IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

IN RE:	)	
	)	**Chapter 11**
CITATION CORPORATION, et al.,[1]	)	
	)	**Case No. ______________**
Debtors.	)	**(Jointly Administered)**

DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105(a) AND 363(b) FOR AUTHORIZATION TO PAY PREPETITION WAGES, COMPENSATION, AND EMPLOYEE BENEFITS

COME NOW, Citation Corporation ("Citation"), its holding company, and certain of its direct and indirect subsidiaries (the "Subsidiaries"), as debtors and debtors in possession (collectively, the "Debtors"), and, pursuant to §§ 105(a) and 363(b) of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), move this Court (this "Motion") to enter an order authorizing the Debtors to pay prepetition wages, compensation, and employee benefits. In support of this Motion, the Debtors rely on the Affidavit of Charles P. Bloome in Support of Chapter 11 Petitions and First Day Orders, filed contemporaneously herewith, and state as follows:

[1] In addition to the Citation Corporation, the Debtors include the following entities: (i) Citation Holding Company, (ii) Berlin Foundry Corporation, (iii) Bohn Aluminum, Inc., (iv) Castwell Products, Inc., (v) Citation Precision, Inc., (vi) HI-TECH, Inc., (vii) Iroquois Foundry Corporation, (viii) ISW Texas Corporation, (ix) Mansfield Foundry Corporation, (x) OBI Liquidating Corp., (xi) Texas Steel Corporation, (xii) TSC Texas Corporation, (xiii) Citation Aluminum, LLC, (xiv) Citation Castings, LLC, (xv) Citation Grand Rapids, LLC, (xvi) Citation Lake Zurich, LLC, (xvii) Citation Michigan, LLC, (xviii) Citation Wisconsin Forging, LLC, (xix) Citation Wisconsin, LLC, (xx) ITM Holding Co., LLC, (xxi) Interstate Southwest, Ltd., (xxii) Texas Foundries, Ltd., and (xxiii) MFC Liquidating Company, Ltd.

JURISDICTION AND VENUE

1. On September 18, 2004 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the Clerk of this Court. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to Bankruptcy Code §§ 1107(a) and 1108. The Debtors have moved this Court for joint administration of these chapter 11 cases.

2. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of the Debtors' chapter 11 cases and this Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicates for the relief requested herein are Bankruptcy Code §§ 105(a) and 363(b).

FACTUAL BACKGROUND

3. Facing its biggest challenges of all -- a sluggish industry and skyrocketing materials costs -- Citation and its affiliated companies have filed for chapter 11 bankruptcy in the U.S. Bankruptcy Court in Birmingham, Alabama. This action was taken to reorganize Citation's businesses into a profitable company that will continue to serve its customers. The Citation companies continue to operate their businesses and manage their properties as debtors in possession in accordance with the Bankruptcy Code.

4. Since its inception in 1974, Citation has forged a name for itself within the metal components industry by focusing on one overriding goal; total customer satisfaction. Citation has done this by acquiring capable leadership, loyal production workers and responsive suppliers.

5. Like every action Citation has taken over the years, chapter 11 was undertaken with customers in mind. The company is confident that a court-guided reorganization will give Citation the breathing room it needs to improve cash flow and emerge as a profitable company

serving its many customers. The Citation companies will continue to use sound management practices to operate their businesses and manage their properties as debtors in possession in accordance with the Bankruptcy Code.

6. Citation is a privately held Delaware corporation headquartered in the Birmingham, Alabama metropolitan area. Through its wholly-owned subsidiaries, Citation designs, develops and manufactures high quality cast, forged, and machined components for the capital and durable goods industries. The products Citation manufactures are made primarily from iron, steel and aluminum materials. Citation's attention to quality, delivery and cost have allowed it to grow its customer base over the years. The company has also grown its business through a series of acquisitions. The Citation companies now own and operate sixteen facilities located in Alabama, Indiana, Wisconsin, Michigan, Illinois, Texas, and North Carolina. The Citation companies employ approximately 5,100 employees, some of whom are unionized.

7. Citation manufactures products for several market segments including the automotive, heavy truck, construction, aerospace, agricultural and commercial industries. Citation produces aluminum and iron castings. Its steel forgings are used in a wide variety of applications including braking, steering, engine and drive train parts for passenger cars and light trucks; suspension and transmission parts for heavy trucks; ground engaging tools for construction equipment; parts for aircraft engines, landing gear and structural airframes; and thousands of other critical parts for capital and durable goods. Citation sells its castings and forgings to customers throughout the United States. Several of its largest customers are very large tier-one suppliers who make, assemble, and supply parts to automobile manufacturers.

8. Through the 1990s, Citation was a publicly traded company. In December 1999, Citation was taken private by an investment firm based in New York. A fund managed by the same firm continues to own virtually all of the shares of Citation's parent corporation.

9. Citation's cash flow challenges are typical of the industry today. All purchasers of steel have been suffering from the onslaught of record steel price increases. In the last 18 months, the price of steel scrap escalated from its traditional price of $150 per ton to more than $400 per ton. Other raw materials prices have also suffered dramatic price increases.

10. Ductile products account for half of Citation's sales. Steel scrap is the primary raw material used to make ductile products. Due to the unprecedented and unexpected price escalations for the purchase of steel scrap, Citation has found it difficult to maintain sufficient operating capital. Although some of Citation's customer relationships include provisions for sharing cost increases for steel scrap, Citation's relationships with several of its largest customers have no such provisions. Although Citation continues to work with customers to maintain positive, mutually beneficial relationships, Citation to date has been forced to bear the full burden of the increased price of steel scrap in many of its relationships. Citation's aluminum and other divisions have fared better, largely due to their ability to pass on the raw materials price increases.

11. In addition to the escalating price of steel scrap, Citation -- like numerous U.S. companies that provide employees with healthcare benefits -- has incurred heavy increases in the cost of health care for Citation's employees. This and an increase in the cost of utilities has further hampered Citation's cash flow.

12. Citation has a strong market share of the North American ductile iron parts industry, competing primarily with North American companies only. This is because the weight,

size, and shapes of the materials and product and heavy industry's requirements for just-in-time or staged delivery generally require the ductile iron foundries to be located on the same continent as the customers. Nonetheless, there is foreign competition, primarily in China and India.

13. The entire North American ductile iron parts industry finds itself in the same predicament as Citation. Some companies have recently exited this business altogether while a few competitors are better capitalized. Citation is determined to stay in business, and to continue serving the customers, employees and suppliers who have come to rely on Citation as a partner in success. Citation's management sees chapter 11 as a positive step to better position itself until the price of steel and other raw materials can reach an equilibrium within the industry and the true cost of materials can be passed through to the end user of the product.

14. As already mentioned, one of the most significant costs to Citation has been the unprecedented increase in the price of steel scrap. Combined with Citation's debt load, this has resulted in a shortage of cash flow. For the fiscal year ended September 28, 2003, Citation and its subsidiaries reported net sales of approximately $640,000,000 and a net loss of approximately $120,000,000.

15. Citation and its subsidiaries are indebted under a bank debt facility in the approximate amount of $325,000,000. This indebtedness is secured by a first lien on virtually all of the Debtors' assets. Citation's parent corporation is separately indebted under a different debt facility to a different set of creditors in the approximate amount of $140,000,000. Citation generally has trade debt of approximately $60,000,000.

16. Citation is owed receivables from its customers that generally total around $90,000,000. Citation maintains inventory that has a book value of approximately $45,000,000.

Citation owns property, plants, and equipment of substantial value. Its greatest assets, however, are Citation's strong customer base and its many loyal employees.

17. As a part of its ongoing strategic review and assessment of their financial condition, Citation has determined to take advantage of its strong market share position, to strengthen the balance sheet, and to operate successfully in today's competitive environment, it must reduce its existing debt burden and increase operating efficiencies. Citation seeks protection under chapter 11 of the Bankruptcy Code to provide the necessary time to stabilize its finances and to develop and to implement a strategic plan to return its business to sustained profitability.

18. Citation filed bankruptcy with four primary goals in mind: (a) to reshape the Debtors' capital structure; (b) to improve cost efficiencies; (c) to maintain product manufacture and delivery; and (d) to negotiate with its key customers to pass on raw materials price increases. During its stay as a debtor-in-possession in chapter 11, Citation will continue to serve its customers by manufacturing high quality products at Citation's many locations throughout the United States. Once these four key goals are sufficiently met by the bankruptcy proceedings, Citation will emerge from this process as a strong, viable, and independent business positioned for increased competitiveness and sustained profitability.

<u>Prepetition Employee Obligations</u>

A. <u>Wages, Salaries and Other Compensation</u>

19. In the ordinary course of their businesses, the Debtors incur payroll obligations to approximately 5,100 persons for the performance of services in connection with the Debtors' operations. The Debtors' employees (the "Employees") consist of: (a) approximately 750 salaried employees, (b) approximately 4,280 full and part-time employees who work on an

hourly basis, and (c) approximately 70 employees on temporary leave of absence. Of the hourly employees, approximately 1,550 employees are represented by organized labor unions.

20. Prior to the Petition Date, the Debtors paid the Employees on weekly, bi-weekly, semi-monthly, or monthly pay cycles. The Debtors pay an average of $16.1 million per month for gross payroll. As of the Petition Date, the Debtors estimate that their net outstanding prepetition wage and salary obligations (the "Wage and Salary Obligations") to the Employees aggregate approximately $2.9 million, excluding outstanding payroll checks ("Outstanding Payroll Checks") that may not have cleared the Debtors' banks as of the Petition Date, and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

21. The Debtors issued payroll checks to the Employees as recently as the Friday preceding the Petition Date. The Debtors request this Court allow the Debtors to pay all Outstanding Payroll Checks.

22. The Debtors are required by law to: (a) withhold from their payrolls, and remit to the appropriate taxing authorities, certain federal, state, and local income taxes, social security and Medicare taxes (collectively, the "Payroll Tax Obligations") and (b) directly pay state and local unemployment taxes and contributions (the "Unemployment Taxes"). The Debtors' obligations in respect of Payroll Tax Obligations and Unemployment Taxes average $3 million per month. The Debtors estimate that, as of the Petition Date, the amount of such unpaid Payroll Tax Obligations and Unemployment Taxes approximates $1,190,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

23. Under the Debtors' prepetition payroll system, the Wage and Salary Obligations, obligations in respect of the Outstanding Payroll Checks, Payroll Tax Obligations, and Unemployment Tax Obligations (collectively, the "Compensation Obligations") owed to the Employees, or required to be paid on their behalf, which have accrued since the date such amounts were last paid by the Debtors normally would be included in the next compensation check issued or paid to the respective taxing authority.

B. Vacation Obligations

24. The Debtors have several different vacation and other "paid-time-off" policies with respect to their different operations, including vacation pay, holiday pay and sick and personal days. The majority of the Employees work the year and accrue their vacation time after the anniversary date or the calendar date after their hire. The Debtors also provide "paid-time-off" benefits to the Employees for major holidays. Further, depending on the length of the Employee's employment with the Debtors, a collective bargaining agreement, or other policies, the Employees are generally entitled to receive pay for a specified number of sick days and personal days per year. The practices vary greatly among the affiliates.

25. The Debtors seek approval from this Court to pay prepetition amounts owing with respect to vacation pay, including holiday pay, sick time, and personal days (collectively, the "Vacation Obligations"), up to $5,600,000, and to continue offering those benefits to the Employees.

C. Employee Benefits

26. As is customary with most large companies, the Debtors have established various plans and policies for the benefit of their Employees, which include medical and health insurance, prescription insurance, life insurance, dental insurance, cafeteria plans, flexible spending accounts, defined contribution/401(k) plans, defined benefit/pension plans, disability

benefits and coverage, other welfare benefit plans, and other such similar benefits (collectively, the "Employee Benefits"). The Debtors estimate that, as of the Petition Date, the Debtors' accrued and unpaid obligations in respect of the Employee Benefits aggregate approximately $4,554,000, which amount is more fully described in the following paragraphs.

27. Self-Insured Program Health Insurance Benefits. The Employees are provided health insurance through the Debtors' self-insured programs (the "Self-Insured Insurance") which are administered by Blue Cross/Blue Shield of Alabama ("BC/BS"), Humana Insurance Company ("Humana"), Connecticut General Life Insurance Company ("CIGNA"), WHP Health Initiatives, Inc. ("Walgreens"), and Pittman & Associates, Inc. ("Pittman").

28. BC/BS administers health insurance benefits under the Self-Insured Insurance for the majority of the Employees. BC/BS notifies the Debtors on Wednesday of each week of the amounts paid on behalf of the Employees for the Self-Insured Insurance for the previous week. On that Friday, BC/BS drafts that amount owed from certain of the Debtors' bank accounts.

29. Humana administers health and dental insurance benefits under the Self-Insured Insurance for the benefit of certain of the Employees as to "run-out" claims which arose prior to December 31, 2003, when the Employees covered by the Self-Insured Insurance administered by Humana switched to a different administrator. For benefits paid under the Self-Insured Insurance administered by Humana, Humana holds a deposit from the Debtors of approximately $200,000, from which Humana pays claims made. Humana then drafts the Debtors' bank account on a daily basis, usually of an amount no more than $1,000 per day, to replenish the deposit.

30. As to the Self-Insured Insurance administered by CIGNA, CIGNA holds a deposit from the Debtors of approximately $175,000, from which CIGNA pays claims made by the

Employees' healthcare providers. Approximately twice a month, though on no definite schedule, CIGNA drafts the Debtors' bank account to replenish the deposit held by CIGNA.

31. Walgreens administers a portion of the Self-Insured Insurance which provides coverage for prescription medications. Walgreens issues a monthly invoice to the Debtors for the cost of the prescription medications provided to the Employees.

32. Pittman administers health insurance benefits under the Self-Insured Insurance for the benefit of certain of the Employees as to "run-out" claims which arose prior to March 1, 2003. For benefits paid under the Self-Insured Insurance administered by Pittman, Pittman notifies the Debtors weekly of the amounts to be paid by Pittman in satisfaction of claims made by the Employees healthcare providers. The Debtors then wire that amount to Pittman on a weekly basis.

33. The Debtors estimate that their unpaid obligations with respect to the Self-Insured Insurance which were accrued as of the Petition Date total $3.6 million and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

34. Other Insurance Benefits. The Debtors also provide other insurance benefits to the Employees under fully funded insurance plans, such as disability, life, accidental death, dismemberment, and other such insurance. Prepetition obligations in respect of disability, life, accidental death, dismemberment, and other insurance total approximately $210,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

35. Employee-Requested Payroll Deductions. Benefits such as union dues, insurance, charitable contributions (for example, United Way contributions), flexible spending

contributions, direct deposit savings, cafeteria plans, uniforms, and other similar employee-requested deductions are exclusively deducted from the Employees' wages (the "Employee-Requested Payroll Deductions"). With respect to the Employee-Requested Payroll Deductions, the Debtors estimate that, as of the Petition Date, collected but not yet disbursed amounts is approximately $490,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

36. Defined Benefit Pension Plans. The Debtors sponsor and maintain five (5) defined benefit pension plans: (a) the Berlin Foundry Corporation Retirement Income Plan, (b) the Bohn Aluminum Corporation Butler, Indiana Pension Plan for Hourly Employees Represented by Local 1317 UAW, (c) the Camden Casting Center, Inc. Hourly Pension Plan, (d) the Citation Castings, Inc. Defined Benefit Pension Plan f/b/o Selma and Centreville Employees of Southern Ductile Casting Division, and (e) the Citation - Southern Ductile Casting Company Defined Benefit Pension Plan f/b/o Bessemer, Alabama Bargaining Unit Employees (collectively, the "Defined Benefit Pension Plans").

37. The Defined Benefit Pension Plans allow certain eligible Employees and former employees of the Debtors to receive certain benefit amounts upon retirement. The Debtors contribute to the Defined Benefit Pension Plans the amounts required pursuant to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (the "Tax Code"). Currently, approximately 190 participants are entitled to receive monthly annuity payments under the Defined Benefit Pension Plans. As of the Petition Date, the Debtors' actuaries estimated that the Defined Benefit Pension Plans were underfunded by approximately $3,256,220. The Debtors request this Court allow the Debtors to continue

making annual plan payments with respect to the Defined Benefit Pension Plans in an amount sufficient to comply with minimum funding requirements of ERISA and the Tax Code. The Debtors' actuaries estimate that the Debtors have fully satisfied their prepetition minimum funding obligations with respect to the Defined Benefit Pension Plans, and the Debtors are not seeking authority, by this Motion, to pay any such prepetition amounts. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors make additional contributions.

38. Multi-Employer Plan. The Debtors also contribute to the GMP and Employers Pension Fund, a multi-employer plan (the "Multi-Employer Plan") maintained by Glass, Molders, Pottery, Plastics & Allied Workers International Union. The Debtors' plan administrator for the Multi-Employer Plan estimates that the Debtors' withdrawal liability as of January 1, 2003, the most recent calculation available, with respect to the Multi-Employer Plan approximates $220,000. The Debtors request this Court allow the Debtors to continue making annual plan payments with respect to the Multi-Employer Plan in an amount sufficient to satisfy the Debtors' obligations under the collective bargaining agreement pursuant to which the Debtors are obligated to contribute to the Multi-Employer Plan. The Debtors' actuaries estimate that the Debtors' prepetition obligations with respect to the Multi-Employer Plan total approximately $25,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

39. Defined Contribution Plans. The Debtors sponsor and maintain four (4) defined contribution/401(k) plans: (a) the Alabama Ductile Castings Company/Bargaining Unit 401(k) Retirement Plan, (b) the Citation Corporation 401(k) Retirement Plan, (c) the Citation Wisconsin

Castings - Browntown Bargaining Unit, and (d) the Southern Ductile Casting Company 401(k) Retirement Plan f/b/o Bessemer, Alabama Bargaining Unit Employees (collectively, the "Defined Contribution Plans").

40. The Defined Contribution Plans allow certain eligible Employees and former employees of the Debtors to accumulate savings for retirement and to receive certain benefit amounts upon retirement. Currently, approximately 2,150 employees participate in the Defined Contribution Plans. The Debtors' current obligations with respect to salary deferrals equals approximately $162,000 and employer contributions to the Defined Contribution Plans equals approximately $67,000. Thus, the amounts owing in respect of the Defined Contribution Plans equals approximately $229,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

D. Reimbursement

41. The Debtors customarily reimburse the Employees who incur a variety of business expenses in the ordinary course of performing their duties on behalf of the Debtors. These reimbursable business expenses include, among other expenses, those incurred in connection with car allowance, travel, relocation, long-distance telephone charges, and cellular phone charges. In some instances, the Employees may use personal credit cards for which the Employee pays the bill and upon submission of the receipt, is then reimbursed by the Debtors. Because the Employees do not always submit claims for reimbursement promptly, it is difficult for the Debtors to determine the exact amount outstanding at any particular time. The Debtors' average monthly obligations in respect of reimbursements (the "Reimbursement Obligations") made to Employees is $200,000. The Debtors estimate that their prepetition Reimbursement Obligations total $150,000 and the Debtors seek to pay only up that amount. The Debtors will

seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

E. Employment Benefit Administrators

42. As is customary in the case of most large companies, the Debtors utilize the services of payroll processors in connection with the Compensation Obligations and administrators, consultants, actuaries, recordkeepers, and other service providers (the "Service Providers") in the ordinary course of their businesses in order to facilitate the administration, record keeping, and maintenance of certain Employee Benefits. The Debtors estimate that, on account of services provided to the Debtors by the Service Providers prior to the Petition Date (the "Administrative Obligations"), such obligations total approximately $215,000 and the Debtors seek to pay only up that amount. The Debtors will seek further approval from this Court if circumstances arise that would require the Debtors to exceed that amount.

RELIEF REQUESTED

43. By this Motion, the Debtors request that, pursuant to Bankruptcy Code §§ 105(a) and 363(b), the Court authorize the Debtors to pay the Prepetition Employee Obligations (as defined herein and described above).

PAYMENT OF THE PREPETITION EMPLOYEE OBLIGATIONS IS WARRANTED

44. As a result of the commencement of the Debtors' chapter 11 cases, and in the absence of an order of the Court providing otherwise, the Debtors will be prohibited from paying or otherwise satisfying all prepetition Compensation Obligations, Employee Benefits, Vacation Obligations, Employee-Requested Payroll Obligations, Reimbursement Obligations, and Administrative Obligations (collectively, the "Prepetition Employee Obligations"), and the

checks, drafts, wire transfers, and ACH direct deposit transfers issued and effected in respect of the Prepetition Employee Obligations will be dishonored or rejected.

45. Accordingly, pursuant to Bankruptcy Code §§ 105(a), 363(b), and the "necessity of payment" doctrine, the Debtors seek authority: (a) to pay the Prepetition Employee Obligations that become due and owing during the pendency of these chapter 11 cases and (b) to continue their practices, programs, and policies with respect to the Prepetition Employee Obligations, as such practices, programs, and policies were in effect as of the Petition Date, including allowing employees to use vacation time accrued, but unused, as of the Petition Date. The Debtors further request that the Court authorize their banks and financial institutions to honor and pay all prepetition and postpetition checks issued or to be issued, and fund transfers requested or to be requested, by the Debtors in respect of the Prepetition Employee Obligations that were not honored or paid as of the Petition Date. The Debtors seek authorization for their banks and financial institutions to rely on the representations of the Debtors as to which checks and fund transfer requests are issued and authorized to be paid in accordance with this Motion without any duty of further inquiry and without liability for following the Debtors' instructions. At the same time, the Debtors seek authority to issue new postpetition checks, or effect new fund transfers, on account of the Prepetition Employee Obligations to replace any prepetition checks or fund transfer requests that may be dishonored or rejected.

46. Pursuant to Bankruptcy Code §§ 507(a)(3) and 507(a)(4), the claims of the Employees for "wages, salaries, or commissions, including vacation, severance, and sick leave pay" earned within ninety days before the Petition Date and claims against the Debtors for contributions to employee benefit plans arising from services rendered within the 180 days before the Petition Date, are afforded unsecured priority status to the extent of $4,650 per

employee. 11 U.S.C. § 507(a)(3) and (a)(4). Furthermore, in the event this Court determines such payment to be outside the ordinary course of the Debtors' businesses, Bankruptcy Code § 363(b)(1) provides that the "[t]rustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). Bankruptcy Code § 105(a) further provides:

> The court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title. No provision of this title providing for the raising of an issue by a party in interest shall be construed to preclude the court from, sua sponte, taking any action or making any determination necessary or appropriate to enforce or implement court orders or rules, or to prevent an abuse of process.

11 U.S.C. § 105(a).

47. The Debtors believe that the uninterrupted payment of the Prepetition Employee Obligations is critical to the reorganization effort because to interrupt payment to such Employees would severely undermine the support and morale crucial to the Debtors' reorganization effort.[2] Payment of all Prepetition Employee Obligations in accordance with the Debtors' prepetition business practices will enable the Debtors to continue to operate their businesses in an economic and efficient manner without disruption. Employees are central to the Debtors' operations and are vital to their reorganization. A significant deterioration in the Employees' morale at this critical time undoubtedly would have a devastating impact on the Debtors, the value of their assets and businesses, and their ability to reorganize. The total amount to be paid if the authorization sought herein is granted is relatively modest compared

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[2] The Debtors believe that some Employees to be paid pursuant to the requested order may possibly be the beneficiaries of amounts in excess of $4,650. The administrative burden of imposing and monitoring a $4,650 per Employee payment ceiling would outweigh any potential benefit to the Debtors' estates. Further, payment of such amounts is appropriate and necessary to the continued confidence and loyalty of the Employees, and may be authorized under Bankruptcy Code § 105(a) and the "necessity of payment" doctrine.

with the size of the Debtors' estates and the importance of Employees to the reorganization of the Debtors.

48. The Debtors submit that because the Payroll Tax Obligations constitute "trust fund" taxes, the payment of such taxes will not prejudice other creditors of the Debtors' estates, given that the relevant taxing authorities would hold priority claims under Bankruptcy Code § 507(a)(8) in respect of such obligations. Moreover, the monies payable for trust fund taxes generally are not property of a debtor's estate. *See Begier v. Internal Revenue Serv.*, 496 U.S. 53 (1990).

49. The Debtors further submit that all Employee-Requested Payroll Deductions are made from amounts earned by and otherwise payable to the Debtors' employees. Accordingly, continuation of such deductions will not diminish the Debtors' estates or otherwise prejudice any creditors.

50. With respect to the accrued and unpaid Prepetition Employee Obligations, the Debtors request that the Debtors' banks and financial institutions that maintained the prepetition payroll accounts on which checks were drawn, or from which funds were requested to be transferred, be authorized to honor such checks or fund transfer requests, regardless of whether they were issued prior to or after the Petition Date. The Debtors request that their banks and financial institutions be authorized to rely on the representations of the Debtors as to which payroll checks and fund transfer requests are issued and authorized to be paid in accordance with this Motion without any duty of further inquiry and without liability for following the Debtors' instructions. The Debtors have, or will have, on deposit sufficient available funds in their bank accounts to satisfy all Prepetition Employee Obligations so that the Debtors' banks and financial

institutions will not be prejudiced by any order authorizing them to honor the Debtors' checks or fund transfer requests with respect to such amounts.

51. Moreover, if the checks issued and fund transfers requested in payment of the Prepetition Employee Obligations are dishonored, or if such accrued obligations are not timely paid postpetition, the Debtors' employees will suffer extreme personal hardship and may be unable to pay their daily living expenses.

52. This Court has approved payment of prepetition claims for compensation, benefits, and expense reimbursements on the grounds that the payment of such claims was necessary to effectuate a successful reorganization in other chapter 11 cases. *See In re Meadowcraft, Inc.* Chapter 11 Case No. 02-06910 (TOM) (Bankr. N.D. Ala. 2002); *In re Karsons International, Inc., et al.* Chapter 11 Case Nos. 02-09409 through 02-09411 (BGC) (Bankr. N.D. Ala. 2002); *In re Décor Gravure Corp., et al.* Chapter 11 Case Nos. 02-00895 and 02-00897 (TOM) (Bankr. N.D. Ala. 2002); *In re Alabaster Industries, Inc.* Chapter 11 Case No. 98-02220 (BGC) (Bankr. N.D. Ala. 1998); *In re Gulf States Steel, Inc. of Alabama* Chapter 11 Case No. 99-41958 (JSS) (Bankr. N.D. Ala. 1999).

53. Finally, authorization of the payment of the Prepetition Employee Obligations should not be deemed to constitute postpetition assumption or adoption of any policy, plan, program, or employment agreement pursuant to Bankruptcy Code § 365. The Debtors are in the process of reviewing these matters and reserve all of their rights under the Bankruptcy Code with respect thereto.

54. Accordingly, the Debtors request that the Court:

a. authorize the Debtors to pay accrued and unpaid Compensation Obligations (up to $4,090,000, excluding amounts paid in respect of the Outstanding Payroll Checks);

b. authorize the Debtors to pay amounts owed in respect of the Outstanding Payroll Checks;

c. authorize the Debtors to pay accrued and unpaid Vacation Obligations, as such obligations become due under the Debtors' pre-Petition Date paid time off policies (up to $5,600,000);

d. authorize the Debtors to pay accrued and unpaid Employee Benefits (up to $4,554,000);

e. authorize the Debtors to pay accrued and unpaid Reimbursement Obligations (up to $150,000);

f. authorize the Debtors to pay accrued and unpaid Administrative Obligations (up to $215,000);

g. authorize the Debtors to continue to honor their plans, policies, and programs with respect to Vacation Obligations and Employee Benefits, as such plans, policies, and programs were in effect as of the Petition Date, including the payment of prepetition amounts as they come due in the ordinary course of business and in accordance with applicable law without such conduct and payment to be deemed an assumption of said plans, policies, and programs;

h. authorize the banks and financial institutions at which the Debtors maintain their accounts to honor all checks issued and fund transfers requested in respect of the Prepetition Employee Obligations to the extent sufficient available funds are on deposit; provided that the Debtors' banks and financial institutions may rely on the representations of the Debtors as to which checks and fund transfer requests are issued and authorized to be paid in accordance with this Motion without any duty of further inquiry and without liability for following the Debtors' instructions; and

i. authorize the Debtors to issue new postpetition checks, or to effect new fund transfer instructions, to replace any dishonored or rejected prepetition checks or fund transfer requests on account of the Prepetition Employee Obligations.

NOTICE AND PRIOR MOTIONS

55. Notice of this Motion has been provided to (1) the Office of the Bankruptcy Administrator for the United States Bankruptcy Court for the Northern District of Alabama, Southern Division; (2) counsel to JPMorgan Chase Bank as Administrative Agent for the Debtors prepetition lenders; (3) counsel to JPMorgan Chase Bank as Administrative Agent for

the Debtors' proposed postpetition lenders; (4) the Debtors' twenty (20) largest unsecured creditors (on a consolidated basis); and (5) the District Director of the Internal Revenue Service for the Northern District of Alabama. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is necessary or required.

56. No previous request for the relief sought herein has been made to this or any other court.

WHEREFORE, the Debtors request this Court enter an order substantially similar to the order attached hereto as Exhibit "A," granting the Debtors authorization to pay: (a) the Prepetition Employee Obligations, (b) to continue their practices, programs, and policies with respect to all Prepetition Employee Obligations as such practices, programs, and policies were in effect as of the Petition Date, and (c) such other and further relief as this Court may deem just and proper.

Dated: Birmingham, Alabama
September 18, 2004

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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

IN RE:	)	
	)	**Chapter 11**
CITATION CORPORATION, et al.,[1]	)	
	)	**Case No. _______________**
Debtors.	)	**(Jointly Administered)**

ORDER PURSUANT TO 11 U.S.C. §§ 105(a) AND 363(b)
AUTHORIZING PAYMENT OF PREPETITION WAGES,
COMPENSATION, AND EMPLOYEE BENEFITS

This matter came to be heard upon the motion (the "Motion") of Citation Corporation ("Citation"), its holding company, and certain of its direct and indirect subsidiaries (the "Subsidiaries"), as debtors and debtors in possession (collectively, the "Debtors"), pursuant to §§ 105(a) and 363(b) of 11 U.S.C. § 101 *et seq.* (the "Bankruptcy Code") for:

a. authorization to pay to its employees (the "Employees") prepetition (1) wages, salaries, commissions, and other compensation earned prior to the date of commencement of the Debtors' chapter 11 cases (the "Petition Date"), including, without limitation, the amounts which the Debtors are required by law to withhold from employee payroll cheeks in respect of federal, state, and local income taxes, including unemployment contributions and taxes, and social security and Medicare taxes, and amounts that the Debtors are required to directly pay in respect

[1] In addition to the Citation Corporation, the Debtors include the following entities: (i) Citation Holding Company, (ii) Berlin Foundry Corporation, (iii) Bohn Aluminum, Inc., (iv) Castwell Products, Inc., (v) Citation Precision, Inc., (vi) HI-TECH, Inc., (vii) Iroquois Foundry Corporation, (viii) ISW Texas Corporation, (ix) Mansfield Foundry Corporation, (x) OBI Liquidating Corp., (xi) Texas Steel Corporation, (xii) TSC Texas Corporation, (xiii) Citation Aluminum, LLC, (xiv) Citation Castings, LLC, (xv) Citation Grand Rapids, LLC, (xvi) Citation Lake Zurich, LLC, (xvii) Citation Michigan, LLC, (xviii) Citation Wisconsin Forging, LLC, (xix) Citation Wisconsin, LLC, (xx) ITM Holding Co., LLC, (xxi) Interstate Southwest, Ltd., (xxii) Texas Foundries, Ltd., and (xxiii) MFC Liquidating Company, Ltd.

of state unemployment taxes and contributions on behalf of employees (collectively, the "Compensation Obligations"), (2) amounts that the Debtors are required to pay or withhold with respect to medical and health insurance, prescription insurance, life insurance, dental insurance, cafeteria plans, flexible spending accounts, defined contribution/401(k) plans, defined benefit/pension plans, disability benefits and coverage, other welfare benefit plans, and other such similar benefits (the "Employee Benefits"), (3) vacation and other paid-time-off obligations, including, without limitation, vacation pay, sick time, and personal days that have accrued as of the Petition Date (the "Vacation Obligations"), (4) amounts that the Debtors are required to pay with respect to a variety of business expenses incurred by their employees, including travel and relocation expenses, in the ordinary course of performing their duties on behalf of the Debtors (the "Reimbursement Obligations"), and (5) amounts that the Debtors are required to pay to compensate certain payroll processors in respect of the Compensation Obligations and administrators, consultants, actuaries, recordkeepers, and other service providers in the ordinary course of their businesses in order to facilitate the administration, record keeping, and maintenance of certain Employee Benefits (the "Administrative Obligations" and, together with the Compensation Obligations, the Employee Benefits, the Vacation Obligations, and the Reimbursement Obligations, the "Prepetition Employee Obligations");

b. authorization to satisfy and continue the Employee-Requested Payroll Deductions;

c. authorization to continue to honor the Debtors' plans, policies, and programs with respect to Vacation Obligations and Employee Benefits, as such plans, policies, and programs were in effect as of the Petition Date;

d. authorization for the banks in which the Debtors maintain their accounts in respect of the Prepetition Employee Obligations to honor all checks issued and kind instructions in respect of the Prepetition Employee Obligations; and

e. authorization to issue new postpetition checks or to effect new fund transfer requests, to replace any dishonored or rejected prepetition checks or kind transfer requests on account of the Prepetition Employee Obligations, all as more fully set forth in the Motion.

Upon consideration of the Affidavit of Charles P. Bloome in Support of Chapter 11 Petitions and First Day Orders filed on the Petition Date; the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; due notice of the Motion having been provided to (1) the Office of the Bankruptcy Administrator for the United States Bankruptcy Court for the Northern District of Alabama, Southern Division; (2) counsel to JPMorgan Chase Bank as Administrative Agent for the Debtors' prepetition lenders; (3) counsel to JPMorgan Chase Bank as Administrative Agent for the Debtors' proposed postpetition lenders; (4) the Debtors' twenty (20) largest unsecured creditors (on a consolidated basis); and (5) the District Director of the Internal Revenue Service for the Northern District of Alabama; and it appearing that no other or further notice need be provided; the Court having determined that the relief sought in the Motion is in the best interests of the Debtors, their creditors, and all parties in interest; upon the Motion and all of the proceedings before this Court; and after due deliberation and sufficient cause appearing therefore, it is hereby

ORDERED that the Debtors are authorized to honor and pay the Prepetition Employee Obligations in a manner consistent with the Debtors' prepetition business practices and policies, as set forth below:

a. the Debtors are authorized to pay accrued and unpaid Compensation Obligations up to $4,090,000, excluding amounts owed on checks issued prepetition that have not cleared the Debtors' banks (the "Outstanding Payroll Checks");

b. the Debtors are authorized to pay amounts owed in respect of the Outstanding Payroll Checks;

c. the Debtors are authorized to pay accrued and unpaid Vacation Obligations, as such obligations become due under the Debtors' pre-Petition Date paid time off policies, up to $5,600,000;

d. the Debtors are authorized to pay accrued and unpaid Employee Benefits up to $4,554,000;

e. the Debtors are authorized to pay accrued and unpaid Reimbursements Obligations up to $150,000; and

f. the Debtors are authorized to pay accrued and unpaid Administrative Obligations up to $215,000; and it is further

ORDERED that the Debtors are authorized to pay the requested prepetition obligations without prejudice to the Debtors' right to seek additional or further relief in the future; and it is further

ORDERED that the Debtors are authorized to satisfy and continue the Employee-Requested Payroll Deductions; and it is further

ORDERED that the relief granted herein shall not constitute or be deemed an assumption or an authorization to assume any of such policies, plans, programs, practices, and procedures pursuant to Bankruptcy Code § 365; and it is further

ORDERED that the Debtors' banks and financial institutions are authorized to honor and pay all prepetition and postpetition checks issued, and fund transfer requests made, by the Debtors in respect of payroll, salary, bonus, compensation, Employee Benefits, and other Prepetition Employee Obligations, to the extent sufficient funds are on deposit in such accounts; and it is further

ORDERED that Debtors' banks and financial institutions may rely on the representations of the Debtors as to which checks and fund transfer requests are issued and authorized to be paid in accordance with this Order without any duty of further inquiry and without liability for following the Debtors' instructions; and it is further

ORDERED that the Debtors are authorized (consistent with this Order) to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests in respect of Prepetition Employee Obligations dishonored or rejected as a consequence of the commencement of these chapter 11 cases.

Dated: Birmingham, Alabama
September ____, 2004

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UNITED STATES BANKRUPTCY JUDGE