

ROBERT D. ROWAN
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER

March 26, 1986

Dear Fellow Shareholder:

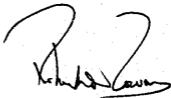
I invite you to attend the Annual Meeting of Shareholders of Fruehauf to be held at 2:30 P.M. on Thursday, May 1, 1986, at the Michigan Inn, 16400 J. L. Hudson Drive, Southfield, Michigan. I hope that you will be able to attend and participate in the Annual Meeting. At the meeting, I will review the business and operations of Fruehauf and officers and directors of Fruehauf will be available to answer your questions about your Company.

We will consider and act upon the election of directors and the reappointment of your Company's independent public accountants.

Whether or not you attend the meeting in person, it is important that your shares be represented and voted at the meeting. Accordingly, I urge you to sign, date and return the enclosed proxy card after you read the enclosed Notice of Annual Meeting and Proxy Statement and the enclosed Fruehauf Corporation 1985 Annual Report.

A report on the results of voting at the Annual Meeting will be sent to you with the Report to Shareholders for the Second Quarter.

Sincerely yours,



FRUEHAUF CORPORATION

NOTICE OF ANNUAL MEETING

March 26, 1986

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Fruehauf Corporation ("Fruehauf") will be held at the Michigan Inn, 16400 J. L. Hudson Drive, Southfield, Michigan, on Thursday, May 1, 1986, at 2:30 P.M., Eastern Daylight Time, for the purposes of:

1. Electing 11 directors of Fruehauf.
2. Ratifying the reappointment of Touche Ross & Co. as the independent public accountants of Fruehauf for the year 1986.
3. Transacting any and all other business which may properly be brought before such meeting or any adjournment thereof.

Pursuant to the By-laws of Fruehauf, March 7, 1986, has been fixed as the record date for the purpose of determining the shareholders entitled to notice of, and to vote at, such meeting or any adjournment thereof. Only record shareholders of Common Stock at the close of business on that date are entitled to such notice and to vote at such meeting or any adjournment thereof.

A copy of the Fruehauf Corporation 1985 Annual Report is enclosed.

By order of the Board of Directors.



T. Neal Combs
Secretary

The execution and return of the enclosed proxy as promptly as possible will be greatly appreciated. A return envelope is enclosed for your convenience, and requires no postage if mailed in the United States.

FRUEHAUF CORPORATION

P.O. Box 238
Detroit, Michigan 48232

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Fruehauf Corporation (hereinafter referred to as "Fruehauf" or the "Corporation") of proxies in the accompanying proxy card form. The Notice of Annual Meeting, the Proxy Statement and the accompanying proxy card, together with the Fruehauf Corporation 1985 Annual Report, are being mailed to shareholders commencing on or about March 26, 1986. Proxies are solicited so that each shareholder may have an opportunity to vote. These proxies will enable shareholders to vote on all matters which are scheduled to come before the meeting. When proxies are returned properly executed, the shares represented thereby will be voted in accordance with the shareholders' directions. Shareholders are urged to specify their choices by marking the appropriate boxes on the enclosed proxy card; if no choice has been specified, the shares will be voted as recommended by the Board of Directors. Means have been provided whereby a shareholder may withhold his vote for any director and may vote against, or abstain from voting on, any matter other than the election of directors. The proxy cards also confer discretionary authority to vote the shares authorized to be voted thereby on any matter which was not known on the date of this Proxy Statement but may properly be presented for action at the meeting.

Your vote is important. Accordingly, you are asked to sign, date and return the accompanying proxy card regardless of whether or not you plan to attend the meeting.

Any proxy may be revoked by the person giving it at any time prior to the exercise of the powers conferred by delivering written notice of revocation to any of the individuals appointed as proxies in the proxy card at the above office of the Corporation, by submitting to the Corporation a subsequently dated proxy, or by attending the meeting and withdrawing the proxy.

Each holder of Common Stock represented in person or by proxy and entitled to vote at the Annual Meeting will be entitled to one vote for each share of such stock standing in the name of such shareholder on the books of the Corporation at the close of business on March 7, 1986. On that date, the Corporation had outstanding and entitled to vote 21,109,831 shares of Common Stock. Only holders of Common Stock are entitled to vote at the Annual Meeting.

GENERAL INFORMATION

Board of Directors

Your Board of Directors is responsible for managing the business and affairs of the Corporation. The directors, who are elected annually by the shareholders, represent the interests of the Corporation's shareholders as a whole rather than the special interests of any particular group.

There are presently 12 directors serving on the Board. All of the directors were elected at the 1985 Annual Meeting of Shareholders. Mr. John D. Schapiro, who has served as a director since 1980, is not eligible under the Corporation's By-laws to be re-elected by reason of his having attained the age of 72. Accordingly, upon the expiration of Mr. Schapiro's term as a director on May 1, 1986, the Board intends to reduce the size of the Board to 11 directors.

Your Board of Directors met 10 times during 1985 with an average attendance by incumbent directors of approximately 97%. The Board meets to review significant developments affecting the Corporation and to act on matters requiring Board approval. The Board has approved this Proxy Statement and authorized the approval of the Fruehauf Corporation 1985 Annual Report.

Information on each nominee for director appears on pages 4 through 6 of this Proxy Statement.

Committees of the Board

Your Board has established seven standing committees of the Board of Directors to assist in the discharge of the Board's responsibilities in specific areas. Their committees and the principal responsibilities of each are described below. Membership of nominees for director on committees is indicated in the biographical information for each nominee for director. At the present time, of the 37 memberships on the seven committees, 27 or approximately 73% are held by nonmanagement directors. Attendance by incumbent directors at meetings of committees averaged approximately 92% during 1985.

Executive Committee. Five nonmanagement directors and two management directors serve on the Executive Committee. This committee, which did not meet last year, possesses all the powers of the Board except those specifically reserved by Michigan law or Fruehauf's By-laws to the full Board of Directors.

Audit Committee. The Audit Committee comprises six directors. All members of this committee are required to be independent of management and free of any relationship that would interfere with the exercise of independent judgment as a committee member. The Audit Committee reviews the preparation and auditing of accounts of the Corporation; considers and recommends to the Board of Directors the engagement of independent certified public accountants for the ensuing year and the terms of such engagement; reviews the scope of the audit proposed by such accountants; implements and periodically reviews the performance of the Corporation's program of internal control and reviews the internal audit function of the Corporation; receives and reviews the reports of the independent accountants and internal audit staff; and reviews the annual financial report to the directors and shareholders of the Corporation. The Audit Committee is required to report to the Board of Directors not less than twice in each year. This committee met twice during 1985, and reported to the Board of Directors after each meeting.

Compensation Committee. The Compensation Committee fixes the base salaries of officers or of employees who have, or by action of the committee will have, a base salary in excess of an amount fixed by the Board of Directors. Currently, the committee fixes all base salaries in excess of \$70,000. The Compensation Committee comprises four nonmanagement directors and one management director. While there is no requirement that all members of this committee be nonmanagement directors, the majority of the members appointed to this committee is expected to be nonmanagement directors. The committee did not meet during 1985, but disposed of several matters informally.

Incentive Compensation Committee. This committee administers the Incentive Compensation Plan, Policy Council bonuses, the 1980 Stock Option Plan and 1984 Stock Option Plan of the Corporation and the Incentive Compensation Plan and Policy Council bonus of Kelsey-Hayes Company. It will administer any other future plan whereby officers or other employees of the Corporation and its subsidiaries may receive remuneration in addition to their base salaries. Membership on this committee is limited to nonmanagement directors. Four directors serve on this committee, which met three times during 1985.

Contributions Committee. This committee, which met three times during 1985, has six members, of whom three are members of management. Contributions exceeding \$1,000 are approved by this committee.

Pension Review Committee. The Pension Review Committee, which met three times during the past year, reviews the investment performance of the trustees and the administration of the pension plans of the Corporation. This committee has five members, all of whom are nonmanagement directors.

Nominating Committee. The Nominating Committee, which met twice during 1985, recommends to the Board of Directors qualifications of nominees for membership on the Board of Directors and considers recommendations for nominees for election to the Board from concerned persons, including in particular the directors and shareholders of the Corporation. On February 20, 1986, this committee recommended to the Board of Directors that it nominate as directors the 11 nominees named on pages 4 through 6. This committee comprises four directors, of whom three are nonmanagement directors. The Secretary of the Corporation will upon request advise interested persons as to the procedure for submitting recommendations.

Compensation of the Board

Except as set forth below, nonmanagement directors received an annual fee at the rate of \$12,000 per year plus \$600 per Board meeting attended and \$600 for each committee meeting attended. Chairmen of certain committees of the Board of Directors received additional compensation as follows, but were not paid fees for attending meetings of the committees of which they are chairmen:

<u>Name</u>	<u>Chairman of</u>	<u>Additional Compensation Received</u>
Jack Breslin	Audit Committee	\$20,000
Dean E. Richardson	Compensation and Incentive Compensation Committees	\$12,000
John D. Schapiro	Contributions Committee	\$ 3,000
Donald F. Chamberlin	Pension Review Committee	\$ 6,000

Management directors receive no additional compensation for serving on the Board or its committees.

Auditors

Touche Ross & Co. has served as independent public accountants for the Corporation and most of its subsidiaries for many years. Touche Ross representatives regularly attend meetings of the Audit Committee and have direct access to members of the Audit Committee.

Representatives of Touche Ross & Co. will attend the Annual Meeting of Shareholders, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Further information concerning Touche Ross & Co. appears on pages 6 and 7.

Shareholder Proposals

At the Annual Meeting of Shareholders of the Corporation each year, the Board of Directors submits to the shareholders (1) its nominees for election as directors and (2) the ratification of the appointment of independent public accountants for the Corporation by the Board of Directors upon recommendation of the Audit Committee. From time to time, the Board may submit other matters requiring shareholder approval, such as an amendment of the Corporation's Restated Articles of Incorporation and proposals relating to new employee benefit and incentive plans or certain amendments to existing plans.

Additionally, shareholders may be asked to consider and take action on proposals submitted by shareholders under regulations of the Securities and Exchange Commission ("SEC"). The Board of Directors will consider proposals and suggestions submitted by shareholders. When adoption of a suggestion or proposal is clearly in the best interests of the Corporation and its shareholders and can be implemented without shareholder approval, it may be implemented without inclusion in any proxy statement. Thus, the shareholder proposals which appear in proxy statements will generally be those proposals with which the Board of Directors has disagreed or which it has determined that it must oppose in fulfilling its obligations to represent and safeguard the best interests of the Corporation and its shareholders as a whole. Under current SEC regulations, a shareholder proposal, otherwise proper for presentation, to be presented at the Annual Meeting of Shareholders to be held in 1987, must be received by the Secretary of the Corporation by November 27, 1986.

Certain Shareholders

The Corporation has been advised by the persons named in the following table that such persons beneficially own shares of the Corporation's Common Stock in the manner and to the extent indicated therein:

Name and Address of Beneficial Owner	Aggregate Shares Owned	Number of Shares With				Percent of Class
		Voting Power		Dispositive Power		
		Sole	Shared	Sole	Shared	
Batterymarch Financial Management 600 Atlantic Avenue Boston, Mass. 02210	1,025,950	335,850	—	1,025,950	—	5.4
United Banks of Colorado, Inc. 1700 Broadway Denver, Colo. 80217	1,528,154	1,502,954	4,800	—	1,528,154	8.0

- (1) As of February 1, 1986. As of the record date for the Annual Meeting, assuming no changes in the aggregate number of shares owned, Batterymarch Financial Management and United Banks of Colorado, Inc. would respectively have owned 4.9% and 7.2% of the class, owing to dilution resulting from the issuance in March 1986 of 1,872,674 shares of Common Stock upon conversion of the Corporation's \$2.00 Cumulative Convertible Preferred Stock.

ITEM 1—ELECTION OF DIRECTORS

The Board of Directors, upon recommendation of the Nominating Committee, has nominated each of the persons named below for election as a director, to hold office until the next Annual Meeting of Shareholders and until his successor is elected and qualified. It is intended that shares represented by properly executed proxies will be voted, in the absence of a contrary indication, in favor of the election of the 11 nominees named below for director. Although the Board of Directors has no reason to believe that any nominee will be unable to serve as a director, if that contingency should occur, it is intended that the shares represented by the proxies will be voted, in the absence of a contrary indication, for any substitute nominee designated by the Board of Directors, or that the Board of Directors will reduce the size of the Board accordingly.

For each nominee, there is presented background information as to his principal occupation and his other business and community affiliations. There is also presented a summary of his service as a director and the number of shares of Common Stock beneficially owned by him, including shares deemed to be owned beneficially by him under SEC regulations as of February 1, 1986; the number of shares, if any, deemed to be owned beneficially under said regulations is indicated parenthetically. All directors and executive officers as a group owned beneficially 341,943 shares of Common Stock (including 166,991 shares deemed to be owned beneficially by them under SEC regulations), aggregating approximately 1.8% of the outstanding Common Stock on that date.

Name and Age of Nominee
Principal Occupation and Background Information

Service as a Director
and Stock Ownership¹

Jack Breslin, 65. Mr. Breslin became Vice President for Administration and Public Affairs at Michigan State University in 1980. Prior to that date, he served the University as Executive Vice President, Vice President for Administration and State Relations, and Secretary of the Board of Trustees. He has also been a Professor of Administration at the University for more than 25 years. Mr. Breslin has been involved in numerous University and community activities. He is a director of Jackson National Life Insurance Company and the Bank of Lansing.

Director since 1975
Committee memberships:
Audit Committee (Chairman)
Executive Committee
Nominating Committee
Shares owned: 150

Donald F. Chamberlin, 49. Mr. Chamberlin has served as President of Asset Timing Corporation, Troy, Michigan, a registered investment adviser (financial and investment planning), since 1978. Prior thereto, he was at Kidder Peabody & Co. (investment banking). Mr. Chamberlin graduated from Michigan State University in 1958. Mr. Chamberlin serves as a trustee of three educational institutions and is president of two foundations.

Director since 1972
Committee memberships:
Audit Committee
Pension Review Committee
(Chairman)
Shares owned: 2,957

Frank P. Coyer, Jr., 66. Mr. Coyer, who serves as Vice Chairman of Fruehauf, retired as an employee of Fruehauf in 1985. Mr. Coyer became a director in 1973, served as Vice President from 1973 to 1974, as Vice President—Finance from 1974 to 1980, and as Executive Vice President—Finance from 1980 to 1981, when he assumed the office of Vice Chairman—Finance and Administration. Mr. Coyer is a graduate of the University of Illinois.

Director since 1973
Committee memberships:
Executive Committee
Nominating Committee
Pension Review Committee
Shares owned: 29,106² (2,499)

John P. Grace, 37. For more than the past five years, Mr. Grace has been President of John P. Grace Co., Fort Worth, Texas (real estate brokerage) and has been involved in the development of real estate in Texas. Mr. Grace serves on the Board of Directors of Texas Commerce Bank, Fort Worth, Texas. He graduated from the University of Houston in 1970.

Director since 1981
Committee memberships:
Compensation Committee
Contributions Committee
Incentive Compensation
Committee
Pension Review Committee
Shares owned: 3,063²

Russell G. Howell, 61. Mr. Howell was elected Executive Vice President—Financing Affairs of Fruehauf in 1980. He has served Fruehauf Finance Company in several capacities, including President from 1965-1980 and as Chairman of the Board since January 1981. Mr. Howell attended the University of Detroit. He is active in professional organizations.

Director since 1980
Committee membership:
Contributions Committee
Shares owned: 9,843 (9,438)

John C. McCabe, 62. Mr. McCabe was elected Chairman and Chief Executive Officer of Blue Cross and Blue Shield of Michigan (prepaid health care) in 1985, and for more than five years prior thereto, served as Chief Executive Officer and Chief Administrative Officer of that organization; he is also Chairman of the Board of Directors of the Blue Cross and Blue Shield Association. He serves as a director of several Detroit civic and charitable organizations. Mr. McCabe received his undergraduate degree from Manhattan College, and did graduate work at New York University and Columbia University.

Director since 1985
Committee Memberships:
Audit Committee
Compensation Committee
Incentive Compensation
Committee
Shares owned: 317

Thomas J. Reghanti, 61. Mr. Reghanti has been President and Chief Operating Officer of Fruehauf since 1981. Prior thereto, he served as Executive Vice President—Trailer Operations and President of Fruehauf Division since 1980. From 1974 to 1980, he was Vice President—General Manager of Fruehauf Division. Mr. Reghanti has also served as President of Fruehauf Canada Inc., a subsidiary of the Corporation, since 1979. He graduated from the University of Wisconsin in 1950. Mr. Reghanti is active in a number of trucking industry associations. Mr. Reghanti is expected to retire as President and Chief Operating Officer of Fruehauf on May 1.

Director since 1976
Committee Memberships:
Contributions Committee
Executive Committee
Shares owned: 23,993 (10,000)

Dean E. Richardson, 58. Mr. Richardson became Chairman of the Board of Manufacturers National Bank of Detroit and of Manufacturers National Corporation in 1973. He also serves as Chief Executive Officer of both of these corporations and as President of Manufacturers National Corporation. He is a director of Detroit Edison Company (electric utility), R. P. Scherer Corporation (pharmaceuticals) and Tecumseh Products Company (gasoline engines). Mr. Richardson received his undergraduate degree from Michigan State University in 1950 and his law degree from the University of Michigan in 1953. Mr. Richardson is active in many artistic, charitable and civic organizations.

Director since 1980
Committee memberships:
Audit Committee
Compensation Committee
(Chairman)
Executive Committee
Incentive Compensation
Committee (Chairman)
Shares owned: 1,500

Name and Age of Nominee
Principal Occupation and Background Information

Service as a Director
and Stock Ownership¹

Robert D. Rowan, 64. Mr. Rowan, who was appointed Chairman of the Board and Chief Executive Officer of the Corporation in 1981, joined Fruehauf in 1955. He was elected Vice President—Controller in 1963, Vice President—Finance in 1965, President and Chief Operating Officer in 1972 and President and Chief Executive Officer in 1974. Mr. Rowan is a graduate of Michigan State University, where he majored in business administration and accounting.

Director since 1970
Committee memberships:
Compensation Committee
Contributions Committee
Executive Committee (Chairman)
Nominating Committee
Shares owned: 75,359² (40.71%)

Francis J. Sehn, 67. Mr. Sehn is Chairman of Comau Productivity Systems Inc. (integrated manufacturing systems). He has also been Chief Executive Officer of the Fran Sehn Company, an international consulting service, since 1954. A registered professional engineer, Mr. Sehn is active in engineering societies here and abroad. He is a Life Fellow of The Institute of Production Engineers, and a member of the Institute of Directors, London, England. He is a director of several privately owned companies, a director of several hospitals and a trustee of St. Mary's College.

Director since 1980
Committee memberships:
Audit Committee
Executive Committee
Incentive Compensation Committee
Nominating Committee (Chairman)
Shares owned: 750

James S. Wilkerson, 65. Mr. Wilkerson, who retired in December 1984, served as Executive Vice President—Automotive Operations of Fruehauf since 1980 and during 1984 as Chairman of the Board and Chief Executive Officer of Kelsey-Hayes Company, a subsidiary of Fruehauf. He served as President of Kelsey-Hayes Company, from 1976 to 1983, and Chief Executive Officer of Kelsey-Hayes Company since 1977. From 1977 to 1980, he was also a Vice President of Fruehauf. Prior to 1976, he served as Vice President—Aerospace Group of Kelsey-Hayes Company. Mr. Wilkerson serves as a director of Marcom Telecommunications, Inc. (telecommunications). He graduated from Wittenberg University in 1942 and serves on its Board of Directors.

Director since 1977
Committee membership:
Compensation Committee
Contributions Committee
Executive Committee
Pension Review Committee
Shares owned: 12,000

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE NOMINEES NAMED ABOVE AS DIRECTORS (ITEM 1).

- (1) Based on information furnished by each officer or director. As of February 1, 1986, no officer or director owned any shares of the Corporation's \$2.00 Cumulative Convertible Preferred Stock which were not converted into Common Stock on or before March 7, 1986, or owned any of the Corporation's 5½% Convertible Subordinated Debentures due 1994. Pursuant to regulations of the SEC, shares receivable by directors and officers (a) upon exercise of stock options exercisable or (b) upon election to receive shares of Common Stock under the Stock Purchase (Savings) Plan with respect to Units payable within 60 days after February 1, 1986, are deemed to be beneficially owned by such directors and officers at said date.
- (2) Mr. Coyer also owns 4,200 shares of Kelsey-Hayes Canada Limited, a subsidiary of the Corporation's wholly-owned subsidiary, Kelsey-Hayes Company.
- (3) Mr. Rowan and Mr. Grace also respectively own 1,500 and 600 shares of Fruehauf Canada, Inc., a subsidiary of the Corporation.

**ITEM 2—RATIFICATION OF THE REAPPOINTMENT OF
INDEPENDENT PUBLIC ACCOUNTANTS**

Touche Ross & Co., independent public accountants for the Corporation, has been reappointed by the Board of Directors, upon the recommendation of the Audit Committee, to audit the financial statements of the Corporation for 1986. Touche Ross & Co. has served the Corporation in such capacity continuously since 1947.

If the selection of Touche Ross & Co. should not be ratified by the shareholders, or if, after such ratification, that firm should become unable or ineligible to serve, the Board of Directors will select another firm.

The Audit Committee of the Board of Directors approved in advance the audit services provided by Touche Ross & Co. for the year ended December 31, 1985.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO RATIFY THE REAPPOINTMENT OF TOUCHE ROSS & CO. (ITEM 2). The affirmative vote of the holders of a majority of the shares of Common Stock represented at the Annual Meeting is required for adoption of this proposal.

COMPENSATION OF EXECUTIVE OFFICERS

All cash compensation of each of the five most highly compensated executive officers of the Corporation for services in all capacities to the Corporation and its subsidiaries for the year ended December 31, 1985, and of all executive officers of the Corporation as a group is as follows:

(A) Name of individual or number in group	(B) Capacities in which served	(C) Cash compensation	
		C(1)	C(2)
		Base Salary	Bonuses
Robert D. Rowan	Chairman of the Board and Chief Executive Officer; Director of the Corporation	\$ 425,000	\$ 273,100
Frank P. Coyer, Jr.	Vice Chairman—Finance and Administration; Vice Chairman (after May 2, 1985); Director of the Corporation	\$ 260,000	\$ 167,100
Thomas J. Raghanti	President and Chief Operating Officer and Director of the Corporation	\$ 235,000	\$ 151,000
Arnold P. McIlwain	Executive Vice President—Maritime Operations of the Corporation and President and Chief Executive Officer of Jacksonville Shipyards, Inc.	\$ 190,000	\$ 122,100
Russell G. Howell	Executive Vice President—Financing Affairs; Director of the Corporation and Chairman of the Board of Fruehauf Finance Company	\$ 175,833	\$ 112,983
All executive officers as a group (28 persons, including those named above)		\$4,011,495	\$2,519,345

Pensions

Pensions for salaried personnel are provided through two retirement plans for salaried employees of Fruehauf and its subsidiaries. The following table shows the maximum annual amounts payable at age 65 under the present pension plan provisions, on a straight life annuity basis based on assumed final average earnings for various years of participation, as indicated.

Assumed Final Average Annual Base Salary	Years of Credited Service			
	10	20	30	35
\$175,000	\$26,250	\$ 52,500	\$ 78,750	\$ 91,875
200,000	30,000	60,000	90,000	105,000
225,000	33,750	67,500	101,250	118,250
250,000	37,500	75,000	112,500	131,250
275,000	41,250	82,500	123,750	144,375
300,000	45,000	90,000	135,000	157,500
350,000	52,500	105,000	157,500	183,750
375,000	56,250	112,500	168,750	196,875
400,000	60,000	120,000	180,000	210,000
425,000	63,750	127,500	191,250	223,125
450,000	67,500	135,000	202,500	236,250
475,000	71,250	142,500	213,750	249,375
500,000	75,000	150,000	225,000	262,500
525,000	78,750	157,500	236,250	275,625
550,000	82,500	165,000	247,500	288,750

Under provisions of the Internal Revenue Code of 1954, as amended, pensions in excess of \$90,000 per year to be paid under the Plan only to the extent that pension benefits had accrued under the Plan formula prior to January 1, 1984, limited to a maximum pension of \$136,425 per year. The Corporation has a Supplemental Pension Benefit Plan, which is a nonqualified unfunded plan, under which it will pay the difference, if any, between the amounts in the above table and the amount of pension which may be paid under the aforesaid provisions of the Internal Revenue Code.

The amounts shown in the above table will be reduced for Social Security benefits. For employees retiring in 1986 at age 65 with 10, 20 and 30 or more years of service, the reduction would be \$1,519, \$3,041 and \$4,560, respectively.

Remuneration covered by such plans generally comprises base salary (indicated in Column C(1) of the Cash Compensation Table on page 7), but excludes overtime, incentive compensation, and cost-of-living allowance payments. The plans provide that an employee's retirement benefit will be based on such employee's highest consecutive five years of salary out of the final ten years of his employment.

The individuals named in the Cash Compensation Table (the "Named Officers") other than Mr. Frank P. Coyer, Jr., who is retired, had the following number of whole years of credited service to the Corporation and its subsidiaries at December 31, 1985: Russell G. Howell, 33; Arnold P. McIlwain, 30; Thomas J. Reghanti, 30; and Robert D. Rowan, 26.

Incentive Compensation

The Incentive Compensation Plan of the Corporation (the "Incentive Plan"), which was adopted by the shareholders of the Corporation in 1956, and amended by the shareholders in 1968, provides for the award of incentive compensation from a cumulative reserve to officers and other employees of the Corporation and its subsidiaries other than Kelsey-Hayes Company ("Kelsey-Hayes"), which has a separate incentive compensation plan. The Corporation, under the terms of the Incentive Plan, may credit to such reserve, in each year, an amount, determined by the Corporation's independent public accountants up to a percentage of the Corporation's "earnings before taxes on income,"* as follows:

If the range of "return on shareholders' investment" is—	Then the maximum percentage of "earnings before taxes on income" credited to the Plan is—
Under 6%	None
6% but under 12%	2.00%
12% but under 16%	4.50%
16% but under 20%	6.75%
20% or more	9.00%

*As defined in the Incentive Plan.

In no event, however, may any amount be credited to the reserve, in any year, if the effect of the credit would be to reduce the return on shareholders' investment below 6%. Awards are paid in four annual installments.

Certain persons, who serve on the Policy Council of the Corporation may also receive an annual bonus (the "Policy Council Bonus"), payable in a lump sum, in addition to amounts payable under the Incentive Plan; among them are the Named Officers. Awards under the Policy Council Bonus are paid from the general funds of the Corporation.

Kelsey-Hayes has an incentive compensation plan (the "Kelsey-Hayes Incentive Plan") approved by Kelsey-Hayes' stockholders in 1952. Under this plan, there is credited to a reserve 8% of Kelsey-Hayes' earnings, as defined in the Plan, after deducting 10% of Stockholders' investment, as so defined. Awards are payable in four annual installments. The persons who serve on Kelsey-Hayes' Policy Council may receive an annual bonus (the "Kelsey-Hayes Policy Council Bonus"), fixed by the Board of Directors of the Corporation, payable in a lump sum, in addition to amounts payable under the Kelsey-Hayes Incentive Plan. Among such persons are Messrs. Frank P. Coyer, Jr., Thomas J. Reghanti, and Robert D. Rowan.

Under the above plans, the Incentive Compensation Committee has sole discretion to determine persons eligible to participate in the plans, awards and the total amount awarded to any person for each year.

Stock Options

In 1980 and 1984, the shareholders respectively approved the 1980 Stock Option Plan and 1984 Stock Option Plan of the Corporation (the "Plans"), which respectively provide for the grant of stock options for up to 1,125,000 and 1,500,000 shares of the Corporation's Common Stock to officers, key executives and professional personnel of the Corporation and its subsidiaries. The Plans also provide for the grant of stock appreciation rights to such persons in the form of General Rights and Limited Rights. On exercising a Right, the holder would receive for each share for which the Right is exercised an amount equal to the difference between the exercise price of the option to which the Right relates, and, in the case of a General Right, the fair market value per share on the date on which the General Right is exercised or, in the case of a Limited Right, the highest price per share paid in any tender or exchange offer which offer is in effect at any time during the 60 days prior to the exercise of the Limited Right. General Rights are exercisable to the extent that the options to which they relate are exercisable and Limited Rights are exercisable in the event of such tender or exchange offer. Rights are exercisable in tandem with exercisable options; that is, such options are reduced by the number of such Rights exercised.

The Plans provide that options may be exercisable in full or in cumulative installments not earlier than one year after the date of grant. No option may be granted at a per share exercise price of less than the fair market value per share on the date of grant of a share of the Corporation's Common Stock, and no adjustment may be made in the exercise price, except with respect to stock dividends, splits and combinations, certain mergers and transfers of assets, and similar events. No option may be exercisable more than 10 years after its date of grant.

The following table sets forth information for 1985 respecting options and Rights held by the Named Officers and all executive officers as a group:

	Robert D. Rowan	Frank P. Coyer, Jr.	Thomas J. Reghanti	Russel G. Howell	Arnold P. McIlwan	All Executive Officers as a Group
Granted 1-1-85 to 12-31-85:						
Number of options in tandem with Rights	—	—	—	—	—	18,000
Exercised 1-1-85 to 12-31-85:						
Options and Rights Exercised—Net value realized in shares (market value less exercise price) or cash	—	\$125,157	\$ 55,002	\$ 40,580	\$130,613	\$ 681,861
Sales 1-1-85 to 12-31-85 (number of shares):	—	12,750	—	—	—	32,922
Outstanding at 12-31-85:						
Number of options(1)	80,710	—	30,000	22,500	38,356	484,571
Potential (unrealized) value (market value less exercise price)(2)	\$566,212	\$ —	\$142,500	\$106,875	\$275,710	\$2,598,513

- (1) General Rights outstanding on December 31, 1985, which were exercisable in tandem with options, had the same potential value.
- (2) The calculation of the potential value is based on a closing price for Fruehauf Common Stock of \$25.25 per share on December 31, 1985, as quoted on the New York Stock Exchange consolidated tape.

During 1985, employees other than executive officers were granted options without Rights for a total of 86,725 shares of Common Stock.

Stock Purchase (Savings) Plan

Under the Stock Purchase (Savings) Plan of the Corporation, adopted in 1971 and approved by shareholders in 1972, any eligible salaried employee of the Corporation and certain of its subsidiaries may under certain conditions defer compensation (in lieu of current payment in cash) for payment at a future time. The deferred compensation is credited to an account measured in Units, each of which Units is acquired by the employee for the current market price of a share of Common Stock. Each Unit accrues a return which is equivalent to the dividend paid on one share of Common Stock ("Dividend Equivalent"). The compensation ultimately paid, as to each Unit, will be the greater of the amount for which the employee purchased the Unit or the value of the Unit measured by the market value at time of payment of one share of Common Stock. A participant may elect, as to any Unit, to receive one share (as adjusted for any stock split after acquisition of the Unit) of Common Stock.

The following table indicates, with respect to executive officers, the following information as to Units held by them: (i) the number of Units purchased by them during 1985 and the average per Unit purchase price, (ii) the net value realized for any Units paid in shares or cash during 1985, (iii) the number of such Units outstanding as of December 31, 1985, and the potential (unrealized) value of such Units (market value less purchase price), and (iv) Dividend Equivalents paid during 1985:

	Robert D. Rowan	Frank P. Coyne, Jr.	Thomas J. Reghanti	Russell G. Howell	Arnold P. McPhawn	All Executive Officers as a Group
Purchased during 1985:						
Number of Units(1)	4,557	7,157	—	—	66	40,631
Average price per Unit	\$23.32	\$23.72	—	—	\$23.89	\$23.72
Units paid (realized) during 1985:						
Net value realized in shares (market value) or cash	\$ 16,071.61	\$ 6,357.92	—	\$ 11,990.06	\$ 15,052.32	\$163,074.73
Outstanding at December 31, 1985:						
Number of Units (1)	12,696	9,709	—	16,342.5	13,918.5	166,469
Potential (unrealized) value (market value less purchase price)(2)	\$ 21,242.63	\$ 17,305.48	—	\$106,050.13	\$120,081.02	\$935,113.13
Dividend Equivalents paid during 1985	\$ 6,058.99	\$ 4,309.58	—	\$ 9,789.53	\$ 8,113.83	\$ 88,572.28

- (1) None of such Units was payable on December 31, 1985.
- (2) Based on a closing price for Fruehauf Common Stock of \$25.25 per share on December 31, 1985, as quoted on the New York Stock Exchange consolidated tape.

Indebtedness

The 1980 Stock Option Plan and the 1984 Stock Option Plan provide that all participants therein may finance 100% of the exercise price of the options held by them to purchase shares upon exercise of such options. During 1985, the notes of interest applicable to such financing were 6% per annum for nonqualified stock options and 9.2% per annum for incentive stock options. These financings are required to be repaid over 10 years with equal payments of principal in each year, together with accrued interest. The Corporation has financed many purchases under the Stock Option Plans, several of which purchases were made by executive officers as follows:

Name	Maximum Indebtedness Since January 1, 1985	Indebtedness at February 28, 1986
James Barber	\$102,500	\$102,500
T. Neal Combs	\$ 60,598	\$ 52,546
Frank P. Coyer, Jr.(1)	\$260,968	\$252,869
Howard O. Emorey	\$116,392	\$105,016
Edward J. Hayes	\$140,000	—
Joseph Mack II	\$ 98,000	\$ 89,250
George Malley	\$104,990	\$ 33,353
Thomas J. Reghanti	\$107,982	\$ 95,985
Joseph Silk	\$ 70,875	—
Adolph T. Silverstein	\$ 70,020	\$ 70,020
James S. Wilkerson(1)	\$ 80,703	\$ 69,174

(1) Indebtedness incurred prior to retirement as an officer of the Corporation.

Termination of Employment

During 1985, the Board of Directors determined that it would be in the best interest of the Corporation and its shareholders to enter into agreements with each of the executives who are officers of the Corporation (except assistant officers) or who serve on the Policy Councils of Fruehauf, Fruehauf Division or Kelsey-Hayes. Under these agreements, which replaced existing termination agreements, each executive has agreed to remain in the employ of the Corporation for a period of 6 months following a potential change in control of the Corporation (as defined in the agreements). The agreements also provide that, upon the actual or constructive termination of the employment of an executive following a "change in control of the Company" (as defined), unless such termination be by reason of death or Retirement or for Cause or Disability, the executive will immediately receive: (a) salary then due; (b) deferred portions of bonus and incentive compensation awards; and (c) in lieu of any future salary payments, an amount equal to 2.99 times the average annual compensation (as defined) of the employee paid to him by the Corporation and includable in his gross income. The executive will also receive an additional lump sum payment to the extent that the present actuarial value of his future benefits under the Corporation's (or a subsidiary's) pension plan if the executive were fully vested with such plan on his termination date exceeds the present actuarial value of the benefits to which he is actually then entitled; the Corporation has agreed to pay certain excise taxes which may be due because of payment of such amounts. The agreements are for a term ending on December 31, 1987, but automatically are renewed, prior to a change in control of the Company, for successive one-year terms unless terminated as provided in the Agreements; after a change in control of the Company, the agreements extend for a further three year term after their respective next anniversary dates.

The agreements confer no benefits prior to a change of control of the Company.

In the event of termination of employment on account of layoff or inability to perform assigned duties satisfactorily, all regular salaried employees of Fruehauf, including executive officers, are entitled to receive a separation allowance of up to 10 weeks' base salary, depending on length of service to the Corporation, and all regular salaried employees of Kelsey, including executive officers, are entitled to receive up to six months' base salary, depending on length of service to Kelsey. In such event, Mr. Robert D. Rowan would be entitled to receive a separation allowance of \$72,000.

Additional Information

The Corporation maintains banking relationships in the ordinary course of business with numerous banks, including Manufacturers National Bank of Detroit ("Manufacturers"), of which Mr. Richardson is Chairman of the Board and Chief Executive Officer. Manufacturers participates in the Corporation's \$177 million joint open lines of credit available to either the Corporation or its wholly owned subsidiary, Fruehauf Finance Company, in the amount of \$8 million.

In 1985, the Corporation entered into a Revolving Credit and Term Loan Agreement, dated as of September 30, 1985, with 23 banks, including Manufacturers, under which the Corporation may borrow up to

\$150 million from all of the banks, including \$6 million from Manufacturers. Fruehauf Finance Company, a wholly owned subsidiary of Fruehauf, also entered into a Revolving Credit and Term Loan Agreement, dated as of September 30, 1985, with the same banks, under which it may borrow up to \$100 million from all of the banks, including \$4 million from Manufacturers. Each agreement provides for a revolving credit facility which terminates on August 31, 1988 and permits the amount outstanding upon such termination to be repaid under a term loan facility in 16 quarterly equal installments, the last of which would be due August 31, 1992. Under each agreement, borrowings may be made, at the option of the borrower, at variable rates. Each agreement provides for payment of a commitment fee on the unused portion of the revolving credit equal to $\frac{3}{8}\%$ of such unused portion. Each of these agreements replaced a similar agreement of substantially the same terms, except that the new agreements provided for lower borrowing costs. Under these agreements, Fruehauf and Fruehauf Finance Company were indebted to Manufacturers in the maximum respective amounts of \$2.4 million and \$2.0 million during 1985. Fruehauf Finance Company had during 1985 short term borrowings of up to approximately \$43 million under a master note agreement with the trust department of Manufacturers.

The Corporation has a \$3 million line of credit with Texas Commerce Bank—Houston, in respect of which line of credit the Corporation maintains a compensating balance. Mr. John P. Grace is a director of Texas Commerce Bank of Fort Worth, which is owned by the same bank holding company as Texas Commerce Bank—Houston.

On January 1, 1986, Kelsey-Hayes and Mr. Frank P. Coyer, who retired as an employee of Fruehauf in 1985, entered into a consulting agreement with an initial term of one year and provision for extension from year to year. Under this agreement, Mr. Coyer is to act as a general advisor and consultant to Kelsey-Hayes' management on all matters pertaining to Kelsey-Hayes' business and is to refrain from competing, or assisting others in competing, with Kelsey-Hayes. The agreement contains no limit upon the amount of time Mr. Coyer is to expend thereunder. Mr. Coyer is being paid \$50,000 per year, but payment is deferred until January 15 in the fifth year after the year in respect of which it is to be paid; each payment deferred will bear simple interest at the rate of 10% per annum, commencing the first year after the year in respect of which it is to be paid. Under this Agreement, Kelsey-Hayes is also furnishing Mr. Coyer with the use of a car, is providing certain insurance coverages and has agreed to pay certain other expenses.

During 1985, Kelsey-Hayes paid to Blue Cross and Blue Shield of Michigan, of which Mr. John C. McCabe is Chief Executive Officer and Chief Administrative Officer, and its affiliates, approximately \$1.5 million for administrative services and certain premiums in connection with health care plans of Kelsey-Hayes and its subsidiaries, it is estimated that approximately \$1.7 million will be paid by Kelsey-Hayes and its subsidiaries for these services and premiums in 1986.

Under a plan adopted by the Corporation in 1985, directors are permitted to defer all or a portion of the compensation received by them as directors and to receive interest at the Citibank, N.A., base rate (adjusted annually) on the amounts deferred. The amounts so deferred include interest received.

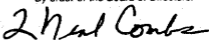
MISCELLANEOUS MATTERS

At the Annual Meeting of Shareholders, in addition to the matters described above, there will be an address by the Chairman of the Board and a general discussion period during which shareholders will have an opportunity to ask questions about the business and operations of Fruehauf.

The cost of soliciting proxies will be borne by the Corporation. Such cost will include charges by brokers and other custodians, nominees and fiduciaries for forwarding proxies and other proxy material to the beneficial holders of Common Stock. Solicitation may also be made personally or by telephone, telegraph and other communication devices, by directors, officers and full-time employees of the Corporation without additional compensation. In addition, the Corporation has retained Georgeson & Co., Wall Street Plaza, New York, New York 10005 to assist in the solicitation of proxies from brokers, bank nominees and other institutional holders for a fee of up to \$12,500 plus expenses.

As of the date hereof, the Board of Directors has no knowledge of any business which will be presented for consideration at the meeting other than that described above. As to other business, if any, that may come before the meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

By order of the Board of Directors.



T. Neal Combs
Secretary

Dated: March 26, 1986

SHAREHOLDERS ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD(S) PROMPTLY IN THE SELF-ADDRESSED ENVELOPE (WHICH IS POSTAGE-PAID FOR SHAREHOLDERS IN THE UNITED STATES), WHETHER OR NOT THEY EXPECT TO ATTEND THE MEETING. A SHAREHOLDER MAY NEVERTHELESS VOTE IN PERSON IF HE DOES ATTEND.