for ad valorem taxes not yet due and payable, they have a good right to convey the same as aforesaid, and they will warrant and forever defend the title of Mortgagee to the Mortgaged Property against the lawful claims of all persons whomsoever.

2. That they will pay when due all taxes, assessments, and other liens or mortgages, taking priority over this mortgage. If Mortgagors' interest in the Mortgaged Property or any part thereof is other than a freehold estate,

Mortgagors agree to pay all rents and perform all covenants due to be paid and performed under the lease or other agreement whereby such interest is created exactly when due, to maintain such lease or agreement in full force and effect in accordance with its terms, and not to attempt to amend or terminate the lease or agreement without Mortgagee's prior written consent.

3. That they will keep the buildings and other improvements now or hereafter located on the Mortgaged Property and all building materials, appliances, equipment, fixtures and fittings now or hereafter located on the Mortgaged Property and the other personal property described above continuously insured against loss or damage, including loss by fire (including so-called extended coverage), wind and such other hazards (including flood and water damage) as Mortgagee may reasonably specify from time to time, with loss, if any, payable to Mortgagee under a standard mortgagee's clause providing at least thirty (30) days notice to Mortgagee before cancellation or lapse of such insurance, and will deposit with Mortgagee policies of such insurance or, at Mortgagee's election, certificates thereof, and will pay the premiums therefor as the same become due. Mortgagors may provide such insurance through an existing policy or a policy or policies independently obtained and paid for by Mortgagors. Mortgagee may, for reasonable cause, refuse to accept any policy of insurance offered or obtained by Mortgagors. Mortgagors shall give prompt notice in writing to Mortgagee of any loss or damage to the Mortgaged Property from any cause whatever. If Mortgagors fail to keep said property insured as above specified, Mortgagee may insure said property for its insurable value or the unpaid balance of the Secured Indebtedness against loss by fire, wind and other hazards for the benefit of Mortgagors and Mortgagee or for the benefit of Mortgagee alone, at Mortgagee's election. The proceeds of all insurance on the Mortgaged Property and the other personal property described above shall be paid by the insurer to Mortgagee, which is hereby granted full power to settle and compromise claims under all policies, to endorse in the name of Mortgagors any check or draft representing the proceeds of any such insurance, and to demand, receive and give receipt for all sums becoming due thereunder. Insurance proceeds collected by or paid to Mortgagee may be credited on the indebtedness secured by this mortgage, less costs of collection, or may be used in repairing or reconstructing the improvements on the Mortgaged Property, at Mortgagee's election. No crediting of insurance proceeds to the Secured Indebtedness and no application of insurance proceeds to repairing or reconstructing improvements on the Mortgaged Property shall extend or postpone the due date of any scheduled payments of the Secured Indebtedness or reduce the amount of such payments. In the event of a dispute with any insurer regarding coverage, the amount of any loss, or the like, Mortgagee may bring an action or join in any action against the insurer, at Mortgagee's election. If Mortgagee elects not to bring an action or to join in any action and Mortgagors elect to pursue any claim or action against the insurer, Mortgagors agree to do so solely at their expense, and Mortgagors waive any right to require Mortgagee to join in the claim or action or to charge Mortgagee with any part of the expenses of the claim or action even

if Mortgagee benefits from it.

4. That they will take good care of the Mortgaged Property and the personal property described above and will not commit or permit any waste thereon or thereof, and they will keep the same repaired and at all times will maintain the same in as good condition as it now is, reasonable wear and tear alone excepted. If Mortgagors fail to make repairs to the Mortgaged Property, Mortgagee may make such repairs at Mortgagors' expense. Mortgagee, its agents and employees, may enter the Mortgaged Property and any improvements thereon at any reasonable time for the purpose of inspecting or repairing such improvements.

5. That upon failure of Mortgagors to perform any covenant herein made, Mortgagee shall have the right and power, at its election, to perform such act on behalf of Mortgagors, but Mortgagee shall have no duty to perform such act or to give notice of its intention not to perform,

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whether or not it has performed or given notice of its intention not to perform on one or more previous occasions. All amounts expended by Mortgagee for insurance or for the payment of taxes or assessments or to discharge liens or mortgages on the Mortgaged Property or other obligations of Mortgagors or to make repairs to the Mortgaged Property or any improvements thereon shall become a debt due Mortgagee, shall be payable at once without demand upon or notice to any person, shall bear interest at the rate of interest payable on the principal sum of the note described above, or if no such rate of interest is specified in the note, or if the rate specified would be unlawful, at the rate of 8% per annum from the date of payment by Mortgagee until date paid by Mortgagors, and such debt and the interest thereon shall be secured by this mortgage. Upon failure of Mortgagors to reimburse Mortgagee for all amounts so expended, at the election of Mortgagee and with or without notice to any person, Mortgagee may declare the entire Secured Indebtedness to be due and payable and may foreclose this mortgage as hereinafter provided or as provided by law.

6. That no delay or failure of Mortgagee to exercise any option to declare the maturity of any debt secured by this mortgage shall be deemed a waiver of the right to exercise such option or to declare such forfeiture either as to past, present or future defaults on the part of Mortgagors, and that the procurement of insurance or payment of taxes or other liens or assessments or performance of other obligations of Mortgagors by Mortgagee shall not constitute or be deemed to be a waiver of the right to accelerate the maturity of the Secured Indebtedness by reason of the failure of Mortgagors to procure such insurance or to pay such taxes, liens, or assessments or perform such other obligations, it being agreed by Mortgagors that no terms or conditions contained in this mortgage can be waived, altered or changed except by a writing signed by Mortgagee.

7. That, unless Mortgagee's written consent has been obtained in



advance, (a) Mortgagor will not cause or allow possession of the Mortgaged Property to be in any other person or entity to the exclusion of Mortgagors, (b) Mortgagor will not cut, remove, sell or contract to sell any standing timber from the Mortgaged Property, and (c) Mortgagor will not sell, assign, transfer, convey, lease, or sublet all or any part of the Mortgaged Property or any oil, gas or mineral rights or other interest therein, excluding only the creation of a lien or encumbrance expressly subordinate to this mortgage. Mortgagee may condition its consent to any such transfer of possession of, or an interest in, the Mortgaged Property upon the obligors' or transferee's agreeing to pay a greater rate of interest on all or any part of the Secured Indebtedness or to adjust the payment schedule of all or any part of the Secured Indebtedness, and upon Mortgagee's approval of the creditworthiness of the transferee and the transferee's payment to Mortgagee of a reasonable transfer or assumption fee.

8. That, except as otherwise expressly disclosed by Mortgagors to Mortgagee in writing on the date of this mortgage, no Hazardous Substance (as defined below) has been spilled, released, discharged, or disposed of on or under the Mortgaged Property by Mortgagors or, to the best of Mortgagors' knowledge, by any third party or any predecessor in interest or title to Mortgagors; no underground storage tanks, whether in use or not in use, are located in, on or under any part of the Mortgaged Property; Mortgagors and the Mortgaged Property are in compliance with all applicable local, state and federal environmental laws and regulations, and Mortgagors will at all times cause the Mortgaged Property to continue to be in compliance therewith; no notice has been received by Mortgagor from any governmental authority or any individual or entity claiming violation of any environmental protection law or regulation, or demanding compliance with any environmental

protection law or regulation, or demanding payment, indemnity, or contribution for any environmental damage or injury to natural resources, relating in any way to the Mortgaged Property, and Mortgagors will notify Mortgagee promptly in writing if any such notice is hereafter received by Mortgagors; and any Hazardous Substance used or produced in Mortgagors' business will be used, produced, stored, and disposed of in strict compliance with all applicable environmental laws and regulations. Mortgagors will notify Mortgagee immediately if any Hazardous Substance is spilled, released or discovered on or under the Mortgaged Property, and Mortgagors will take or cause to be taken such remedial action and work as may be necessary to be performed on the Mortgaged Property in order to remedy such spilled, released or discovered Hazardous Substance and to obtain a certificate of remediation or other certificate of compliance from all applicable governmental authorities. Upon Mortgagee's request, Mortgagors will promptly obtain, at Mortgagors' expense, and deliver to Mortgagee an environmental inspection report or update of a previous report, in form acceptable to Mortgagee, prepared by a competent and reputable environmental engineer reasonably satisfactory to Mortgagee. As used herein, the term "Hazardous Substance" includes, without limitation, any asbestos, urea formaldehyde foam insulation, explosive, radioactive material, hazardous

material, hazardous waste, hazardous or toxic substance, or related or unrelated substance or material which is defined, regulated, controlled, limited or prohibited in or by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) (42 U.S.C. Sections 9601 et. seq.), the Hazardous Materials Transportation Act (49 U.S.C. Sections 1801 et. seq.), the Resource Conservation and Recovery Act (RCRA) (42 U.S.C. Section 6901 et. seq.), the Clean Water Act (33 U.S.C. Sections 1251 et. seq.), the Clean Air Act (42 U.S.C. Section 7401 et. seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et. seq.), as any of the foregoing is now or hereafter amended, or in any other federal, state or local environmental law, ordinance, rule or regulation now or hereafter in effect.

9. That Mortgagors will indemnify and hold Mortgagee harmless from and against any and all loss, cost, damage, claim, liability and expense (including attorneys' fees and litigation expenses) incurred by Mortgagee on account of breach by Mortgagors' of any representation, warranty or covenant set forth in the immediately preceding paragraph, or any other matter related to environmental conditions on, under or affecting the Mortgaged Property not heretofore disclosed to Mortgagee.

10. That all of the covenants and agreements of Mortgagors herein contained shall extend to and bind their respective heirs, executors, administrators, successors and assigns, and that such covenants and agreements and all options, rights, privileges and powers herein given, granted or secured to Mortgagee shall inure to the benefit of Mortgagee and its successors and assigns. As used in this mortgage, the term "Mortgagors" also means "Mortgagors, or any of them"; the singular includes the plural, and vice versa; and the use of one gender includes all other genders. The obligations of Mortgagors hereunder are joint and several. The provisions of this mortgage and of the note or notes secured hereby are severable, and the invalidity or unenforceability of any provision of this mortgage or of any such note or notes shall not affect the validity and enforceability of the other provisions of this mortgage or of such note or notes. The remedies provided to Mortgagee herein are cumulative with the rights and remedies of Mortgagee under any other agreement, at law and in equity, and such rights and remedies may be exercised concurrently or consecutively. Time is of the essence with respect to every covenant contained in this mortgage. This mortgage also

constitutes a financing statement, and a carbon or photostatic copy of this mortgage may be filed as a financing statement in any public office.

UPON CONDITION, HOWEVER, that if Mortgagors shall well and truly pay and discharge all the Secured Indebtedness (including, without limitation, all extensions, renewals and increases of the original indebtedness and all future advances) as the same shall become due and payable and shall in all things do and perform all acts and covenants by them herein agreed to be done or performed in strict accordance with the tenor and effect thereof, and if there is no



outstanding commitment or agreement by Mortgagee to make advances, incur obligations or otherwise give value under any agreement, including, without limitation, agreements providing for future advances, open-end, revolving or other lines of credit, or letters of credit, then and in that event only this conveyance and the security interest herein granted shall be and become null and void; but should default be made in the payment when due (whether as originally scheduled or upon acceleration of maturity) of the Secured Indebtedness or any part thereof or any renewals, extensions or increases thereof or any interest thereon or should default be made in the repayment of any sum expended by Mortgagee under the authority of any provision of this mortgage, or should the interest of Mortgagee in the Mortgaged Property or any of the personal property described above become endangered by reason of the enforcement of any lien or encumbrance thereon, or should a petition to condemn all or any part of the Mortgaged Property be filed by any authority, person or entity having power of eminent domain, or should any law, either state or federal, be passed imposing or authorizing the imposition of a specific tax upon this mortgage or the Secured Indebtedness or permitting or authorizing the deduction of any such tax from the principal or interest secured by this mortgage or by virtue of which any tax or assessment upon the Mortgaged Property shall be charged against the owner of this mortgage, or should at any time any of the covenants contained in this mortgage or in any note or other evidence of Secured Indebtedness be declared invalid or unenforceable by any court of competent jurisdiction, or should Mortgagors fail to do and perform any other act or thing herein required or agreed to be done, then in any of said events the whole of the Secured Indebtedness, or any portion or part thereof which may at said date not have been paid, with interest thereon, shall at once become due and payable and this mortgage subject to foreclosure at the option of Mortgagee, notice of the exercise of such option being hereby expressly waived by Mortgagors, and Mortgagee shall have the right to enter upon and take possession of the Mortgaged Property and after or without taking such possession to sell the same (or such part or parts thereof as Mortgagee may from time to time elect to sell) at the front or main door to the courthouse of the County (or the division thereof) where said property, or any substantial and material part of said property, is located, at public outcry for cash, after first giving notice of the description of the property to be sold and the time, place and terms of such sale by publication once a week for three consecutive weeks prior to said sale in some newspaper published in the county or counties in which the property to be sold is located (or if no newspaper is published in any such county, then in a newspaper published in an adjoining county); and upon the payment of the purchase price, Mortgagee or the auctioneer at said sale is authorized to execute to the purchaser for and in the name of Mortgagors a good and sufficient deed to the property sold. Mortgagee shall apply the proceeds of any sale or sales under this mortgage as follows: First, to the expenses of advertising, selling, preparing the property for sale, and conveying, including reasonable attorneys' fees (including attorneys' fees incurred by Mortgagee in connection with any proceeding seeking to enjoin the foreclosure of this mortgage or otherwise challenging the right of Mortgagee to foreclose this

mortgage or sell any of the Mortgaged Property under this mortgage and attorneys' fees incurred in connection with any appeal); second, to the payment of any amounts that may have been expended or that may then be necessary to expend in paying insurance, taxes, assessments, and other liens and mortgages, and in making repairs, with interest thereon; third, to the payment of the Secured Indebtedness and interest thereon in such order as Mortgagee may elect, whether such debts shall or shall not have fully matured at the date of said sale; and fourth, the balance, if any, to be paid over to Mortgagors or to whomsoever then appears of record to be the owner of Mortgagors' interest in said property. Mortgagee may bid and become the purchaser of the Mortgaged Property at any sale hereunder. Mortgagors hereby waive any requirement that the Mortgaged Property be sold in separate tracts and agree that Mortgagee may, at its election, sell said property en masse regardless of the number of parcels hereby conveyed. The power of sale granted herein is a continuing power and shall not be fully exercised until all of the Mortgaged Property not previously sold shall have been sold or all of the indebtedness and other obligations secured hereby have been satisfied in full. And upon the occurrence of any such event described above, with respect to all of the Mortgaged Property which is personal property, Mortgagee shall have the rights and remedies of a secured party after default by its debtor under the Alabama Uniform Commercial Code, and shall have, without limitation, the right to take possession of any of the property herein transferred which is personal property and, with our without taking possession thereof, to sell the same at one or more public or private sales, or to proceed as to both the real property and personal property in accordance with Mortgagee's rights and remedies in respect of the real property, at the election of Mortgagee. At Mortgagee's request, Mortgagors agree to assemble such property and to make the same available to Mortgagee at such place as Mortgagee shall reasonably designate. Mortgagors hereby waive, to the extent permitted by law, any requirement of a judicial hearing and notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of said property, or of any part thereof, will be held and agree that any required notice which cannot be waived shall be sufficient if delivered to Mortgagors or mailed to Mortgagors at the address set forth above, or such other address as Mortgagors shall have furnished to Mortgagee in writing for that purpose, not less than ten days before the date of such sale or other intended disposition of said property.

IN WITNESS WHEREOF, the undersigned has caused this instrument to be executed (and its seal to be affixed hereto) by its officer(s) thereunto duly authorized, as of the day and year first above written.

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

Its: Vice President - CFO

STATE OF ALABAMA )  
 :  
COUNTY OF LAUDERDALE )

CORPORATE ACKNOWLEDGMENT

I, the undersigned, a Notary Public in and for said County and State, hereby certify that James W. Truitt, whose name as Vice President - CFO of Martin Industries, Inc., a Delaware corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 5th day of April, 2002.

/s/ DIANE S. MCGEE

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Notary Public

[NOTARIAL SEAL]

My commission expires: 08-20-04

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EXHIBIT A

Fee Property

Parcels II, V and VII (6 pages)

EXHIBIT B

Leasehold Property

Parcels I and VI (3 pages)

## SUBORDINATION AGREEMENT

This Subordination Agreement (this "Agreement") is made by and among Martin Industries, Inc., a Delaware corporation ("Martin"), M-TIN, LLC, an Alabama limited liability company ("M-TIN"), and AmSouth Bank, an Alabama banking corporation ("AmSouth") on or as of the 5th day of April, 2002.

WHEREAS, Martin is or is about to become indebted to M-TIN upon a certain promissory note in the original principal amount of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) (together with any extensions and renewals thereof, and substitutions therefore, the "M-TIN Promissory Note");

WHEREAS, Martin is indebted to AmSouth under a line of credit pursuant to that certain Loan Agreement dated January 7, 1993, as amended (the "Loan Agreement"), as evidenced by that certain \$11,000,000 Modified, Amended and Restated Line of Credit Note dated as of June 15, 2001, as amended to reduce the amount available thereunder to Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00) (together with any extensions and renewals thereof, and substitutions therefore, the "AmSouth Promissory Note"); and

WHEREAS, the M-TIN Promissory Note is to be secured by a first mortgage (the "First Mortgage") covering certain real property of Martin located in the Alabama counties of Colbert, Lauderdale, and Limestone, which properties are more particularly described on EXHIBITS A AND B attached hereto (the "Properties"); and

WHEREAS, the Properties are currently encumbered by a mortgage in favor of AmSouth dated as of January 7, 1993 and recorded in the Office of the Judge of Probate of Colbert County in Fiche 93-01, Frames 467-517, and in the Office of the Judge of Probate of Lauderdale County in Fiche 93-12, Frame 1-51, and in the Office of the Judge of Probate of Limestone County in Fiche 02669, Page 012 (the "1993 Mortgage"), which 1993 Mortgage is due to be satisfied by AmSouth as a result of Martin's payment in full of the term loan that was secured thereby; and

WHEREAS, Martin has requested and received from AmSouth an extension of the maturity of the AmSouth Promissory Note until July 1, 2002, and as a condition to such extension has agreed to secure the AmSouth Promissory Note and all other indebtedness of Martin to AmSouth with a second mortgage covering the Properties (the "Second Mortgage"); and

WHEREAS, the parties hereto desire to establish the priorities of their respective security interests arising from the First Mortgage and the Second Mortgage, and any future mortgage given in replacement of the First Mortgage;

NOW, THEREFORE, the parties hereto agree as follows:

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1. AmSouth acknowledges that the indebtedness secured by the 1993 Mortgage has been paid in full, and AmSouth agrees to satisfy of record the 1993 Mortgage.

2. AmSouth acknowledges and agrees that the Second Mortgage against the Properties is, and shall at all times hereafter remain, subject and subordinate in all respects to the lien of the First Mortgage upon the Properties subject to the limitations in paragraph 3, below.

3. AmSouth further agrees that the Second Mortgage shall be subject and subordinate in all respects to the First Mortgage and to any future mortgage upon the Properties given in substitution or exchange for the First Mortgage, or securing a refinancing or replacement loan to Martin (hereinafter a "Substitute Mortgage"); provided, that, in no event shall the aggregate indebtedness secured by the First Mortgage or any Substitute Mortgage at any time exceed the lesser of (i) the amount outstanding on the M-TIN Promissory Note (after giving effect to all principal reductions) plus up to an additional \$500,000.00 loaned from M-TIN to Martin (the "Additional Loan"), but only if the note evidencing such Additional Loan is pledged and delivered to AmSouth as collateral for the sums owing by M-TIN to AmSouth, or (ii) Two Million and No/100 Dollars (\$2,000,000.00). The parties hereto acknowledge and agree that, for purposes of this Subordination Agreement, (x) any principal reductions in the M-TIN Promissory Note will constitute permanent reductions in the amount subordinated hereunder, and any readvances and reborrowings of such sums will not be subordinated to the indebtedness owing to AmSouth, and (y) any sums advanced pursuant to the Additional Loan, if advanced in the form of a line of credit, may be repaid and reborrowed, and such reborrowed funds shall be subordinated by AmSouth pursuant to the terms of this Agreement but not to exceed \$500,000. AmSouth agrees, upon the request of M-TIN or Martin, to execute and deliver such documents as may be requested to evidence and confirm such subordination.

4. M-TIN's delay in or failure to exercise any right or remedy shall not be deemed a waiver of any obligation of Martin or AmSouth or any right of M-TIN. This Agreement may be modified, and any parties' rights hereunder waived, only by agreement in writing signed by the parties hereto.

5. This Agreement is solely for the benefit of, and shall be binding upon, Martin, AmSouth, M-TIN, and their respective successors and assigns, and shall not inure to the benefit of any other person or entity whatsoever.

6. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall

constitute but one and the same instrument.

7. This Agreement shall be governed by the laws of the State of Alabama.

IN WITNESS WHEREOF, the parties have hereto set their hands and seals on or as of the 5th day of April, 2002.

AMSOUTH BANK

By: /s/ DARLENE CHANDLER

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Its: Vice President  
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M-TIN, LLC

/s/ JOHN L. DUNCAN

-----  
By John L. Duncan  
Its Member

/s/ JIMMY D. CAUDLE, SR.

-----  
By Jimmy D. Caudle, Sr.  
Its Member

MARTIN INDUSTRIES, INC.

By: /s/ JAMES W. TRUITT

-----  
Its: Vice President - CFO  
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STATE OF ALABAMA )  
:

I, the undersigned, a Notary Public in and for said County in said State, hereby certify that Darlene Chandler, whose name as Vice President of AmSouth Bank, an Alabama banking corporation, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument, he/she, as such officer and with full authority, executed the same voluntarily on the day the same bears date.

Given under my hand and official seal this the 8th day of April, 2002.

/s/ HATTIE EVANS

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Notary Public

[NOTARIAL SEAL]

My Commission expires: January 17, 2004

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STATE OF ALABAMA )  
 :  
LAUDERDALE COUNTY )

I, the undersigned, a Notary Public in and for said County in said State, hereby certify that John L. Duncan, whose name as Member of M-TIN, LLC, an Alabama limited liability company, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument, he, in his capacity as a Member and with full authority, executed the same voluntarily on the day the same bears date.

Given under my hand and official seal this the 5th day of April, 2002.

/s/ DIANE S. MCGEE

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Notary Public

[NOTARIAL SEAL]

My Commission expires: 08-20-04

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STATE OF ALABAMA                    )  
  :  
MADISON COUNTY                    )

I, the undersigned, a Notary Public in and for said County in said State, hereby certify that Jimmy D. Caudle, Sr., whose name as Member of M-TIN, LLC, an Alabama limited liability company, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument, he, in his capacity as a Member and with full authority, executed the same voluntarily on the day the same bears date.

Given under my hand and official seal this the 5th day of April, 2002.

/s/ PAMELA MORRING

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Notary Public

[NOTARIAL SEAL]

My Commission expires: 9-28-04  
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STATE OF ALABAMA                    )  
  :  
LAUDERDALE COUNTY                )

I, the undersigned, a notary public in and for said county in said state, hereby certify that James W. Truitt, whose name as Vice President - CFO of Martin Industries, Inc., a Delaware corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 5th day of April, 2002.

/s/ DIANE S. MCGEE

-----  
Notary Public

[NOTARIAL SEAL]

My Commission expires: 08-20-04

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6

EXHIBIT A

THE FEE PROPERTY

See attached.

7

EXHIBIT B

THE LEASEHOLD PROPERTY

See attached.

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