

02-27-2003
102375720

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

Colonial Craft, Inc.

2-21-03

- Individual(s)
- General Partnership
- Corporation-State
- Other DELAWARE
- Association
- Limited Partnership

Additional name(s) of conveying party(ies) attached? Yes No

3. Nature of conveyance:

- Assignment
- Security Agreement
- Other
- Merger
- Change of Name

Execution Date: 12/10/02

2. Name and address of receiving party(ies)

Name: Comerica Bank, as Agent

Internal Address: One Detroit Center, 9th Floor

Street Address: 500 Woodward Ave.

City: Detroit State: MI Zip: 48226

- Individual(s) citizenship
- Association
- General Partnership
- Limited Partnership
- Corporation-State
- Other a Michigan banking association

If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
(Designations must be a separate document from assignment)
Additional name(s) & address(es) attached? Yes No

4. Application number(s) or registration number(s):

A. Trademark Application No.(s) _____

B. Trademark Registration No.(s) 2,114,993

2,060,372; 1,897,538; 1,715,771

Additional number(s) attached Yes No

1,365,613

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: Angela Alvarez Sujek

Internal Address: Bodman, Longley & Dahling LLP

Street Address: 110 Miller, Suite 300

City: Ann Arbor State: MI Zip: 48104

6. Total number of applications and registrations involved:

7. Total fee (37 CFR 3.41).....\$ 140.00

- Enclosed
- Authorized to be charged to deposit account

8. Deposit account number:

Additional fees only: 02-2880

DO NOT USE THIS SPACE

9. Signature.

Angela Alvarez Sujek
Name of Person Signing

Angela Alvarez Sujek
Signature

2/21/03
Date

Total number of pages including cover sheet, attachments, and document:

02/26/03 TIBELLER 00000087 2114993

Mail documents to be recorded with required cover sheet information to:
Commissioner of Patent & Trademarks, Box Assignments
Washington, D.C. 20231

40.00 DP
100.00 DP

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement") dated as of November 26, 2002, is entered into by and between the Company (as defined below), each subsidiary of the Company listed on the signature pages hereof, and such other entities which from time to time become parties hereto (collectively, including the Company, the "Debtors" and individually each a "Debtor") and Comerica Bank, a Michigan Banking corporation ("Comerica"), as Agent for and on behalf of the Banks (as defined below) (in such capacity, the "Agent"). The addresses for the Debtors and the Agent are set forth on the signature pages.

RECITALS:

A. Quanex Corporation, a Delaware corporation ("Company") have entered into that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended, supplemented, amended and restated or otherwise modified from time to time the "Credit Agreement") with each of the financial institutions party thereto (collectively, including their respective successors and assigns, the "Banks"), and with Comerica Bank in its capacity as Agent for the Banks (the "Agent"), pursuant to which the Banks have agreed, subject to the satisfaction of certain terms and conditions, to extend or to continue to extend financial accommodations to the Company, as provided therein.

B. Pursuant to the Credit Agreement, the Banks have required that each of the Debtors grant (or cause to be granted) certain liens and security interest to the Agent, as Agent for the benefit of the Banks, all to secure the obligations of the Company under the Credit Agreement.

C. The Debtors have directly and indirectly benefited and will directly and indirectly benefit from the transactions evidenced by and contemplated in the Credit Agreement and have consented to the execution and delivery of the Credit Agreement

D. The Agent is acting as Agent for the Banks pursuant to Section 12 of the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1 Definitions

Section 1.1 Definitions. As used in this Agreement, capitalized terms not otherwise defined herein have the meaning provided for such terms in the Credit Agreement. References to "Sections," "subsections," "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. All

references to statutes and regulations shall include any amendments of the same and any successor statutes and regulations. References to particular sections of the UCC should be read to refer also to parallel sections of the Uniform Commercial Code as enacted in each state or other jurisdiction where any portion of the Collateral is or may be located.

The following terms have the meanings indicated below, all such definitions to be equally applicable to the singular and plural forms of the terms defined:

“Account” means any “account,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all rights of the Debtor to payment for goods sold or leased or services rendered, whether or not earned by performance, (b) all accounts receivable of the Debtor, (c) all rights of the Debtor to receive any payment of money or other form of consideration, (d) all security pledged, assigned or granted to or held by the Debtor to secure any of the foregoing, (e) all guaranties of, or indemnifications with respect to, any of the foregoing, and (f) all rights of the Debtor as an unpaid seller of goods or services, including, but not limited to, all rights of stoppage in transit, replevin, reclamation and resale.

“Banks” has the meaning specified in the Credit Agreement.

“Chattel Paper” means any “chattel paper,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and shall include electronic chattel paper and tangible chattel paper.

“Collateral” has the meaning specified in Section 2.1 of this Agreement.

“Computer Records” has the meaning specified in Section 2.1(g) of this Agreement.

“Default” has the meaning specified in the Credit Agreement.

“Deposit Account” shall mean a demand, time, savings, passbook, or similar account maintained with a bank. The term does not include investment property or accounts evidenced by an instrument.

“Document” means any “document,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by the Debtor, including, without limitation, all documents of title and all receipts covering, evidencing or representing goods now owned or hereafter acquired by a Debtor.

“Equipment” means any “equipment,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, all machinery, equipment, furniture, trade fixtures, tractors, trailers, rolling stock, vessels, aircraft and vehicles now owned or hereafter acquired by such Debtor and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

“Event of Default” has the meaning specified in the Credit Agreement.

“General Intangibles” means any “general intangibles,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all of the Debtor’s patents, copyrights, trademarks, service marks, trade names, trade secrets, registrations, goodwill, franchises, licenses, permits, proprietary information, customer lists, designs, inventions and all other intellectual property and proprietary rights, including without limitation those described on Schedule D attached hereto and incorporated herein by reference (collectively, the “Intellectual Property Collateral”); (b) all of the Debtor’s books, records, data, plans, manuals, computer software, computer tapes, computer disks, computer programs, source codes, object codes and all rights of the Debtor to retrieve data and other information from third parties; (c) all of the Debtor’s contract rights, commercial tort claims, partnership interests, membership interests, joint venture interests, securities, deposit accounts, investment accounts and certificates of deposit; (d) all rights of the Debtor to payment under chattel paper, documents, instruments and similar agreements; (e) letters of credit, letters of credit rights supporting obligations and rights to payment for money or funds advanced or sold of the Debtor; (f) all tax refunds and tax refund claims of the Debtor; (g) all choses in action and causes of action of the Debtor (whether arising in contract, tort or otherwise and whether or not currently in litigation) and all judgments in favor of the Debtor; (h) all rights and claims of the Debtor under warranties and indemnities; and (i) all rights of the Debtor under any insurance, surety or similar contract or arrangement.

“Governmental Authority” shall mean any nation or government, any state, province or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Indebtedness” has the meaning specified in the Credit Agreement.

“Instrument” means any “instrument,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by the Debtor, and, in any event, shall include all promissory Notes (including without limitation, the Intercompany Notes of such Debtor), drafts, bills of exchange and trade acceptances, whether now owned or hereafter acquired.

“Intellectual Property Collateral” is defined in clause (a) of the definition of General Intangibles.

“Intercompany Note” means any promissory Note issued or to be issued by the Company or any Subsidiary of the Company to any other Debtor to evidence an intercompany loan.

“Inventory” means any “inventory,” as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all goods and other personal property of the Debtor that are held for sale or lease or to be furnished under any contract of service; (b) all raw materials, work-in-process, finished goods,

supplies and materials of the Debtor; (c) all wrapping, packaging, advertising and shipping materials of the Debtor; (d) all goods that have been returned to, repossessed by or stopped in transit by the Debtor; and (e) all Documents evidencing any of the foregoing.

“Loan Documents” has the meaning specified in the Credit Agreement.

“Permitted Liens” shall mean any lien or encumbrance which is a Permitted Lien under the Credit Agreement.

“Proceeds” means any “proceeds,” as such term is defined in Article or Chapter 9 of the UCC and, in any event, shall include, but not be limited to, (a) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to a Debtor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to a Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any Person acting, or purporting to act, for or on behalf of any governmental authority), and (c) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

“Records” is defined in Section 4.9 of this Agreement.

“Software” means all (i) computer programs and supporting information provided in connection with a transaction relating to the program, and (ii) computer programs embedded in goods and any supporting information provided in connection with a transaction relating to the program whether or not the program is associated with the goods in such a manner that it customarily is considered part of the goods, and whether or not, by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods, and whether or not the program is embedded in goods that consist solely of the medium in which the program is embedded.

“Subsidiary” has the meaning specified in the Credit Agreement.

“UCC” means the Uniform Commercial Code as in effect in the State of Michigan; provided, that if, by applicable law, the perfection or effect of perfection or non-perfection of the security interest created hereunder in any Collateral is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, “UCC” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or the effect of perfection or non-perfection.

ARTICLE 2

Security Interest

Section 2.1 Security Interest. As collateral security for the prompt payment and performance in full when due of the Indebtedness (whether at stated maturity, by acceleration or otherwise), each Debtor hereby pledges and assigns (as collateral) to the Agent, and grants the Agent a continuing lien on and security interest in, all of such Debtor’s right, title and interest in and to the following, whether now owned or hereafter arising or acquired and wherever located (collectively, the “Collateral”):

- (a) all Accounts;
- (b) all Chattel Paper;
- (c) all General Intangibles;
- (d) all Equipment;
- (e) all Inventory;
- (f) all Documents;
- (g) all Instruments;
- (h) all Deposit Accounts;
- (i) all computer records (“Computer Records”) and Software, whether relating to the foregoing Collateral or otherwise, but in the case of such Software, subject to the rights of any non-affiliated licensee of software and any cash collateral, deposit account or investment account established or maintained hereunder, including without limitation under Section 6.3 hereof; and
- (j) the Proceeds, in cash or otherwise, of any of the property described in the foregoing clauses (a) through (i) and all liens, security, rights, remedies and claims of such Debtor with respect thereto;

provided, however, that “Collateral” shall not include rights under or with respect to any General Intangible, license, permit or authorization to the extent any such General Intangible, license, permit or authorization, by its terms or by law, prohibits the assignment of, or the granting of a security interest in, the rights of a grantor thereunder or which would be invalid or unenforceable upon any such assignment or grant. The pledge and grant of a security interest in Proceeds shall not be deemed to give the applicable Debtor any right to dispose of any of the Collateral, except as may otherwise be permitted herein or in the Credit Agreement.

Section 2.2 Debtors Remain Liable. Notwithstanding anything to the contrary contained herein, (a) the Debtors shall remain liable under the contracts, agreements, documents and instruments included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Agent or any Bank of any of their respective rights or remedies hereunder shall not release the Debtors from any of their duties or obligations under the contracts, agreements, documents and instruments included in the Collateral, and (c) neither the Agent nor any of the Banks shall have any indebtedness, liability or obligation (by assumption or otherwise) under any of the contracts, agreements, documents and instruments included in the Collateral by reason of this Agreement, and none of such parties shall be obligated to perform any of the obligations or duties of the Debtors thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

ARTICLE 3
Representations and Warranties

To induce the Agent and Banks to enter into this Agreement and the Credit Agreement, each Debtor represents and warrants to the Agent and to each Bank that as of the date hereof:

Section 3.1 Title. Such Debtor is, and with respect to Collateral acquired after the date hereof such Debtor will be, the legal and beneficial owner of the Collateral free and clear of any Lien or other encumbrance, except for the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement.

Section 3.2 Financing Statements. No financing statement, security agreement or other Lien instrument covering all or any part of the Collateral is on file in any public office with respect to any outstanding obligation of such Debtor except (i) as may have been filed in favor of the Agent pursuant to this Agreement and the other Loan Documents and (ii) financing statements filed to perfect Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement (including those liens set forth on Schedule 7.2 of the Credit Agreement). As of the date hereof, and to the best of Debtor's knowledge, except as otherwise disclosed on Schedule E hereto, the Debtor does not do business and has not done business under a trade name or any name other than its legal name set forth at the beginning of this Agreement.

Section 3.3 Principal Place of Business; Registered Organization. The principal place of business and chief executive office of the Debtor, and the office where the Debtor keeps its books and records, is located at the address of the Debtor shown on the signature page hereto. Each Debtor is duly organized and validly existing as a corporation (or other business organization) under the laws of its jurisdiction of organization, as set forth on Schedule C, and has the registration number set forth on such Schedule C.

Section 3.4 Location of Collateral. All Inventory (except Inventory in transit) and Equipment (other than vehicles) of the Debtor in the possession of the Debtor are located at the places specified on Schedule A hereto. If any such location is leased by the Debtor as of the date hereof, the name and address of the landlord leasing such location is identified on Schedule A hereto. None of the Inventory or Equipment of the Debtor (other than trailers, rolling stock, vessels, aircraft and vehicles) is evidenced by a Document (including, without limitation, a negotiable document of title).

Section 3.5 Perfection. Upon the filing of Uniform Commercial Code financing statements in the jurisdictions listed on Schedule B attached hereto, or upon the execution and delivery of control agreements or similar documentation (with respect to any cash collateral or deposit account established hereunder), the security interest in favor of the Agent created herein will constitute a valid and perfected Lien upon and security interest in the Collateral which may be created and perfected under the UCC by filing financing statements or obtaining possession thereof, subject to no equal or prior Liens with respect to all other Collateral except for those (if any) which constitute Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement.

Section 3.6 Intellectual Property. Schedule D is true, accurate and complete list of all registered patents, trademarks, copyrights and other intellectual property owned or licensed (pursuant to an exclusive or non-exclusive license) by the Debtors (as such Schedule D may from time to time be supplemented, amended or modified in accordance with the terms of this Agreement), and all such intellectual property has been registered or filed with the U.S. Patent and Trademark Office or the U.S. Copyright Office, as applicable.

ARTICLE 4 **Covenants**

Each Debtor covenants and agrees with the Agent that until the Indebtedness is paid and performed in full and all commitments to lend or provide other credit accommodations under the Credit Agreement have been terminated:

Section 4.1 Encumbrances. The Debtor shall not create, permit or suffer to exist, and shall defend the Collateral against, any Lien (other than the Liens created by this Agreement, the Permitted Liens or other Liens permitted under Section 7.2 of the Credit Agreement) or any restriction upon the pledge or other transfer thereof (other than as provided in the Credit Agreement), and shall, subject only to the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement, defend the Debtor's title to and other rights in the Collateral and the Agent's pledge and collateral assignment of and security interest in the Collateral against the claims and demands of all Persons. Except to the extent permitted by the Credit Agreement or in connection with any release of Collateral under Section 7.13 hereof (but only to the extent of any Collateral so released), the Debtor shall do nothing to materially impair the rights of the Agent in the Collateral.

Section 4.2 Collection of Accounts and Contracts. The Debtor shall, in accordance with its usual business practices, endeavor to collect or cause to be collected from each account debtor under its Accounts, as and when due, any and all amounts owing under such Accounts.

Section 4.3 Disposition of Collateral. To the extent prohibited by the terms of the Credit Agreement, the Debtor shall not enter into or consummate any transfer or other disposition of assets without the prior written consent of the Banks, according to the terms of the Credit Agreement.

Section 4.4 Further Assurances. At any time and from time to time, upon the request of the Agent, and at the sole expense of the Debtor, the Debtor shall promptly execute and deliver all such further agreements, documents and instruments and take such further action as the Agent may reasonably deem necessary or appropriate to preserve and perfect its security interest in and pledge and collateral assignment of the Collateral and carry out the provisions and purposes of this Agreement or to enable the Agent to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral. Except as otherwise expressly permitted by the terms of the Credit Agreement relating to disposition of assets except for Permitted Liens and other Liens permitted by Section 7.2 of the Credit Agreement, the Debtor agrees to maintain and preserve the Agent's security interest in and pledge and collateral assignment of the Collateral hereunder. Without limiting the generality of the foregoing, the Debtor shall (a) execute and deliver to the Agent such financing statements as the Agent may from time to time require; and

(b) execute and deliver to the Agent such other agreements, documents and instruments, as the Agent may require to perfect and maintain the validity, effectiveness and priority of the Liens intended to be created by the Loan Documents. The Debtor authorizes the Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Debtor unless otherwise prohibited by law.

Section 4.5 Insurance. The Collateral pledged by such Debtor or the Debtors will be insured (to the extent such Collateral is insurable) with insurance coverage in such amounts and of such types as are customarily carried by companies similar in size and nature. In the case of all such insurance policies, each such Debtor shall designate the Agent, as mortgagee or Agent loss payee and such policies shall provide that any loss be payable to the Agent, as mortgagee or Agent loss payee, as its interests may appear as set forth below. Further, upon the request of the Agent, each such Debtor shall deliver certificates evidencing such policies, including all endorsements thereon and those required hereunder, to Agent; and each such Debtor assigns to Agent, as additional security hereunder, all its rights to receive proceeds of insurance with respect to the Collateral. All such insurance shall, by its terms, provide that the applicable carrier shall, prior to any cancellation before the expiration date thereof, mail 30 days' prior written notice to the Agent of such cancellation. As of the Effective Date, the insurance coverage evidenced by the certificates attached hereto as Exhibit C shall be deemed to satisfy the foregoing requirements. Each Debtor further shall provide Agent upon request with evidence reasonably satisfactory to Agent that each such Debtor is at all times in compliance with this paragraph. Upon the occurrence and during the continuance of an Event of Default, Agent may act as each such Debtor's attorney-in-fact in obtaining, adjusting, settling and compromising such insurance and endorsing any drafts. Upon Debtor's failure to insure the Collateral as required in this covenant, Agent may procure such insurance and its costs therefor shall be charged to Debtor, payable on demand, with interest at the highest rate set forth in the Credit Agreement and added to the Indebtedness secured hereby. The disposition of proceeds payable to such Debtor of any insurance on the Collateral ("Insurance Proceeds") shall be governed by the following:

(i) provided that no Event of Default has occurred and is continuing hereunder, (a) if the amount of Insurance Proceeds in respect of any loss or casualty does not exceed Two Million Five Hundred Thousand Dollars (\$2,500,000), such Debtor shall be entitled, in the event of such loss or casualty, to receive all such Insurance Proceeds and to apply the same toward the replacement of the Collateral affected thereby or to the purchase of other assets to be used in the Debtor's business (provided that such assets shall be subjected to a first lien in favor of Agent); and (b) if the amount of Insurance Proceeds in respect of any loss or casualty exceeds Two Million Five Hundred Thousand Dollars (\$2,500,000), such Insurance Proceeds shall be paid to and received by Agent, for release to such Debtor for the replacement of the Collateral affected thereby or to the purchase of other assets to be used in the Debtor's business (provided that such assets shall be subjected to a first lien in favor of Agent); or, upon written request of such Debtor (accompanied by reasonable supporting documentation), for such other use or purpose as approved by the Majority Banks, in their reasonable discretion, in its reasonable discretion, it being understood and agreed in connection with any release of funds under this subparagraph (b), that the Agent and the Majority Banks may impose

reasonable and customary conditions on the disbursement of such Insurance Proceeds; and]

(ii) if an Event of Default has occurred or is continuing and is not waived as provided in the Credit Agreement, all Insurance Proceeds in respect of any loss or casualty shall be paid to and received by the Agent, to be applied by the Agent against the Indebtedness and/or to be held by the Agent as cash collateral for the Indebtedness, as the Majority Banks may direct in their sole discretion.

Section 4.6 Bailees. If any of the Collateral is at any time in the possession or control of any warehouseman, bailee or any of the Debtor's Agents or processors, the Debtor shall notify the Agent (and revise Schedule A to this Agreement to this effect), and at the request of the Agent, notify such warehouseman, bailee, Agent or processor of the security interest created hereunder, shall instruct such Person to hold such Collateral for the Agent's account subject to the Agent's instructions and shall obtain for the Agent such Person's acknowledgment of the same.

Section 4.7 Furnishing of Information and Inspection Rights. The Debtor will, at any time and from time to time during regular business hours, upon reasonable advance notice (except if any Event of Default has occurred and is continuing, when no prior notice shall be required), permit the Agent, or its Agents or representatives, to examine all Records, to visit the offices and properties of the Debtor for the purpose of examining such Records, and to discuss matters relating to Debtor's performance hereunder and under the other Credit Agreement with any of the officers, directors, employees or independent public accountants of the Debtor having knowledge of such matters; provided, however, that the Agent acknowledges that, in exercising the rights and privileges conferred in this Section 4.7, it or its Agents and representatives may, from time to time, obtain knowledge of information, practices, books, correspondence and records of a confidential nature and in which the Debtor has a proprietary interest. The Agent agrees that all such information, practices, books, correspondence and records are to be regarded as confidential information and agrees that it shall be subject to Section 12.11 of the Credit Agreement. Notwithstanding anything to the contrary in this Agreement or in Section 12.11 of the Credit Agreement, the Agent may reply to a request from any Person for information related to any Collateral referred to in any financing statement filed to perfect the security interest and liens established hereby, to the extent necessary to maintain the perfection or priority of such security interests or liens, or otherwise required under applicable law. Furthermore, the Debtor shall permit the Agent and its representatives to examine, inspect and audit the Collateral and to examine, inspect and audit the Debtor's books and Records to the extent provided under the Credit Agreement.

Section 4.8 Corporate Changes. The Debtor shall not change its name, identity, corporate structure or jurisdiction of organization in any manner that might make any financing statement filed in connection with this Agreement seriously misleading within the meaning of Section 9-506 of the UCC unless the Debtor shall have given the Agent thirty (30) days prior written notice with respect to any change in Debtor's name or identity, corporate structure or jurisdiction of organization and shall have taken all action deemed necessary by the Agent to protect its Liens and the perfection and priority thereof. The Debtor shall give prompt written

notice of any change in its principal place of business, chief executive office or the place where it keeps its books and records.

Section 4.9 Books and Records. The Debtor shall keep accurate and complete books and records (the "Records") of the Collateral and the Debtor's business and financial condition in accordance with the Credit Agreement.

Section 4.10 Equipment and Inventory.

(a) The Debtor shall keep the Equipment (other than vehicles) and Inventory (other than Inventory in transit) which is in Debtor's possession or in the possession of any bailee or warehouseman at any of the locations specified on Schedule A hereto or, upon prompt written notice to the Agent, at such other places within the United States of America where all action required to perfect the Agent's security interest in the Equipment and Inventory with the priority required by this Agreement shall have been taken.

(b) The Debtor shall maintain the Equipment and Inventory in accordance with the terms of the Credit Agreement.

Section 4.11 Notification. The Debtor shall promptly notify the Agent in writing of any Lien, encumbrance or claim (other than a Permitted Lien or other Liens permitted under Section 7.2 of the Credit Agreement, to the extent not otherwise subject to any notice requirements under the Credit Agreement) that has attached to or been made or asserted against any of the Collateral upon becoming aware of the existence of such Lien, encumbrance or claim.

Section 4.12 Collection of Accounts. So long as no Event of Default has occurred and is continuing and except as otherwise provided in this Section 4.12 and Section 6.3, the Debtor shall have the right to collect and receive payments on the Accounts, and to use and expend the same in its operations in each case in compliance with the terms of each of the Credit Agreement.

Section 4.13 Possession; Reasonable Care Following the occurrence and continuance of an Event of Default, the Agent shall be entitled to take possession of the Collateral in accordance with the UCC. The Agent may appoint one or more Agents (which in no case shall be the Debtor or an affiliate of the Debtor) to hold physical custody, for the account of the Agent, of any or all of the Collateral. The Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the Agent accords its own property, it being understood that the Agent shall not have any responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Agent has or is deemed to have knowledge of such matters, or (b) taking any necessary steps to preserve rights against any parties with respect to any Collateral, except, subject to the terms hereof, upon the written instructions of the Banks.

Section 4.14 Future Subsidiaries / Additional Collateral.

(a) With respect to each Person which becomes a Significant Domestic Subsidiary subsequent to the date hereof, within sixty (60) days of the date such Person becomes a domestic

Subsidiary, Debtor will cause such Subsidiary to execute and deliver to the Agent, for the benefit of the Banks a security agreement, substantially in the form of this Agreement (or joinder agreement in the form attached hereto as Exhibit B satisfactory to Agent), granting to the Agent, for the benefit of the Banks, a first priority security interest, mortgage and lien encumbering all right, title and interest of such Person in property, rights and interests of the type included in the definition of the Collateral, subject only to the Permitted Liens and other Liens permitted under Section 7.2 of the Credit Agreement.

(b) With respect to any intellectual property owned, licensed or otherwise acquired by any Debtor after the date hereof, and with respect to any patent, trademark or copyright which is not registered or filed with the U.S. Patent and Trademark Office and/or the U.S. Copyright Office at the time such Collateral is pledged by a Debtor to the Agent pursuant to this Security Agreement, and which is subsequently registered or filed by such Debtor in the appropriate office, such Debtor shall execute or cause to be executed, not later than sixty (60) days after such property is acquired, obtained or registered (i) an amendment, duly executed by the Debtor, in substantially the form of Exhibit A hereto (an "Amendment"), in respect of such additional or newly registered collateral or (ii) a new security agreement, duly executed by the applicable Debtor, in substantially the form of this Agreement, in respect of such additional or newly registered collateral, granting to Agent, for the benefit of the Banks, a first priority security interest, pledge and lien thereon (subject only to the Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement), together in each case with all certificates, Notes or other instruments representing or evidencing the same, and shall, upon Agent's request, execute or cause to be executed any financing statement or other document (including without limitation, filings required by the U.S. Patent and Trademark Office and/or the U.S. Copyright Office in connection with any such additional or newly registered collateral). The Debtor hereby (x) authorizes the Agent to attach each Amendment to this Agreement, (y) agrees that all such additional collateral listed in any Amendment delivered to the Agent shall for all purposes hereunder constitute Collateral, and (z) is deemed to have made, upon the delivery of each such Amendment, the representations and warranties contained in Sections 3.1, 3.2, 3.4, 3.5, 3.7 of this Agreement with respect to the Collateral covered thereby.

ARTICLE 5

Rights of the Agent

Section 5.1 Power of Attorney. Each Debtor hereby irrevocably constitutes and appoints the Agent and any officer or Agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the name of the Debtor or in its own name, to take, after the occurrence and during the continuance of an Event of Default, any and all actions, and to execute any and all documents and instruments which the Agent at any time and from time to time deems necessary, to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, the Debtor hereby gives the Agent the power and right on behalf of the Debtor and in its own name to do any of the following after the occurrence and during the continuance of an Event of Default, without notice to or the consent of the Debtor:

(i) to demand, sue for, collect or receive, in the name of the Debtor or in its own name, any money or property at any time payable or receivable on account of or in

exchange for any of the Collateral and, in connection therewith, endorse checks, Notes, drafts, acceptances, money orders, documents of title or any other instruments for the payment of money under the Collateral or any policy of insurance;

(ii) to pay or discharge taxes, Liens (other than Permitted Liens and the other Liens permitted under Section 7.2 of the Credit Agreement) or other encumbrances levied or placed on or threatened against the Collateral;

(iii) (A) to direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Agent or as the Agent shall direct; (B) to receive payment of and receipt for any and all monies, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, proxies, stock powers, verifications and notices in connection with accounts and other documents relating to the Collateral; (D) to commence and prosecute any suit, action or proceeding at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Debtor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Agent may deem appropriate; (G) to exchange any of the Collateral for other property upon any merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof and, in connection therewith, deposit any of the Collateral with any committee, depository, transfer Agent, registrar or other designated agency upon such terms as the Agent may determine; (H) to add or release any guarantor, indorser, surety or other party to any of the Collateral; (I) to renew, extend or otherwise change the terms and conditions of any of the Collateral; (J) to make, settle, compromise or adjust any claim under or pertaining to any of the Collateral (including claims under any policy of insurance); and (K) to sell, transfer, pledge, convey, make any agreement with respect to, or otherwise deal with, any of the Collateral as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do, at the Agent's option and the Debtor's expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve, maintain, or realize upon the Collateral and the Agent's security interest therein.

This power of attorney is a power coupled with an interest and shall be irrevocable. The Agent shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to the Agent in this Agreement, and shall not be liable for any failure to do so or any delay in doing so. This power of attorney is conferred on the Agent solely to protect, preserve, maintain and realize upon its security interest in the Collateral. The Agent shall not be responsible for any decline in the value of the Collateral and shall not be required to take any steps to preserve rights against prior parties or to protect, preserve or maintain any Lien given to secure the Collateral.

Section 5.2 Setoff. In addition to and not in limitation of any rights of any Banks under applicable law, the Agent and each Bank shall, upon the occurrence and continuance of an

Event of Default, without notice or demand of any kind, have the right to appropriate and apply to the payment of the Indebtedness owing to it (whether or not then due) any and all balances, credits, deposits, accounts or moneys of Debtors then or thereafter on deposit with such Banks; provided, however, that any such amount so applied by any Bank on any of the Indebtedness owing to it shall be subject to the provisions of the Credit Agreement.

Section 5.3 Assignment by the Agent. The Agent may at any time assign or otherwise transfer all or any portion of its rights and obligations as Agent under this Agreement and the other Loan Documents (including, without limitation, the Indebtedness) to any other Person, to the extent permitted by, and upon the conditions contained in, the Credit Agreement and such Person shall thereupon become vested with all the benefits and obligations thereof granted to the Agent herein or otherwise.

Section 5.4 Performance by the Agent. If any Debtor shall fail to perform any covenant or agreement contained in this Agreement, the Agent may (but shall not be obligated to) perform or attempt to perform such covenant or agreement on behalf of the Debtors, in which case Agent shall exercise good faith and make diligent efforts to give Debtors prompt prior written notice of such performance or attempted performance. In such event, the Debtors shall, at the request of the Agent, promptly pay any reasonable amount expended by the Agent in connection with such performance or attempted performance to the Agent, together with interest thereon at the interest rate set forth in the Credit Agreement, from and including the date of such expenditure to but excluding the date such expenditure is paid in full. Notwithstanding the foregoing, it is expressly agreed that the Agent shall not have any liability or responsibility for the performance (or non-performance) of any obligation of the Debtors under this Agreement.

Section 5.5 Certain Costs and Expenses. The Debtors shall pay or reimburse the Agent within ten (10) Business Days after demand for all reasonable costs and expenses (including reasonable attorney's and paralegal fees) incurred by it in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of any of the Indebtedness (including in connection with any "workout" or restructuring regarding the Indebtedness, and including in any insolvency proceeding or appellate proceeding). The agreements in this Section 5.5 shall survive the payment in full of the Indebtedness. Notwithstanding the foregoing, the reimbursement of any fees and expenses incurred by the Banks shall be governed by the terms and conditions of the applicable Credit Agreement.

Section 5.6 Indemnification. The Debtors shall indemnify, defend and hold the Agent, and each Bank and each of their respective officers, directors, employees, counsel, Agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including reasonable attorneys' and paralegals' fees) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Indebtedness and the termination, resignation or replacement of the Agent or replacement of any Bank) be imposed on, incurred by or asserted against any such Indemnified Person in any way relating to or arising out of this Agreement or any other Loan Document or any document relating to or arising out of or referred to in this Agreement or any other Loan Document, or the

transactions contemplated hereby, or any action taken or omitted by any such Indemnified Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any "Bankruptcy Proceeding" (as defined in the Credit Agreement) or appellate proceeding) related to or arising out of this Agreement or the Indebtedness or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, that the Debtors shall have no obligation under this Section 5.6 to any Indemnified Person with respect to Indemnified Liabilities to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section 5.6 shall survive payment of all other Indebtedness.

ARTICLE 6

Default

Section 6.1 Rights and Remedies. If an Event of Default shall have occurred and be continuing, the Agent shall have the following rights and remedies subject to the direction and/or consent of the Banks as required under the Credit Agreement:

(i) The Agent may exercise any of the rights and remedies set forth in the Credit Agreement (including, without limitation, in Section 5 of this Agreement) or by applicable law.

(ii) In addition to all other rights and remedies granted to the Agent in this Agreement, the Credit Agreement or by applicable law, the Agent shall have all of the rights and remedies of a secured party under the UCC (whether or not the UCC applies to the affected Collateral) and the Agent may also, without previous demand or notice except as specified below or in the Credit Agreement, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may, in its reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. Without limiting the generality of the foregoing, the Agent may (A) without demand or notice to the Debtors (except as required under the Credit Agreement or applicable law), collect, receive or take possession of the Collateral or any part thereof, and for that purpose the Agent (and/or its Agents, servicers or other independent contractors) may enter upon any premises on which the Collateral is located and remove the Collateral therefrom or render it inoperable, and/or (B) sell, lease or otherwise dispose of the Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at the Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may, in its reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. The Agent and, subject to the terms of the Credit Agreement, each of the Banks shall have the right at any public sale or sales, and, to the extent permitted by applicable law, at any private sale or sales, to bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) and become a purchaser of the Collateral or any part thereof free of any right of redemption on the part of the Debtors, which right of redemption is hereby expressly waived and released by the Debtors to the extent permitted by applicable law. The Agent may require the Debtors to

assemble the Collateral and make it available to the Agent at any place designated by the Agent to allow Agent to take possession or dispose of such Collateral. The Debtors agree that the Agent shall not be obligated to give more than seven (7) days prior written notice of the time and place of any public sale or of the time after which any private sale may take place and that such notice shall constitute reasonable notice of such matters. The foregoing shall not require notice if none is required by applicable law. The Agent shall not be obligated to make any sale of Collateral if, in the exercise of its reasonable discretion, it shall determine not to do so, regardless of the fact that notice of sale of Collateral may have been given. The Agent may, without notice or publication (except as required by applicable law), adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. The Debtors shall be liable for all reasonable expenses of retaking, holding, preparing for sale or the like, and all reasonable attorneys' fees, legal expenses and other costs and expenses incurred by the Agent in connection with the collection of the Indebtedness and the enforcement of the Agent's rights under this Agreement and the Credit Agreement. The Debtors shall, to the extent permitted by applicable law, remain liable for any deficiency if the proceeds of any such sale or other disposition of the Collateral (conducted in conformity with this clause (ii) and applicable law) applied to the Indebtedness are insufficient to pay the Indebtedness in full. The Agent shall apply the proceeds from the sale of the Collateral hereunder against the Indebtedness in such order and manner as provided in the Credit Agreement.

(iii) The Agent may cause any or all of the Collateral held by it to be transferred into the name of the Agent or the name or names of the Agent's nominee or nominees.

(iv) The Agent may exercise any and all rights and remedies of the Debtors under or in respect of the Collateral, including, without limitation, any and all rights of the Debtors to demand or otherwise require payment of any amount under, or performance of any provision of any of the Collateral and any and all voting rights and corporate powers in respect of the Collateral.

(v) On any sale of the Collateral, the Agent is hereby authorized to comply with any limitation or restriction with which compliance is necessary (based on a reasoned opinion of the Agent's counsel) in order to avoid any violation of applicable law or in order to obtain any required approval of the purchaser or purchasers by any applicable Governmental Authority.

(vi) The Agent may direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Agent or as the Agent shall direct.

(vii) For purposes of enabling the Agent to exercise its rights and remedies under this Section 6.1 and enabling the Agent and its successors and assigns to enjoy the full benefits of the Collateral, the Debtors hereby grant to the Agent an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to

the Debtors) to use, assign, license or sublicense any of the Computer Records or Software (including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and all computer programs used for the completion or printout thereof), exercisable upon the occurrence and during the continuance of an Event of Default (and thereafter if Agent succeeds to any of the Collateral pursuant to an enforcement proceeding or voluntary arrangement with Debtor), except as may be prohibited by any licensing agreement relating to such Computer Records or Software. This license shall also inure to the benefit of all successors, assigns, transferees of and purchasers from the Agent.

(viii) If and to the extent that any Debtor is permitted to license the Intellectual Property Collateral, Secured Party shall promptly enter into a non-disturbance agreement or other similar arrangement, at such Debtor's request and expense, with such Debtor and any licensee of any Intellectual Property Collateral permitted hereunder, such non-disturbance or similar agreement to be in form and substance reasonably satisfactory to Secured Party pursuant to which (i) Secured Party shall agree to assume the rights of Debtor under such non-exclusive license, and (ii) such licensee shall acknowledge and agree that the Intellectual Property Collateral licensed to it subject to the security interest created in favor of Secured Party and other terms of this Agreement.

Section 6.2 Private Sales. The Debtors further agree to do or cause to be done, to the extent that the Debtors may do so under applicable law, all such other reasonable acts and things as may be necessary to make such sales or resales of any portion or all of the Collateral valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Debtors' expense.

Section 6.3 Establishment of Cash Collateral Account; and Lock Box.

(a) Immediately upon the occurrence and during the continuance of an Event of Default (without the necessity of any notice hereunder), there shall be established by each Debtor with Agent, for the benefit of the Banks in the name of the Agent, a segregated non-interest bearing cash collateral account ("Cash Collateral Account") bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Agent and the Banks; provided, however, that the Cash Collateral Account may be an interest-bearing account with a commercial bank (including Comerica or any other Bank which is a commercial bank) if determined by the Agent, in its reasonable discretion, to be practicable, invested by Agent in its sole discretion, but without any liability for losses or the failure to achieve any particular rate of return. Furthermore, in connection with the establishment of a Cash Collateral Account under the first sentence of this Section 6.3 (and on the terms and within the time periods provided thereunder), (i) each Debtor agrees to establish and maintain (and Agent, acting at the request of the Banks, may establish and maintain) at Debtor's sole expense a United States Post Office lock box (the "Lock Box"), to which Agent shall have exclusive access and control. Each Debtor expressly authorizes Agent, from time to time, to remove the contents from the Lock Box for disposition in accordance with this Agreement; and (ii) each Debtor shall notify all account debtors that all payments made to Debtor (a) other than by electronic funds transfer, shall be

remitted, for the credit of Debtor, to the Lock Box, and Debtor shall include a like statement on all invoices, and (b) by electronic funds transfer, shall be remitted to the Cash Collateral Account, and Debtor shall include a like statement on all invoices. Each Debtor agrees to execute all documents and authorizations as reasonably required by the Agent to establish and maintain the Lock Box and the Cash Collateral Account. It is acknowledged by the parties hereto that any lockbox presently maintained or subsequently established by a Debtor with Agent may be used, subject to the terms hereof, to satisfy the requirements set forth in the first sentence of this Section 6.3.

(b) Immediately upon the occurrence and during the continuance of an Event of Default, any and all cash (including amounts received by electronic funds transfer), checks, drafts and other instruments for the payment of money received by each Debtor at any time, in full or partial payment of any of the Collateral consisting of Accounts or Inventory, shall forthwith upon receipt be transmitted and delivered to Agent, properly endorsed, where required, so that such items may be collected by Agent. Any such amounts and other items received by a Debtor shall not be commingled with any other of such Debtor's funds or property, but will be held separate and apart from such Debtor's own funds or property, and upon express trust for the benefit of Agent until delivery is made to Agent. All items or amounts which are remitted to a Lock Box or otherwise delivered by or for the benefit of a Debtor to Agent on account of partial or full payment of, or any other amount payable with respect to, any of the Collateral shall, at Agent's option, to any of the Indebtedness, whether then due or not, in the order and manner set forth in the Credit Agreement. No Debtor shall have any right whatsoever to withdraw any funds so deposited. Each Debtor further grants to Agent a first security interest in and lien on all funds on deposit in such account. Each Debtor hereby irrevocably authorizes and directs Agent to endorse all items received for deposit to the Cash Collateral Account, notwithstanding the inclusion on any such item of a restrictive notation, e.g., "paid in full", "balance of account", or other restriction.

Section 6.4 Default Under Credit Agreement. Subject to any applicable notice and cure provisions contained in the Credit Agreement, the occurrence of any Event of Default (as defined in the Credit Agreement), including without limit a breach of any of the provisions of this Agreement, shall be deemed to be an Event of Default under this Agreement. This Section 6.4 shall not limit the Events of Default set forth in the Credit Agreement.

ARTICLE 7 **Miscellaneous**

Section 7.1 No Waiver; Cumulative Remedies. No failure on the part of the Agent to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement are cumulative and not exclusive of any rights and remedies provided by law.

Section 7.2 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Debtor and the Agent and their respective heirs, successors and assigns,

except that the Debtor may not assign any of its rights or obligations under this Agreement without the prior written consent of the Agent.

Section 7.3 AMENDMENT; ENTIRE AGREEMENT. THIS AGREEMENT AND THE CREDIT AGREEMENT REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES HERETO. The provisions of this Agreement may be amended or waived only by an instrument in writing signed by the parties hereto.

Section 7.4 Notices. All notices, requests, consents, approvals, waivers and other communications hereunder shall be in writing (including, by facsimile transmission) and mailed, faxed or delivered to the address or facsimile number specified for notices on signature pages hereto; or, as directed to the Debtor or the Agent, to such other address or number as shall be designated by such party in a written notice to the other. All such notices, requests and communications shall, when sent by overnight delivery, or faxed, be effective when delivered for overnight (next business day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day (as defined in the Credit Agreement) after the date deposited into the U.S. mail, or if otherwise delivered, upon delivery; except that notices to the Agent shall not be effective until actually received by the Agent.

Section 7.5 GOVERNING LAW; SUBMISSION TO JURISDICTION; SERVICE OF PROCESS. (a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF MICHIGAN.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF MICHIGAN OR OF THE UNITED STATES FOR THE EASTERN DISTRICT OF MICHIGAN, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE DEBTOR AND THE AGENT CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE DEBTOR AND THE AGENT IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY LOAN DOCUMENT.

Section 7.6 Headings. The headings, captions, and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 7.7 Survival of Representations and Warranties. All representations and warranties made in this Agreement or in any certificate delivered pursuant hereto shall survive

the execution and delivery of this Agreement, and no investigation by the Agent shall affect the representations and warranties or the right of the Agent, the Banks or the Noteholders to rely upon them.

Section 7.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 7.9 Waiver of Bond. In the event the Agent seeks to take possession of any or all of the Collateral by judicial process, the Debtor hereby irrevocably waives any bonds and any surety or security relating thereto that may be required by applicable law as an incident to such possession, and waives any demand for possession prior to the commencement of any such suit or action.

Section 7.10 Severability. Any provision of this Agreement which is determined by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 7.11 Construction. The Debtor and the Agent acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement with its legal counsel and that this Agreement shall be construed as if jointly drafted by the Debtor and the Agent.

Section 7.12 Termination. If all of the Indebtedness (other than contingent liabilities pursuant to any indemnity, including without limitation Sections 5.5 and 5.6 hereof, for claims which have not been asserted, or which have not yet accrued) shall have been fully paid and performed in full (in cash) and all commitments to extend credit or other credit accommodations under the Credit Agreement have been terminated, the Agent shall, upon the written request of the Debtor, execute and deliver to the Debtor a proper instrument or instruments acknowledging the release and termination of the security interests created by this Agreement, and shall duly assign and deliver to the Debtor (without recourse and without any representation or warranty) such of the Collateral as may be in the possession of the Agent and has not previously been sold or otherwise applied pursuant to this Agreement.

Section 7.13 Release of Collateral. The Agent shall, upon the written request of Debtor, execute and deliver to the Debtor a proper instrument or instruments acknowledging the release of the security interest and liens established hereby on any Collateral (other than the Pledged Shares): (a) if the sale or other disposition of such Collateral is permitted under the terms of the Credit Agreement and, at the time of such proposed release, both before and after giving effect thereto, no Default or Event of Default has occurred and is continuing, (b) if the sale or other disposition of such Collateral is not permitted under the terms of the Credit Agreement, provided that the requisite Banks under such Credit Agreement shall have consented to such sale or disposition in accordance with the terms thereof, or (c) if such release has been approved by the requisite Banks in accordance with Section 12.10 of the Credit Agreement.

Section 7.14 WAIVER OF JURY TRIAL. EACH DEBTOR AND THE AGENT WAIVES ITS RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY EITHER SUCH PARTY AGAINST THE OTHER, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH DEBTOR AND THE AGENT AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, EACH SUCH PARTY FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

Section 7.15 Consistent Application. The rights and duties created by this Agreement shall, in all cases, be interpreted consistently with, and shall be in addition to (and not in lieu of), the rights and duties created by the Credit Agreement. In the event that any provision of this Agreement shall be inconsistent with any provision of the Credit Agreement, such provision of the Credit Agreement shall govern.

Section 7.16 Continuing Lien. The security interest granted under this Security Agreement shall be a continuing security interest in every respect (whether or not the outstanding balance of the Indebtedness is from time to time temporarily reduced to zero) and Agent's security interest in the Collateral as granted herein shall continue in full force and effect for the entire duration that the Credit Agreement remains in effect and until all of the Indebtedness are repaid and discharged in full, and no commitment (whether optional or obligatory) to extend any credit under the Credit Agreement remain outstanding.

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

DEBTORS:

QUANEX CORPORATION

By: Terry M. Murphy
Name: Terry M. Murphy
Title VP Finance and CFO
Address for Notices:
1900 West Loop So., Suite 1500
Houston, Texas 77027
Fax No.: 713-552-1630
Telephone No.: 713-961-4600
Attention: Terry Murphy

AGENT:

COMERICA BANK, as Agent

By: Gerald R. Finney Jr.

Name: Gerald R. Finney Jr.

Title Vice President

Address for Notices:

One Detroit Center, 9th Floor

500 Woodward Avenue

Detroit, Michigan 48226

Telephone No.: 313/222/9434

Attention: Gerald R. Finney Jr.

**Gerald R. Finney, Jr.
Vice President**

Detroit 417048_3

SCHEDULE A
TO
SECURITY AGREEMENT

Locations of Equipment and Inventory
(including leased locations) in the Possession of Debtor or Any Bailee/Warehouseman

Owned Properties

MACSTEEL Arkansas, 5225 Planters Road, Fort Smith, AR 72916
MACSTEEL Michigan, 3100 Brooklyn Road, Jackson, MI 49203
MACSTEEL Heat Treating, 25 Commercial Road, Huntington, IN 46750
MACSTEEL Nitrosteel, 9955 80th Avenue, Pleasant Prairie, WI 53158
Nichols Aluminum Lincolnshire, 200 Schelter Road, Lincolnshire, IL 60069
Nichols Aluminum Casting, 2101 J. M. Morris Blvd., Davenport, IA 52802
Nichols Aluminum Davenport, 1725 Rockingham Road, Davenport, IA 52802
Nichols Aluminum-Golden, 1405 East 14th Street, Fort Lupton, CO 80621
Amsco, 311 West Coleman Street, Rice Lake, WI 54868
Homeshield Fabricated Products, 7942 North 3350 East Rd., Chatsworth, IL 60921
Homeshield Fabricated Products, Route 24 West, Chatsworth, IL 60921
Imperial Products, Inc., 451 Industrial Parkway, Richmond, IN 47374
Temroc Metals, Inc., 4375 Willow Drive, Hamel, MN 55340
Piper Impact, 922 Highway 15 North, New Albany, MS 38652
Piper Impact, 795 Country Road 269, New Albany, MS 38652
Piper Impact, Inc., 6820 Silver Creek Road, Park City, UT 77027
Colonial Craft, Inc., 501 Main Street, Luck, WI 54854

Leased Properties

Nichols Aluminum Alabama Inc., 2001 Highway 20 West, Decatur, Alabama 35601

Landlord: The Industrial Development Board of the City of Decatur (Alabama)
P.O. Box 488
Decatur, AL 35602

Quanex Corporation Executive Offices, 1900 West Loop South, Suite 1500 Houston, Texas
77027

Landlord: Transwestern 3DI, L.P.
c/o Transwestern Commercial Services
1900 West Loop South, Suite 630
Houston, TX 77027

MACSTEEL Office, One Jackson Square, Suite 500, Jackson, Michigan 49201

Landlord: Foote Hospital
205 N. East Avenue
Jackson, Michigan 49201

Nichols Aluminum Office, 201 West Second Street, Suite 420, Davenport, IA 52801

Landlord: U.S. Bank Center
c/o MD Real Estate, Inc.
201 West Second Ave.
Davenport, IA 52801

Homeshield Sales Office, 1150 Powis Road, Suite 1, West Chicago, IL 60185

Landlord: Midwest Coast Transport
1150 Powis Road, Suite 1
West Chicago, IL 60185

Colonial Craft, Inc., 2772 Fairview Avenue North, Roseville, MN 55113

Landlord: Minnesota Industrial Venture LLC
4900 Viking Drive
Edina, MN 55435

Colonial Craft, Inc., 2515 Highway 61, Maplewood, MN 55109

Landlord: Muellner Family Limited Partnership
4801 Highway 61, Suite 200
White Bear Lake, MN 55110

Colonial Craft, Inc., 2270 Woodale Drive, Mounds View, MN 55112

Landlord: Cabot Industrial Properties, L.P.
Cabot Industrial Trust
RREEF America L.L.C. and RREEF Management Co.
80 South Eight Street, Suite 3450
Minneapolis, MN 55402

SCHEDULE B
TO
SECURITY AGREEMENT

Jurisdictions for Filing UCC-1 Financing Statements

Delaware	Quanex Corporation
Delaware	Nichols Aluminum - Alabama, Inc. (Sub)
Delaware	Nichols Aluminum - Golden, Inc. (Sub)
Delaware	Imperial Products, Inc. (Sub)
Minnesota	Temroc Metals, Inc. (Sub)
Delaware	Colonial Craft, Inc. (Sub)
Delaware	Piper Impact, Inc. (Sub)
Delaware	Quanex Bar, Inc.

SCHEDULE C
TO
SECURITY AGREEMENT

<u>Name</u>	<u>State of Incorporation</u>
Quanex Corporation	Delaware
Nichols Aluminum – Alabama, Inc.	Delaware
Nichols Aluminum – Golden, Inc.	Delaware
Imperial Products, Inc.	Delaware
Temroc Metals, Inc.	Minnesota
Colonial Craft, Inc.	Delaware
Quanex Bar, Inc.	Delaware

SCHEDULE D
TO
SECURITY AGREEMENT

See attached.

COPYRIGHTS

QUANEX CORPORATION AND RELATED ENTITIES

Title	Reg. No.	Date Reg.	Owner
The MacSteel Story	TX251626	2/12/79	Quanex Corporation -- MacSteel Division
Programming Code for WinKit window estimating software	TX5086095	10/25/01	Colonial Craft, Inc.
WinKit Window estimating software user manual	TX5092460	10/25/01	Colonial Craft, Inc.

**TRADEMARKS
QUANEX CORPORATION AND RELATED ENTITIES**

MARK	REG. NO.	OWNER
NITRO-100	2,590,394	Quanex Corporation
STORM SEAL	2,427,357	Quanex Corporation
QUANEX	2,182,310	Quanex Corporation
PIPER IMPACT	2,344,323	Piper Impact, Inc.
FLINTWOOD PRODUCTS	2,114,993	Colonial Craft, Inc.
ROOFSKIRT	2,060,372	Colonial Craft, Inc.
NITROSTEEL	2,120,181	Quanex Corporation
MACGOLD	1,984,723	Quanex Corporation
COLONIAL CRAFT	1,897,538	Colonial Craft, Inc.
SEAM-FREE (stylized letters)	1,907,042	Quanex Corporation
COLONIAL CRAFT	1,715,771	Colonial Craft, Inc.
GOLDEN ALUMINUM (and Design)	1,757,547	Nichols Aluminum-Golden, Inc.
GOLDEN ALUMINUM (and Design)	1,705,470	Nichols Aluminum-Golden, Inc.
THE BEST ALLOY & SPECIALTY BARS (and Design)	1,661,953	Quanex Corporation
MACSTEEL	1,613,527	Quanex Corporation
MAC+	1,432,700	Quanex Corporation
ULTRA-BAR	1,387,238	Quanex Corporation
COLONIAL CRAFT	1,365,613	Colonial Craft, Inc.
MAC MACSTEEL-THE MIGHTY MITE (and Design)	1,228,984	Quanex Corporation
QUANEX (and Design)	1,079,212	Quanex Corporation
DEVAC	1,025,115	Temroc Metals, Inc.?
HOMESHIELD (and Design)	1,030,551	Quanex Corporation
HOMESHIELD	1,032,765	Quanex Corporation
DEVAC (stylized letters)	582,827	Temroc Metals, Inc.
Recycling Cabinet	18355	Colonial Craft, Inc.
Dura-Board	26856	Colonial Craft, Inc.
Dura-Jamb	28679	Colonial Craft, Inc.
Alumatrim	18791	Colonial Craft, Inc.
Cupolite	27309	Colonial Craft, Inc.
Optimull Post	25193	Colonial Craft, Inc.
Window Furniture	19712	Colonial Craft, Inc.
Window Kit	26418	Colonial Craft, Inc.
Prota-Shelter	32031	Colonial Craft, Inc.
Roof Skirt	31752	Colonial Craft, Inc.
Winkit	26859	Colonial Craft, Inc.

**PATENTS
NICHOLS ALUMINUM**

PATENT NO.	DESCRIPTION	OWNER/ASSIGNEE
5985058	heat treatment process for aluminum alloys	Nichols Aluminum-Golden, Inc.
5993573	continuously annealed aluminum alloys and process for making same	Nichols Aluminum-Golden, Inc.
6446703	method and apparatus for improving the quality of continuously cast metal	Nichols Aluminum-Golden, Inc.
6354364	apparatus for cooling and coating a mold in a continuous caster	Nichols Aluminum-Golden, Inc.
6325872	method for making body stock	Nichols Aluminum-Golden, Inc.
6325204	method and drive apparatus for continuously casting metal in a continuous block caster	Nichols Aluminum-Golden, Inc.
6125915	method of apparatus for cleaning a continuous caster	Nichols Aluminum-Golden, Inc.
6089308	method and apparatus for improving the quality of continuously cast metal	Nichols Aluminum
6076657	apparatus for continuously casting metal	Nichols Aluminum
6019159	method and apparatus for improving the quality of continuously cast metal	Nichols Aluminum-Golden, Inc.
5976279	for heat treatable aluminum alloys and treatment process for making same	Nichols Aluminum-Golden, Inc.
5975190	block fixation in a continuous caster	Nichols Aluminum-Golden, Inc.
5924474	roll support apparatus for transporting a support beam	Nichols Aluminum-Golden, Inc.
5881798	block adjustment in a continuous caster	Nichols Aluminum-Golden, Inc.
5878805	apparatus for continuously casting metal	Nichols Aluminum-Golden, Inc.
5873404	method and apparatus for continuously casting metal	Nichols Aluminum-Golden, Inc.
5868193	method and prestressed beam chain for use in an apparatus for continuously casting metal	Nichols Aluminum-Golden, Inc.
5839500	apparatus for improving the quality of continuously cast metal	Nichols Aluminum-Golden, Inc.
5833775	method for making an improved aluminum alloy sheet product	Nichols Aluminum-Golden, Inc.
5697423	apparatus for continuously casting	Nichols Aluminum-Golden, Inc.
5645159	method and apparatus for continuously casting metal	Nichols Aluminum-Golden, Inc.
5645122	block fixation and adjustment in a continuous caster	Nichols Aluminum-Golden, Inc.
5469912	process for producing aluminum alloy sheet product	Nichols Aluminum-Golden, Inc.
5110545	aluminum alloy composition	Nichols Aluminum-Golden, Inc.
5106429	process of fabrication of aluminum sheet	Nichols Aluminum-Golden, Inc.
5104465	aluminum alloy sheet stock	Nichols Aluminum-Golden, Inc.
4976790	process for preparing low earring aluminum alloy strip	Nichols Aluminum-Golden, Inc.
09/975675 (application)	method for making an improved aluminum alloy sheet product	Nichols Aluminum-Golden, Inc.
09/995075 (application)	method and drive apparatus for continuously casting metal in a continuous block caster	Nichols Aluminum-Golden, Inc.
09/445477	continuous casting process for producing aluminum alloys having low earring.	Nichols Aluminum-Golden, Inc.

**PATENTS
QUANEX CORPORATION**

PATENT NO.	DESCRIPTION	OWNER/ASSIGNEE
6406213	one-piece window connector	Quanex Corporation
6073412	corner key for window component assembly	Quanex Corporation
6047514	window component and method of manufacture	Quanex Corporation
5845363	adjustable roller assembly	Quanex Corporation
5657590	muntin bar assembly	Quanex Corporation
4850078	adjustable roller assembly for sliding doors	Quanex Corporation
4843775	square butt door frame and method of assembly	Quanex Corporation

**PATENTS
COLONIAL CRAFT, INC.**

PATENT NO.	DESCRIPTION	OWNER/ASSIGNEE
6230456	window insert fastener	Colonial Craft, Inc.
6013135	method and apparatus for six-sided vacuum painting of parts	Colonial Craft, Inc.
5836117	building extension	Colonial Craft, Inc.
5832681	mull post	Colonial Craft, Inc.
5485708	extension jamb kit	Colonial Craft, Inc.

**PATENTS
IMPERIAL PRODUCTS, INC.**

PATENT NO.	DESCRIPTION	OWNER/ASSIGNEE
5010690	adjustable threshold assembly with water-tight seals	Imperial Products, Inc.
5638641	adjustable threshold assembly with water-tight seal	Imperial Products, Inc.
5524391	adjustable threshold assembly with water-tight seal	Imperial Products, Inc.
5517788	adjustable threshold assembly with water-tight seal	Imperial Products, Inc.
5230181	adjustable threshold assembly with water-impervious seal	Imperial Products, Inc.
D448089	threshold end attachment set	Imperial Products, Inc.
D447574	door threshold	Imperial Products, Inc.
D273090	threshold seal for a door astragal	Imperial Products, Inc.

**EXHIBIT A
TO
SECURITY AGREEMENT**

FORM OF AMENDMENT

This Amendment, dated _____, 20__, is delivered pursuant to Section 4.14 of the Security Agreement referred to below. The undersigned hereby agrees that this Amendment may be attached to the Security Agreement dated as of November 26, 2002, between the undersigned and Comerica Bank, as the Agent for the benefit of the Banks referred to therein (the "Security Agreement"), and that the intellectual property listed on Schedule D annexed hereto shall be and become part of the Collateral referred to in the Security Agreement and shall secure payment and performance of all Indebtedness as provided in the Security Agreement.

Capitalized terms used herein but not defined herein shall have the meanings therefor provided in the Security Agreement.

QUANEX CORPORATION

By: _____
Name: _____
Title _____

NICHOLS ALUMINUM ALABAMA, INC.

By: _____
Name: _____
Title _____

NICHOLS ALUMINUM-GOLDEN, INC.

By: _____
Name: _____
Title _____

IMPERIAL PRODUCTS, INC.

By: _____
Name: _____
Title _____

TEMROC METALS, INC.

By: _____
Name: _____
Title _____

COLONIAL CRAFT, INC.

By: _____
Name: _____
Title _____

QUANEX BAR, INC.

By: _____
Name: _____
Title _____

JOINDER AGREEMENT
(Security Agreement)

THIS JOINDER AGREEMENT is dated as of December 10, 2002 by Colonial Craft, Inc., a Delaware corporation ("New Debtor").

WHEREAS, pursuant to that certain Post-Closing Letter ("Post-Closing Letter") dated as of November 26, 2002, executed and delivered by the Company (as defined below) in connection with that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Credit Agreement") by and among Quanex Corporation, a Delaware corporation ("Company"), the Banks signatory thereto and Comerica Bank, as Agent for the Banks (in such capacity, "Agent"), the New Debtor is required to execute and deliver a Joinder Agreement to the Security Agreement (as defined below).

WHEREAS, pursuant to the Credit Agreement, the Company has executed and delivered that certain Security Agreement dated as of November 26, 2002 ("Security Agreement") in favor of Agent, for and on behalf of the Banks.

WHEREAS, pursuant to the Post-Closing Letter, the New Debtor is also required to become a party to the Guaranty dated as of November 26, 2002 (as amended or otherwise modified from time to time, the "Guaranty").

WHEREAS, in order to comply with the Post-Closing Letter, New Debtor executes and delivers this Joinder Agreement in accordance with the Credit Agreement.

NOW THEREFORE, as a further inducement to Banks to continue to provide credit accommodations to Company and the Account Parties (as defined in the Credit Agreement), New Debtor hereby covenants and agrees as follows:

1. All capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement unless expressly defined to the contrary.
2. New Debtor hereby enters into this Joinder Agreement in order to comply with the terms of the Credit Agreement and the Post-Closing Letter and does so in consideration of the Advances made or to be made from time to time under the Credit Agreement (and the other Loan Documents, as defined in the Credit Agreement).
3. New Debtor shall be considered, and deemed to be, for all purposes of the Credit Agreement, the Security Agreement and the other Loan Documents, a Debtor under the Security Agreement as fully as though New Debtor had executed and delivered the Security Agreement at the time originally executed and delivered under the Credit Agreement and hereby ratifies and confirms its obligations under the Security Agreement, all in accordance with the terms thereof.
4. No Default or Event of Default (each such term being defined in the Credit Agreement) has occurred and is continuing under the Credit Agreement.

Detroit 435628_2

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GUANEX CORPORATION

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5. This Joinder Agreement shall be governed by the laws of the State of Michigan and shall be binding upon New Debtor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned New Debtor has executed and delivered this Joinder Agreement as of the date indicated above.

COLONIAL CRAFT, INC.

By: *Samy Murphy*
Its: *Vice President*