

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

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

Filing Date: **1996-08-26** | Period of Report: **1996-06-30**  
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### FILER

#### DEFIANCE INC

CIK: **775995** | IRS No.: **341526359** | State of Incorpor.: **DE** | Fiscal Year End: **0630**  
Type: **10-K405** | Act: **34** | File No.: **000-14044** | Film No.: **96620458**  
SIC: **3714** Motor vehicle parts & accessories

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SUITE 750  
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1111 CHESTER AVE STE 750  
CLEVELAND OH 44114  
2168616300

## FORM 10 - K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [FEE REQUIRED]  
For the fiscal year ended JUNE 30, 1996  
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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
Commission file number 0-14044  
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DEFIANCE, INC.  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----34-1526359  
-----(State or other jurisdiction of  
incorporation or organization)(IRS Employer  
Identification No.)1111 Chester Ave., Suite 750, Cleveland, Ohio  
-----44114-3516  
-----

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (216) 861-6300  
-----Securities registered pursuant to Section 12(b) of the Securities Exchange Act  
of 1934:None  
----

(Title of class and name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Securities Exchange Act  
of 1934:Common Stock, par value \$.05 per share  
-----

(Title of class)

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

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

As of July 31, 1996, 6,415,750 shares of Common Stock of Defiance, Inc. were  
outstanding and the aggregate market value of such Common Stock held by  
non-affiliates (based upon the closing sale price on such date as reported on  
the Nasdaq National Market) was approximately \$33,165,000.

## DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Proxy Statement for Defiance, Inc.'s 1996 Annual Meeting of  
Shareholders are incorporated by reference to Part III of this Form 10-K Report.

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## PART I

## ITEM 1. BUSINESS

## GENERAL

Defiance, Inc. (the "Company"), incorporated in Delaware as a holding company in

1985, is recognized as a world-class supplier of tooling systems, testing services and precision machined components to the U. S. motor vehicle industry, with headquarters in Cleveland, Ohio. The Company offers its customers quality products and services, ranging from engineering and design of a part or assembly, through analysis, prototype and physical testing, to tooling and production.

The Company's subsidiaries operate through the following strategic business units:

#### Tooling Systems

Defiance Tooling Systems, consisting of Hy-Form Products, Inc., Binderline Development, Inc. and Draftline Engineering Company, provides full prototype and production tooling systems primarily to the domestic automotive industry. A full turn-key project management service is offered to customers, taking a conceptual design from soft tooling and prototype dies through to the tryout of the production hard tooling dies. Work is performed either in house or through strategic alliances with other firms. Together, these companies design and produce models, patterns, fixtures, soft prototype tooling, hard production tooling and aids to hard tooling and supply computerized machine tool cutter paths, laser processing, CNC (computer numerical control) machining and CMM (coordinate measuring machine) certification. Typical parts for which prototypes and production tooling are made include structural, suspension, inner panels, frame components and powertrain sheet metal parts.

#### Testing Services

Defiance Testing & Engineering Services, Inc. (formerly SMTC Corporation) provides a full range of product design, engineering analysis, and experimental testing and simulation services for structural and mechanical systems. These systems range from single components to complete vehicle development projects, primarily for the U.S. transportation industry. Physical testing services include product durability testing, experimental stress analysis, product validation testing, environmental testing, noise and vibration testing and road simulation. Testing is performed on a wide range of components and systems from chassis and suspensions, seats and seating assemblies, to entire vehicle environmental and road simulation. Engineering consulting services include new product design, finite element modeling and analysis, kinematics analysis, experimental dynamics, variation simulation analysis and vehicle development programs for parts such as vehicle bodies, suspensions and engine components. Computer aided engineering techniques such as computerized simulated testing of prototypes are used to help in the design process of new products at an early stage in the product development cycle.

#### Precision Machined Components

Defiance Precision Products, Inc. ("Precision Products") manufactures cam follower rollers, cam follower roller axles and other hardened and precision machined metal engine and drive-train components, primarily for the domestic automobile, light truck and heavy-duty truck markets. Precision Products' principal product, the cam follower roller ("CFR"), is a component used in the valve lifter assemblies of gasoline and diesel engines that replaces the sliding surface between the valve lifter and the camshaft with a roller element, reducing valve train friction and increasing engine efficiency and durability in roller equipped engines. Because of their application, CFRs and CFR axles must be manufactured to extremely precise specifications.

#### CURRENT YEAR DEVELOPMENTS

##### Tooling Systems

Defiance Tooling Systems continued during 1996 to approach the automotive marketplace as a full service problem solving tooling and prototype services supplier and continued to pursue strategic alliances with companies that have complimentary products and processes. Several process and productivity improvements were realized during fiscal 1996 as a result of a proactive cross-functional team structure. Capital investment in high technology CMM laser scanning and upgraded CAD workstations improved production capability.

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##### Testing Services

Defiance Testing & Engineering Services, Inc. continued to benefit in fiscal 1996 from increased automotive product improvement and development projects by its customers, combined with increased capacity from the addition of a seventeen channel full vehicle light truck road simulator late in fiscal 1995. Domestic automakers continue to shift greater responsibility for component design,

engineering and testing to their suppliers as they focus more upon their core competency in the assembly of vehicles. In addition, demand continued to grow for testing due to safety and quality issues as well as ongoing pressure by the marketplace to shorten the product development cycle. Full-vehicle simulation systems, used in conjunction with traditional proving ground testing, allow an automaker to dramatically reduce the cost and time required to test a vehicle as well as enhance the quality of data acquired in the process. Capital spending during the year enhanced capabilities in the areas of simulation testing, data acquisition and noise and vibration testing.

Precision Machined Components

Precision Products began production in December 1995 at a third facility in Upper Sandusky, Ohio which added production capacity for CFRs and other precision engine parts, such as the axles upon which CFRs are mounted. This plant is expected to be running at full production levels by the second fiscal quarter of fiscal 1997, helping to support approximately \$8 million in new business expected in fiscal 1997 with Eaton Corporation to supply their Chrysler automotive CFR requirements. Capital spending during the year, which included new equipment for the Upper Sandusky facility, was focused on expanded capacity for gasoline engine CFR production, upgrades of existing grinding equipment and manufacturing process improvements.

Molded and Painted Plastic Products

Vaungarde, Incorporated ("Vaungarde") molds plastic parts using reaction injection molding processes and paints parts of various polymers produced internally or provided by other molders. The company primarily serves original equipment and after-market manufacturers in the automotive, heavy truck, agricultural and recreational vehicle industries. All of the common shares of Vaungarde were sold August 19, 1996 and additional information relating to this sale is contained in Note C to the Consolidated Financial Statements.

Sales by strategic business unit as a percentage of the Company's total sales are as follows:

<TABLE>  
<CAPTION>

	Year Ended June 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Precision Machined Components	35%	38%	37%
Tooling Systems	31%	27%	25%
Testing Services	25%	23%	25%
Molded and Painted Plastic Products	9%	12%	13%
	100%	100%	100%

</TABLE>

MARKETING

Substantially all the Company's sales are to domestic OEMs and their suppliers. Each of the Company's subsidiaries maintains an internal sales force and engages independent sales representatives who work closely with existing customers and solicit new customers. Sales are made under various types of long and short term arrangements, generally under purchase orders received from customers, which include fixed price contracts, cost plus fixed fee contracts, and time and material contracts.

PATENTS, TRADEMARKS AND LICENSES

Patents, trademarks and licenses are not generally significant for the Company or the industry in which it competes.

RAW MATERIALS

Raw materials used in the Company's operations are generally available from several sources and in the quantities needed. Multiple vendor sources for critical raw materials and supplies have been established over the past several years.

COMPETITION

The U.S. transportation industry, the principal market for the Company's products and services, is highly competitive, and suppliers to OEMs and others

in the U.S. transportation industry operate under highly competitive conditions. Competition is based on quality, price, service, and other factors, with the relative importance of such factors varying among the Company's products and services. In particular, the Company and its subsidiaries compete with many suppliers to the automobile and truck manufacturers, including several U.S. and Japanese suppliers that are larger and have substantially greater resources than the Company.

SEASONALITY AND BACKLOG

Sales of the Company's products and services are not seasonal. The Company believes its backlog, because of the nature of the business, is not indicative of the level of its present or future business.

WORKING CAPITAL PRACTICES

Owing to the nature of its business, the Company is not required to carry significant amounts of inventories to meet rapid delivery requirements of its precision machined components or plastic products customers, or assure itself of a continuous allotment of goods from suppliers. The Company's manufacturing processes in these business units are generally performed with a short turnaround time, and the scheduling of manufacturing activities from customer orders generally includes enough lead time to assure delivery of adequate supplies of raw materials. The Company does not generally provide extended payment terms to its customers; however, like many of its competitors, the Company sells a substantial amount of goods and services to other OEM suppliers. It is common for these other OEM suppliers to delay payment for goods and services to their suppliers until payment is received by them from the OEMs. The Company generally allows its customers to return merchandise for failure to meet certain pre-agreed quality standards; however, the Company employs quality assurance practices that minimize such returns.

PRINCIPAL CUSTOMERS

The Company's principal customers for its products and services are General Motors Corporation, Ford Motor Company, Chrysler Corporation (the "Big Three") and their respective suppliers. Direct sales to principal customers as a percentage of the Company's total sales are as follows:

<TABLE>

<CAPTION>

	Year Ended June 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Big Three:			
-----			
General Motors Corporation	30%	22%	17%
Ford Motor Company	14%	17%	25%
Chrysler Corporation	11%	5%	4%
	-----	-----	-----
	55%	44%	46%
Others over 10% of consolidated sales:			
-----			
Eaton Corporation	10%	12%	11%

</TABLE>

EMPLOYEES

As of June 30, 1996, the Company employed 822 persons. All production personnel of Precision Products located in Defiance, Ohio, are represented by the United Auto Workers. The current contract between Precision Products and the UAW was signed in May 1994, and expires in November 1998. Production personnel at Vaungarde, which was sold August 19, 1996, were also represented by the United Auto Workers.

GOVERNMENT REGULATION

Management of the Company believes that compliance with applicable Federal, state, and local environmental laws and regulations has not had nor should have any material effect upon the capital expenditures, net income, or competitive position of the Company.

EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>

<CAPTION>

The executive officers of the Company are as follows:

Name	Age	Position
<S>	<C>	<C>
Thomas H. Roulston II	63	Chairman of the Board and Director (1)
Jerry A. Cooper	57	President, Chief Executive Officer and Director (2)
Michael J. Meier	42	VP-Finance, Chief Financial Officer, Secretary and Treasurer
James L. Treece	58	Chief Accounting Officer and Assistant Treasurer
Leonard V. Matlock, Jr.	49	Corporate Controller and Assistant Secretary

- (1) Term as director expires in 1996  
(2) Term as director expires in 1998

Thomas H. Roulston II has served as Chairman of the Board since in 1990. Mr. Roulston has been the chairman of the board of Roulston & Company, Inc. of Cleveland, Ohio since 1990, and served as president of Roulston & Company, Inc. from 1963 until 1990. Roulston & Company, Inc. is a registered investment advisor.

Jerry A. Cooper joined the Company in 1992 as President and Chief Executive Officer. From 1990 until joining the Company, Mr. Cooper was president and chief executive officer of Bettcher Manufacturing Corporation. Bettcher is a metal forming company serving various industries, located in Cleveland, Ohio. From 1977 to 1990 he was president and general manager of Mather Seal Company, a subsidiary of Federal-Mogul Corporation. Mather Seal is a manufacturer of Teflon(tm) seals and specialty products for industry, located in Milan, Michigan.

Michael J. Meier joined the Company in 1988 as Corporate Controller, and in 1990 was named VP-Finance, Chief Financial Officer, Secretary, and Treasurer. Prior to joining the Company, Mr. Meier held various positions in both public accounting and private industry accounting and finance.

James L. Treece joined the Company in 1990 as Corporate Controller and in 1992 was named Chief Accounting Officer and Assistant Treasurer. Prior to joining the Company, Mr. Treece was assistant treasurer of HCR Corporation, a publicly-held health care company, from 1981 until 1989, and from 1977 until 1981 was controller of Wolfe Industries Construction Company, which became part of HCR Corporation.

Leonard V. Matlock has served as Corporate Controller and Assistant Secretary of the Company since December 1993. From 1985 until joining the Company, Mr. Matlock was controller of Teledyne Hyson, a division of Teledyne, Inc. Teledyne Hyson is a manufacturer of metal stamping die controls. Prior to 1980, Mr. Matlock held various accounting related positions in private industry.

No executive officer has any family relationship to any other executive officer or director of the Company, except Thomas H. Roulston who is the father of Scott D. Roulston, a director of the Company. Each executive officer holds office until the first meeting of the Board of Directors of the Company following the next annual meeting of stockholders of the Company and his successor shall have been elected and qualified, or until his earlier resignation or removal from office.

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ITEM 2. PROPERTIES

The following are the principal properties of the Company as of June 30, 1996:

Location	Area in Square Feet	Owned / Leased	Primary use
<S>	<C>	<C>	<C>
Defiance, Inc.			
1111 Chester Ave., Cleveland, OH	2,800	Leased	Corporate offices
Defiance Precision Products, Inc.			
1125 Precision Way, Defiance, OH	90,000	Owned	Manufacturing plant and offices
1190 Precision Way, Defiance, OH	40,000	Owned	Manufacturing plant
1815 Baltimore Rd., Defiance, OH	6,000	Leased	Product development facility
250 Commerce Way, Upper Sandusky, OH	78,000	Leased	Manufacturing plant
Hy-Form Products, Inc.			
35588 Veronica Drive, Livonia, MI	19,200	Owned	Production facility and offices
35572 Veronica Drive, Livonia, MI	12,400	Leased	Production facility
35569 Industrial Drive, Livonia, MI	12,400	Leased	Production facility
35684 Veronica Drive, Livonia, MI	12,400	Leased	Production facility

Defiance Testing & Engineering Services, Inc.			
1960 Ring Drive, Troy, MI	42,000	Leased	Offices and testing facilities
5859 Executive Drive, Westland, MI	29,000	Leased	Offices and testing facilities
5950 Executive Drive, Westland, MI	7,800	Leased	Offices and testing facilities
5717 Executive Drive, Westland, MI	9,663	Leased	Offices and testing facilities
5727 Executive Drive, Westland, MI	20,000	Leased	Offices and testing facilities
5770 Hix Road, Westland, MI	24,600	Leased	Offices and testing facilities
Vaungarde, Incorporated			
1000 Bradley Street, Owosso, MI	100,000	Owned	Manufacturing plant and offices
630 South Chestnut Street, Owosso, MI	28,000	Owned	Manufacturing plant
1040 Aiken Road, Owosso, MI	20,000	Leased	Manufacturing plant

Binderline Development, Inc.			
Draftline Engineering Company			
33100 Freeway Dr., St. Clair Shores, MI	42,500	Owned	Production facility and offices

The Company considers its properties to be suitable and adequate for its present needs. The properties are being fully utilized, though utilization can vary with production levels.

#### ITEM 3. LEGAL PROCEEDINGS

Not applicable

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

Not applicable

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## PART II

#### ITEM 5. MARKET FOR REGISTRANT'S CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS

The principal market in which the Company's Common Stock is traded is the Nasdaq National Market (Nasdaq Symbol DEFI). The following table indicates the high and low sales price of the Company's Common Stock traded on the Nasdaq National Market Summary of Activity and the cash dividends declared per share for each full quarterly period within the two most recent fiscal years:

	Market Price		Dividends Declared
	High	Low	
<S>	<C>	<C>	<C>
Fiscal 1996			
First quarter (July 1, 1995 - September 30, 1995)	\$7.5000	\$6.5000	\$0.04
Second quarter (October 1, 1995 - December 31, 1995)	\$8.0000	\$5.3750	0.04
Third quarter (January 1, 1996 - March 31, 1996)	\$6.2500	\$5.1250	0.04
Fourth quarter (April 1, 1996 - June 30, 1996)	\$6.3750	\$5.3750	0.04
Total			\$0.16
Fiscal 1995			
First quarter (July 1, 1994 - September 30, 1994)	\$7.5625	\$5.5000	---
Second quarter (October 1, 1994 - December 31, 1994)	\$7.5000	\$6.0000	---
Third quarter (January 1, 1995 - March 31, 1995)	\$7.6250	\$6.2500	\$0.04
Fourth quarter (April 1, 1995 - June 30, 1995)	\$7.0000	\$6.1250	0.04
Total			\$0.08

As of July 31, 1996 the Company had 312 stockholders of record. This figure does not include those persons who hold the Company's stock through nominee accounts, otherwise known as "street name" shareholders. Including street name shareholders, the Company estimates it has 3,000 stockholders.

The Company expects its practice of paying quarterly dividends on its Common stock will continue, although future dividends will continue to depend upon the Company's earnings, capital requirements, financial condition and other factors.

ITEM 6. SELECTED FINANCIAL DATA  
<TABLE>  
<CAPTION>

DEFIANCE, INC. AND SUBSIDIARIES  
FIVE YEAR SELECTED FINANCIAL DATA  
(In thousands, except per share amounts)

	Year Ended June 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$103,975	\$92,532	\$81,645	\$79,217	\$ 69,559
Earnings before cumulative effect of accounting change (1)	\$ 1,598	\$ 6,594	\$ 5,437	\$ 3,432	\$ 909
Cumulative effect of accounting change		--	564	--	--
Net earnings	\$ 1,598	\$ 6,594	\$ 6,001	\$ 3,432	\$ 909
Earnings before cumulative effect of accounting change (1)	\$ 0.24	\$ 0.98	\$ 0.81	\$ 0.54	\$ 0.15
Cumulative effect of accounting change		--	0.09	--	--
Net earnings per common share	\$ 0.24	\$ 0.98	\$ 0.90	\$ 0.54	\$ 0.15
Working capital (deficiency)	\$ 9,537	\$12,149	\$10,112	\$ 9,569	(\$ 341)
Cost in excess of net assets of acquired companies (goodwill) -- net of amortization	\$ 5,122	\$ 6,769	\$ 7,085	\$ 7,400	\$ 7,715
Total assets	\$ 74,768	\$77,341	\$54,535	\$51,737	\$ 50,073
Short-term interest bearing obligations	\$ 5,051	\$ 4,299	\$ 2,933	\$ 2,343	\$ 10,941
Long-term interest bearing obligations	\$ 18,134	\$17,182	\$ 9,346	\$13,685	\$ 9,995
Stockholders' equity	\$ 35,438	\$36,296	\$30,174	\$24,081	\$ 20,157
Dividends paid	\$ 1,045	\$ 523	--	--	--

</TABLE>  
<CAPTION>

DEFIANCE, INC. AND SUBSIDIARIES  
UNAUDITED QUARTERLY INFORMATION  
(Amounts in thousands, except per share amounts)

Fiscal 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$26,966	\$24,636	\$25,724	\$ 26,649	\$103,975
Gross profit	\$ 5,727	\$ 4,201	\$ 4,265	\$ 5,263	\$ 19,456
Net earnings (1)	\$ 1,538	\$ 665	\$ 474	(\$ 1,079)	\$ 1,598
Earnings per share (1)	\$ 0.23	\$ 0.10	\$ 0.07	(\$ 0.16)	\$ 0.24
Fiscal 1995					
Net sales	\$21,574	\$20,977	\$23,085	\$ 26,896	\$ 92,532
Gross profit	\$ 5,677	\$ 5,408	\$ 6,158	\$ 6,674	\$ 23,917
Net earnings	\$ 1,501	\$ 1,426	\$ 1,743	\$ 1,924	\$ 6,594
Earnings per share	\$ 0.22	\$ 0.22	\$ 0.26	\$ 0.28	\$ 0.98

<FN>  
(1) See Note C to the Consolidated Financial Statements.  
</TABLE>

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

RESULTS OF OPERATIONS

The following table sets forth certain items from Defiance, Inc.'s Consolidated



Statement of Operations as a percentage of net sales for the fiscal years ended June 30, 1996 ("1996"), June 30, 1995 ("1995") and June 30, 1994 ("1994"):

<TABLE>

<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales	100.0	100.0	100.0
Cost of goods sold	81.3	74.2	74.9
Gross profit	18.7	25.8	25.1
Selling and administrative expenses	10.9	13.7	13.6
Charge for business to be sold	2.5		
Operating earnings	5.3	12.1	11.5
Interest expense - net	1.7	1.1	1.6
Other (income)	(0.1)		(0.1)
Earnings before income tax provision and cumulative effect of accounting change	3.7	11.0	10.0
Income tax provision	2.2	3.9	3.3
Earnings before cumulative effect of accounting change	1.5	7.1	6.7
Cumulative effect of accounting change - income taxes			0.7
Net earnings	1.5	7.1	7.4

</TABLE>

Net sales

-----

Net sales for 1996 were up by \$11,443,000, or 12.4%, from 1995. Sales of cam follower rollers and other precision machined metal components were up 3%. Sales of automotive cam follower rollers increased primarily from new business with General Motors for their light truck series engine. This increase was partially offset by lower shipments of diesel engine rollers resulting from lower heavy-duty truck build rates. Sales of testing services increased 23% as the result of additional capacity from the new light truck simulator installed late in 1995, combined with increased testing work for Chrysler Corporation. Tooling revenues increased 28% primarily from a contract with General Motors to supply hard tooling for the 1997 Chevrolet Malibu. This contract began during the second half of 1995 and was completed April 1996. Sales of molded and painted plastic parts were down 12% due to decreased demand from original equipment manufacturers and after-market automotive and recreational vehicle customers.

Net sales for 1995 were up by \$10,887,000, or 13.3%, from 1994. Sales of cam follower rollers and other precision machined metal components were up 17% due to strong engine build rates at the Company's automotive and diesel customers, combined with new business for Eaton Corporation under a contract announced in 1994. Sales of testing services also increased 4% due to strong new model development activity by domestic automakers and the continuing trend toward outsourcing to preferred suppliers. Tooling revenues increased 24% primarily due to the General Motors hard tooling contract. Sales of molded and painted plastic parts were essentially unchanged from the prior year.

Gross profit percentage

-----

Gross profit for 1996, as a percentage of net sales, decreased to 18.7% from 25.8% in the prior year, which represents a \$4,461,000 decrease from 1995. Profit margins expected on the General Motors hard tooling contract were not achieved due to equipment problems and personnel shortages. In addition, the new cam follower roller facility in Upper Sandusky, Ohio, began limited production in the second quarter of 1996 and experienced low productivity and start-up issues related to equipment transfers and the training of new personnel. Cost of goods sold also included \$525,000 for the amortization of preoperating costs.

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Gross profit for 1995, as a percentage of net sales, increased to 25.8% from 25.1% in the prior year, which represents a \$3,397,000 increase from 1994. The increase was due to a mix of higher sales in the Company's core business units, which generally experience higher margins, coupled with productivity improvements and increased capacity utilization.

Selling and administrative (S&A) expenses

-----

S&A expenses for 1996, as a percentage of sales, decreased to 10.9% from 13.7%, representing a \$1,401,000 decrease from 1995. This decrease is due to substantially lower incentive compensation costs associated with lower earnings

and continued efforts to control administrative costs.

S&A expenses for 1995, as a percentage of sales, increased to 13.7% from 13.6%, representing a \$1,603,000 increase from 1994. This increase is due to a one-time charge of \$250,000 relative to the curtailment of a defined benefit pension plan, increased compensation costs associated with improved earnings, and increased costs associated with higher sales levels. Excluding the pension charge, S&A expenses represented 13.5% of sales, down from 1994.

#### Charge for business to be sold

The non-cash charge of \$2,600,000 in 1996 reflects the estimated loss on the August 19, 1996 sale of the Company's Vaungarde, Incorporated subsidiary. See Note C to the Consolidated Financial Statements for further detail.

#### Interest income and expense

Interest expense, net of interest income, for 1996 increased \$692,000, or 70%, from 1995. This increase was due to higher average net borrowings at similar effective interest rates to 1995. In addition, \$293,000 of interest was capitalized during 1996.

Interest expense, net of interest income, for 1995 decreased \$311,000, or 24%, from 1994. This decrease was due to lower average net borrowings at lower effective interest rates, resulting from improved terms in the Company's credit facility with its primary lender. In addition, \$264,000 of interest was capitalized during 1995.

#### Income taxes

The effective income tax rate for 1996 was 59.0%, as compared to 35.6% in 1995 and 33.2% in 1994. The significant difference in effective rates between 1996 and 1995 is due to the \$2,600,000 non-cash charge for the business to be sold, which is not deductible for income tax purposes. The remaining difference in effective rates is due to future taxable amounts that must be considered in the computation of income taxes for the current year as required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109).

Effective July 1, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by SFAS 109. As permitted by the rules, prior years' financial statements were not restated, and the cumulative effect of adopting SFAS 109 as of July 1, 1993 was to increase 1994 net income by \$564,000, or \$0.09 per share. For an analysis of income taxes, see Note H to the Consolidated Financial Statements.

#### Trends in operations

The domestic automobile and light truck industry experienced steady growth from 1992 through 1994, with total vehicle sales increasing from 13.1 million in 1992 to 15.5 million in 1994. Total vehicle sales declined slightly in 1995 to 15.1 million units, and are expected to remain at similar levels in 1996 with industry analyst estimates currently at 15.2 million units. Although industry sales have flattened out in 1995 and 1996, these volumes remain at relatively high levels with healthy earnings for the industry as a whole.

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Trends in the domestic auto industry are driven by automakers' needs, causing the actions of their suppliers to be reactive to automakers' demands, rather than proactive. Increased outsourcing by the Big Three is occurring as they focus on being assemblers of vehicles as compared to manufacturers of vehicles. In addition, consolidation of the supplier base is causing increased customer selectivity among a more limited supplier group by the automakers to simplify purchasing and improve quality. In response to these trends, suppliers are finding it necessary to distinguish themselves from others by providing higher quality products and services at lower prices.

Management expects Defiance to continue to benefit from these industry trends. Automobile and truck producers are increasingly outsourcing design and testing work previously done in-house. Shorter production cycles and the need to improve quality has created increased demand for design and testing services. As automotive companies reduce the number of suppliers they use, established suppliers such as Defiance will have opportunities for additional work.

The Company's core subsidiaries are organized into three strategic business units: Tooling Systems, Testing Services and Precision Machined Components. Each of these units seeks to create a competitive advantage through technological and manufacturing niches utilizing research, development, engineering and design

capabilities to differentiate it from its competitors. In addition, each business unit stresses systems capabilities as compared to supplying only individual components, to save its customers time and money. The strategy in fiscal 1997 is to improve operating margins through continued productivity improvement programs and prudent capital investment and to expand the Company's already strong position in these niche markets through expanded global marketing efforts and acquisitions that fit this strategic direction.

Three significant issues affecting operating margins in 1996 should not be factors in 1997. The hard tooling project for General Motors accounted for \$9.5 million of sales in 1996 at essentially a break-even operating margin. The Company closed its leased hard tooling operations upon completion of this project in April 1996. In addition, many of the costs associated with start-up issues at the new cam follower roller facility in Upper Sandusky, Ohio, were recognized during 1996 and this plant should be at full production levels by the second quarter of 1997. Certain preoperating costs were deferred. See Note A to the Consolidated Financial Statements. Finally, the Company completed the sale of its Vaungarde, Incorporated subsidiary during the first quarter of 1997. Vaungarde had an operating loss in 1996. These factors, combined with about \$6 million in new business expected in 1997 with Eaton Corporation to supply their Chrysler automotive cam follower roller requirements, should help fiscal 1997 earnings resume their previous growth trend and exceed fiscal 1995 levels, assuming the automotive market and economy remain reasonably strong.

The preceding discussion includes forward-looking statements based on management's current expectations, which are subject to a number of risks and uncertainties that could materially affect demand for the Company's products and services, thereby impacting future results of operations, financial condition or cash flows. Demand for the Company's products and services is affected by consumer demand in the domestic automotive and heavy-duty truck industries and the resulting levels of production, as well as competition from other suppliers to these industries. Demand is also affected by the level of new model development at OEMs (original equipment manufacturers) and the resulting need for prototyping, tooling and testing services. Demand is also sensitive to general economic conditions, such as growth, inflation, interest rates and unemployment levels.

Inflation over the past three years has affected the Company's cost of raw materials while selling prices have remained relatively constant under pricing pressures from the Big Three. Most of these cost increases have been offset, however, through process improvements, gains in productivity and arrangements with some customers to share cost increases.

All production personnel of Precision Products located in Defiance, Ohio, are represented by the United Auto Workers. The current contract between Precision Products and the UAW was signed in May 1994, and expires in November 1998. Production personnel at Vaungarde, which was sold August 19, 1996, were also represented by the United Auto Workers.

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#### FINANCIAL CONDITION (LIQUIDITY AND CAPITAL RESOURCES)

The following includes certain items and analyses derived from Defiance, Inc.'s Consolidated Statement of Cash Flows and Consolidated Balance Sheet for the fiscal years ended June 30, 1996 ("1996"), June 30, 1995 ("1995") and June 30, 1994 ("1994"):

Operating activities and working capital		(All dollar amounts in thousands)		
-----		1996	1995	1994
-----		-----		
<S>	<C>	<C>	<C>	<C>
Net earnings		\$ 1,598	\$ 6,594	\$ 6,001
Items not affecting cash		9,435	4,467	3,543
Changes in working capital components		1,044	(2,067)	(58)
		-----		
	Cash provided by operating activities	12,077	8,994	9,486
	Increase (decrease) over prior year	3,083	(492)	1,998
		-----		
Current assets		\$27,716	\$ 33,481	\$ 22,779
Current liabilities		18,179	21,332	12,667
		-----		
	Working capital	9,537	12,149	10,112
	Current ratio	1.52	1.57	1.80
		-----		
Days sales outstanding in accounts receivable at fiscal year end		58	77	70
Annual inventory turnover rate at fiscal year end		26	8	15

</TABLE>

Cash provided by operating activities was \$12,077,000 in 1996, compared to operating cash flows of \$8,994,000 in 1995 and \$9,486,000 in 1994. Items not affecting cash in all years include depreciation and amortization of property, plant and equipment and amortization of goodwill. Items not affecting cash in 1996 also include amortization of preoperating costs of \$525,000 and a \$2,600,000 charge for the business to be sold. Net cash provided by working capital components in 1996 of \$1,044,000 was primarily due to lower inventories and receivables levels related to the end of a major hard tooling contract and the reclassification of net assets of the business to be sold, partially offset by lower trade payables, incentive bonus accruals and Federal income tax accruals. Net cash used for working capital components in 1995 of \$2,067,000 was primarily due to increased inventory levels related to a major hard tooling contract, increased receivables in response to higher sales levels and increased prepaid expenses from the recording of preoperating costs, partially offset by increases in trade payables and accruals related to increased production levels, incentive bonus accruals and amounts owed for fixed assets purchased in June 1995. Net cash used for working capital components in 1994 of \$58,000 was due to modest increases in inventories, offset by modest decreases in receivables and increases in trade payables and accruals.

Days sales outstanding in accounts receivable fell below 60 days at the end of 1996, and averaged over 70 days the prior two years. This level of days outstanding in receivables is normal for the industry in which the Company operates. Many of Defiance's customers are suppliers to the major automotive companies, and these suppliers are often not in a position to pay Defiance until they have received payment from their customers. Inventory turnover at the end of 1996 improved as the result of completing a major hard tooling contract in April 1996. Inventory turnover at the end of 1995 was substantially lower than in 1994 due to new contracts in 1995 for hard tooling. These contracts were longer term in nature than those of the Company's other operations since a tooling job can take several months to complete.

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<TABLE>

<CAPTION>

Financing activities and banking facility

	(All dollar amounts in thousands)		
	1996	1995	1994
<S>	<C>	<C>	<C>
Total short and long term obligations (funded debt)	\$23,185	\$21,481	\$ 12,279
Increase (decrease) from prior year	1,704	9,202	(3,749)
Total capitalization (funded debt above plus equity)	\$58,623	\$57,777	\$ 42,453
Debt to total capitalization ratio	39.5%	37.2%	28.9%
Cash generated from exercise of employee stock options	\$ 71	\$ 51	\$ 92
Dividends paid	\$ 1,045	\$ 523	--
Cash paid for repurchase of common shares	\$ 891	--	--
Year end borrowing capacity under lines of credit	\$ 6,000	\$ 4,000	\$ 6,962

</TABLE>

Total funded debt increased \$1,704,000 in 1996 and \$9,202,000 in 1995 from borrowings to support the purchase of equipment. Borrowings of \$6,000,000 in 1996 and \$12,000,000 in 1995 were partially offset by scheduled payments of existing debt. In 1994, funded debt was reduced \$3,749,000 as higher interest rate loans were identified and paid off early. The Company has purchased over \$26,000,000 in property, plant and equipment in 1995 and 1996, yet debt to total capitalization ratio remains below 40%. The Company generated \$214,000 over the past three years through the sale of common stock from the exercise of employee stock options, paid a total of \$1,568,000 in dividends during 1995 and 1996 and paid \$891,000 for the repurchase of common shares in 1996.

The Company's banking arrangement with its primary lender includes a \$6,000,000 unsecured revolving line of credit to support working capital needs, which currently expires October 1998. Borrowings under this facility are at rates below prime. At the end of 1996, all \$6,000,000 was available as additional borrowing capacity.

<TABLE>

<CAPTION>

Investing activities

	(All dollar amounts in thousands)		
	1996	1995	1994

	<C>	<C>	<C>
Capital expenditures, including assets acquired under capitalized leases	\$9,994	\$16,294	\$6,155
Depreciation and amortization of property, plant and equipment	5,206	4,126	3,831

Capital spending in 1996 and 1995 included approximately \$6,000,000 and \$9,000,000, respectively, for equipment in support of expanded production capacity for gasoline engine cam follower roller and axle production. Capital spending in 1995 also included approximately \$3,000,000 for the purchase and installation of equipment supporting expanded capacity in full-vehicle road simulation testing. The remainder of capital spending in 1994, 1995 and 1996 was for upgrades to existing equipment, manufacturing process improvements, asset replacements and modest expenditures to support other new or increased business.

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Trends in liquidity and capital resources

The Company experienced significant demands for working capital during 1995 and 1996 from its entry into the hard tooling business in 1995. The Company completed all hard tooling operations in April 1996 and the working capital invested was recovered by the end of fiscal 1996. It is not expected that working capital requirements in fiscal 1997 will be significant in addition to those normally required to support increased sales and production levels. In addition, cash received from the sale of the Company's Vaungarde subsidiary should be in excess of \$3,000,000. This cash will be available to support capital expenditures or working capital needs or to reduce existing variable-rate term debt with the Company's primary lender. Therefore, liquidity in fiscal 1997 is expected to continue to be adequate to meet operating needs through profitability and resulting cash flows combined with borrowing capacity under the revolving line of credit. Liquidity is defined as the ability of an enterprise to mobilize cash to support operating needs.

Based on currently expected levels of business, the Company plans to spend approximately \$4 million in capital expenditures in fiscal 1997 relative to asset replacements, cost reduction, and productivity improvement programs. Additional capital expenditures relating to new or increased sales are currently estimated at \$2 million.

At June 30, 1996, the Company has noncancelable outstanding commitments for capital expenditures of approximately \$2.4 million. The Company has the necessary financing to fund these commitments if required, and expects to fund its remaining planned fiscal 1997 capital expenditures through operating cash flow. In addition, the Company's status as an unsecured borrower from its primary lender and relatively modest debt to total capitalization ratio reflects favorably on the Company's ability to generate additional sources of capital in the future, should they be required.

In January 1996, the Company adopted a stock repurchase plan. This program is flexible, and the board of directors and management believe it can be implemented without detracting from the Company's business strategies or investment opportunities. Stock repurchases will be funded from operating cash flow or loans from Comerica Bank under the existing revolving credit facility. Any such borrowings will be made in accordance with the Company's loan covenants with Comerica Bank and are not expected to hinder the Company's ability to fund capital expenditures, acquisitions, or its business operations. A total of 157,700 common shares were repurchased in open market transactions for \$891,000 during 1996.

In March 1995, the Company paid its first cash dividend to holders of its common stock since it became publicly owned in 1985. A quarterly cash dividend of four cents per share has been paid each quarter since that time. The Company anticipates future quarterly dividends, and does not expect its liquidity or capital resources to be materially affected by the payment of dividends.

Certain credit agreements of the Company contain various warranties and covenants. As of June 30, 1996, the Company is in compliance with all of these covenants, and expects to remain in compliance with these covenants in fiscal 1997.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
<TABLE>

<CAPTION>	
Index to Financial Statements of Defiance, Inc. and Subsidiaries	Page
-----	----
<S>	<C>
Report of Independent Auditors	16
Consolidated Balance Sheet at June 30, 1996 and 1995	17
Consolidated Statement of Operations for the years ended June 30, 1996, 1995 and 1994	19
Consolidated Statement of Stockholders' Equity for the years ended June 30, 1996, 1995 and 1994	20
Consolidated Statement of Cash Flows for the years ended June 30, 1996, 1995 and 1994	21
Notes to Consolidated Financial Statements	22
</TABLE>	

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REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors  
Defiance, Inc.

We have audited the accompanying consolidated balance sheet of Defiance, Inc. as of June 30, 1996 and 1995 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1996. Our audits also included the financial statement schedule for the years ended June 30, 1996, 1995 and 1994 listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the account principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Defiance, Inc. at June 30, 1996 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note H to the consolidated financial statements, in fiscal 1994, the Company changed its method of accounting for income taxes.

Ernst & Young LLP

Cleveland, Ohio  
July 30, 1996

except for Note C, as to which the date is  
August 19, 1996

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DEFIANCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET  
(All dollar amounts in thousands)

<TABLE>			
<CAPTION>			
	ASSETS		
		June 30,	June 30,
		1996	1995
		-----	-----
<S>		<C>	<C>
CURRENT ASSETS:			
Cash		\$ 1,240	\$ 1,166
Accounts receivable, less allowance for doubtful accounts			
of \$193 - 1996 and \$316 - 1995		16,615	19,835
Inventories		3,312	8,210

Deferred and refundable income taxes	1,058	954
Prepaid expenses and other current assets	2,383	3,316
Net assets of business to be sold	3,108	
	-----	-----
Total current assets	27,716	33,481
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	394	404
Buildings and leasehold improvements	11,831	11,062
Machinery and equipment	49,102	36,523
Office equipment	1,522	1,899
Construction in process	4,741	15,481
	-----	-----
	67,590	65,369
Accumulated depreciation and amortization	(28,074)	(29,375)
	-----	-----
	39,516	35,994
OTHER ASSETS:		
Cost in excess of net assets of acquired companies, less accumulated amortization of \$2,253 - 1996 and \$2,524 - 1995	5,122	6,769
Other	2,414	1,097
	7,536	7,866
	-----	-----
Total assets	\$ 74,768	\$ 77,341
	=====	=====

</TABLE>

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DEFIANCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(All dollar amounts in thousands except par value )

LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	June 30, 1996	June 30, 1995
	-----	-----
<S>	<C>	<C>
CURRENT LIABILITIES:		
Current maturities of long term obligations	\$ 5,051	\$ 4,299
Accounts payable	4,908	6,570
Accrued payroll and employee benefits	3,578	4,385
Accrued expenses	4,642	6,078
	-----	-----
Total current liabilities	18,179	21,332
LONG TERM OBLIGATIONS	18,134	17,182
DEFERRED INCOME TAXES	3,017	2,531
CONTINGENCIES - Note L		
STOCKHOLDERS' EQUITY:		
Preferred shares, par value \$.05, 2,000,000 shares authorized, no shares outstanding		
Common shares, par value \$.05, 15,000,000 shares authorized, shares issued		
6,573,450 - 1996 and 6,543,950 - 1995	328	327
Additional paid-in capital	22,047	21,977
Common shares in treasury, at cost; 157,700 shares	(891)	
Minimum pension liability	(591)	
Retained earnings	14,545	13,992
	-----	-----
	35,438	36,296
	=====	=====
Total liabilities and stockholders' equity	\$ 74,768	\$ 77,341
	=====	=====

</TABLE>

The accompanying notes are an integral part of the financial statements

-18-

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<TABLE>

<CAPTION>

DEFIANCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS  
(All amounts in thousands, except per share amounts)

	Year Ended June 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales:			
Products	\$ 76,447	\$ 69,544	\$ 59,378
Services	27,528	22,988	22,267
	-----	-----	-----
	103,975	92,532	81,645
	-----	-----	-----
Cost of goods sold:			
Products	65,468	52,985	45,927
Services	19,051	15,630	15,198
	-----	-----	-----
	84,519	68,615	61,125
	-----	-----	-----
Gross profit	19,456	23,917	20,520
Selling and administrative expenses	11,307	12,708	11,105
Charge for business to be sold	2,600		
	-----	-----	-----
Operating earnings	5,549	11,209	9,415
Interest expense - net	1,680	988	1,299
Other (income)	(28)	(19)	(26)
	-----	-----	-----
Earnings before income tax provision and cumulative effect of accounting change	3,897	10,240	8,142
Income tax provision	2,299	3,646	2,705
	-----	-----	-----
Earnings before cumulative effect of accounting change	1,598	6,594	5,437
Cumulative effect of accounting change - income taxes			564
	-----	-----	-----
Net earnings	\$ 1,598	\$ 6,594	\$ 6,001
	=====	=====	=====
Net earnings per common share:			
Earnings before cumulative effect of accounting change	\$ 0.24	\$ 0.98	\$ 0.81
Cumulative effect of accounting change - income taxes			0.09
	-----	-----	-----
Net earnings	\$ 0.24	\$ 0.98	\$ 0.90
	=====	=====	=====

</TABLE>

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

<TABLE>  
<CAPTION>

DEFIANCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(All amounts in thousands)

	Common Shares		Additional Paid-in Capital	Treasury Shares	Minimum Pension Liability	Retained Earnings	Total
	Number of Shares	Amount					
<S>	<C>	<C>	<C>			<C>	<C>
June 30, 1993	6,422	\$321	\$21,840			\$ 1,920	\$ 24,081
Options exercised	94	5	87			92	
Net earnings						6,001	6,001
	-----	-----	-----			-----	-----
June 30, 1994	6,516	326	21,927			7,921	30,174
Options exercised	28	1	50				51
Net earnings						6,594	6,594
Dividends						(523)	(523)
	-----	-----	-----			-----	-----
June 30, 1995	6,544	327	21,977			13,992	36,296
Options exercised	30	1	70				71
Shares purchased for treasury	(158)			(\$891)			(891)
Net earnings						1,598	1,598
Dividends						(1,045)	(1,045)



Adjustment for minimum pension liability, net of deferred taxes					(\$591)		(591)
June 30, 1996	6,416	\$328	\$22,047	(\$891)	(\$591)	\$ 14,545	\$ 35,438

</TABLE>

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

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<TABLE>  
<CAPTION>

DEFIANCE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(All amounts in thousands)

	Year Ended June 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
<b>OPERATING ACTIVITIES:</b>			
Net earnings	\$ 1,598	\$ 6,594	\$ 6,001
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	5,206	4,126	3,831
Amortization of other assets	776	315	315
Cumulative effect of accounting change			(564)
Charge for business to be sold	2,600		
(Gain) loss on sale of assets	(17)	(5)	4
Deferred income taxes	870	31	(43)
Changes in assets and liabilities:			
Accounts receivable	1,439	(3,963)	429
Inventories	3,491	(4,233)	(757)
Accounts payable and accrued expenses	(2,331)	6,916	489
Income taxes	(246)	154	249
Net assets of business to be sold	(1,061)		
Prepaid expenses and other	(248)	(941)	(468)
Cash provided by operating activities	12,077	8,994	9,486
<b>FINANCING ACTIVITIES:</b>			
Payments of long term obligations	(4,296)	(3,037)	(11,285)
Additions to long term obligations	6,000	12,000	7,471
Issuance of common shares	71	51	92
Repurchase of common shares	(891)		
Dividends paid	(1,045)	(523)	
Cash provided by (used for) financing activities	(161)	8,491	(3,722)
<b>INVESTING ACTIVITIES:</b>			
Capital expenditures	(9,994)	(16,055)	(5,362)
Preoperating costs	(1,774)	(960)	
Other - net	(74)	(245)	89
Cash used for investing activities	(11,842)	(17,260)	(5,273)
<b>CASH:</b>			
Increase	74	225	491
Beginning of year	1,166	941	450
End of year	\$ 1,240	\$ 1,166	\$ 941

</TABLE>

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

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DEFIANCE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1996 ("1996"), JUNE 30, 1995 ("1995"), AND JUNE 30, 1994

A - ACCOUNTING POLICIES

Description

-----

The Company operates in a single industry segment as an integrated supplier of precision machined metal components, testing services and tooling systems, primarily to the United States transportation industry.

Principles of Consolidation

-----

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

-----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock Options

-----

The Company accounts for employee stock options in accordance with APB No. 25, "Accounting for Stock Issued to Employees".

Inventories

-----

Inventories are valued primarily at the lower of cost (first in, first out method) or market.

Depreciation and Amortization

-----

Depreciation is calculated using the straight line method over the estimated useful lives of the assets ranging from 3 to 30 years. Leasehold improvements and capital lease property are amortized over the lesser of the lease life or useful lives of these items.

Capitalized Interest

-----

Interest costs of \$293 and \$264 were capitalized in property and equipment in 1996 and 1995, respectively. No interest costs were capitalized in 1994.

Intangible Assets

-----

Cost in excess of net assets of acquired companies (or goodwill) is amortized using the straight line method over 30 years. The carrying value of goodwill will be reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entities acquired over the remaining amortization period, the Company's carrying value of the goodwill will be adjusted accordingly.

Preoperating Costs

-----

Certain preoperating costs of a new manufacturing facility were deferred prior to the plant beginning production in December 1995. These costs are being amortized over a 36 month period due to the long-term (over 36 months) nature of the customer contracts to be performed at this facility. The unamortized portion totaled \$2,209 and \$960 at June 30, 1996 and 1995, respectively. There were no preoperating costs in 1994.

Revenue Recognition

-----

Sales of products are recognized when goods are shipped. Revenues from fixed price contracts are recognized on the percentage of completion method. Revenues from cost plus fixed fee and time and material contracts are recognized on the basis of direct labor hours at a predetermined rate or markup. Accounts receivable include \$3,367 and \$4,227 of unbilled costs related to contracts at June 30, 1996 and 1995, respectively. Changes in estimated job profitability are recognized in the period in which the revisions are determined. Provisions are made for the full amount of anticipated future losses on contracts when they are identified.

Net Earnings Per Common Share

Net earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the year, adjusted for the dilutive effect of outstanding stock options.

Impact of Recently Issued Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement 121 in the first quarter of 1997 and based on current circumstances, does not believe the effect of adoption will be material.

Reclassifications

The Company has reclassified certain prior year financial information to conform with the current year's presentation.

B - CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>

<CAPTION>

	1996	1995	1994
	-----		
<S>	<C>	<C>	<C>
Noncash transactions excluded from the consolidated statement of cash flows:			
Assets acquired under capital lease		\$ 239	\$ 793
Cash payments:			
Interest	\$1,873	\$1,258	\$1,317
Federal income taxes	1,675	3,461	2,500

</TABLE>

C - CHARGE FOR BUSINESS TO BE SOLD

On August 19, 1996 the Company sold all the common shares of its Vaungarde, Incorporated subsidiary as part of its long-term strategic plan to increase the focus on its core operating capabilities. At closing the Company received \$2,829 in cash, \$413 of certain assigned liquid assets and \$950 of notes receivable. There will be a post-closing adjustment to the cash portion of the selling price within 60 days of the date of sale based upon the August 18, 1996 balance sheet for this subsidiary.

The net assets of this business to be sold as of June 30, 1996 are presented in the consolidated balance sheet as a current asset. The Company's carrying value of this business as of June 30, 1996 exceeded the proceeds expected from the sale. To reflect the estimated loss on the sale of this business, the Company recorded a non-cash charge of \$2,600 in the fourth quarter of 1996. The components of this charge are as follows:

<TABLE>

<CAPTION>

<S>	<C>
Write-down of assets due to anticipated net proceeds being less than the carrying value:	
Excess of cost over net assets of acquired company (goodwill write-off)	\$1,332
Other assets, principally property and equipment	949
Expenses of sale accruable at June 30, 1996	319
	-----

</TABLE>

<TABLE>

<CAPTION>

<S>

The effect on 1996 earnings per share of the above charge is as follows:

<C>

Before charge for business to be sold	\$0.63
Effect of charge for business to be sold	(\$0.39)
	-----
Earnings per share as reported	\$0.24
	=====

</TABLE>

This transaction does not meet the criteria for discontinued operations treatment for accounting purposes. Therefore, the sales and result of operations of this business are included in continuing operations in 1996 and will also be included in continuing operations through the date of sale in the fiscal year ended June 30, 1997.

Sales and operating losses of this business for 1996, 1995 and 1994 were as follows:

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Sales	\$9,887	\$11,257	\$11,137
Operating loss	\$ 834	\$ 240	\$ 1,009

</TABLE>

<TABLE>

<CAPTION>

D - INVENTORIES

	June 30, 1996	June 30, 1995
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 784	\$1,293
Work in process	1,417	5,586
Finished goods	315	598
Stores and supplies	796	733
	-----	-----
Total inventories	\$3,312	\$8,210
	=====	=====

</TABLE>

E - LONG TERM OBLIGATIONS

<TABLE>

<CAPTION>

	June 30, 1996	June 30, 1995
	-----	-----
<S>	<C>	<C>
Variable rate term loan to bank due 2004	\$ 6,000	
Variable rate term loan to bank due 2003	10,429	\$ 12,000
7% term loan to bank due 1999	3,172	4,564
9.5% Industrial Development Revenue Refunding Bond Series 1991 due 1999	897	1,341
7.35% Urban Development Action Grant due 2002	720	767
7.5% Ohio Development term loan due 1998	225	414
	-----	-----
Total long term debt	21,443	19,086
Capitalized lease obligations (Note H)	1,742	2,395
	-----	-----
Total long term obligations	23,185	21,481
Less current maturities of long term obligations	(5,051)	(4,299)
	-----	-----
Total long term obligations less current maturities	\$ 18,134	\$ 17,182
	=====	=====

</TABLE>

At June 30, 1996, the Company had \$6,000 in additional borrowing capacity under a revolving credit agreement expiring October 1997. Subsequent to year end this

agreement was renewed through October 1998. Borrowings under this facility are at either the prime interest rate less 100 basis points or at the Euro dollar rate plus 100 basis points, at the Company's option. The Company is required to pay a fee of 1/8% on the unused portion of the facility. No revolving credit borrowings were outstanding on June 30, 1996 or 1995. The prime interest rate at June 30, 1996 was 8.25%.

The variable rate term loans to bank due 2004 and 2003 carry interest at the prime interest rate less 85 basis points or at the Euro dollar rate plus 115 basis points, at the Company's option. The effective interest rate for the variable rate term loans as of June 30, 1996 and 1995 was 6.59% and 7.21%, respectively.

All borrowings from the Company's primary lender, Comerica Bank, including revolving credit borrowings, variable rate term loans, 7% term loan and 9.5% Industrial Revenue Bonds are unsecured. The Company is restricted from pledging any of its assets without the prior consent of the bank.

The Urban Development Action Grant and Ohio Development term loan remain secured by certain assets of one of the Company's subsidiaries with a net book value of \$7,579 at June 30, 1996. Capitalized lease obligations are secured by the specific assets to which the leases apply.

The Company's financing arrangements also contain various warranties and covenants. As of June 30, 1996 and 1995 the Company was in compliance with these warranties and covenants.

Scheduled maturities of long term debt are as follows: 1997 -- \$4,518, 1998 -- \$4,484, 1999 -- \$3,027, 2000 -- \$2,635, 2001 -- \$2,639, and \$4,140 thereafter.

#### F - STOCKHOLDERS' EQUITY

The 1985 Stock Option Plan, adopted by the shareholders in August 1985, and the 1989 Stock Option Plan, adopted by the shareholders in February 1989 and amended in November 1992, provide for the grant of options to employees of the Company to purchase up to 300,000 and 800,000 shares of common stock, respectively. Grants of options are made at no lower than the market price on date of grant, are exercisable after one year, and expire after from five to ten years. Option activity during 1996 and 1995 was as follows:

<TABLE>  
<CAPTION>

	Number of shares			Average Option Price
	1985 Plan	1989 Plan	Total	
<S>	<C>	<C>	<C>	<C>
Options outstanding at June 30, 1994	61,500	412,855	474,355	\$ 3.88
Activity during 1995:				
Options issued	9,000	99,459	108,459	\$ 6.50
Options exercised	(21,300)	(7,000)	(28,300)	\$ 1.91
Options canceled	(4,000)		(4,000)	\$ 4.69
Options outstanding at June 30, 1995	45,200	505,314	550,514	\$ 4.49
Activity during 1996:				
Options issued	4,000	104,548	108,548	\$ 6.50
Options exercised	(7,500)	(22,000)	(29,500)	\$ 2.42
Options canceled	(2,000)	(4,500)	(6,500)	\$ 6.46
Options outstanding at June 30, 1996	39,700	583,362	623,062	\$ 4.92
Available for future years		119,138	119,138	

</TABLE>

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In addition to options granted to employees under the Company's 1985 and 1989 Stock Option Plans, the following options, granted to members of the board of directors under stock option plans approved by the shareholders, were outstanding at June 30, 1996:

<TABLE>  
<CAPTION>

Name of plan	Number of shares	Option price	Date		
			Issued	Exer- cisable	Expires

<C>	<C>	<C>	<C>	<C>	<C>	<C>
1987 Qualified Stock Option Plan	40,000	\$5.38	02/06/87	02/06/88	02/06/97	
1988 Nonqualified Stock Option Plan	25,000	\$1.75	11/16/88	11/16/89	11/16/98	
1994 Nonemployee Directors Stock Option Plan	12,000	\$7.13	11/16/94	11/16/95	11/16/04	
1994 Nonemployee Directors Stock Option Plan	12,000	\$6.88	07/01/95	07/01/96	07/01/05	

There are 176,000 shares still available for future years under the 1994 Plan.

G - BENEFIT PLANS

One of the Company's subsidiaries has two defined benefit pension plans covering substantially all its employees. Pension benefits for collective bargaining employees are based on years of credited service. Benefits for salaried, office and clerical employees are based on years of service and average final earnings. It is the Company's policy to fund its plans to meet the projected benefit obligation and the requirements of ERISA.

The components of pension expense were as follows:

<TABLE>	1996	1995	1994
<CAPTION>			
<S>	<C>	<C>	<C>
Service cost, benefits earned during the year	\$126	\$139	\$217
Interest cost on projected benefit obligation	511	516	531
Loss (gain) on plan assets	(168)	(497)	36
Net amortization and deferral	(364)	50	(451)
Net pension expense	\$105	\$208	\$333

</TABLE>

The expected long term rate of return on plan assets was 9.0% for 1996, 9.0% for 1995 and 8.5% for 1994. The increase in the long term rate of return in 1995 did not have a material impact on the financial statements. Each new prior service cost is amortized over the average remaining service period of employees using the straight line method.

Assets of the plans at June 30, 1996 consisted primarily of cash equivalents, corporate stocks and corporate bonds, including common stock of the Company with a market value of approximately \$408.

The following reconciles the funded status of the plans to amounts included in the Company's balance sheet:

<TABLE>	June 30, 1996	June 30, 1995
<CAPTION>		
<S>	<C>	<C>
Actuarial present value of benefit obligations:		
Accumulated and projected benefit obligation, \$6,868 vested in 1996 and \$6,175 vested in 1995	\$7,150	\$6,410
Market value of plan assets	6,949	6,762
Excess (shortfall) of plan assets compared to projected benefit obligation	(201)	352
Unrecognized net obligation	486	532
Prior service cost not recognized in net periodic pension cost	(139)	(133)
Minimum funding liability	(914)	
Unrecognized net loss	1,086	86
Prepaid pension cost	\$ 318	\$ 837

</TABLE>

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.5% for 1996, 8.0% for 1995 and 8.0% for 1994.

Effective October 1, 1994, future benefits under one of the above plans covering approximately fifty salaried employees were curtailed. A one time charge against income of \$250 was recorded in the first fiscal quarter of 1995 in accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("SFAS No. 88"). In July 1995, the Company filed documents

with the Pension Benefit Guaranty Corporation (the "PBGC") and the Internal Revenue Service (the "IRS") to terminate this plan. As of July 30, 1996, the Company has not received IRS approval to proceed with terminating the plan and settling the plan obligations. An additional charge to income may be required under SFAS No. 88 upon settlement of obligations. The amount of this charge is sensitive to changes in market interest rates in effect when obligations are settled. Based upon current market interest rates, the Company estimates terminating the plan during fiscal 1997 and would require a pre-tax charge against income of approximately \$750.

On July 1, 1993 the Company adopted a voluntary deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for all employees who are not subject to a collective bargaining agreement and satisfy the age and service requirements under the 401(k) Plan. Each participant may elect to contribute up to the maximum permitted under federal law, and the Company is obligated to contribute annually an amount equal to 50% of the participant's contribution up to 2% of that participant's annual compensation. Additionally, the Company can make discretionary contributions based on the profitability of the Company. The Company recorded compensation expense for discretionary contributions of \$490, \$464 and \$334 in 1996, 1995, and 1994, respectively. Employees contributed \$1,175, \$1,121, and \$1,134 in 1996, 1995 and 1994, respectively, to the 401(k) Plan. In accordance with the provisions of the 401(k) Plan, the Company matched employee contributions in the amount of \$324, \$320, and \$328 during 1996, 1995 and 1994, respectively.

#### H - INCOME TAXES

Effective July 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109), which changed the Company's method of accounting for income taxes from the deferred method to the liability method. Under SFAS 109, deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The cumulative effect of adopting SFAS 109 was a \$564 increase in income as of July 1, 1993, which represents the net decrease to the deferred tax liability at the date of adoption. Previously, the provision for income taxes was based on income and expenses included in the accompanying consolidated statement of income, and differences between taxes so computed and taxes payable were classified as deferred taxes arising from timing differences.

Income taxes, with amounts for all years derived under SFAS 109, are as follows:

<TABLE>

<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Current expense - Federal	\$1,429	\$3,615	\$2,748
Deferred expense - Federal	870	31	(43)
Income tax provision	\$2,299	\$3,646	\$2,705

</TABLE>

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Significant components of deferred tax liabilities and assets as of June 30, 1996 and 1995 are as follows:

<TABLE>

<CAPTION>

	1996	1995
Deferred tax assets:		
<S>	<C>	<C>
Accruals and reserves:		
Accounts receivable	\$ 66	\$ 108
Employee benefits	777	532
Inventories	34	45
Other	100	269
Total deferred tax assets	977	954
Deferred tax liabilities:		
Depreciation	2,238	2,057
Preoperating costs	751	333
Employee benefits	313	228
Other	28	142

Total deferred tax liabilities	3,330	2,760
	-----	-----
Net deferred tax liability	\$2,353	\$1,806
	=====	=====

</TABLE>

A reconciliation of income taxes at the United States statutory rate to the effective income tax rate, with amounts for all years derived under SFAS 109, is as follows:

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Federal statutory tax rate	34.0%	34.0%	34.0%
Amortization of cost in excess of net assets of acquired companies	1.2%	1.3%	1.3%
Goodwill and other non-deductible charges for business to be sold	23.7%		
Other	0.1%	0.3%	(2.1%)
	-----	-----	-----
Effective tax rate	59.0%	35.6%	33.2%
	=====	=====	=====

</TABLE>

#### I - LEASES

The Company leases machinery and equipment used in its manufacturing operations under capital leases with terms extending to the year 2000. The Company also leases buildings and equipment under operating leases with terms ranging from one to nine years. Certain operating leases have renewal options for additional years and purchase options, both at fair market value.

At June 30, 1996, future minimum lease payments under noncancelable lease obligations are as follows:

<TABLE>

<CAPTION>

Fiscal Year	Capital Leases	Operating Leases
	-----	-----
<S>	<C>	<C>
1997	\$ 690	\$2,973
1998	460	2,126
1999	407	1,553
2000	406	1,107
2001	169	596
Future years	0	182
	-----	-----
Total minimum lease payments	2,132	\$8,537
		=====
Amount representing interest	390	
	-----	
Present value of net minimum lease payments	1,742	
Less current maturities	533	
	-----	
Long term obligations under capital leases	\$1,209	
	=====	

</TABLE>

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Property, plant and equipment includes the following property under capital leases:

<TABLE>

<CAPTION>

	June 30, 1996	June 30, 1995
	-----	-----
<S>	<C>	<C>
Machinery and equipment	\$3,871	\$5,147
Accumulated amortization	(2,150)	(2,340)
	=====	=====
Net book value of assets under capital leases	\$1,721	\$2,807
	=====	=====

</TABLE>

Rent expense under operating leases was \$3,647, \$3,514 and \$2,328 in 1996, 1995 and 1994, respectively.



J - SIGNIFICANT CUSTOMERS

Sales to General Motors Corp. aggregated 30%, 22% and 17% of consolidated sales in 1996, 1995 and 1994, respectively. Sales to Ford Motor Company were 14%, 17% and 25% in 1996, 1995 and 1994, respectively. Sales to Chrysler Corporation were 11%, 5% and 4% in 1996, 1995 and 1994, respectively. Sales to Eaton Corporation were 10%, 12% and 11% in 1996, 1995 and 1994, respectively.

As substantially all the Company's sales are to domestic original equipment manufacturers (OEMs) and their suppliers, the Company's trade accounts receivable are largely with firms in the United States transportation industry.

K - COMMITMENTS

The Company has made commitments to purchase approximately \$2,433 of equipment as of June 30, 1996, and has sufficient financing available to fund these commitments.

L - CONTINGENCIES

The Company is involved in various litigation arising in the normal course of business. It is not possible to determine the ultimate liability, if any, in these matters. In the opinion of management, such litigation will not have a material adverse effect on the financial statements of the Company.

M - RELATED PARTY TRANSACTIONS

Four employees of a subsidiary of the Company each own a one-sixth interest in a partnership which leases a facility to a subsidiary of the Company. The lease, renewing a lease originally entered into prior to the Company's ownership of the subsidiary, was dated March 1990 for a term of seven years, and monthly lease payments are \$23. Two former members of the Board of Directors each owned a one-third interest in a partnership which leased a facility to a subsidiary of the Company until September 1995. The lease was dated March 1990 for a term of five years with monthly lease payments of \$10. At the end of the lease term in March 1995, the subsidiary continued to lease the facility from the partnership on a month to month basis at the same monthly rate. The subsidiary purchased this facility from the partnership for \$500 in September 1995. Prior to the execution of the purchase agreement for this facility, the Board of Directors appointed an ad hoc committee of two outside directors to evaluate the fairness of a potential transaction between the Company and the partnership. The committee concluded a purchase price of \$500 for the facility was reasonable based upon their analysis of the facts and circumstances.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information required under this Item is included in a separate item captioned "Executive Officers of the Registrant" contained in Item 1 of Part I of this report. There is hereby incorporated by reference the information contained in the Company's Proxy Statement for the 1996 Annual Meeting of Stockholders under the caption "Election of Directors".

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information contained in the Company's Proxy Statement for the 1996 Annual Meeting of Stockholders under the caption "Executive Compensation".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference the information contained in the Company's Proxy Statement for the 1996 Annual Meeting of Stockholders under the caption "Common Stock Ownership".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information contained in the Company's Proxy Statement for the 1996 Annual Meeting of Stockholders under the

PART IV

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

(a) 1. Financial Statements

-----

The following financial statements are filed as part of this report under Item 8:

- Consolidated Balance Sheet at June 30, 1996 and 1995
- Consolidated Statement of Operations for the years ended June 30, 1996, 1995, and 1994
- Consolidated Statement of Stockholders' Equity for the years ended June 30, 1996, 1995, and 1994
- Consolidated Statement of Cash Flows for the years ended June 30, 1996, 1995, and 1994
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

-----

The following financial statement schedules are filed as part of this report at the pages indicated:

	Page
	----
Schedule II - Valuation and Qualifying Accounts	33

All financial statement schedules other than those listed above have been omitted because they are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

-----

The Exhibits listed on the accompanying Index to Exhibits immediately following the financial statement schedules on page 34 are filed as a part of, or incorporated by reference into this report.

(b) Reports on Form 8-K

-----

During the quarter ended June 30, 1996, no reports on Form 8-K were filed with the Securities and Exchange Commission.

SIGNATURES

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

DEFIANCE, INC.

By: /s/ Jerry A. Cooper

-----  
Jerry A. Cooper, President

Date: August 26, 1996

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

Signature	Title	Date
/s/ Thomas H. Roulston II Thomas H. Roulston II	Chairman of the Board and Director	August 26, 1996
/s/ Jerry Cooper Jerry A. Cooper	President, Chief Executive Officer and Director (Principal Executive Officer)	August 26, 1996
/s/ Michael J. Meier Michael J. Meier	Vice President-Finance and Chief Financial Officer (Principal Financial Officer)	August 26, 1996
/s/ James L. Treece James L. Treece	Chief Accounting Officer (Principal Accounting Officer)	August 26, 1996
/s/ James E. Heighway James E. Heighway	Director	August 26, 1996
/s/ George H. Lewis III George H. Lewis III	Director	August 26, 1996
/s/ Richard W. Lock Richard W. Lock	Director	August 26, 1996
/s/ Hector R. Ortino Hector R. Ortino	Director	August 26, 1996
/s/ Scott D. Roulston Scott D. Roulston	Director	August 26, 1996

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DEFIANCE, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
(All dollar amounts in thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at beginning of period	Additions charged to expense	Retire-ments (1)	Balance at end of period
YEAR ENDED JUNE 30, 1996				
Allowance for doubtful accounts	\$316	(\$16)	\$107	\$193
YEAR ENDED JUNE 30, 1995				
Allowance for doubtful accounts	\$357	\$ 6	\$ 47	\$316
YEAR ENDED JUNE 30, 1994				
Allowance for doubtful accounts	\$350	\$37	\$ 30	\$357

(1)Uncollectible accounts charged against the reserve, net of recoveries

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DEFIANCE, INC. AND SUBSIDIARIES

Annual Report on Form 10-K  
Fiscal Year Ended June 30, 1996

Exhibit no.	Description
3(f)	Certificate of Incorporation of the Company, as amended December 15, 1994 (*)
3(g)	By-Laws of the Company, as amended July 26, 1989 (*)
10(v)	Defiance, Inc. 1989 Stock Option Plan, as amended January 20, 1993 (Filed as Exhibit A to the Company's Proxy Statement for the February 1, 1990 Annual Meeting of Shareholders, with amendment filed as Exhibit A to the Company's Proxy Statement for the November 18, 1992 Annual Meeting of Shareholders)
10(ac)	Defiance, Inc. Executive Incentive Plan, effective July 1, 1992 (Filed as Exhibit 10-ac to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993)
10(ad)	Letter of employment for Jerry A. Cooper, President and CEO, dated February 28, 1992 (Filed as Exhibit 10-ad to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993)
10(af)	Defiance, Inc. Retirement Savings Plan, effective July 1, 1993 (Filed as Exhibit 10-af to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994)
10(ag)	Amendment #1 to Defiance, Inc. Executive Incentive Plan, effective May 19, 1994 (Filed as Exhibit 10-ag to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994)
10(ah)	Second Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated July 29, 1994 (Filed as Exhibit 10-ah to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994)
10(ai)	Revolving Credit Note, Term Note, and Equipment Note by and between Defiance, Inc. and Comerica Bank dated July 29, 1994 (Filed as Exhibit 10-ai to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994)
10(aj)	Defiance, Inc. Directors' Deferral Plan, effective September 21, 1994 (Filed as Exhibit 10-aj to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
10(ak)	Defiance, Inc. Change of Control Policy, effective September 22, 1994 (Filed as Exhibit 10-ak to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
10(al)	Defiance, Inc. 1994 Nonemployee Director Stock Option Plan, effective November 16, 1994 (Filed as Exhibit A to the Company's Proxy Statement for the November 16, 1994 Annual Meeting of Shareholders)
10(am)	Defiance, Inc. Supplemental Savings and Deferred Compensation Plan, effective July 1, 1994 (Filed as Exhibit 10-am to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)

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10(an)	Defiance, Inc. Supplemental Executive Retirement Plan, effective July 1, 1995 (Filed as Exhibit 10-an to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
10(ao)	Defiance, Inc. Limited Supplemental Executive Retirement Plan, effective July 1, 1995 (Filed as Exhibit 10-ao to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
10(ap)	First Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated May 31, 1995 (Filed as Exhibit 10-ap to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
10(aq)	Equipment Note by and between Defiance, Inc. and Comerica Bank dated May 31, 1995 (Filed as Exhibit 10-aq to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)

- 10(ar) Term Note-B by and between Defiance, Inc. and Comerica Bank dated July 12, 1995 (Filed as Exhibit 10-ar to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
- 10(as) Second Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated August 2, 1995 (Filed as Exhibit 10-as to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
- 10(at) Revolving Credit Note and Equipment Note by and between Defiance, Inc. and Comerica Bank dated August 2, 1995 (Filed as Exhibit 10-at to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995)
- 10(au) Revolving Credit Note by and between Defiance, Inc. and Comerica Bank dated October 25, 1995 (\*)
- 10(av) Third Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated October 25, 1995 (\*)
- 10(aw) Fourth Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated December 31, 1995 (\*)
- 10(ax) Fifth Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated June 30, 1996 (\*)
- 10(ay) Letter to modify February 28, 1992 letter of employment for Jerry A. Cooper, President and CEO, dated July 2, 1996 (\*)
- 10(az) Term Note-C by and between Defiance, Inc. and Comerica Bank dated August 1, 1996 (\*)
- 10(ba) Definitive agreement between Defiance, Inc. and Quoin, Inc. for purchase of all outstanding common shares of Vaungarde, Incorporated by Quoin, Inc. dated August 6, 1996 (\*)
- 10(bb) August 15, 1996 letter from Comerica Bank consenting to sale of all outstanding common shares of Vaungarde, Incorporated to Quoin, Inc. (\*)
- 10(bc) Sixth Amendment to Amended and Restated Loan Agreement by and between Defiance, Inc. and Comerica Bank dated August 19, 1996 (\*)
- 10(bd) Revolving Credit Note by and between Defiance, Inc. and Comerica Bank dated August 19, 1996 (\*)
- 10(be) Defiance, Inc. Stock Repurchase Plan dated January 24, 1996 (Filed as Exhibit 28.1 to the Company's Current Report on Form 8-K dated January 24, 1996)

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- 11 Statement re computation of per share earnings (\*)
- 21 Subsidiaries of the Registrant (\*)
- 23 Consent of Independent Auditors (\*)
- 27 Financial Data Schedule (\*)

-----  
 (\*) Filed herewith

#### EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

Included in the preceding list of exhibits are the following management contracts or compensatory plans or arrangements:

- 10(v) Defiance, Inc. 1989 Stock Option Plan, as amended January 20, 1993
- 10(ac) Defiance, Inc. Executive Incentive Plan, effective July 1, 1992
- 10(ad) Letter of employment for Jerry A. Cooper, President and CEO, dated February 28, 1992
- 10(af) Defiance, Inc. Retirement Savings Plan, effective July 1, 1993

- 10(ag) Amendment #1 to Defiance, Inc. Executive Incentive Plan, effective May 19, 1994
- 10(ak) Defiance, Inc. Change of Control Policy, effective September 22, 1994
- 10(am) Defiance, Inc. Supplemental Savings and Deferred Compensation Plan, effective July 1, 1994
- 10(an) Defiance, Inc. Supplemental Executive Retirement Plan, effective July 1, 1995
- 10(ao) Defiance, Inc. Limited Supplemental Executive Retirement Plan, effective July 1, 1995
- 10(ay) Letter to modify February 28, 1992 letter of employment for Jerry A. Cooper dated July 2, 1996

STATE OF DELAWARE

PAGE 1

[SEAL]

OFFICE OF SECRETARY OF STATE

-----

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF DEFIANCE PRECISION PRODUCTS, INC. FILED IN THIS OFFICE ON THE NINETEENTH DAY OF AUGUST, A.D. 1985, AT 10 O'CLOCK A.M.

/s/ Michael Harkins

-----

Michael Harkins, Secretary of State

AUTHENTICATION: 0591470

DATE: 08/19/1985

725231034

CERTIFICATE OF INCORPORATION

OF

DEFIANCE PRECISION PRODUCTS, INC.

-----

The undersigned, for the purposes of forming a corporation under and pursuant to the provisions of the General Corporation Law of the State of Delaware, does hereby certify as follows:

ARTICLE I

-----

The name of the Corporation is Defiance Precision Products, Inc.

ARTICLE II

-----

The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

ARTICLE III

-----

The nature of the business or purposes to be conducted or promoted is:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

-----

The total number of shares of all classes of stock which the Corporation shall have authority to issue is twelve million (12,000,000) shares, of which ten million (10,000,000) shall be shares of Common Stock with a par value of five cents (\$.05) per share and two million (2,000,000) shall be shares of Preferred Stock with a par value of five cents (\$.05) per share.

The Board of Directors is hereby expressly granted authority to authorize in accordance with law from time to time the issue of one or more series of Preferred Stock and with respect to any such series to fix by resolution or resolutions the numbers, powers, designations, preferences and relative, participating, optional or other special rights of such series and the qualifications, limitations or restrictions thereof, including but without limiting the generality of the foregoing, the following:

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(i) entitling the holders thereof to cumulative, non-cumulative or partially cumulative dividends, or to no dividends;

(ii) entitling the holders thereof to receive dividends payable on a parity with, junior to, or in preference to, the dividends payable on any other class or series of capital stock of the Corporation;



(iii) entitling the holders thereof to rights upon the liquidation of, or upon any distribution of the assets of, the Corporation, on a parity with, junior to or in preference to, the rights of any other class or series of capital stock of the Corporation;

(iv) providing for the conversion, at the option of the holder or of the Corporation or both, of the shares of Preferred Stock into shares of any other class or classes of capital stock of the Corporation or of any series of the same or any other class or classes or into property of the Corporation or into the securities or properties of any other corporation or person, or providing for no conversion;

(v) providing for the redemption, in whole or in part, of the shares of Preferred Stock at the option of the Corporation, in cash, bonds or other property, at such price or prices, within such period or periods, and under such conditions as the Board of Directors shall so provide, including provision for the creation of a sinking fund for the redemption thereof, or providing for no redemption; and

(vi) lacking voting rights or having limited voting rights or enjoying general, special or multiple voting rights.

The Board of Directors may change the powers, designation, preferences, rights, qualifications, limitations and restrictions of, and number of shares in, any series of Preferred Stock as to which no shares have theretofore been issued.

All shares of any one series of Preferred Stock shall be identical in all respects with all the other shares of such series, except that shares of any one series of Preferred Stock issued at different times may differ as to the dates from which dividends thereon shall be cumulative.

ARTICLE V

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Elections of directors need not be by written ballot unless the by-laws of the Corporation shall so provide.

ARTICLE VI

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The number of directors to constitute the whole Board of Directors shall be initially such number as shall be set forth in the initial by-laws of the Corporation and thereafter such number as shall be fixed from time to time by resolution of the Board of Directors. The Board of Directors shall be divided into three classes as nearly equal in number as may be, with the term of office of one class expiring each year. At the organization meeting of the sole incorporator or by action taken by the sole incorporator without a meeting, directors of the first class shall be elected to hold office for a term expiring at the first annual meeting of stockholders, directors of the second class shall be elected to hold office for a term expiring at the second annual meeting of stockholders, and directors of the third class shall be elected to hold office for a term expiring at the third annual meeting of stockholders. At each annual meeting of stockholders, successors to the directors whose terms shall then expire shall be elected to hold office for terms expiring at the third succeeding annual meeting of stockholders. In case of any vacancies, by reason of an increase in the number of directors or otherwise, each additional director may be elected by the Board of Directors until the end of the term he is elected to fill and until his successor shall have been elected and qualified in the class to which such director is assigned and for the term or remainder of the term of such class. Directors shall continue in office until others are chosen and qualified in their stead. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as may be feasible. No decrease in the number of directors shall shorten the term of any incumbent director.

Notwithstanding the foregoing, whenever the holders of any one or more series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto, and such directors selected shall not be divided into classes pursuant to this Article VI unless expressly provided by such terms.

## ARTICLE VII

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1. Any Business Combination (as defined in paragraph (c) of Section 4 of this Article VII) shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation if all of the

following conditions have been satisfied:

(i) The consideration to be received by holders of Common Stock shall be cash or in the same form as previously has been paid by or on behalf of the Interested Stockholder (as defined in paragraph (c) of Section 4 of this Article VII) in connection with its direct or indirect acquisition of beneficial ownership of any shares of Common Stock. If the consideration paid by or on behalf of the Interested Stockholder for shares of Common Stock varied as to form, the form of consideration to be received by holders of Common Stock shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of Common Stock previously acquired by the Interested Stockholder;

(ii) The aggregate amount of the cash and the Fair Market Value (as defined in paragraph (i) of Section 4 of this Article VII) of consideration other than cash to be received per share by holders of Common Stock in any Business Combination shall be at least equal to the greater of (a) the Fair Market Value per share of Common Stock on the date of the first public announcement of the proposal of a Business Combination (the "Announcement Date") or on the date on which the Interested Stockholder became an Interested Stockholder, whichever is higher, multiplied by the ratio of (1) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired by it within the two-year period immediately prior to the Announcement Date to (2) the Fair Market Value per share of Common Stock on the first day in such two-year period on which the Interested Stockholder acquired any shares of Common Stock or (b) the highest per share price (including brokerage commissions, transfer taxes, and soliciting dealers' fees) paid by such Interested Stockholder in acquiring any of the Corporation's Common Stock;

(iii) After becoming an Interested Stockholder and prior to the consummation of any Business Combination, (A) such Interested Stockholder shall not have acquired any newly issued shares of capital stock, directly or indirectly, from the Corporation (except upon conversion of convertible securities acquired by it prior to becoming an Interested Stockholder or upon

compliance with the provisions of this Article VII or as a result of a pro rata stock dividend or stock split) and (B) such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees,

pledges or other financial assistance or tax credits provided by the Corporation, or made any major changes in the Corporation's business or equity capital structure; and

(iv) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, whether or not the Corporation is then subject to such requirements, shall be mailed to the stockholders of the Corporation for the purpose of soliciting stockholder approval of any Business Combination and shall contain at the front thereof in a prominent place any recommendations as to the advisability (or inadvisability) of the Business Combination which the Continuing Directors (as defined in paragraph (h) of Section 4 of this Article VII) may choose to state, and if deemed advisable by a majority of the Continuing Directors, an opinion of a reputable investment banking firm as to the fairness (or lack of fairness) of the terms of such Business Combination from the point of view of the holders of Voting Shares (as defined in paragraph (e) of Section 4 of this Article VII) other than the Interested Stockholder (such investment banking firm to be selected by a majority of the Continuing Directors, to be furnished with all information it reasonably requests, and to be paid a reasonable fee for its services upon receipt by the Corporation of such opinion).

2. If the provisions of Section 1 of this Article VII have not been satisfied, any Business Combination shall require the affirmative vote, in person or by proxy, at any meeting called as provided in the by-laws, of the holders of 80% in interest of the Voting Shares of the Corporation issued and outstanding including a majority in interest of the holders of issued and outstanding Voting Shares of the Corporation held by persons other than an Interested Stockholder or any Affiliate (as defined in paragraph (f) of Section 4 of this Article VII) or Associate (as defined in paragraph (f) of Section 4 of this Article VII) of any Interested Stockholder. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that some lesser percentage may be specified by law or in any agreement with any national securities exchange or otherwise.

3. The provisions of Sections 1 and 2 of this Article VII shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by

law and any other provision of this Certificate of Incorporation, if such Business Combination (i) has been approved prior to its consummation by a majority of the Continuing Directors or (ii) constitutes a merger or

consolidation of the Corporation with, or any sale or lease to the Corporation or any Subsidiary (as defined in paragraph (g) of Section 4 of this Article VII) of any assets of, or any sale or lease by the Corporation or any Subsidiary of any of its assets to, any corporation of which a majority of the outstanding shares of all classes of stock entitled to vote in elections of directors is owned of record or beneficially by the Corporation or its Subsidiaries, provided that this clause (ii) shall not apply to any transaction to which any Affiliate of any Interested Stockholder is a party.

4. For the purposes of this Article VII and Article VIII hereof:

(a) The term "Business Combination" as used in this Article VII shall mean any transaction which is referred to in any one or more of clauses (i) through (vi) of this paragraph (a):

(i) any merger or consolidation of the Corporation or any Subsidiary with or into (A) any Interested Stockholder or (B) any other corporation (whether or not itself an Interested Stockholder) which immediately before is, or after such merger or consolidation would be, an Affiliate of an Interested Stockholder, or

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of related transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the Corporation or any Subsidiary when such assets have an aggregate fair market value of \$2,500,000 or more, or

(iii) the issuance or transfer to any Interested Stockholder or any Affiliate of any Interested Stockholder by the Corporation or any Subsidiary (in one transaction or a series of related transactions) of any equity securities of the Corporation or any Subsidiary where such equity securities have an aggregate fair market value of \$1,000,000 or more, or

(iv) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation, or

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(v) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or

any similar transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the percentage of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder, or

(vi) any agreement, contract or other arrangement providing for any of the transactions described in this definition of "Business Combination".

(b) A "person" shall mean any individual, firm, corporation or other entity.

(c) "Interested Stockholder" shall mean any person (other than the Corporation or any Subsidiary or any person who was a stockholder of the Corporation on or before September 1, 1985) who or which, along with its Affiliates and Associates as of the record date for the determination of stockholders entitled to notice of and to vote on any Business Combination or any proposed amendment, alteration or repeal of any provision of this Certificate of Incorporation or any by-law of the Corporation, or immediately prior to the consummation of any such Business Combination:

(i) is the beneficial owner (as defined in paragraph (d) of this Section 4), directly or indirectly, of more than 20% of the Voting Shares of the Corporation or a Subsidiary, or

(ii) is an assignee of or has otherwise succeeded to any share of capital stock of the Corporation or a Subsidiary which was at any time within two years prior thereto beneficially owned by any Interested Stockholder, and such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(d) A person shall be the "beneficial owner" of any Voting Shares:

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(i) which such person or any of its Affiliates and Associates beneficially own, directly or indirectly, or

(ii) which such person or any of its Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any

agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise or (B) the right to vote pursuant to any agreement, arrangement or understanding, or

(iii) which are beneficially owned, directly or indirectly, by any other person with which such first-mentioned person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of capital stock of the Corporation or a Subsidiary, as the case may be.

(e) "Voting Shares" when used with respect to the Corporation or a Subsidiary shall mean shares of such corporation having general voting power. For the purpose of determining whether a person is an Interested Stockholder pursuant to paragraph (c) of this Section 4, the outstanding Voting Shares shall include shares deemed owned by a beneficial owner through application of paragraph (d) of this Section 4 but shall not include any other Voting Shares which may be issuable to any other person pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise.

(f) "Affiliate" and "Associate" shall have the respective meanings given those terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on June 30, 1985.

(g) "Subsidiary" shall mean any corporation of which a majority of any class of equity security (as defined in Rule 3a11-1 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on June 30, 1985) is owned, directly or indirectly, by the Corporation; PROVIDED, HOWEVER, that for the purposes of the definition of Interested Stockholder set forth in paragraph (c) of this Section 4, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

(h) "Continuing Director" shall mean a member of the initial Board of Directors of the Corporation, or a person who was a member of the Board of Directors of the Corporation elected by the stockholders prior to the date as of which an Interested Stockholder acquired in excess of 10% of the Voting Shares of the Corporation or a Subsidiary, or a director who has been recommended to directly succeed a Continuing Director or to join the

Board of Directors by a majority of the remaining Continuing Directors, or a director who was elected by a majority of the remaining Continuing Directors.

(i) "Fair Market Value" shall mean (i) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations Systems or any system then in use, or, if no such quotations are available, the fair market value on the date in question of a share of such stock as determined in good faith by a majority of Continuing Directors, and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of Continuing Directors.

5. The Continuing Directors, by majority vote, shall have the power and duty to determine for the purposes of this Article VII on the basis of information known to them (a) the number of Voting Shares beneficially owned by any person, (b) whether a person is an Affiliate or Associate of another, (c) whether a person has an agreement, arrangement or understanding with another as to the matters referred to in paragraph (d) of Section 4 of this Article VII, (d) whether the assets of the Corporation or any Subsidiary have an aggregate fair market value of \$2,500,000 or more, or (e) whether the consideration received for the issuance or transfer of securities by the Corporation or any Subsidiary has an aggregate fair market value of \$1,000,000 or more.

6. Nothing contained in this Article VII shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

ARTICLE VIII

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Except as otherwise provided in this Certificate of Incorporation (and in addition to any other vote that may be required by law, this Certificate of Incorporation or the by-laws), the affirmative vote, in person or by proxy, at any meeting called as provided in the by-laws, of the holders of 80% in interest of the Voting Shares (as defined in paragraph (e) of Section 4 of Article VII hereof) of the Corporation issued and outstanding including a majority in



interest of the holders of the issued and outstanding Voting Shares of the Corporation held by persons other than an Interested Stockholder (as defined in paragraph (c) of Section 4 of Article VII hereof) shall be required for the stockholders to amend, alter or repeal Articles VI, VII and VIII of this Certificate of Incorporation or to adopt any new provision inconsistent with such Articles, PROVIDED, HOWEVER, that if at the time of any such proposed amendment, alteration, repeal or adoption, (i) there shall exist one or more Interested Stockholders, and a majority of the Continuing Directors (as defined in paragraph (h) of Section 4 of Article VII) approve such proposed amendment, alteration, repeal or adoption, or (ii) no such Interested Stockholder exists, and a majority of the members of the Board of Directors approve such proposed amendment, alteration, repeal or adoption, then the affirmative vote, in person or by proxy, at any meeting called as provided in the by-laws, of the holders of a majority in interest of the issued and outstanding Voting Shares of the Corporation shall be required to approve such amendment, alteration, repeal or adoption.

ARTICLE IX

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The name of the incorporator of the Corporation is Fredric Keith Bass, whose mailing address is Room 4500, 140 Broadway, New York, New York 10005.

ARTICLE X

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In furtherance and not in limitation of the power conferred upon the Board of Directors by law, the Board of Directors shall have power to adopt, amend, alter and repeal from time to time the by-laws of the Corporation.

ARTICLE XI

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The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred herein upon stockholders are granted subject to this reservation.

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IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of August, 1985.

/s/ Fredric Keith Bass

-----  
Fredric Keith Bass  
Incorporator

In the Presence of:

/s/ Ellen Dicks  
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STATEMENT OF SOLE INCORPORATOR  
IN LIEU OF ORGANIZATION MEETING  
OF THE INCORPORATOR OF  
DEFIANCE PRECISION PRODUCTS, INC.

The Certificate of Incorporation of Defiance Precision Products, Inc. (the "Corporation") having been filed in the office of the Secretary of State of the State of Delaware on August 19, 1985, the undersigned, being the sole incorporator named in said Certificate of Incorporation, does hereby state that the following actions were taken on this day for the purpose of organizing the Corporation:

1. A copy of the Certificate of Incorporation of the Corporation was ordered to be filed in the minute book of the Corporation.
2. By-laws in the form attached hereto as Exhibit A were adopted by the undersigned incorporator as the By-laws of the Corporation and were ordered inserted in the minute book immediately following the copy of Certificate of Incorporation and before this instrument.
3. The following persons were elected members of the Board of Directors of the Corporation to hold office for the term stated below or until their respective successors are elected and qualified:

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Donald A. Fee and Michael D. Shea, whose terms

will expire at the Corporation's first annual meeting of stockholders;

Allen J. Portnoy, whose term will expire at the Corporation's second annual meeting of stockholders;

James W. Gillis, whose term will expire at the Corporation's third annual meeting of stockholders.

Dated: August 20, 1985.

/s/ Fredric Keith Bass

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Fredric Keith Bass  
Incorporator

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STATE OF DELAWARE

PAGE 1

[SEAL]

OFFICE OF SECRETARY OF STATE

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I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF DEFIANCE PRECISION PRODUCTS, INC. FILED IN THIS OFFICE ON THE TWENTY-EIGHTH DAY OF JULY, A.D. 1987, AT 10 O'CLOCK A.M.

| | | | |

/s/ Michael Harkins

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AUTHENTICATION: 1340863

[Seal of Department of State]  
Office of the Secretary of State  
of Delaware

DATE: 07/29/1987

727209110

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DEFIANCE PRECISION PRODUCTS, INC.

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

(Pursuant to Section 242 of the  
General Corporation Law of the  
State of Delaware)

Defiance Precision Products, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Defiance Precision Products, Inc. (the "Corporation") resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and directing that said amendment be considered by the holders of all of the outstanding shares of stock of said corporation. The resolution setting forth the proposed amendment is as follows:

AMENDMENT TO THE CERTIFICATE OF INCORPORATION  
TO LIMIT DIRECTORS LIABILITY

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RESOLVED, that the Board of Directors deems it advisable and in the best interests of the Corporation and its shareholders to eliminate, to the extent permitted by recent amendments in Delaware law, the liability of directors in certain legal

proceedings alleging a breach of the director's duty by amending the Corporation's Certificate of Incorporation so that, new Article XII will read as follows:

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"ARTICLE XII  
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A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit.

If the General Corporation Law of the State of Delaware is amended hereafter to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent authorized by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification."

SECOND: That at the Annual Meeting of the Stockholders of the Company on June 11, 1987 a majority of the outstanding stock was voted in favor of the amendment.

THIRD: That the amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

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IT WITNESS WHEREOF, Defiance Precision Products, Inc., has caused this certificate to be signed by James W. Gillis, its President, and attested by Michael D. Shea, its Vice President-Finance and Secretary, this 12th day of June, 1987.

DEFIANCE PRECISION PRODUCTS, INC.

By:

/s/ James W. Gillis

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President

ATTEST:

By: /s/ Michael D. Shea

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Vice President-Finance and Secretary

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BOOK 899

PAGE 998

DOCUMENTARY  
SURCHARGE  
PAID \$3.00

21765

STATE OF DELAWARE

PAGE 1

[SEAL]

OFFICE OF SECRETARY OF STATE

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I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF DEFIANCE PRECISION PRODUCTS, INC. FILED IN THIS OFFICE ON THE TWENTY-SEVENTH DAY OF JULY, A.D. 1989, AT 10 O'CLOCK A.M.

/s/ Michael Harkins

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Michael Harkins, Secretary of State

[Seal of Department of State]  
Office of the Secretary of State  
of Delaware

AUTHENTICATION: 2278156

DATE: 07/27/1989

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BOOK 899 PAGE 999

729208087

FILED  
JUL 27 1989  
/s/ Michael Harkins  
SECRETARY OF STATE

DEFIANCE PRECISION PRODUCTS, INC.

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION  
(Pursuant to Section 242 of the  
General Corporation Law of the  
State of Delaware)

Defiance Precision Products, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Defiance Precision Products, Inc. (the "Corporation") resolutions were duly adopted setting forth a proposed amendment to the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and directing that said amendment be considered by the holders of all of the outstanding shares of stock of the Corporation. The resolution setting forth the proposed amendment is as follows:

Change of the Corporation's Name to Defiance, Inc.  
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WHEREAS, in the last few years the Corporation businesses and markets; and significantly has expanded its products,

WHEREAS, the Board of Directors carefully has reviewed the appropriateness of the Corporation's name in light of the expansion into new lines of business and has concluded that Defiance, Inc. is a more appropriate name for the Corporation. It hereby is

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RESOLVED, that the Board of Directors deems it advisable and in the best interests of the Corporation and recommends to its shareholders to approve the amendment of Article I of the Corporation's Certificate of Incorporation to change the Corporation's name to Defiance, Inc. so that new Article I will read as follows:

"ARTICLE I  
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The name of the Corporation is Defiance, Inc."

RESOLVED FURTHER, that the stockholders of the Corporation be requested to approve the amendment of Article I of the Corporation's Certificate of Incorporation to change the Corporation's name to Defiance, Inc. at the 1989 Annual Meeting of stockholders;

SECOND: That at the Annual Meeting of the Stockholders of the Corporation on June 15, 1989 a majority of the outstanding stock was voted in favor of the amendment.

THIRD: That the amendment was duly adopted in accordance with the



provisions of Section 242 of the General Corporation Law of the State of Delaware.

July 18, 1989  
27467793

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BOOK 899 PAGE 1001

IN WITNESS WHEREOF, Defiance Precision Products, Inc., has caused this Certificate to be signed by James W. Gillis, its President, and attested by Michael D. Shea, its Vice President-Finance, Treasurer and Secretary, this 26th day of July, 1989.

DEFIANCE PRECISION PRODUCTS, INC.

By: /s/ James W. Gillis  
-----  
President

ATTEST:

By: /s/ Michael D. Shea  
-----  
Vice President-Finance, Treasurer and Secretary

RECEIVED FOR RECORD

JUL 31 1989

WILLIAM M. HONEY, RECORDER

July 18, 1989  
27467793

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OFFICE OF THE SECRETARY OF STATE

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I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "DEFIANCE, INC.", FILED IN THIS OFFICE ON THE FIFTEENTH DAY OF DECEMBER, A.D. 1994, AT 1:30 O'CLOCK P.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

[GREAT SEAL OF THE STATE OF DELAWARE]

/s/ Edward J. Freel

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Edward J. Freel, Secretary of State

[Seal of Secretary of State]  
Office of the Secretary of State  
of Delaware

AUTHENTICATION: 7341053

DATE: 12-16-94

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CERTIFICATE OF AMENDMENT

OF  
CERTIFICATE OF INCORPORATION  
OF  
DEFIANCE, INC.

DEFIANCE, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the following amendment to the Certificate of Incorporation of DEFIANCE, INC. has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware:

RESOLVED: That the first paragraph of Article IV of the Certificate of Incorporation of DEFIANCE, INC. be amended to read as follows:

ARTICLE IV  
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The total number of shares of all classes of stock which the Corporation shall have authority to issue is seventeen million (17,000,000) shares, of which fifteen million (15,000,000) shall be shares of Common Stock with a par value of five cents (\$.05) per share and two million (2,000,000) shall be shares of Preferred Stock with a par value of five cents (\$.05) per share.

IN WITNESS WHEREOF, said DEFIANCE, INC. has caused this certificate to be signed by Jerry A. Cooper, its President, and attested by Michael J. Meier, its Secretary, this                    day of December, 1994.

DEFIANCE, INC.

By /s/ Jerry A. Cooper  
-----

Jerry A. Cooper, President

ATTEST:

By /s/ Michael J. Meier  
-----

Michael J. Meier, Secretary

DEFIANCE, INC.  
By-Laws

ARTICLE I  
-----

Meetings of Stockholders  
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Section 1.1 ANNUAL MEETINGS. The annual meeting of the stockholders for the election of directors and for the transaction of such other business as properly may come before such meeting shall be held each year on such date, and at such time and place within or without the State of Delaware, as may be designated by the Board of Directors.

Section 1.2 SPECIAL MEETINGS. Special meetings of the stockholders, for any proper purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation of the Corporation, may be called at any time by the Board of Directors, the Chairman of the Board, the President or any Vice President, to be held on such date, and at such time and place within or without the State of Delaware, as the Board of Directors, the Chairman of the Board, the President or any Vice President, whichever has called the meeting, shall direct.

Section 1.3 NOTICE OF MEETING. Written notice, signed by the Chairman of the Board, the President, any Vice President, the Secretary or an Assistant Secretary, of every meeting of stockholders stating the date and time when, and the place where, it is to be held shall be delivered either personally or by mail to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days

before the meeting, except as otherwise provided by law. The purpose or purposes for which the meeting is called may in the case of an annual meeting, and shall in the case of a special meeting, also be stated. If mailed, such notice shall be directed to a stockholder at his address as it shall appear on the stock books of the Corporation, unless he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Whenever any notice is required to be given under the provisions of the Delaware General Corporation Law, the Certificate of Incorporation or these By-laws, a waiver thereof, signed by the stockholder entitled to such notice, whether

before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a stockholder at the meeting shall be deemed equivalent to a written waiver of notice of such meeting.

Section 1.4 QUORUM. The presence at any meeting, in person or by proxy, of the holders of record of a majority of the shares then issued and outstanding and entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business, except as otherwise provided by law.

Section 1.5 ADJOURNMENTS. In the absence of a quorum, a majority in interest of the stockholders entitled to vote, present in person or by proxy, or, if no stockholder entitled to vote is present in person or by proxy,

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any officer entitled to preside at or act as secretary of such meeting, may adjourn the meeting from time to time until a quorum shall be present.

Section 1.6 VOTING. Directors shall be chosen by a plurality of the votes cast at the election, and, except as otherwise provided by law or by the Certificate of Incorporation, all other questions shall be determined by a majority of the votes cast on such question.

Section 1.7 PROXIES. Any stockholder entitled to vote may vote by proxy, provided that the instrument authorizing such proxy to act shall have been executed in writing (which shall include telegraphing or cabling) by the stockholder himself or by his duly authorized attorney.

Section 1.8 JUDGES OF ELECTION. The Board of Directors may appoint judges of election to serve at any election of directors and at balloting on any other matter that may properly come before a meeting of stockholders. If no such appointment shall be made, or if any of the judges so appointed shall fail to attend, or refuse or be unable to serve, then such appointment may be made by the presiding officer at the meeting.

## ARTICLE II

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Board of Directors

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Section 2.1 NUMBER. The number of directors which shall constitute the

whole Board of Directors shall be determined as provided in the Certificate of Incorporation. The initial Board of Directors and subsequent Boards of

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Directors shall consist of four directors until changed as provided in the Certificate of Incorporation.

Section 2.2 ELECTION AND TERM OF OFFICE. Directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2.3. Each director (whether elected at an annual meeting or to fill a vacancy or otherwise) shall continue in office until his successor shall have been elected and qualified or until his earlier death, resignation or removal in the manner hereinafter provided.

Section 2.3 VACANCIES AND ADDITIONAL DIRECTORSHIPS. If any vacancy shall occur among the directors by reason of death, resignation or removal, or as the result of an increase in the number of directorships, a majority of the directors then in office, or a sole remaining director, though less than a quorum, may fill any such vacancy.

Section 2.4 REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held for organization, for the election of officers and for the transaction of such other business as may properly come before the meeting, within thirty days after each annual election of directors.

The Board of Directors by resolution may provide for the holding of other regular meetings and may fix the times and places at which such meetings shall be held. Notice of regular meetings shall not be required to be given, provided that whenever the time or place of regular meetings shall be fixed or changed, notice of such action shall be

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mailed promptly to each director who shall not have been present at the meeting at which such action was taken, addressed to him at his residence or usual place of business.

Section 2.5 SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held upon call by or at the direction of the Chairman of the Board, the President, any Vice President or any two directors, except that when the Board of Directors consists of one director, then one director may call a special meeting. Except as otherwise required by law, notice of each special meeting shall be mailed to each director, addressed to him at his residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to him at such place by telex, telecopy, telegram, radio or cable, or telephoned or delivered to him personally, not later than the day before the day on which the meeting is to be held. Such notice shall state the time and place of such meeting, but need not state the purposes thereof, unless otherwise required by law, the Certificate of Incorporation of the Corporation or these By-laws.

Section 2.6 WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of the Delaware General Corporation Law, the Certificate of Incorporation or these By-laws, a waiver thereof, signed by the director entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Attendance of a director at the meeting shall be deemed equivalent to a written waiver of notice of such meeting.

Section 2.7 QUORUM AND MANNER OF ACTING. At each meeting of the Board of Directors the presence of a majority of the total number of members of the Board of Directors as constituted from time to time, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that when the Board of Directors consists of one director, then the one director shall constitute a quorum. In the absence of a quorum, a majority of those present at the time and place of any meeting may adjourn the meeting from time to time until a quorum shall be present and the meeting may be held as adjourned

without further notice or waiver. A majority of those present at any meeting at which a quorum is present may decide any question brought before such meeting, except as otherwise provided by law, the Certificate of Incorporation of the Corporation or these By-laws.

Section 2.8 RESIGNATION OF DIRECTORS. Any director may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board, the President, any Vice President or the Secretary. Unless otherwise specified in such notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and the acceptance of such resignation shall not be necessary to make it effective.

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Section 2.9 REMOVAL OF DIRECTORS. At any special meeting of the stockholders, duly called as provided in these By-laws, any director or directors may be removed from office, either with or without cause, as provided by law. At such meeting a successor or successors may be elected by a plurality of the votes cast, or if any such vacancy is not so filled, it may be filled by the directors as provided in Section 2.3.

Section 2.10 COMPENSATION OF DIRECTORS. Directors shall receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

### ARTICLE III

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#### Committees of the Board

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Section 3.1 DESIGNATION, POWER, ALTERNATE MEMBERS AND TERM OF OFFICE. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Any such committee, to the extent provided in such resolution and permitted by law, shall have and may exercise all the powers and authority of the Board of Directors in the



may authorize the seal of the Corporation or a facsimile thereof to be affixed to or reproduced on all such papers as said committee shall designate. The Board of Directors may designate one or more directors as alternate members of any committee who, in the order specified by the Board of Directors, may replace any absent or disqualified member at any meeting of the committee. If at a meeting of any committee one or more of the members thereof should be absent or disqualified, and if either the Board of Directors has not so designated any alternate member or members, or the number of absent or disqualified members exceeds the number of alternate members who are present at such meeting, then the member or members of such committee (including alternates) present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member. The term of office of the members of each committee shall be as fixed from time to time by the Board of Directors, subject to these By-laws; provided, however, that any committee member who ceases to be a member of the Board of Directors shall ipso facto cease to be a committee member. Each committee shall appoint a secretary, who may be the Secretary of the Corporation or an Assistant Secretary thereof.

Section 3.2 EXECUTIVE COMMITTEE. The Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the

business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but said Executive Committee shall not have the power or authority in reference to amending the

Corporation's certificate of incorporation, adopting an agreement of merger of consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-laws of the Corporation; and further, the Executive Committee shall not have the power or authority to declare a dividend or to authorize the issuance of stock. The provisions of Article III of these By-laws shall apply to the Executive Committee.

Section 3.3 MEETINGS, NOTICES AND RECORDS. Each committee may provide for the holding of regular meetings, with or without notice, and may fix the times and places at which such meetings shall be held. Special meetings of each committee shall be held upon call by or at the direction of its chairman or, if there be no chairman, by or at the direction of any one of its members. Except as otherwise provided by law, notice of each special meeting of a committee shall be mailed to each member of such committee, addressed to him at his residence or usual place of business, at least two days before the day on which the meeting is to be held, or shall be sent to him at such place by telegram, radio or cable, or telephoned or delivered to him person-

ally, not later than the day before the day on which the meeting is to be held. Such notice shall state the time and place of such meeting, but need not state the purposes thereof, unless otherwise required by law, the Certificate of Incorporation of the Corporation or these By-laws.

Notice of any meeting of a committee need not be given to any member thereof who shall attend such meeting in person or who shall waive notice thereof, before or after such meeting, in a signed writing. Each committee shall keep a record of its proceedings.

Section 3.4 QUORUM AND MANNER OF ACTING. At each meeting of any committee, the presence of a majority of its members then in office shall be necessary and sufficient to constitute a quorum for the transaction of business, except that when a committee consists of one member, then the one member shall constitute a quorum. In the absence of a quorum, a majority of the members present at the time and place of any meeting may adjourn the meeting from time to time until a quorum shall be present and the meeting may be held as adjourned without further notice or waiver. The act of a majority of the members present at any meeting at which a quorum is present shall be the act of such committee.

Subject to the foregoing and other provisions of these By-laws and except as otherwise determined by the Board of Directors, each committee may make rules for the conduct of its business.

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Section 3.5 RESIGNATIONS. Any member of a committee may resign at any time by giving written notice of such resignation to the Board of Directors, the President, any Vice President or the Secretary. Unless otherwise specified in such notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and the acceptance of such resignation shall not be necessary to make it effective.

Section 3.6 REMOVAL. Any member of any committee may be removed at any time with or without cause by the Board of Directors.

Section 3.7 VACANCIES. If any vacancy shall occur in any committee by reason of death, resignation, disqualification, removal or otherwise, the remaining member or members of such committee, so long as a quorum is present, may continue to act until such vacancy is filled by the Board of Directors.

Section 3.8 COMPENSATION. Committee members shall receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any committee member from serving the Corporation in any other capacity and receiving compensation therefor.

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ARTICLE IV

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Officers  
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Section 4.1 OFFICERS. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers as may be appointed in accordance with the provisions of Section 4.3.

Section 4.2 ELECTION, TERM OF OFFICE AND QUALIFICATIONS. Each officer (except such officers as may be appointed in accordance with the provisions of Section 4.3) shall be elected by the Board of Directors. Each such officer (whether elected at the first meeting of the Board of Directors after the annual meeting of stockholders or to fill a vacancy or otherwise) shall hold his office until the first meeting of the Board of Directors after the next annual meeting of stockholders and until his successor shall have been elected, or until his death, or until he shall have resigned in the manner provided in Section 4.4 or shall have been removed in the manner provided in Section 4.5.

Section 4.3 SUBORDINATE OFFICERS AND AGENTS. The Board of Directors from time to time may appoint other officers or agents (including one or more Assistant Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers), to hold office for such period, have such authority and perform such duties as are provided in these By-laws or as may be provided in the resolutions appointing them. The Board of Directors may delegate to any

officer or agent the power to appoint any such subordinate officers or agents and to prescribe their respective terms of office, authorities and duties.

Section 4.4 RESIGNATIONS. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the President, a Vice President or the Secretary. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof by the Board of Directors or any such officer, and the acceptance of such resignation shall not

be necessary to make it effective.

Section 4.5 REMOVAL. Any officer specifically designated in Section 4.1 may be removed with or without cause at any meeting of the Board of Directors by affirmative vote of a majority of the directors then in office. Any officer or agent appointed in accordance with the provisions of Section 4.3 may be removed with or without cause at any meeting of the Board of Directors by affirmative vote of a majority of the directors present at such meeting, or at any time by any superior officer or agent upon whom such power of removal shall have been conferred by the Board of Directors.

Section 4.6 VACANCIES. A vacancy in any office by reason of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed by these By-laws for regular election or appointment to such office.

Section 4.7 THE CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board of Directors and of the stockholders of the Corporation. In the absence of the President, or in the event of his inability or refusal to act, the Chairman of the Board shall perform the duties and exercise the powers of the President until such vacancy shall be filled in the manner prescribed by these By-laws or by law. He may sign, with any other officer thereunto duly authorized, certificates representing stock of the Corporation the issuance of which shall have been duly authorized (the signature to which may be a facsimile signature), and may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts, agreements or other instruments duly authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent, or shall be required by law to be otherwise executed. He shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors or these By-laws.

Section 4.8 THE PRESIDENT. The President shall be the Chief Executive Officer and, subject to the direction of the Board of Directors and the Chairman of the Board, he shall have general charge of the business, affairs and property of the Corporation and general supervision over its officers and agents. At the request of the Chairman of the

Board or in his absence or disability, the President shall perform all the duties of the Chairman of the Board and, when so acting, shall have all the powers of and be subject to all restrictions upon the Chairman of the Board. He shall see that all orders and resolutions of the Board of Directors are carried into effect. He may sign, with any other officer thereunto duly authorized, certificates representing stock of the Corporation the issuance of which shall have been duly authorized (the signature to which may be a facsimile signature), and may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts, agreements or other instruments duly authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent, or shall be required by law to be otherwise executed. From time to time he shall report to the Board of Directors all matters within his knowledge which the interests of the Corporation may require to be brought to their attention. He shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board or these By-laws. If no Treasurer shall have been appointed by the Board of Directors the President shall have in addition to and not in limitation of the foregoing the powers afforded the Treasurer pursuant to Section 4.12.

Section 4.9 The VICE PRESIDENTS. At the request of the President or in his absence or disability, the Vice President designated by the Board of Directors shall perform all the duties of the President and, when so acting, shall have all the powers of and be subject to all restrictions upon the President. Any Vice President may also sign, with any other officer thereunto duly authorized, certificates representing stock of the Corporation the issuance of which shall have been duly authorized (the signature to which may be a

facsimile signature), and may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts, agreements or other instruments duly authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent, or shall be required by law to be otherwise executed. Each Vice President shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the President or these By-laws.

Section 4.10 THE SECRETARY. The Secretary shall:

(a) record all the proceedings of the meetings of the stockholders, the Board of Directors, and any committees in a book or books to be kept for that purpose;

(b) cause all notices to be duly given in accordance with the provisions of these By-laws and as required by law:

(c) whenever any committee shall be appointed in pursuance of a resolution of the Board

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of Directors, furnish the chairman of such committee with a copy of such resolution;

(d) be custodian of the records and of the seal of the Corporation, and cause such seal to be affixed to or a facsimile to be reproduced on all certificates representing stock of the Corporation prior to the issuance thereof and to all instruments the execution of which on behalf of the Corporation under its seal shall have been duly authorized;

(e) see that the lists, books, reports, statements, certificates and other documents and records required by law are properly kept and filed;

(f) have charge of the stock and transfer books of the Corporation, and exhibit such stock book at all reasonable times to such persons as are entitled by law to have access thereto;

(g) sign (unless the Treasurer or an Assistant Secretary or an

Assistant Treasurer shall sign) certificates representing stock of the Corporation the issuance of which shall have been duly authorized (the signature to which may be a facsimile signature); and

(h) in general, perform all duties incident to the office of Secretary and have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the President or these By-laws.

Section 4.11 ASSISTANT SECRETARIES. At the request of the Secretary or in his absence or disability, the Assistant Secretary designated by him (or in the absence of such designation, the Assistant Secretary designated by the Board of Directors, the Chairman of the Board or the President) shall perform all the duties of the Secretary and, when so acting, shall have all the powers of and be subject to all restrictions upon the Secretary. Each Assistant Secretary shall have such other powers and perform such

other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the President, the Secretary or these By-laws.

Section 4.12 THE TREASURER. The Treasurer shall:

(a) have charge of and supervision over and be responsible for the funds, securities, receipts and disbursements of the Corporation;

(b) cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as shall be selected or to be otherwise dealt with in such manner as the Board of Directors may direct;

(c) cause the funds of the Corporation to be disbursed by checks or drafts upon the authorized depositories of the Corporation, and cause to be taken and preserved proper vouchers for all moneys disbursed;

(d) render to the Board of Directors or the Chairman of the Board or the President, whenever requested, a statement of the financial condition of the Corporation and of all his transactions as Treasurer;



(e) cause to be kept at the Corporation Is principal office correct books of account of all its business and transactions and such duplicate books of account as he shall determine and upon application cause such books or duplicates thereof to be exhibited to any director;

(f) be empowered, from time to time, to require from the officers or agents of the Corporation reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation;

(g) sign (unless the Secretary or an Assistant Secretary or an Assistant Treasurer shall sign) certificates representing stock of the Corporation the issuance of which shall have been duly authorized (the signature to which may be a facsimile signature); and

(h) in general, perform all duties incident to the office of Treasurer and have such other

powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the President or these By-laws.

Section 4.13 ASSISTANT TREASURERS. At the request of the Treasurer or in his absence or disability, the Assistant Treasurer designated by him (or in the absence of such designation, the Assistant Treasurer designated by the Board of Directors, the Chairman of the Board or the President) shall perform all the duties of the Treasurer and, when so acting, shall have all the powers of and be subject to all restrictions upon the Treasurer. Each Assistant Treasurer shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the President, the Treasurer or these By-laws.

Section 4.14 SALARIES. The salaries of the officers of the Corporation shall be fixed from time to time by the Board of Directors. except that the Board of Directors may delegate to any person the power to fix the salaries or other compensation of any officers or agents appointed in accordance with the provisions of Section 4.3. No officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

ARTICLE V

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Execution of Instruments;

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Borrowing; Proxies

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Section 5.1 EXECUTION OF INSTRUMENTS GENERALLY. The Chairman of the Board, the President, any Vice Presi-

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dent, the Secretary or the Treasurer, subject to the approval of the Board of Directors, may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. The Board of Directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

Section 5.2 BORROWING. No loans or advances shall be obtained or contracted for, by or on behalf of the Corporation and no negotiable paper shall be issued in its name, unless and except as authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Any officer or agent of the Corporation thereunto so authorized may obtain loans and advances for the Corporation, and for such loans and advances may make, execute and deliver promissory notes, bonds, or other evidences of indebtedness of the Corporation. Any officer or agent of the Corporation thereunto so authorized may pledge, hypothecate or transfer as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, bonds, other securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same and do every act and thing necessary or proper in connection therewith.

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Section 5.3 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, and all notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or agent or agents of the Corporation, and in such manner, as from time to time shall be determined by the Board of Directors.

Section 5.4 PROXIES. Proxies to vote with respect to shares of stock of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the Chairman of the Board, the President or any Vice President or by any other person or persons thereunto authorized by the Board of Directors.

## ARTICLE VI

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### Record Dates

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Section 6.1 In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall be not more than sixty nor less than ten days before the date of such meeting, nor more than sixty

days prior to any other action. Only those stockholders of record on the date so fixed shall be entitled to any of the foregoing rights, notwithstanding the transfer of any such stock on the books of the Corporation after any such record date fixed by the Board of Directors.

## ARTICLE VII

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Corporate Seal

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Section 7.1 The corporate seal shall be circular in form and shall bear the name of the Corporation and words and figures denoting its organization under the laws of the State of Delaware and the year thereof and otherwise shall be in such form as shall be approved from time to time by the Board of Directors.

ARTICLE VIII

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Fiscal Year

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Section 8.1 The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

ARTICLE IX

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Amendments

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Section 9.1 Any or all By-laws of the Corporation may be amended or repealed, and new By-laws may be made, by an affirmative vote of a majority of the directors present at any organizational, regular, or special meeting of the Board of Directors.

ARTICLE X

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Action Without A Meeting

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Section 10.1 Any action which might have been taken under these By-laws by a vote of the stockholders at a meeting thereof may be taken without a meeting, without prior notice and without a vote, if a consent in writing setting forth the action so taken, shall be signed by the holders of outstanding shares of stock of the Corporation having not less than the maximum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, PROVIDED that prompt notice shall be given to those stockholders who have not so consented if less than unanimous written consent is obtained. Any action which might have been taken under these By-laws by vote of the directors at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all the members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the Board of Directors or such committee.

ARTICLE XI

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Indemnification

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Section 11.1 The Corporation shall indemnify, in the manner and to the full extent permitted by law, any person (or the estate of any person) who was or is a party to, or is threatened to be made a party to, any threatened,

pending or completed action, suit or proceeding, whether or not by or in the right of the Corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Where required by law, the indemnification provided for herein shall be made only as authorized in the specific case upon a determination, in the manner provided by law, that indemnification of the director, officer, employee or agent is proper under such circumstances. The Corporation may, to the full extent permitted by law, purchase and maintain insurance on behalf of any such person against any liability which may be asserted against him. To the full

extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and, in the manner provided by law, any such expenses may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding. The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any such expenses to the full extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the Corporation may be entitled under any agreement,

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vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

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## REVOLVING CREDIT NOTE

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\$8,000,000

Detroit, Michigan  
October 25, 1995

On or before October 1, 1997 FOR VALUE RECEIVED, Defiance, Inc., a Delaware corporation (herein called "Company") promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "Bank") at its Main Office at 500 Woodward Avenue, Detroit, Michigan, in lawful money of the United States of America the indebtedness or so much of the sum of Eight Million Dollars (\$8,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Second Amended and Restated Loan Agreement dated as of July 29, 1994, made by and between Company and Bank (herein called "Agreement"), together with interest thereon as hereinafter set forth. For the period from the date of execution of this Note through December 31, 1995, the amount available hereunder shall, subject to the terms of the Agreement, be Eight Million Dollars (\$8,000,000). Company agrees to reduce the indebtedness outstanding hereunder to an amount not to exceed Six Million Dollars (\$6,000,000) on or before January 1, 1996.

Each of the Advances hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, subject to the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, is secured in accordance with, and may be matured under, the terms of the Agreement, to which reference is hereby made. As additional security for this Note, Company grants Bank a lien on all property and assets including deposits and other credits of the Company, at any time in possession or control of or owing by Bank for any purpose.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby. Nothing herein shall limit any right granted Bank by other instrument or by law.

This Note is replacement for and increase of a Revolving Credit Note dated August 2, 1995 in the principal amount of \$6,000,000 by Company payable to Bank.

All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

DEFIANCE, INC.

By: /s/ Michael J. Meier

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Its: V.P.-Finance, CFO, Sec.-Treas.  
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THIRD AMENDMENT TO AMENDED  
AND RESTATED LOAN AGREEMENT

This Amendment dated as of October 25, 1995, between Defiance, Inc., a Delaware corporation, ("Company"), and Comerica Bank, a Michigan banking corporation, successor in interest by reason of merger to Manufacturers Bank, N.A. ("Bank").

RECITALS:

A. Company and Bank entered into an Amended and Restated Loan Agreement dated July 29, 1994, which was amended by a First Amendment to Amended and Restated Loan Agreement dated May 31, 1995 and a Second Amendment to Amended and Restated Loan Agreement dated as of August 2, 1995 ("Agreement").

B. Company and Bank desire further to amend the Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Section 2.1 of the Agreement is amended to read in its entirety as follows:

"2.1 Bank agrees to make Advances to Company at any time and from time to time from the effective date hereof through December 31, 1995, not to exceed Eight Million Dollars (\$8,000,000) and from and after January 1, 1996 until the Revolving Credit Maturity Date, not to exceed Six Million Dollars (\$6,000,000) ("Commitment Amount") in aggregate principal amount at any one time outstanding. All of the Advances under this Section 2 shall be evidenced by the Revolving Credit Note under which advances, repayments and readvances may be made, subject to the terms and conditions of this Agreement."

2. Exhibit "E" to the Agreement is hereby deleted and attached Exhibit "E" is substituted thereafter.

3. The above amendment shall be effective upon execution hereof by Company and Bank, delivery by Company to Bank of an executed Note in the form of attached Exhibit "E" and execution of the Acknowledgment below by each of the Guarantors (as defined in the Agreement).

4. Company hereby represents and warrants that, after giving effect to the amendment contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within Company's corporate powers, have been duly authorized, are not in contravention of law or the terms of Company's Certificate of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority, and this

Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Company set forth in Sections 8.1 through 8.5 and 8.7 through 8.14 of the Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) the continuing representations and warranties of Company set forth in Section 8.6 of the Agreement are true and correct as of the date hereof with respect to the most recent financial statements furnished to the Bank by Company in accordance with Section 9.1 of the Agreement; and (d) no event of default, or condition or event which, with the giving of notice or the running of time, or both, would constitute an event of default under the Agreement, has occurred and is continuing as of the date hereof.

5. Except as expressly modified hereby all of the terms and conditions of the Agreement remain in full force and effect.

WITNESS the due execution hereof on the day and year first written above.

COMERICA BANK

DEFIANCE, INC.

By: /s/ Kerry McGuire

By: /s/ Michael J. Meier

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Its: AVP

Its: V.P. Finance, CFO, Sec.-Treas.

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ACKNOWLEDGEMENT

The undersigned guarantors acknowledge and consent to the foregoing Amendment and waiver and ratify and confirm their respective obligations under the Guaranty Agreements dated February 5, 1993, which Guaranty Agreements remain in full force and effect.

SMTC CORPORATION

DEFIANCE PRECISION PRODUCTS,

INC.

By: /s/ Michael J. Meier

/s/ Michael J. Meier

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Its: Sec.-Treas.

Its: Sec.-Treas.

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DRAFTLINE ENGINEERING COMPANY

VAUNGARDE, INCORPORATED

By: /s/ Michael J. Meier

/s/ Michael J. Meier

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Its: Sec.-Treas.

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Its: Sec.-Treas.

BINDERLINE DEVELOPMENT, INC.

HY-FORM PRODUCTS, INC.

By: /s/ Michael J. Meier

/s/ Michael J. Meier

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Its: Sec.-Treas.

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Its: Sec.-Treas.

EXHIBIT "E"

REVOLVING CREDIT NOTE

\$8,000,000

Detroit, Michigan  
October \_\_, 1995

On or before October 1, 1997 FOR VALUE RECEIVED, Defiance, Inc., a Delaware corporation (herein called "Company") promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "Bank") at its Main Office at 500 Woodward Avenue, Detroit, Michigan, in lawful money of the United States of America the indebtedness or so much of the sum of Eight Million Dollars (\$8,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Second Amended and Restated Loan Agreement dated as of July 29, 1994, made by and between Company and Bank (herein called "Agreement"), together with interest thereon as hereinafter set forth. For the period from the date of execution of this Note through December 31, 1995, the amount available hereunder shall, subject to the terms of the Agreement, be Eight Million Dollars (\$8,000,000). Company agrees to reduce the indebtedness outstanding hereunder to an amount not to exceed Six Million Dollars (\$6,000,000) on or before January 1, 1996.

Each of the Advances hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and

payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, subject to the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, is secured in accordance with, and may be matured under, the terms of the Agreement, to which reference is hereby made. As additional security for this Note, Company grants Bank a lien on all property and assets including deposits and other credits of the Company, at any time in possession or control of or owing by Bank for any purpose.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced

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hereby. Nothing herein shall limit any right granted Bank by other instrument or by law.

This Note is replacement for and increase of a Revolving Credit Note dated August 2, 1995 in the principal amount of \$6,000,000 by Company payable to Bank.

All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

DEFIANCE, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

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FOURTH AMENDMENT TO AMENDED  
AND RESTATED LOAN AGREEMENT  
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This Amendment dated as of December 31, 1995, between Defiance, Inc., a Delaware corporation, ("Company"), and Comerica Bank, a Michigan banking corporation, successor in interest by reason of merger to Manufacturers Bank, N.A. ("Bank").

RECITALS:

A. Company and Bank entered into an Amended and Restated Loan Agreement dated July 29, 1994, which was amended by a First Amendment to Amended and Restated Loan Agreement dated May 31, 1995, a Second Amendment to Amended and Restated Loan Agreement dated as of August 2, 1995, and a Third Amendment to Amended and Restated Loan Agreement dated October 25, 1995 ("Agreement").

B. Company and Bank desire further to amend the Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Section 9.6 of the Agreement is amended to read in its entirety as follows:

"Maintain at all times a Leverage Ratio of not more than the following amounts during the periods specified below:

December 31, 1995 through June 30, 1996	1.75 to 1.0
July 1, 1996 and thereafter	1.50 to 1.0"

2. The above amendment shall be effective as of December 31, 1995.

3. Company hereby represents and warrants that, after giving effect to the amendment contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within Company's corporate powers, have been duly authorized, are not in contravention of law or the terms of Company's Certificate of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority, and this Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Company set forth in Sections 8.1 through 8.5 and 8.7 through 8.14 of the Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) the continuing representations and warranties of Company set forth

in Section 8.6 of the Agreement are true and correct as of the date hereof with respect to the most recent financial statements furnished to the Bank by Company in accordance with Section 9.1 of the Agreement; and (d) no event of default, or

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condition or event which, with the giving of notice or the running of time, or both, would constitute an event of default under the Agreement, has occurred and is continuing as of the date hereof.

4. Except as expressly modified hereby all of the terms and conditions of the Agreement remain in full force and effect.

WITNESS the due execution hereof on the day and year first written above.

COMERICA BANK

DEFIANCE, INC.

By: /s/ Kerry McGuire

By: /s/ Michael J. Meier

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Its: Vice President

Its: VP Finance, CFO, Sec.-Treas.

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ACKNOWLEDGEMENT

The undersigned guarantors acknowledge and consent to the foregoing Amendment and waiver and ratify and confirm their respective obligations under the Guaranty Agreements dated February 5, 1993, which Guaranty Agreements remain in full force and effect.

SMTC CORPORATION

DEFIANCE PRECISION PRODUCTS, INC.

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Secretary & Treasurer

Its: Secretary & Treasurer

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DRAFTLINE ENGINEERING COMPANY

VAUNGARDE, INCORPORATED

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Secretary & Treasurer

Its: Secretary & Treasurer

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BINDERLINE DEVELOPMENT, INC.

By: /s/ Michael J. Meier

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Its: Secretary & Treasurer

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HY-FORM PRODUCTS, INC.

By: /s/ Michael J. Meier

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Its: Secretary & Treasurer

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FIFTH AMENDMENT TO AMENDED  
AND RESTATED LOAN AGREEMENT  
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This Amendment dated as of June 30, 1996, between Defiance, Inc., a Delaware corporation, ("Company"), and Comerica Bank, a Michigan banking corporation, successor in interest by reason of merger to Manufacturers Bank, N.A. ("Bank").

RECITALS:

A. Company and Bank entered into an Amended and Restated Loan Agreement dated July 29, 1994, which was amended by a First Amendment to Amended and Restated Loan Agreement dated May 31, 1995, a Second Amendment to Amended and Restated Loan Agreement dated as of August 2, 1995, a Third Amendment to Amended and Restated Loan Agreement dated October 25, 1995 and a Fourth Amendment to Amended and Restated Loan Agreement dated December 31, 1995 ("Agreement").

B. Company and Bank desire further to amend the Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Section 9.13 of the Agreement is amended to read in its entirety as follows:

"9.13 Maintain at all times an Interest Ratio of not less than the following amounts during the periods specified below:

June 30, 1996 through June 29, 1997	3.0 to 1.0
June 30, 1997 and thereafter	5.0 to 1.0"

2. Section 9.14 of the Agreement is amended to read in its entirety as follows:

"9.14 Maintain at all times a Debt Service Coverage Ratio of not less than the following amounts during the periods specified below:

June 30, 1996 through June 29, 1997	1.8 to 1.0
June 30, 1997 and thereafter	2.0 to 1.0"

3. Section 9.15 of the Agreement is amended to read in its entirety as follows:

"9.15 Maintain at all times a Consolidated



Tangible Net worth of not less than \$28,000,000."

4. The above amendment shall be effective as of June 30, 1996.

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5. Company hereby represents and warrants that, after giving effect to the amendment contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within Company's corporate powers, have been duly authorized, are not in contravention of law or the terms of Company's Certificate of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority, and this Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Company set forth in Sections 8.1 through 8.5 and 8.7 through 8.14 of the Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) the continuing representations and warranties of Company set forth in Section 8.6 of the Agreement are true and correct as of the date hereof with respect to the most recent financial statements furnished to the Bank by Company in accordance with Section 9.1 of the Agreement; and (d) no event of default, or condition or event which, with the giving of notice or the running of time, or both, would constitute an event of default under the Agreement, has occurred and is continuing as of the date hereof.

6. Except as expressly modified hereby all of the terms and conditions of the Agreement remain in full force and effect.

WITNESS the due execution hereof on the day and year first written above.

COMERICA BANK

DEFIANCE, INC.

By: /s/ Timothy C. Griffin

By: /s/ Michael J. Meier

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Its: Vice President

Its: VP Finance, CFO, Sec.-Treas.

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ACKNOWLEDGEMENT

The undersigned guarantors acknowledge and consent to the foregoing Amendment and waiver and ratify and confirm their

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respective obligations under the Guaranty Agreements dated February 5, 1993, which Guaranty Agreements remain in full force and effect.

SMTC CORPORATION

DEFIANCE PRECISION PRODUCTS,  
INC.

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Sec.-Treas.  
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Its: Sec.-Treas.  
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DRAFTLINE ENGINEERING COMPANY

VAUNGARDE, INCORPORATED

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Sec.-Treas.  
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Its: Sec.-Treas.  
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BINDERLINE DEVELOPMENT, INC.

HY-FORM PRODUCTS, INC.

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Sec.-Treas.  
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Its: Sec.-Treas.  
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July 2, 1996

Mr. Jerry A. Cooper  
2349 Belvoir Boulevard  
Beachwood, Ohio 44122

Dear Jerry:

This letter responds to recent inquiries regarding the Compensation Committee's discretion with respect to whether retirement under Section 5.1 of the Defiance, Inc. Limited Supplemental Executive Retirement Plan (the "Plan") has occurred and is intended to clarify the criteria required by the Committee. This letter also addresses your current severance package and the discussions we have had related thereto.

It is the policy of the Compensation Committee to deem the CEO to be retired if, upon termination without cause, the executive has attained age fifty-five (55), completed five (5) years of service, and entered into an agreement not to compete with the Company. The non-competition agreement must be for a period of at least one (1) year. Furthermore, an executive who is considered to have retired under this criteria is encouraged to enter into a post-termination consulting agreement with the Company.

You have expressed a concern that your current severance package may have unfavorable tax consequences. The Compensation Committee, on the other hand, has expressed an interest in retaining your valued services, and has requested that, in the event of your involuntary termination without cause, you make yourself available to consult, as needed, with your successor. Given the recognized value of your services, and recognizing your expressed concerns, the following modifications to the severance benefits described in your letter of employment, dated February 28, 1992 are offered:

1. For a period of twelve (12) months following your termination for reasons other than Voluntary Resignation or Cause, you will enter into a post-termination obligation to consult to the Company. As a consultant, you may be called upon to assist your successor in a transitional role, and act as an advisor to your successor or the Board of Directors, as requested. Your duties in this capacity will be satisfied once the twelve (12) month period expires.
2. For a period of twelve (12) months following your termination for reasons other than Voluntary Resignation or Cause, you will enter into a post-termination obligation not to compete with the Company. Competition means the rendering of professional services with respect to products which are identical and/or similar to products of the Company ("Products"), other than in your capacity as the Company's

Mr. Jerry A. Cooper

Page 2  
July 2, 1996

provided similar Products or Product services in the same geographical area as the Company, during the period of your employment with the Company.

3. No severance shall be provided in the event of your termination by Defiance for Other Than Cause. Additionally, in the event of your Termination Due to a Change of Control, your base salary, at the highest rate during the twelve (12) months preceding your termination date, plus the average monthly amount of the bonuses awarded during the three (3) years preceding termination, and benefits shall be provided for a period of two (2) years, and this period shall commence once the post-termination obligation to consult has been satisfied.
4. As compensation for your services during the post-termination obligation to consult, and the post-termination obligation not to compete, you will receive all current benefits and be paid in monthly installments throughout the twelve (12) months following your termination. The amount of each installment will equal the monthly amount of base compensation at the highest rate during the twelve (12) months preceding your termination date, plus the average monthly amount of the bonuses awarded during the three (3) years preceding termination.
5. The Company acknowledges and guarantees its obligations to pay to you all consideration incident to your aforementioned post-termination obligations to consult, not to compete, as well as the Change of Control, unless and until those payments are actually received by you from third parties. A precondition of the Company's obligation is the executive's fulfillment of the aforementioned obligations.

Jerry, I hope that this letter resolves the questions you had regarding your benefits under the Plan and the concerns you raised with regards to your severance package. If you would like to accept the arrangements outlined above, please sign and return the enclosed "acceptance copy" of this letter.

Very truly yours,

/s/ [Illegible]

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Chairman Compensation Committee

ACCEPTED: /s/ Jerry A. Cooper

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Jerry A. Cooper

DATE: 7/11/96

## TERM NOTE-C

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\$6,000,000.00

Detroit, Michigan  
August 1, 1996

ON OR BEFORE August 1, 2003, FOR VALUE RECEIVED, Defiance, Inc., a Delaware corporation (herein called "Company") promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "Bank"), at its Main Office at 500 Woodward Avenue, Detroit, Michigan, or at such other place as the holder of this Note may designate in writing from time to time, the principal sum of Six Million and no/100 Dollars (\$6,000,000.00) in lawful money of the United States of America, together with interest as set forth below.

The indebtedness represented by this Note shall be repaid in eighty-four monthly installments of principal each equal to Seventy-One Thousand Four Hundred and Twenty-Eight and 57/100 Dollars (\$71,428.57) commencing on the 1st day of September, 1996 and on the same day of each month thereafter until August 1, 2003 when the entire unpaid balance of principal and interest thereon shall be due and payable.

The principal balance from time to time outstanding hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Agreement (as defined below) or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Agreement.

This Note evidences borrowing under, is subject to, is secured in accordance with, may be prepaid in accordance with, and may be matured under the terms of the Second Amended and Restated Loan Agreement dated as of July 29, 1994 by and between Company and Bank ("Agreement") to which reference is hereby made. As additional security for this Note, Company grants Bank a lien on all property and assets, including deposits and other credits, of the Company, at any time in possession or control of or owing by Bank for any purpose.

Company hereby waives presentment for payment, demand, protest and notice of protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby. Nothing herein shall limit any right granted by other instrument or by law.

All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

DEFIANCE, INC.

By: /s/ Michael J. Meier

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Its: VP-Finance, CFO, Sec.-Treas.  
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STOCK PURCHASE AGREEMENT

EXECUTION COPY

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THIS STOCK PURCHASE AGREEMENT (this "Agreement") is entered into by and between DEFIANCE, INC., a Delaware corporation ("Seller") and QUOIN INC., a Michigan corporation ("Buyer").

R E C I T A L S:

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A. Seller is the owner of one hundred fourteen thousand five hundred six (114,506) shares (the "Shares") of common stock of Vaungarde, Incorporated, a Michigan corporation (the "Company"), which constitute one hundred percent (100%) of the issued and outstanding shares of capital stock of the Company. The Company currently is engaged in the business of manufacturing and selling plastic component parts primarily for the automotive industry and painting various automotive parts (the "Purchased Business").

B. Buyer will form a new wholly-owned subsidiary (the "Subsidiary") for the purpose of acquiring all of the Shares. Immediately upon Closing, Buyer will cause the Subsidiary to merge with and into the Company under and pursuant to the Michigan Business Corporation Act, with the Company being the surviving corporation. For purposes of this Agreement, Buyer shall be deemed to include the Subsidiary.

C. Upon the terms and subject to the conditions of this Agreement, Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, all of the Shares.

P R O V I S I O N S:

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NOW, THEREFORE, in consideration of the mutual covenants, agreements, representations, and warranties contained in this Agreement, and intending to be legally bound hereby, Seller and Buyer agree as follows:

ARTICLE I

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Terms of Purchase

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SECTION 1.01. PURCHASE OF SHARES. Upon the terms and subject to the conditions set forth in this Agreement, Seller agrees to sell, convey, transfer, assign, and deliver to Buyer, and Buyer agrees to purchase from Seller, all of



the Shares.

SECTION 1.02. THE PURCHASE PRICE. Subject to the adjustment provisions of Section 1.04 of this Agreement, Buyer shall pay to Seller for the Shares an amount equal to the "Hard Book Value" of the Shares as of the Closing Date, minus Five Hundred Thousand Dollars (\$500,000) (the "Purchase Price"). For the purposes of this Agreement, "Hard Book Value" of the Shares shall mean: (a) the sum of the book value of each of the following items as each item is expressed on or determined from the balance sheet of the Company: (i) common stock, (ii) additional paid-in-capital, (iii) net intercompany advances to or from Seller (whether interest bearing or not), (iv) retained earnings-beg, and (v) current year earnings; minus (b) goodwill-

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net. The Hard Book Value of the Shares shall be determined by Seller in accordance with generally accepted accounting principles, applied on a consistent basis with the financial statements of the Company for the periods ending June 30, 1994 and 1995 ("D-GAAP"). For purposes of this Agreement, the parties acknowledge and agree that (i) the amount of Four Million Six Hundred Ninety-two Thousand Four Hundred Fifty-eight Dollars (\$4,692,458) is the Hard Book Value as of May 31, 1996, and is herein referred to as the "Preliminary Hard Book Value," and (ii) the amount of Four Million One Hundred Ninety-two Thousand Four Hundred Fifty-eight Dollars (\$4,192,458) is herein referred to as the "Preliminary Purchase Price."

SECTION 1.03. PAYMENT OF THE PURCHASE PRICE. The Purchase Price shall be paid to Seller as follows:

(a) At the Closing, Seller shall apply the sum of One Hundred Thousand Dollars (\$100,000) which was previously received by Seller from Buyer as a good faith deposit (the "Earnest Deposit") to payment of the Purchase Price.

(b) At the Closing, Buyer shall assign to Seller certain assets of the Company listed on SCHEDULE 1.03(B) attached to this Agreement (the "Assigned Assets"), pursuant to an Assignment Agreement, in the form attached as EXHIBIT 1.03(B) hereto (the "Assignment Agreement"). These items, which constituted the Assigned Assets, are agreed among the parties, but the specific valuation of each item shall fluctuate in value and be fairly established as of the date of Closing in accordance with D-GAAP. In order to facilitate the Closing, the parties agree that the value of the Assigned Assets is \$413,460.00 as of May 31, 1996, knowing that Assigned Assets will be finally determined as prescribed hereunder per Section 1.04.

(c) At the Closing, Buyer shall execute and deliver to Seller Buyer's promissory note in the amount of Seven Hundred Fifty Thousand Dollars (\$750,000) (the "Seller Note"). The Seller Note shall be in the

form of the promissory note attached to this Agreement as EXHIBIT 1.03(c).

(d) At the Closing, Buyer shall execute and deliver to Seller Buyer's promissory note in the amount of Two Hundred Thousand Dollars (\$200,000) (the "Bridge Note") (the Bridge Note and the Seller Note are collectively referred to herein as the "Note"). The Bridge Note shall be in the form of the promissory note attached to this Agreement as EXHIBIT 1.03(d).

(e) The balance of the Preliminary Purchase Price (\$2,728,998.00, which equals the Preliminary Purchase Price (\$4,192,458) less the sum of (i) the Earnest Deposit (\$100,000), (ii) the Assigned Assets (\$413,460), and (iii) the Note (\$750,000 + \$200,000)) shall be paid by wire transfer or certified check at the Closing."

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#### SECTION 1.04. FINAL BALANCE SHEET. FINAL HARD BOOK VALUE AND FINAL PURCHASE PRICE.

(a) Within fifty-five (55) calendar days of the Closing Date, Seller's financial representatives shall meet with financial representatives of Buyer and agree on a balance sheet of the Company as of the Closing Date (the "Final Balance Sheet") and the calculation of the Hard Book Value of the Shares as of the Closing Date (the "Final Hard Book Value"). The Final Balance Sheet shall be prepared in accordance with D-GAAP. The Final Purchase Price shall be the Final Hard Book Value less Five Hundred Thousand Dollars (\$500,000).

(b) If Buyer and Seller cannot agree on the Final Balance Sheet and/or the Final Hard Book Value, then the disputed matters shall be reduced to writing by each party, along with their written determination of Final Hard Book Value, and these materials shall be referred to an accounting firm mutually agreed to by the parties before Closing (the "Accountants") to resolve the disputed matters within thirty (30) days. The Accountants will be guided in reaching their determination with respect to the disputed matters by the applicable provisions of this Agreement. Such fees as may be payable to the Accountants for its services in determining the Final Hard Book Value shall be borne by the parties on a basis proportionate to the amount by which each such party's determination of Final Hard Book Value varied from the amount of the Final Hard Book Value as determined by the Accountants.

(c) The difference between the Preliminary Purchase Price and the

Final Purchase Price, together with interest on the amount of such difference computed at Comerica Bank's prime rate (the "Prime Rate") from the Closing until due, shall be paid by wire transfer and/or certified funds within five (5) business days of the determination of the Final Purchase Price (the "Final Payment Date") (by Seller if the Preliminary Purchase Price was more than the Final Purchase Price or by Buyer if the Preliminary Purchase Price was less than the Final Purchase Price). Any amount not paid on the Final Payment Date shall bear interest at the Prime Rate plus three percent (3%) per annum from the Final Payment Date until paid.

SECTION 1.05. SECURITY. As security for the payment of the Note, any amount which may be due Seller under the terms of SECTION 1.04 above, and any amount which may otherwise be payable by the Buyer or the Company under the terms of this Agreement or any of the other agreements, instruments or documents executed in connection herewith, Buyer shall deliver the following documents (the "Security Documents") to Seller at Closing:

(a) A stock pledge agreement in the form attached to this Agreement as EXHIBIT 1.05(a) pursuant to which Buyer pledges to Seller all of the Shares;

(b) The guarantee of John DeMaria in the form attached to this Agreement as EXHIBIT 1.05(b);

-3-

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(c) A security agreement covering all non-real estate assets of the Company in the form attached to this Agreement as EXHIBIT 1.05(c), along with proper and corresponding U.C.C. financing statements; and

(d) A mortgage covering all real estate owned by the Company in the form attached to the Agreement as EXHIBIT 1.05(d).

SECTION 1.06. SUBORDINATION. Buyer and Seller acknowledge and agree that: (a) any security interest in, or lien upon, the assets of the Company which is granted to Seller pursuant to SECTION 1.05 above shall be junior in priority to all security interests in, or liens upon, the assets of the Company as may be granted from time to time by Buyer to institutional lenders ("Buyer's Lenders") to secure any indebtedness payable to Buyer's Lenders ("Senior Indebtedness") as may be incurred by the Buyer at any time for the purpose of financing the transaction contemplated by this Agreement or for any other business purpose related to the continuing operation of the Company; PROVIDED HOWEVER, that (i) the maximum amount of Senior Indebtedness shall be limited as described on SCHEDULE 1.06 attached to this Agreement, (ii) the amount, if any, due and owing

Seller under the terms of SECTION 1.04 above, and the ICX Sublease (defined at Section 10.05) and any amounts or rights due Seller thereunder, shall not be subordinated in any fashion to the interests of Buyer's Lenders, (iii) Buyer's Lenders shall have no right in the Assigned Assets, and (iv) Buyer's Lenders shall consent to the Plant 2 Option (as herein defined); (b) Seller's rights with respect to the payment of the amounts due under the Note shall be subordinate to the rights of Buyer's Lenders to payment of the Senior Indebtedness; PROVIDED, HOWEVER, that Seller shall have the absolute right to accept and receive regularly scheduled payments of principal and interest due under the Note so long as Seller has not otherwise received written notice from one or more of Buyer's Lenders that a default exists under the terms of Buyer's financing arrangements with one or more of Buyer's Lenders; and (c) Seller shall have the right to (i) confess judgment on the Note, as therein provided, to the extent a payment default in respect of the Note is not cured within sixty (60) days following written notice to Buyer of its intention to confess judgment, and (ii) otherwise take action to enforce payment of the Note (or any such judgment) to the extent payment defaults in respect of the Note are not cured within a ninety (90) day standstill period following the occurrence of such default, which sixty (60) day and ninety (90) day periods may run concurrently. To effect the provisions of this SECTION 1.06, Seller shall enter into a subordination and/or intercreditor agreement (the "Subordination or Intercreditor Agreement") that Buyer or Buyer's Lenders may reasonably request from time to time to the extent the terms thereof are consistent with the provisions of this SECTION 1.06 and otherwise in form satisfactory to Seller. For purposes of this Agreement, the term "institutional lender" shall mean and include any person or entity actively and regularly engaged in the business of commercial lending.

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## ARTICLE II

### The Closing

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SECTION 2.01. TIME AND PLACE. The consummation of the transactions

contemplated by this Agreement (the "Closing") shall be held at 9:00 a.m. (Eastern Time) at the offices of Arter & Hadden, 1100 Huntington Building, Cleveland, Ohio 44115, on August 19, 1996, or such other date as Buyer and Seller may agree. The date of the Closing is herein referred to as the "Closing Date," and the transactions contemplated by this Agreement shall be effective as of 12:01 a.m. (Eastern Time) on the Closing Date.

ARTICLE III

Representations and Warranties of Seller  
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As a material inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Seller represents and warrants to Buyer that:

SECTION 3.01. ORGANIZATION, POWER. Seller is a corporation duly organized, validly existing, and in good standing under the laws of Delaware. The Company is a corporation duly organized, validly existing, and in good standing under the laws of Michigan. The Company is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which the ownership or leasing of the properties owned by it or the nature of the activities conducted by it requires such qualification, except for such states or other jurisdictions in which the failure to so qualify will not have a material adverse effect on the financial condition of the Company. Each of Seller and the Company has all the requisite corporate power and authority to own, lease and operate its assets and to carry on the Purchased Business as it is now being conducted and to enter into this Agreement and the other agreements and documents contemplated by this Agreement.

SECTION 3.02. AUTHORITY, NO VIOLATION, ETC. The execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated by this Agreement, including, but not limited to, the execution and delivery of the other agreements and documents to be executed and delivered by Seller and the consummation of the transactions contemplated by such other agreements and documents to be executed and delivered by Seller pursuant to the provisions of this Agreement constitute legal, valid, and binding obligations of Seller, enforceable against Seller in accordance with their respective terms and conditions. Except as disclosed on SCHEDULE 3.02, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement, nor compliance by Seller with any of the provisions of this Agreement, will:

- (a) Result in the breach of any of the terms or conditions of, or constitute a default under, the current Articles of Incorporation or Bylaws of either Company or Seller or, except to the extent such breach or default would not have a material adverse effect on the financial condition of the Company, any

contract, agreement, lease, commitment, indenture, mortgage, pledge, note, bond, license, or other instrument or obligation to which the Company or Seller is now a party or by which the Company or Seller or any of the Company's properties or assets may be bound or affected;

(b) Violate any law, rule, or regulation of any administrative agency or governmental body, or any order, writ, injunction or decree of any court, administrative agency, governmental body or arbitration tribunal; or

(c) Result in the acceleration of any indebtedness of the Company or increase the rate of interest payable by the Company with respect to any indebtedness.

Assuming that ICX Corporation ("ICX"), which currently leases certain property to the Seller, has approved the ICX Sublease (defined at Section 10.05), consents and approvals of third parties and governmental authorities required in connection with the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated by this Agreement have been obtained or will be obtained prior to Closing.

SECTION 3.03. TITLE TO THE SHARES. The Shares constitute all of the issued and outstanding shares of the common stock of the Company. There are no other classes or series of capital stock of the Company. Seller has good, absolute and marketable title to all of the Shares, free and clear of all liens, pledges, charges, security interests, encumbrances, rights of third parties, or other interests of any kind or character. Seller has, or will have, complete and unrestricted power and the unqualified right to sell, convey, assign, transfer and deliver the Shares to Buyer pursuant to the provisions of this Agreement. No legend or other reference to any purported encumbrance or lien appears on any certificate representing the Shares.

SECTION 3.04. NO LITIGATION. No action, suit, or governmental proceedings has been instituted or, to the best knowledge of Seller, is threatened to restrain or prohibit or otherwise challenge the legality or validity of the transactions contemplated by this Agreement.

SECTION 3.05. CAPITAL STRUCTURE OF COMPANY. The Company is authorized by its Articles of Incorporation to issue five hundred thousand (500,000) shares of common stock, Zero and 10/100 Dollars (\$0.10) par value, of which one hundred fourteen thousand five hundred six (114,506) shares are issued and outstanding. All of the Shares have been duly authorize and validly issued and are fully paid and non-assessable. There are no outstanding subscriptions, options, rights, warrants, calls or other agreements or commitments obligating either Seller or

the Company to sell or issue any Shares of the Company's capital stock or any securities convertible into Shares of the Company's capital stock, nor are there any voting trusts or any other agreements or understandings with respect to the voting of the Company's capital stock. The Company does not own or have any contract to acquire any equity securities or other securities of any person or any direct or indirect equity or ownership interests in any other business.

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SECTION 3.06. FINANCIAL STATEMENTS. Attached to this Agreement as SCHEDULE 3.06 are true, correct and complete copies of: (a) the Balance Sheet of the Company as of June 30, 1995, and the Statement of Operations, Statement of Cash Flows and Supporting Schedule for the twelve (12) month period ending on June 30, 1995 (collectively, the "Financial Statements"), and (b) the interim monthly financial statements of the Company for its current fiscal year ("Interim Statements"). Except as set forth in SCHEDULE 3.06, the Financial Statements and Interim Statements have been prepared from the books and records of the Company in accordance with generally accepted accounting principles applied on a consistent basis with prior periods, except as provided therein, and fairly present, in all material respects, the financial position of the Company as of the dates thereof and the results of operations of the Company for the periods then ended. Except as disclosed or reserved against on the Financial Statements and/or the Interim Statements, or as set forth on SCHEDULE 3.06, and other than current liabilities incurred in the ordinary and usual course of business since June 30, 1995, the Company does not have any debts, liabilities, or obligations of any nature, whether accrued, absolute, contingent, or otherwise, whether due or to become due, including, but not limited to, guarantees, liabilities, or obligations on account of taxes, other governmental charges, duties, penalties, interest, or fines, that individually or in the aggregate, would have, or would reasonably be expected to have, a material adverse effect on the condition, financial or otherwise, or future prospects of the Company.

SECTION 3.07. ASSETS. Except as disclosed on SCHEDULE 3.07. 3.08 or 10.05, all of the Company's assets used in the Purchased Business, including, without limitation, all of the Company's machinery, equipment, inventory and accounts receivable, real estate and improvements, and other assets, are reflected on its financial statements. Except for the leased personal property listed on SCHEDULE 10.05 and the real estate described on SCHEDULE 3.08: (a) The Company has good and marketable title to all of its assets, free and clear of all mortgages, liens, pledges, charges, security interests, encumbrances, easements, encroachments, rights of third parties, or other interests of any kind or character EXCEPT for such items of record that do not materially interfere with the Company's ability to own and operate the Purchased Business, and (b) the Company's assets include all the properties which are necessary to conduct the

Purchased Business as presently conducted, and to perform all of the current contracts, leases, agreements, commitments, purchase orders, work orders, customer orders, and other arrangements of the Company.

SECTION 3.08. LEASED REAL ESTATE. SCHEDULE 3.08 sets forth a list of all real estate leased by the Company and/or the Seller which is used by the Company in the operation of the Purchased Business, including a copy of the subject Real Estate Lease Agreement by and between Shiawassee Valley Development Corporation, as Lessor, and the Company, as Lessee, dated September 20, 1995.

SECTION 3.09. MINUTE BOOKS. The minute books of the Company are complete and correct in all material respects and reflect all of those transactions involving its business which properly should be set forth therein. At the Closing, all of the Company's minute books and records will be in the possession of the Company.

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SECTION 3.10. LITIGATION. Except as disclosed on SCHEDULE 3.10, to the knowledge of Seller: (a) there is no suit, action, proceeding (legal, administrative or otherwise), claim, investigation or inquiry (by an administrative agency, governmental body, arbitration tribunal or otherwise) pending or threatened against the Company, which otherwise would materially adversely affect any of the capital stock, properties or assets of the Company; and (b) there is no outstanding judgment, order, writ, injunction or decree of any court, administrative agency, governmental body or arbitration tribunal which materially affects the operations of the Company or any of the capital stock, properties or assets of the Company.

SECTION 3.11. OTHER INFORMATION. To the knowledge of Seller, and except as otherwise disclosed herein, all information and data concerning the Company and its operations and assets, which has been provided to Buyer by the Seller, is true, complete and not misleading in any material respect.

SECTION 3.12. BROKERS' OR FINDERS' FEES. Except as disclosed on SCHEDULE 3.12, no agent, broker, investment banker, or other person or firm acting on behalf of Seller or under Seller's authority is or will be entitled to any broker's or finder's fee or any other commission or similar fee directly or indirectly related to the transactions contemplated by this Agreement.

SECTION 3.13. SELLER'S KNOWLEDGE. Notwithstanding anything to the contrary contained herein, where the terms "to the knowledge of Seller," "known to Seller," or words of similar import are used in this Agreement, the same shall be deemed to mean, and refer solely to the knowledge, in fact, possessed by, the



executive management personnel of the Seller.

SECTION 3.14. REPRESENTATIONS AND WARRANTIES AS OF DATE HEREOF. The representations and warranties contained in the foregoing SECTION 3.01 through SECTION 3.13 inclusive are made as of the date of this Agreement and shall be updated as of the Closing, except, as otherwise expressly indicated therein.

ARTICLE IV

Warranties and Representations of Buyer

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As a material inducement to Seller to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Buyer represents and warrants to Seller that:

SECTION 4.01. ORGANIZATION, POWER. Buyer is a corporation duly organized, validly existing and in good standing under the laws of Michigan. Buyer has all the requisite corporate power and authority to own, lease and operate its assets and to carry on its business as it is now being conducted and to enter into this Agreement and the other agreements and documents of transfer contemplated by this Agreement.

SECTION 4.02. AUTHORITY, NO VIOLATION, ETC. The execution and delivery of this Agreement by Buyer and the consummation by Buyer of the transactions contemplated by this Agreement, including, but not limited to, the execution and delivery of the other agreements and

documents to be executed and delivered by Buyer and the consummation of the transactions contemplated by such other agreements and documents have been duly and validly authorized by all necessary corporate action on the part of the Board of Directors of Buyer. This Agreement and the other agreements and documents to be executed and delivered by Buyer pursuant to the provisions of this Agreement constitute legal, valid, and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms and conditions. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement, nor compliance by Buyer with any of the provisions of this Agreement, will:

- (a) Result in the breach of any of the terms or conditions of, or constitute a default under, the current Articles of Incorporation or Bylaws of either Company or Buyer, or any contract, agreement, lease, commitment, indenture, mortgage, pledge, note, bond, license, or other

instrument or obligation to which the Company or Buyer is now a party or by which the Company or Buyer or any of the Company's properties or assets may be bound or affected or;

(b) Violate any law, rule, or regulation of any administrative agency or governmental body, or any order, writ, injunction or decree of any court, administrative agency, governmental body or arbitration tribunal.

All consents and approvals of third parties and governmental authorities required in connection with the execution and delivery by Buyer of this Agreement and the consummation by Buyer of the transactions contemplated by this Agreement have been obtained or will be obtained prior to Closing.

SECTION 4.03. NO LITIGATION. No action, suit, or proceeding has been instituted or, to the best knowledge of Buyer, is threatened to restrain or prohibit or otherwise challenge the legality or validity of the transactions contemplated by this Agreement.

SECTION 4.04. BROKERS' OR FINDERS' FEES. Except as disclosed on SCHEDULE 4.04, no agent, broker, investment banker, or other person or firm acting on behalf of Buyer or under Buyer's authority is or will be entitled to any broker's or finder's fee or any other commission or similar fee directly or indirectly related to the transactions contemplated by this Agreement.

SECTION 4.05. "AS IS" PURCHASE.

(a) Buyer is familiar with the Purchased Business and the industry in which the Company operates the Purchased Business

(b) As of the Closing, Buyer will have undertaken all tests and examinations of the assets, books and records of the Company and reviewed all other information relating to the Company or the Purchased Business as Buyer shall have deemed necessary or appropriate; and

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(c) Except for the representations and warranties expressly made by Seller pursuant to Article III of this Agreement: (i) Seller is making no other representations or warranties, express or implied, regarding the Company or the Purchased Business, including, but not limited to, the assets, financial condition, operations or prospects of the Company, and (ii) Buyer is purchasing the Shares of the Company "As Is", and thereby indirectly acquiring the Company, the Purchased Business and the assets and properties of the Company in an "As Is" condition.

SECTION 4.06. CONTINUATION OF THE BUSINESS. Buyer acknowledges and assures Seller that it intends to continue operation of the Company as a going concern and that Buyer will cause the Company to honor the Company's collective bargaining relationship and contract with the United Auto Workers.

SECTION 4.07. REPRESENTATIONS AND WARRANTIES AS OF DATE HEREOF. The representations and warranties contained in the foregoing Section 4.01 through Section 4.06 inclusive are made as of the date of this Agreement and shall be updated as of the Closing, except as otherwise expressly indicated therein.

## ARTICLE V

### Certain Pre-Closing Covenants of Seller -----

Seller covenants and agrees that between the date of this Agreement and the Closing, except as otherwise consented to by Buyer:

SECTION 5.01. OPERATION OF PURCHASED BUSINESS. Seller shall use its best efforts to: (a) cause the Company to operate the Purchased Business in the ordinary course, consistent with past practices; (b) preserve the Purchased Business intact and conserve the goodwill related thereto; (c) keep available and maintain the services of all employees, agents and representatives of the Company on the same or substantially the same terms and conditions; and (d) continue and preserve good relationships with suppliers, customers, lenders and others having business dealings or relationships with the Company, PROVIDED, HOWEVER, that with regard to the foregoing, Buyer acknowledges that the Company's President and Chief Engineer terminated their employment with the Company effective April 11, 1996, the Company's comptroller terminated his employment as of May 31, 1996, and that such terminations of employment may affect the ability of the Seller and Company to comply with the foregoing provisions of this Section 5.01.

SECTION 5.02. NOTICE OF MATERIAL CHANGES. Seller shall promptly notify Buyer if it becomes aware of any fact or condition that makes untrue any representation or warranty contained in this Agreement.

SECTION 5.03. ACCESS TO THE COMPANY. Seller shall provide Buyer with reasonable access to all information in its or the Company's possession concerning the Company and/or the

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Purchased Business that Buyer shall reasonably request. At the express direction

of the officers of Seller, Seller shall permit Buyer and its accountants, attorneys and other authorized representatives to enter upon the offices and plant sites of the Company to inspect the books and other records of the Company, to examine the assets of the Company, and to carry out any reasonable tests and examinations of such assets as are deemed necessary by Buyer, provided that such visits, tests and examinations are conducted in a manner which does not unreasonably interfere with the operation of the Purchased Business.

SECTION 5.04. EXCLUSIVE RIGHT TO ACQUIRE. So long as Buyer has not breached any of its representations, warranties, covenants or other agreements under this Agreement, Buyer shall have the exclusive right to acquire the Shares of the Company until the earlier of the Closing Date or the termination of this Agreement, and during such time period Seller shall not, and Seller shall cause the Company not to, engage in discussions or negotiations with any other person or entity relating to the sale or other disposition of the Shares or the sale or other disposition of any assets of the Company outside the ordinary and usual course of business.

SECTION 5.05. CONSENTS. Approvals. Seller shall use its best efforts to obtain all consents and approvals of third parties and governmental authorities required in connection with the execution and delivery by Seller of this Agreement and the consummation by Seller of the transactions contemplated by this Agreement.

SECTION 5.06, INTERCOMPANY INDEBTEDNESS. Seller shall cause the Company to repay, or forgive and fully and unconditionally release the Company from, all net indebtedness of the Company to Seller.

## ARTICLE VI

### Conditions Precedent to Buyer's Performance

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The obligation of Buyer to consummate the transactions contemplated under and pursuant to this Agreement is subject to the satisfaction, prior to or at the Closing, of each of the following conditions:

SECTION 6.01. REPRESENTATIONS AND WARRANTIES OF SELLER. Except for such changes as are permitted or contemplated by this Agreement, each of the representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date with the same force and effect as if made at and as of the Closing Date.

SECTION 6.02. COMPLIANCE. Seller shall have performed, complied with and fulfilled all the covenants, agreements, obligations and conditions required by this Agreement to be performed, complied with or fulfilled by Seller prior to or at the Closing.

SECTION 6.03. LITIGATION. No order, decree or ruling of any governmental authority or court shall have been entered, and no governmental proceeding or other action, suit, claim or

investigation shall be pending or threatened, pertaining to the transactions contemplated by this Agreement.

SECTION 6.04. CLOSING DELIVERIES. Buyer shall have received from Seller all of the instruments, documents and other items described in SECTION 9.01, and the form and substance of all such deliveries shall be satisfactory in all reasonable respects to Buyer and its counsel.

SECTION 6.05. CONSENT BY ICX TO SUBLEASE. ICX Corporation shall have consented to the Sublease (as defined in SECTION 10.05) and delivered to Buyer a nondisturbance and attornment agreement in the form attached hereto as EXHIBIT 6.05 (the "Nondisturbance and Attornment Agreement").

SECTION 6.06. SUBORDINATION AGREEMENT. Seller shall have entered into a Subordination Agreement or Intercreditor Agreement in the form attached hereto as EXHIBIT 1.06.

SECTION 6.07. BANK ACCOUNT BALANCES. Seller shall cause the Company to close or transfer to Seller the Company's "Zero Balance" Deposit Account and take all appropriate steps so that the Company's other bank accounts shall not have a negative book balance as of the Closing. Seller shall be responsible for paying all checks drawn on the Zero Balance Deposit Account prior to the Closing.

ARTICLE VII

Conditions Precedent to Seller's Performance

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The obligation of Seller to consummate the transactions contemplated under and pursuant to this Agreement is subject to the satisfaction, prior to or at the Closing, of each of the following conditions:

SECTION 7.01. REPRESENTATIONS AND WARRANTIES OF BUYER. Except for such changes as are permitted or contemplated by this Agreement, each of the representations and warranties of Buyer contained in this Agreement shall be true and correct at and as of the Closing Date with the same force and effect as if made at and as of the Closing Date.

SECTION 7.02. COMPLIANCE. Buyer shall have performed, complied with and fulfilled all the covenants, agreements, obligations and conditions required by

this Agreement to be performed, complied with or fulfilled by it prior to or at the Closing.

SECTION 7.03. LITIGATION. No order, decree or ruling of any governmental authority or court shall have been entered, and no governmental proceeding or other action, suit, claim or investigation shall be pending or, to the knowledge of the officers of Buyer threatened, pertaining to the transactions contemplated by this Agreement.

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SECTION 7.04. CLOSING DELIVERIES. Seller shall have received from Buyer all of the instruments, documents and other items described in Section 9.02, and the form and substance of all such deliveries shall be satisfactory in all reasonable respects to Seller and its counsel.

#### ARTICLE VIII

##### Termination

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SECTION 8.01. TERMINATION BY MUTUAL AGREEMENT. This Agreement may be terminated by the mutual agreement in writing of the parties hereto at any time prior to the Closing. If this Agreement is terminated pursuant to this SECTION 8.01, Seller shall be obligated to repay the Earnest Deposit to Buyer.

SECTION 8.02. TERMINATION BY BUYER. This Agreement and any obligations of Buyer hereunder (other than its obligations under SECTION 12.01 and SECTION 12.02) may be terminated by Buyer at any time prior to or at the Closing if: (a) Seller shall have failed to perform in a timely manner, and in all material respects, any of its covenants or obligations set forth in this Agreement, including, without limitation, any of Seller's covenants and obligations under ARTICLE V or SECTION 10.01 of this Agreement; (b) any representation or warranty of Seller contained herein is false or misleading in any material respect; (c) Seller shall fail to make any delivery specified in SECTION 9.01; or (d) Buyer demonstrates that a material adverse change in the Purchased Business or the financial condition of the Company has occurred since April 30, 1996; provided, however, that Buyer waives its right to terminate this Agreement due to information contained in the environmental and title reports with respect to real estate owned or leased by the Company.

SECTION 8.03. TERMINATION BY SELLER. This Agreement and any obligations of

Seller hereunder (other than its obligations under SECTION 12.01 and SECTION 12.02) may be terminated by Seller at any time prior to or at the Closing if: (a) Buyer shall have failed to perform in a timely manner in all material respects any of its covenants or obligations hereunder; (b) any representation or warranty of Buyer contained herein is false or misleading in any material respect; or (c) Buyer shall fail to make any delivery specified in SECTION 9.02.

SECTION 8.04. AUTOMATIC TERMINATION. Except as provided herein, unless the transactions contemplated by this Agreement shall have been consummated by the Closing Date or such other date as Buyer and Seller may agree in writing, this Agreement shall automatically be terminated. Except to the extent the failure to close the transaction by such date occurs by reason of a condition described in SECTION 8.03 above, if this Agreement is terminated pursuant to this SECTION 8.04, Seller shall be obligated to repay the Earnest Deposit to Buyer.

SECTION 8.05. LIQUIDATED DAMAGES.

(a) Notwithstanding anything contained herein, if Buyer justifiably terminates this Agreement pursuant to the provisions of SECTION 8.02(a), (b) OR (c), BUT NOT (d) (provided Buyer has completed all performance required of Buyer hereunder), Seller shall

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be obligated to: (i) repay the Earnest Deposit to Buyer, plus (ii) pay Buyer liquidated damages equal to the amount of the Earnest Deposit (the "Liquidated Damages"). If Buyer terminates this Agreement other than as described in the foregoing sentence, Seller shall be entitled to retain the Earnest Deposit as liquidated damages.

(b) If Seller justifiably terminates this Agreement pursuant to the provisions of SECTION 8.03 or to the extent otherwise permitted under SECTION 8.04 above, Seller shall be entitled to retain the Earnest Deposit as liquidated damages.

## ARTICLE IX

### Deliveries at Closing

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SECTION 9.01. DELIVERIES TO BUYER AT THE CLOSING. At the Closing, and simultaneously with the deliveries to Seller specified in SECTION 9.02, Seller shall deliver or cause to be delivered to Buyer the following:

(a) The share certificates representing the Shares along with a duly executed stock power;

(b) A duly executed receipt for the closing payment, per SECTION 1.03, in form reasonably acceptable to Buyer;

(c) A duly executed Subordination Agreement or Intercreditor Agreement executed by Buyer's Senior Lender and Seller, as described in SECTION 1.06;

(d) A Certificate of Seller in form reasonably acceptable to Buyer acknowledging the accuracy of its representations and warranties contained in this Agreement and as to its compliance with and fulfillment of all covenants, agreements, obligations and conditions required by this Agreement (subject to the provisions of SECTION 9.01);

(e) The resignations of all directors and officers of the Company in form reasonably acceptable to Buyer;

(f) All books of account, corporate seals, minute books, stock records, and all other records pertaining to the Company; and

(g) Any other documents or instruments as Buyer may reasonably request for the purpose of assigning, transferring, granting, conveying, and confirming the Shares of the Company to Buyer.

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SECTION 9.02. DELIVERIES TO SELLER AT THE CLOSING. At the Closing, and simultaneously with the deliveries to Buyer specified in SECTION 9.01, Buyer shall deliver or cause to be delivered to Seller the following:

(a) The closing payment specified in SECTION 1.03;

(b) Buyer's executed release of any interest in the Earnest Deposit to the Seller;

(c) The Seller's Note duly executed by Buyer;

(d) The Bridge Note duly executed by Buyer;

(e) The transfer of all Assigned Assets to Seller, including the fully executed Assignment Agreement and any other fully executed



documentation necessary to complete the transfer;

(f) The executed Guarantee of John DeMaria specified in SECTION 1.05(B);

(g) The executed Pledge Agreement, Security Agreement, Financing Statements, and Mortgage specified in SECTION 1.05(a), (c) AND (d);

(h) The Shares, accompanied by a stock power endorsed for transfer to be held by Seller under the terms of the Pledge;

(i) A letter fully executed by the Company, in form satisfactory to Seller, acknowledging Company's obligation under the provisions of SECTION 11.02.

(j) A Certificate of Buyer in form reasonably acceptable to Seller acknowledging the accuracy of its representations and warranties contained in this Agreement and as to its compliance with and fulfillment of all covenants, agreements, obligations and conditions required by this Agreement;

(k) The fully executed Sublease and Security Agreement described in SECTION 10.05, complete with the written approval of ICX;

(l) The fully executed Plant 2 Option described in SECTION 10.06; and

(m) Any other documents or instruments as Seller may reasonably request for the purpose of assigning, transferring, conveying, and confirming the sale of the Shares to Buyer and the payment to Seller of its purchase price and all related security for future payments described herein.

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## ARTICLE X

### Additional Covenants of the Parties

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SECTION 10.01. BEST EFFORTS. Subject to the terms and conditions of this

Agreement, each of the parties shall negotiate in good faith and use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the transactions provided for in this Agreement.

SECTION 10.02. FURTHER ASSURANCE. Seller, after the Closing, without further consideration, shall execute, acknowledge, and deliver any further assignments, conveyances, and other assurances, documents, and instruments, reasonably requested by Buyer, and shall take any other action consistent with the terms Of this Agreement that may reasonably be requested by Buyer.

SECTION 10.03. ACCESS TO RECORDS. For a period of six (6) years after the Closing Date, Buyer shall retain, and Seller and its representatives shall have reasonable access to (including the right to make copies of), all of the books and records of the Company to the extent that such access may reasonably be required by Seller in connection with matters relating to or affected by Seller's ownership of the Shares or the operation of the Purchased Business prior to the Closing. Following the expiration of such six (6) year period, Buyer shall continue to cooperate with Seller to provide Seller with access to any such books and records, which Buyer or the Company has continued to retain, for any of the foregoing matters.

SECTION 10.04. PUBLIC STATEMENTS. Without the prior written consent of Seller, Buyer shall not make any announcements or public statements relating to the signing of this Agreement and/or the transactions contemplated by this Agreement.

SECTION 10.05. LEASED EQUIPMENT. SCHEDULE 10.05 sets forth a list of all personal property leased by the Company and/or Seller which is used by the Company in the operations of the Purchased Business. Buyer agrees to assume and indemnify Seller against any liability or loss in respect of, all of Seller's obligations under the personal property leases described on Schedule 10.05 under which Seller is the lessee (the "Assigned Leases"); provided, however, that in connection with the Lease Agreement No. 673 dated July 1, 1992, between Seller and ICX Corporation (the "ICX Lease"), the Company and Seller shall enter into a sublease agreement, effective as of the Closing Date for the personal property described on lease schedules 012 and 014 that are at the Company's facilities in Owosso, Michigan, on the terms and conditions set forth in the Sublease and Security Agreement in the form attached hereto as Exhibit 10.05 (the "ICX Sublease").

SECTION 10.06. OPTION TO PURCHASE PLANT 2. The Company shall grant Seller an option (the "Plant 2 Option") to purchase the real estate and buildings located at 630 South Chestnut Street, Owosso, Michigan ("Plant 2") for the period from the Closing until Seller has no further responsibility pursuant to the ICX Lease for the personal property described in the ICX Sublease, such option to be exercisable by Seller if there occurs an event of default hereunder

or in the Note. The purchase price for Plant 2 shall be Four Hundred Fifty Thousand Dollars (\$450,000) payable in cash. A form of the Plant 2 Option is attached as EXHIBIT 10.06.

SECTION 10.07. SUBORDINATION OR INTERCREDITOR AGREEMENT. Notwithstanding any contrary provisions herein, Buyer and Seller agree that this Agreement, if executed by Buyer and Seller, and the obligations of Buyer and Seller, respectively, hereunder shall be null, void and of no effect and neither party shall be bound hereby or hereunder UNLESS Seller shall have executed a Subordination or intercreditor Agreement with Buyer's Lenders as described in SECTION 1.06 on or prior to the Closing.

## ARTICLE XI

### Indemnification

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SECTION 11.01. INDEMNIFICATION BY SELLER. Seller shall indemnify, defend and hold Buyer, its successors and permitted assigns, and its affiliates (collectively, "Buyer's Indemnified Persons") harmless from and against any loss, damage, liability, claim, action, cause of action, regulatory, legislative or judicial proceedings or investigations, assessments, levies, fines, penalties, costs and expenses, including, without limitation, reasonable attorneys', accountants', investigators', and experts' fees and expenses (collectively "Damages"), reasonably sustained or incurred in connection with the defense or investigation of any claim arising out of or in any way relating to: (a) any misrepresentation in or breach of the representations and warranties of Seller set forth in this Agreement or in any document delivered to Buyer pursuant to the provisions of this Agreement (subject to the provisions of SECTION 12.09), (b) the failure by Seller to perform any of its obligations under this Agreement, including, but not limited to, those set forth in Section 11.06 (the "Plant I Claims"), or (c) any Environmental Claim (as defined below) against the Company arising out of or based upon the (i) the Barrels, Inc. site located in Ingham County, Michigan, or (ii) KELLY. ET AL. V. GREAT LAKES CONTAINER CORPORATION (U.S. District Court File No. 85-CV73556-DT), or (iii) the prior sale of barrels by the Company to third parties on or after December 31, 1986 (collectively, the "Barrel Claims"). For purposes of the preceding sentence, "Environmental Claim" means any notice of any violation, claim, demand, abatement or other order or direction by any governmental authority for tangible property damage, damage to the environment, nuisance, pollution, contamination or other adverse effects on the environment, or for fines, penalties or restrictions from the violation of any environmental laws currently in effect as of the Closing Date.

SECTION 11.02. INDEMNIFICATION BY BUYER AND THE COMPANY. Buyer and the Company, jointly and severally, shall indemnify, defend and hold Seller and its affiliates (collectively, "Seller's Indemnified Persons") harmless from and

against any and all Damages arising out of or in any way relating to (a) any misrepresentation in or breach of the representations and warranties of Buyer set forth in this Agreement, or in any document delivered to Seller pursuant to the provisions of this Agreement (subject to the provisions of SECTION 12.09), (b) the failure by Buyer to perform any of its obligations under this Agreement, (c) the failure by Company to perform any of its obligations under the terms of the Assignment Agreement, or (d) Buyer's or the Company's failure to pay, discharge and perform any obligations or liabilities of the Company (other than any Environmental Claim referred to in SECTION 11.01(c) of this Agreement); irrespective of whether any such obligation or liability relates to or arises out of the operation of the Purchased Business by the Company prior to, on or after the Closing Date. Further, Company, its successors and assigns, agrees to supply to Seller in the ordinary course annual reviewed financial statements, as well as all financial reports which Company supplies to its lenders from time to time.

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SECTION 11.03. NOTICE. If any person believes that he, she or it has suffered or incurred any Damages, that person shall so notify the indemnifying party promptly in writing describing such Damages, the amount thereof, if known, and the method of computation of such Damages, all with reasonable particularity to permit the indemnifying party to assess the nature and cost of the claim. If any action at law, suit in equity or administrative action is instituted by or against a third party with respect to which any person intends to claim any liability or expense as Damages under this Article XI, such person shall promptly notify the indemnifying party of such action.

SECTION 11.04. DEFENSE OF CLAIMS. The indemnifying party shall have thirty (30) calendar days after receipt of any notice referred to in SECTION 11.03 of this Agreement to notify the indemnified party that it elects to conduct and control any legal or administrative action or suit with respect to an indemnifiable claim. If the indemnifying party does not give such notice, the indemnified person shall have the right to defend, contest, settle or compromise such action or suit in the exercise of its exclusive discretion, and to the extent such claim is otherwise an indemnifiable claim hereunder, the indemnifying party shall, upon request from the indemnified person, promptly pay the indemnified person in accordance with the other terms and conditions of this Article XI the amount of any Damages resulting from its liability to the third party claimant. If the indemnifying party gives such notice, it shall have the right to undertake, conduct and control, through counsel of its own choosing at its sole expense, the conduct and settlement of such action or suit, and the indemnified person shall cooperate with the indemnifying party in connection therewith; PROVIDED, HOWEVER, that (a) the indemnifying party shall not thereby permit to exist any lien, encumbrance or other adverse charge securing the

claims indemnified hereunder upon any asset of the indemnified person, (b) the indemnifying party shall not thereby consent to the imposition of any injunction against the indemnified person without the written consent of the indemnified person, (c) the indemnifying party shall permit the indemnified person to participate in such conduct or settlement through counsel chosen by the indemnified person, but the fees and expenses of such counsel shall be borne by the indemnified person except as provided in clause (d) below, and (d) upon a final determination of such action or suit, the indemnifying party shall agree promptly to reimburse to the extent required under this ARTICLE XI (subject to the provisions of SECTION 11.07 of this Agreement) the indemnified person for the full amount of any Damages resulting from such action or suit and all reasonable and related expenses incurred by the indemnified person, except fees and expenses of counsel for the indemnified person incurred after the assumption of the conduct and control of such action or suit by the indemnifying party. So long as the indemnifying party is contesting any such action in good faith, the indemnified person shall not pay or settle any such action or suit. Notwithstanding the foregoing, the indemnified person shall have the right to pay or settle any such action or suit, provided that in such event the indemnified person shall waive any right to indemnity therefor from the indemnifying party and no amount in respect therefor shall be claimed as Damages under this ARTICLE XI.

SECTION 11.05. BARREL CLAIMS. Seller shall, at its sole expense and in the manner determined by Seller, conduct or direct any environmental cleanup or remediation to be undertaken by the Company which is required by law and which constitutes a Barrel Claim; PROVIDED, HOWEVER, that Seller will consult with Buyer with respect to such matters, will not take

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any action which will unduly hamper the ability of the Company to carry on the Purchased Business in the ordinary course (unless required by law to do so), and will provide Buyer with a complete copy of any governmental filing or submission at the time it is made. Buyer agrees to cooperate and cause the Company to cooperate with Seller (including, without limitation, by making relevant personnel and records available to Seller at all reasonable times at a reasonable charge to be agreed upon between Buyer and Seller) in connection with any such cleanup or remediation.

SECTION 11.06. REMEDIAL ACTION PLAN. Within a reasonable time period after the Closing Of the transaction contemplated herein, Seller, at its sole expense, shall either: (a) present documentation to the Buyer reflecting that the real estate owned by the Company at 1000 Bradley Street, Owosso, Michigan ("Plant No. 1") does not constitute a "facility" as that term is defined in Part 201, as amended, of Michigan's Public Act 451 of 1994 ("Part 201"), or (b) prepare or

cause to be prepared a remedial action plan ("RAP") in compliance with Section 20114 of Part 201 regarding the: (i) acetone detected in the grab soil sample identified as sample 0-2 in the December, 1994 Phase II Environmental Site Assessment Report, prepared by Woodward-Clyde Consultants ("WCC"), a copy of which has been delivered to Buyer, and (ii) metals detected in the soil samples identified in the July, 1995 Evaluation of Analytical Results prepared by WCC, a copy of which has been delivered to Buyer, to the extent that the compounds in (i) and (ii) are identified in concentrations which exceed the respective generic residential criteria for those compounds under Part 201. Seller shall submit the RAP to and obtain the approval of the RAP by the Michigan Department of Environmental Quality (the "MDEQ").

Upon approval of the RAP, Seller shall diligently implement the RAP, and, upon completion, shall obtain from the MDEQ a document stating that the RAP has been completed. The RAP, including the choice of appropriate and relevant cleanup criteria and land and/or resource use restrictions, shall be prepared and structured at the sole discretion of Seller, subject only to MDEQ approval; provided, however, that Seller shall furnish Buyer with a copy of the RAP simultaneously with submittal of the RAP to the MDEQ, and shall not include in the RAP any action or restriction which would unreasonably interfere with the ability of the Company to carry on the Purchased Business in the ordinary course (unless required by law to so interfere with such business).

Buyer and the Company agree to fully cooperate with Seller and shall not take any action which interferes with Seller in its undertaking to obtain RAP approval or implementation. Specifically, but not by way of limitation, Buyer and/or the Company shall cause the appropriate representatives to provide their signatures on any documents as may be necessary to effectuate the RAP, including, without limitation, a notice of approved environmental remediation and/or a restrictive covenant. The obligations of Buyer and the Company contained in this subparagraph are subject to Seller's obligation to not unreasonably interfere with the Purchased Business in the ordinary course, as further described above.

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Buyer and the Company shall allow Seller and/or its agents access to Plant No. 1 at all times during development and implementation Of the RAP, including any access needed for any monitoring required in connection with the RAP.

SECTION 11.07. COOPERATION. If requested by the indemnifying party, the indemnified person shall cooperate with the indemnifying party and its counsel in contesting any claim which the indemnifying party elects to contest or, if

appropriate, in making any counterclaim against the person asserting the claim, or any cross-complaint against any person, and further agrees to take such other action as reasonably may be requested by an indemnifying party to reduce or eliminate any loss or expense for which the indemnifying party would have responsibility, but the indemnifying party will reimburse the indemnified person for any expenses incurred by it in so cooperating or acting at the request of the indemnifying party.

SECTION 11.08. LIMITATIONS. Except for Damages relating to a Barrel Claim or a Plant 1 Claim, Buyer's Indemnified Persons may not assert any claim for Damages under this ARTICLE XI: (a) unless and until the aggregate amount of such claims that may be asserted under this ARTICLE XI against Seller by Buyer's Indemnified Persons exceeds Fifty Thousand and 00/100 Dollars (\$50,000.00), and then Buyer's Indemnified Persons may only assert a claim for the excess of such aggregate claims over Fifty Thousand and 00/100 Dollars (\$50,000.00), or (b) in respect of any claim of breach of any representation or warranty of the Seller hereunder, to the extent Seller had disclosed such breach to the Buyer prior to the Closing Date, as provided in SECTION 5.02 hereof, or Buyer otherwise had actual knowledge of such breach prior to Closing. Notwithstanding the provisions of ARTICLE XI, except for damages related to a Barrel Claim or a Plant 1 Claim, the aggregate amount of indemnification for which Seller shall be liable under this ARTICLE XI shall not exceed an amount equal to Two hundred Thousand Dollars (\$200,000).

SECTION 11.09. PAYMENT OF DAMAGES. The indemnifying party shall promptly pay to the indemnified person in cash the amount of any Damages to which the indemnified person is entitled by reason of the provisions of this Agreement. The parties covenant that any payment made pursuant to this ARTICLE XI will be treated by the parties on their respective tax returns as an adjustment to the Purchase Price.

SECTION 11. 10. COORDINATION OF PROVISIONS. To the extent any provision of this Agreement specifically limits or excludes Seller's indemnification obligation for certain matters, Seller shall have no liability or indemnification obligation for such matters under any other provisions of this Agreement.

## ARTICLE XII

### Miscellaneous Provisions

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SECTION 12.01. CONFIDENTIAL NATURE OF INFORMATION. Each party agrees that it will treat in confidence all documents, materials and other information which it shall have obtained during the course of the negotiations leading to the consummation of the transactions contemplated by this Agreement, whether obtained before or after the date hereof (collectively, the "Confidential

Information"), and the preparation of this Agreement and other related documents. Notwithstanding the foregoing, the Confidential Information shall not include any information which: (a) such party can demonstrate was already lawfully in its possession prior to the disclosure thereof by the other party, (b) is known to the public and did not become so known through any violation of a legal obligation, (c) became known to the public through no fault of such party, (d) is later lawfully acquired by such party from other sources, (e) is required to be disclosed under the provisions of any binding statute or regulation, or (f) is required to be disclosed by a rule or order of any court of competent jurisdiction. If the transactions contemplated by this Agreement are not consummated for any reason whatsoever, Buyer shall promptly return to Seller all of the Confidential Information in Buyer's possession relating to the Company and/or the Purchased Business, and shall not retain copies thereof.

SECTION 12.02. EXPENSES. Each of Buyer and Seller shall pay their own costs and expenses incurred or to be incurred by it in negotiating and preparing this Agreement and in closing and carrying out the transactions contemplated by this Agreement, except as otherwise expressly provided for in this Agreement.

SECTION 12.03. HEADINGS. The subject headings of the Articles and Sections of this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of any of its provisions.

SECTION 12.04. ENTIRE AGREEMENT. This Agreement, including the Exhibits and Schedules referred to herein which form a part of this Agreement, contain the entire understanding of the parties with respect to the transactions contemplated by this Agreement. There are no representations, warranties, covenants or undertakings other than those expressly set forth or provided for in this Agreement. This Agreement supersedes all prior agreements and understandings between the parties with respect to the transactions contemplated by this Agreement.

SECTION 12.05. MODIFICATION AND WAIVER. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by all the parties. The party for whose benefit a warranty, representation, covenant, or condition is intended may in writing waive any inaccuracies in the warranties and representations contained in this Agreement or waive compliance with any of the covenants or conditions contained in this Agreement and so waive performance of any of the obligations of the other party to this Agreement, and any defaults under this Agreement; PROVIDED, HOWEVER, that such waiver shall not affect or impair the waiving party's rights with respect to any other warranty, representation or covenant or any default under this Agreement, nor shall any waiver constitute a continuing waiver.



SECTION 12.06. COUNTERPARTS. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 12.07. EXHIBITS AND SCHEDULES. All Exhibits and Schedules attached to this Agreement are incorporated in this Agreement and made a part of this Agreement in the same

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manner as if such exhibits and schedules were set forth at length in the text of this Agreement. The parties acknowledge that the Schedules will be updated on and as of the Closing Date.

SECTION 12.08. SUCCESSORS. This Agreement shall be binding on, and shall inure to the benefit of, the parties and their respective successors and assigns; PROVIDED, HOWEVER, that neither this Agreement nor any of the rights or obligations under this Agreement may be assigned by any party without the prior written consent of the other party hereto.

SECTION 12.09. NATURE AND SURVIVAL OF REPRESENTATIONS AND WARRANTIES AND INDEMNIFICATION. Except for Barrel Claims and Plant 1 Claims, all representations and warranties made by any party to this Agreement or pursuant hereto and the indemnification rights and obligations with respect thereto set forth in ARTICLE XI of this Agreement shall survive the Closing Date for a period of one (1) year, at which time such representations and warranties and indemnification rights and obligations shall expire; PROVIDED, HOWEVER, that notwithstanding the foregoing the rights and obligations with respect to indemnification as provided in ARTICLE XI shall continue with respect to any matter for which indemnification had been properly sought pursuant to the provisions of this Agreement prior to the expiration of such survival period.

SECTION 12. 10. NOTICES. All notices, requests, demands, and other communications to be given under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, or on the third business day after mailing if mailed to the party to whom notice is to be given by certified or registered mail, return receipt requested, postage prepaid and properly addressed as follows:

If to Buyer:

QUOIN Inc.  
601 First Street, N.W.  
Grand Rapids, Michigan 49504  
Attn: John DeMaria, President

With a Copy to:

Miller, Canfield, Paddock and Stone, P.L.C.  
1200 Campau Square Plaza  
99 Monroe Avenue, N.W.  
Grand Rapids, Michigan 49503  
Attn: Michael Campbell

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If to Seller:

Defiance, Inc.  
1111 Chester Avenue  
Suite 750  
Cleveland, Ohio 44114  
Attn: Jerry A. Cooper, President & CEO

With a Copy to:

Arter & Hadden  
1100 Huntington Building  
925 Euclid Avenue  
Cleveland, Ohio 44115  
Attn: Robert B. Tomaro

SECTION 12.11. GOVERNING LAW: ARBITRATION. This Agreement shall be construed and interpreted in accordance with the laws of the State of Ohio except that the choice of law rules of Ohio shall not be applied in such a way as to cause this Agreement to be construed and interpreted in accordance with the laws of any other state. Any dispute concerning the interpretation of this Agreement, or the performance of obligations set forth in this Agreement, which cannot be amicably settled between the parties within sixty (60) days of written notice by the aggrieved party to the other, shall be finally settled by Arbitration in accordance with the rules and regulations of the American Arbitration Association. The place of Arbitration shall be Cleveland, Ohio, unless otherwise agreed.

SECTION 12.12. SEVERABILITY. In the event that any of the terms or provisions of this Agreement are determined to be unenforceable by any court of competent jurisdiction, the parties to this Agreement shall consider such terms or provisions amended and modified so as to eliminate such invalidity or unenforceability, and all other terms and provisions shall remain in full force and effect as originally written.

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IN WITNESS WHEREOF, the parties have executed this Agreement this 6th day of August , 1996.

SELLER:

BUYER:

DEFIANCE, INC.

QUOIN, INC.

By: /s/ Jerry A. Cooper

By: /s/ John DeMaria

-----  
Its: President and CEO

-----  
Its: President

LIST OF EXHIBITS AND SCHEDULES  
FOR STOCK PURCHASE AGREEMENT

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Exhibit	Document
-----	-----
1.03 (b)	Assignment Agreement
1.03 (c)	Seller Note
1.03 (d)	Bridge Note
1.05 (a)	Pledge Agreement
1.05 (b)	Guarantee of John DeMaria
1.05 (c)	Security Agreement
1.05 (d)	Mortgage
6.05	Nondisturbance and Attornment Agreement
10.05	ICX Sublease
10.06	Plant 2 Option

  

Schedule	Document
-----	-----
1.03 (b)	Assigned Assets
1.06	Financial Ratios
3.02	Authority, No Violation, Etc.
3.06	Financial Statements
3.07	Assets Not Reflected On Financial Statements
3.08	Leased Real Estate
3.10	Litigation
3.12	Brokers' or Finders' Fees (Seller)
4.04	Brokers' or Finders' Fees (Buyer)
10.05	Leased Personal Property

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Comerica Bank

EXHIBIT 10 (bb)

August 15, 1996

Michael J. Meier, VP-Finance, CFO  
Defiance, Inc.  
1111 Chester Ave., Suite 750  
Cleveland, OH 44114-3516

Dear Mr. Meier:

I am pleased to inform you that pursuant to Sections 10.2 and 10.7 of the Second Amended & Restated Loan Agreement by and between Defiance, Inc. (hereinafter called the "Company") and Comerica Bank (hereinafter called the "Bank"), the Bank hereby consents to the sale of the Vaungarde, Inc. subsidiary of the Company to Quoin, Inc., and the investment in Quoin, Inc. in the form of subordinated debt in the amount of \$950,000. This consent is granted based upon the selling terms as outlined in the July 26, 1996, "Summary of Purchase Agreement for Vaungarde Sale to Quoin, Inc." sheet attached.

Mike, if you have any questions please do not hesitate to give me a call.

Sincerely,

/s/ Timothy C. Griffin

Timothy C. Griffin  
Vice President  
Comerica Bank

SIXTH AMENDMENT TO AMENDED  
AND RESTATED LOAN AGREEMENT

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This Amendment dated as of August 19, 1996, between Defiance, Inc., a Delaware corporation, ("Company"), and Comerica Bank, a Michigan banking corporation, successor in interest by reason of merger to Manufacturers Bank, N.A. ("Bank").

RECITALS:

A. Company and Bank entered into a Second Amended and Restated Loan Agreement dated July 29, 1994, which was amended by a First Amendment to Amended and Restated Loan Agreement dated May 31, 1995, a Second Amendment to Amended and Restated Loan Agreement dated as of August 2, 1995, a Third Amendment to Amended and Restated Loan Agreement dated October 25, 1995, a Fourth Amendment to Amended and Restated Loan Agreement dated December 31, 1995 and a Fifth Amendment to Amended and Restated Loan Agreement dated June 30, 1996 ("Agreement").

B. Company and Bank desire further to amend the Agreement.

NOW, THEREFORE, the parties agree as follows:

1. The definition of "Revolving Credit Maturity Date" set forth in Section 1 of the Agreement is amended to read in its entirety as follows:

"`Revolving Credit Maturity Date' shall mean October 1, 1998."

2. Section 9.12 of the Agreement is amended to read in its entirety as follows:.

"9.12 Maintain at all times a Consolidated Current Ratio of not less than the following amounts during the periods specified below:

June 30, 1996 through June 29, 1997	1.2 to 1.0
June 30, 1997 and thereafter	1.4 to 1.0"

3. Section 9.15 of the Agreement is amended to read in its entirety as follows:

"9.15 Maintain at all times a Consolidated Tangible Net Worth of not less than the following amounts

during the periods specified below:

June 30, 1996 through December 30, 1996	\$28,000,000
December 31, 1996 through June 29, 1997	\$30,000,000
June 30, 1997 and thereafter	\$32,000,000"

2

4. Exhibit "E" to the Agreement is hereby deleted and attached Exhibit "E" is substituted thereafter.

5. The above amendment shall be effective upon execution hereof by Company and Bank, delivery by Company to Bank of an executed Note in the form of attached Exhibit "E" and execution of the Acknowledgment below by each of the Guarantors (as defined in the Agreement).

6. Company hereby represents and warrants that, after giving effect to the amendment contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within Company's corporate powers, have been duly authorized, are not in contravention of law or the terms of Company's Certificate of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority, and this Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Company set forth in Sections 8.1 through 8.5 and 8.7 through 8.14 of the Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) the continuing representations and warranties of Company set forth in Section 8.6 of the Agreement are true and correct as of the date hereof with respect to the most recent financial statements furnished to the Bank by Company in accordance with Section 9.1 of the Agreement; and (d) no event of default, or condition or event which, with the giving of notice or the running of time, or both, would constitute an event of default under the Agreement, has occurred and is continuing as of the date hereof.

7. Except as expressly modified hereby all of the terms and conditions of the Agreement remain in full force and effect.

WITNESS the due execution hereof on the day and year first written above.

COMERICA BANK

DEFIANCE, INC.

By: /s/ Timothy C. Griffin

By: /s/ Michael J. Meier

Its: Vice President

Its: VP Finance, CFO, Sec.-Treas.

Acknowledgement

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The undersigned guarantors acknowledge and consent to the foregoing Amendment and waiver and ratify and confirm their respective obligations under the Guaranty Agreements dated February 5, 1993, which Guaranty Agreements remain in full force and effect.

DEFIANCE TESTING & ENGINEERING SERVICES, INC., F/K/A SMTCCORPORATION

DEFIANCE PRECISION PRODUCTS, INC.

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Sec.-Treas.

Its: Sec.-Treas.

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DRAFTLINE ENGINEERING COMPANY

HY-FORM PRODUCTS, INC.

By: /s/ Michael J. Meier

By: /s/ Michael J. Meier

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Its: Sec.-Treas.

Its: Sec.-Treas.

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BINDERLINE DEVELOPMENT, INC.

By: /s/ Michael J. Meier

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Its: Sec.-Treas.

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REVOLVING CREDIT NOTE

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\$6,000,000

Detroit, Michigan

August 19, 1996

On or before October 1, 1998 FOR VALUE RECEIVED, Defiance, Inc., a Delaware corporation (herein called "Company") promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "Bank") at its Main Office at 500 Woodward Avenue, Detroit, Michigan, in lawful money of the United States of America the indebtedness or so much of the sum of Six Million Dollars (\$6,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Second Amended and Restated Loan Agreement dated as of July 29, 1994, made by and between Company and Bank (as amended, herein called "Agreement"), together with interest thereon as hereinafter set forth.

Each of the Advances hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, subject to the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, is secured in accordance with, and may be matured under, the terms of the Agreement, to which reference is hereby made. As additional security for this Note, Company grants Bank a lien on all property and assets including deposits and other credits of the Company, at any time in possession or control of or owing by Bank for any purpose.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby. Nothing herein shall limit any right granted Bank by other instrument or by law.

This Note is replacement for and extension of a Revolving Credit Note dated

October 25, 1995 in the principal amount of \$8,000,000 by Company payable to Bank.

All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

DEFIANCE, INC.

By:

-----

Its:

-----

REVOLVING CREDIT NOTE  
-----

\$6,000,000

Detroit, Michigan  
August 19, 1996

On or before October 1, 1998 FOR VALUE RECEIVED, Defiance, Inc., a Delaware corporation (herein called "Company") promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "Bank") at its Main Office at 500 Woodward Avenue, Detroit, Michigan, in lawful money of the United States of America the indebtedness or so much of the sum of Six Million Dollars (\$6,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Second Amended and Restated Loan Agreement dated as of July 29, 1994, made by and between Company and Bank (as amended, herein called "Agreement"), together with interest thereon as hereinafter set forth.

Each of the Advances hereunder shall bear interest at the Applicable Interest Rate from time to time applicable thereto under the Agreement or as otherwise determined thereunder, and interest shall be computed, assessed and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, subject to the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, is secured in accordance with, and may be matured under, the terms of the Agreement, to which reference is hereby made. As additional security for this Note, Company grants Bank a lien on all property and assets including deposits and other credits of the Company, at any time in possession or control of or owing by Bank for any purpose.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby. Nothing herein shall limit any right granted Bank by other instrument or by law.

This Note is replacement for and extension of a Revolving Credit Note dated October 25, 1995 in the principal amount of \$8,000,000 by Company payable to Bank.

All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

DEFIANCE, INC.

By: /s/ Michael J. Meier

-----  
Its: VP-Finance, CFO, Sec.-Treas.  
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Exhibit 11.

## STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

Defiance, Inc. and Subsidiaries

(All dollar amounts in thousands, except per share amounts)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Year Ended June 30,		
	1996	1995	1994
Common shares:			
<S>	<C>	<C>	<C>
Shares outstanding - beginning of period	6,543,950	6,516,038	6,422,270
Shares issued during period	29,500	27,912	93,768
Shares purchased for treasury	(157,700)		
Shares outstanding - end of period	6,415,750	6,543,950	6,516,038
Average shares outstanding per above	6,544,662	6,533,156	6,482,213
Average common share equivalents:			
Outstanding options and warrants	162,416	175,465	173,787
Weighted average common shares outstanding	6,707,078	6,708,621	6,656,000
Net earnings	\$1,598	\$6,594	\$6,001
Primary and fully diluted net earnings per common share	\$0.24	\$0.98	\$0.90

&lt;/TABLE&gt;

<TABLE>  
<CAPTION>

Exhibit 21.

SUBSIDIARIES OF THE REGISTRANT

Name	State in which incorporated	Percentage of voting securities owned by Company
-----	-----	-----
<S>	<C>	<C>
Defiance Precision Products, Inc.	Ohio	100%
Hy-Form Products, Inc.	Michigan	100%
Defiance Testing & Engineering Services, Inc.	Michigan	100%
Vaungarde, Incorporated	Michigan	100%
Binderline Development, Inc.	Michigan	100%
Draftline Engineering Company	Delaware	100%

All the subsidiaries listed above are included in the Consolidated Financial Statements of the Company.

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-92504, No. 33-44505 and No. 33-25753) pertaining to the 1994 Nonemployee Director Stock Option Plan, the 1989 Stock Option Plan and the 1985 Stock Option Plan, respectively, of Defiance, Inc. of our report dated July 30, 1996, with respect to the consolidated financial statements and schedule of Defiance, Inc. for the year ended June 30, 1996, included in the Annual Report (Form 10-K) for the year ended June 30, 1996.

Ernst & Young LLP

Cleveland, Ohio  
August 26, 1996

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