HEADS OF AGREEMENT
BETWEEN
TURNER & NEWALL LIMITED AND MARSMONT CORPORATION

May 10, 1977

The following summarizes the principal terms and conditions of the proposed acquisition by Turner & Newall Limited, a U.K. company, through a wholly owned U.S. subsidiary (T&N), of an 80 percent interest in certain specified assets of Maremont Corporation, a Delaware corporation (M), used in M's friction material, brake and Leland and Heavy Duty operations. It is the understanding of the parties that the transaction is subject to the approval of the Boards of Directors of both parties and to the execution of definitive agreements between the parties containing appropriate terms, conditions, representations, warranties and covenants as summarized in this memorandum.

1. Organization of New Corporation. The parties will cause to be organized a new Delaware corporation (N) to acquire the assets and assume the liabilities specified in the acquisition agreement. 80 percent of the issued and outstanding capital stock of N is to be held initially by T&N and 20 percent by M. Cost of organization of N will be borne by N.

2. Capitalization of N. Subsequent to the initial contribution of capital by M and T&N, the parties will use their best efforts to raise additional funds needed to operate the business of N for the first five years through debt financing rather than equity financing. M will not be required to contribute additional equity or debt subsequent

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to completion of the initial capitalization arrangements. In the event that additional equity capital is issued which reduces M's interest in N to less than 15 percent, and M does not wish to purchase additional equity in N, M may thereafter require T&N to purchase its stock in N at net book value per share in accordance with the terms of paragraph 8 herein.

3. Closing Date. The closing will take place in Chicago, Illinois on June 30, 1977, or at such other date and place as may be mutually agreed to by the parties.

4. Purchase Price. The purchase price will be an amount equal to the net book value on the closing date of the assets to be acquired less the liabilities assumed and less [redacted] calculated in accordance with the principles set forth in the agreement, as summarized herein. N will pay on the closing date 20 percent of the purchase price to M in the form of 20 percent of the shares of capital stock of N. T&N will cause N to pay 80 percent of the purchase price in cash as follows: [redacted] on the closing date, [redacted] on December 31, 1977 and the balance within seven days of completion of the audits referred to in paragraph 15 hereof or ninety days from the closing date, whichever is earlier. In the event the audits are not completed within ninety days, the balance payable by N will be based on the estimated net book value set forth in the agreement, and provision will be made for subsequent adjustment of the purchase price based on the results of the audits.

5. Assets. Except as otherwise specified, N will acquire all assets of M associated with M's friction material, brake and Leland and

Heavy Duty operations, including but not limited to inventory, accounts receivable, fixed assets, cash, prepaid expenses (including prepaid insurance, prepaid rent and vendor prepayments), which assets will be identified in the agreement. N will not acquire assets which under the terms of on-going arrangements have been transferred to other divisions of M (e.g., brake shoes in custody of M's Worldparts Division), assets used by M jointly in the operations being sold and operations being retained, accounts receivable from Sears, and the credit balance in M's operating bank account.

6. Liabilities.

(a) N will assume specified liabilities of M existing at the closing date associated with M's friction material, brake, Leland and Heavy Duty operations, including (i) accounts payable, (ii) accrued expenses consisting of payroll withholdings, accrued payroll, accrued taxes, accrued vacation pay at the Paulding facility and accrued management and sales bonuses, (iii) accrued expenses with customers consisting of credits for certain nondefective merchandise returns, warranty claims and cash discounts, (iv) all liabilities used in the determination of the purchase price, (v) all liabilities under leases, contracts and other agreements of M to be assigned to N, (vi) all liabilities for N's pro rata share of real estate and personal property taxes due after the closing date, and (vii) all liabilities and obligations under outstanding purchase orders and commitments. N will assume no liabilities other than those specified in the agreement.

(b) M will retain liability for all liabilities other than those ~~not~~ specifically assumed by N.

7. Book Value. Book value of the assets being acquired and the liabilities being assumed will be determined on the basis of generally accepted accounting principles consistently applied by M as modified by the provisions of the agreement with respect to inventory, prepaid expenses, accrued employee benefits, customer credits and net fixed assets.

8. Rights of Shareholders. A separate shareholders agreement will be executed between the parties relating to the following matters, among others. M will be entitled to one representative on the Board of Directors of N, so long as it retains a 15 percent equity interest in N. M can require T&N to purchase its stock of N at current book value per share (i) if the book value per share of N falls below 75 percent of the book value per share on the closing date or (ii) upon the completion of the five year period following the closing date or at any time thereafter. T&N can require M to sell to T&N its stock of N during the five year period following the closing date at current book value per share or book value per share at the closing date, whichever is higher. In each of the foregoing cases, the rights of purchase and sale referred to above may only be exercised upon thirty days written notice to be given during the calendar month of March in any year, and current book value per share shall be determined on the basis of the audited financial statements as of December 31 of the preceding year. M will have the right to inspect books, properties, etc., of N at any time upon reasonable notice to N so long as M retains a 15 percent interest in N.

9. Accounts Receivable. Accounts receivable other than from employees will be purchased by N at face value at the closing date. Unless otherwise identified, future payments received from customers will be applied first to the balances outstanding on the closing date. During the period 91 days to nine months following the closing date, M and N will jointly attempt to resolve disputes and other uncollected balances. At the end of nine months, M will buy back uncollected balances at face value. N will purchase employee accounts receivable at the closing at face value, not to exceed [redacted]

10. Inventory. A physical inventory will be taken as of the closing date. Inventory will be counted and valued at M's 1977 standard cost. The techniques described in M's Division Accounting Policy, a copy of which has been provided to T&N, will be used to bring inventory values to FIFO cost and to determine the reserve for excess and obsolescence. M will guarantee to recover from Sears within one year the full cost of any excess inventory unique to Sears existing at the closing date.

11. Covenants of M.

(a) M will use its best efforts for three years to preserve the existing relationship with Sears as described in material furnished to T&N in Exhibit III-B.

(b) M will use its best efforts for three years to preserve for N the benefits of the favorable rates arising from the use of the existing transportation network, as described in material furnished to T&N in Exhibit III-C.R.

(c) M will supply N with accounting and EDP services at the charges set forth in Exhibit III-D furnished by M to T&N.

(d) M will use its best efforts to include N in M's group insurance coverage for three years and to obtain transfers to N of individual policies presently applicable to the operations being acquired by N.

(e) M undertakes to fulfill the obligations with respect to pension plans set forth in Exhibit IV-B furnished by M to T&N.

(f) M will use its best efforts to secure assignments of the leases relating to real property, trucks, trailers, and equipment, union contracts and vendor contracts, referred to in Exhibit IV-D, relating to the operations being acquired. In the absence of assignments of leases of real property, M covenants to sublease the premises to N.

(g) Add additional customary covenants.

12. <u>Covenants of T&N.</u>

(a) During the three years following the closing date, T&N will provide specified technical services to N at actual out-of-pocket cost and will charge no royalties to N. Subsequent to the three year period, T&N will charge N 3 percent of sales of products produced using T&N's processes.

(b) T&N undertakes to cause N to take prompt measures subsequent to the closing date to discontinue the current waste disposal system at the Paulding plant, including measures to clear or clean the site of the current waste disposal ponds, fill in the ponds and cover with fresh soil -- remove the existing waste disposal mounds. T&N undertakes to cause M to complete these measures no later than December 31, 1978.

(c) Add customary additional covenants.

13. Certain Indemnification Arrangements. M will agree to indemnify N for any losses suffered from (i) product liability claims not covered by insurance arising from products manufactured prior to the closing date, (ii) liabilities for claims from employees not covered by applicable workmen's compensation laws for injury or disease arising from conditions prevailing prior to the closing date and (iii) claims by EPA, OSHA, or similar state or federal agencies or by other persons arising out of failure by M to have complied prior to the closing date with applicable environmental or safety regulations relating to the use of the waste disposal ponds and waste mounds in the current waste disposal system at the Paulding plant, provided that such indemnification shall not extend to losses suffered by N from claims arising out of the manner in which the corrective measures referred to in paragraph 12(b) are carried out.

14. Continuing Business Relationships Between M and N.

(a) It is contemplated that M will sell certain products to N from time to time including shock absorbers and pins and rollers. The terms of such sales will be governed for the three year period following the closing by the principles set forth in Exhibit III-A furnished to T&N by M, subject to modification or termination on six months prior written notice by M to N.

(b) It is expected that N will sell certain products to M from time to time, including products for export through its International Division and products sold through its Worldparts Division. The terms of such sales will be governed for the three year period following the closing date by the principles set forth in Exhibit III-A furnished to M by T&N, subject to modification or termination on six months prior written notice by N to M.

15. Audit at June 30, 1977. Haskins & Sells will undertake a full audit of the balance sheet of the operations being acquired as of June 30, 1977. Arthur Andersen & Co. will review the determination of the purchase price on behalf of M. The final purchase price will be determined on the basis of the audit and review and the principles set forth herein and in the agreement. In the event that Haskins & Sells and Arthur Andersen are unable to agree, a third independent accounting firm mutually acceptable to the parties will be engaged to resolve any differences.

16. Representations and Warranties. Customary representations and warranties by Seller and Buyer will be included in the acquisition agreement, including those relating to incorporation and good standing; no violation of agreements or instruments as a result of sale or purchase; title to assets being sold free and clear of liens; no litigation, pending claims, etc. relating to assets being sold; seller to continue to operate business in normal course; leases, contracts, etc.; all due corporate authorization of the transaction, etc.

17. Conditions of Closing.

(a) Approval by Boards of Directors of M and Turner and Newall Limited.

(b) Receipt of any necessary approvals, including formal approval by Bank of England of T&N's purchase.

(c) Receipt of legal opinions covering customary matters to be specified in acquisition agreement.

The foregoing is executed by the undersigned on the 10th day of May, 1977.

MAREMONT CORPORATION

By [illegible]

TURNER AND NEWALL LIMITED

By [illegible]