

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

FANSTEEL INC., *et al.*,¹
Debtors.

Chapter 11

Case No. 02-10109(JJF)
(Jointly Administered)

Objection Deadline: February 5, 2002 at 4:00 p.m.
Hearing Date: February 7, 2002 at 4:30 p.m.

40-7580

**NOTICE OF FINAL HEARING ON EMERGENCY MOTION OF DEBTORS AND
DEBTORS IN POSSESSION FOR ENTRY OF INTERIM AND FINAL ORDERS
(A) AUTHORIZING SECURED AND PRIORITY FINANCING PURSUANT TO
BANKRUPTCY CODE SECTION 364(C) AND RULE 4001 OF THE FEDERAL RULES
OF BANKRUPTCY PROCEDURE, AND (B) GRANTING RELATED RELIEF**

TO: Parties required to receive notice pursuant to Del. Bankr. LR 2002-1.

On January 15, 2002, the above-captioned debtors and debtors in possession (collectively, the "Debtors") filed the Emergency Motion of Debtors and Debtors in Possession for Entry of Interim and Final Orders (a) Authorizing Secured and Priority Financing Pursuant to Bankruptcy Code Section 364(c) and Rule 4001 of the Federal Rules of Bankruptcy Procedure, and (b) Granting Related Relief (the "Motion") with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801 (the "Bankruptcy Court"), seeking debtor in possession financing in order to maintain Debtors' going concern value and continue the necessary business operations. True and correct copies of the Motion and the revised Debtors in Possession Credit and Security Agreement are included herewith.

On January 17, 2002, the Bankruptcy Court entered an order approving the Motion (the "Interim Order"). A copy of the Interim Order is included

¹ The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.
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Nm5501 Add: Rids Ogc Mail Center

herewith.² A copy of the proposed order granting final approval of the Motion may be obtained by contacting Debtors' counsel at the address below.

Objections and other responses to final approval of the Motion, if any, must be in writing and be filed with the Bankruptcy Court, and served on (i) counsel for the Debtors: Jeffrey S. Sabin, Esquire, Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, New York, 10022; and Laura Davis Jones, Esquire, Pachulski, Stang, Ziehl, Young & Jones P.C., 919 North Market Street, Suite 1600, P.O. Box 8705, Wilmington, Delaware 19899-8705; (ii) the Office of the United States Trustee, David Buckbinder, Esquire, J. Caleb Boggs Federal Building, 844 King Street, Suite 2313, Lock Box 35, Wilmington, Delaware 19801; (iii) counsel to the Official Committee of Unsecured Creditors (if any); and (iv) counsel for the postpetition lenders: Jeffrey N. Rich, Esquire, Kirkpatrick & Lockhart LLP, 1251 Avenue of the Americas, New York, New York 10022, on or before February 5, 2002 at 4:00 p.m. Eastern Daylight Time.

IF NO OBJECTIONS ARE TIMELY FILED AND SERVED IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF DEMANDED BY THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

² The Interim Order states that the hearing will be held on February 7, 2002 at 5:00 p.m. The hearing time has changed to February 7, 2002 at 4:30 p.m.

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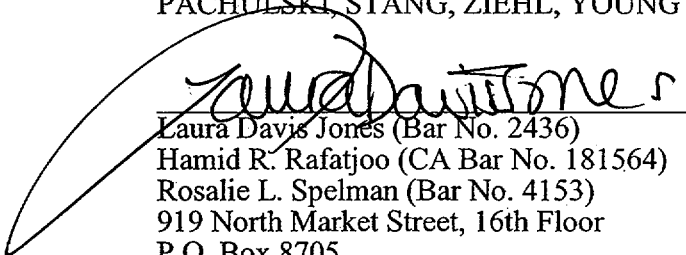
A HEARING ON THE MOTION WILL BE HELD BEFORE THE
HONORABLE JOSEPH J. FARNAN, UNITED STATES DISTRICT COURT JUDGE, ON
FEBRUARY 7, 2002, AT 4:30 P.M. EASTERN TIME, AT THE UNITED STATES DISTRICT
COURT FOR THE DISTRICT OF DELAWARE, 844 N. KING STREET, 6TH FLOOR,
COURTROOM 6A, WILMINGTON, DELAWARE.

Dated: January 22, 2002

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[Proposed] Counsel for Debtors and Debtors In
Possession

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re) Chapter 11
)
FANSTEEL INC., et al.,¹) Case No. 02-____ ()
) (Jointly Administered)
)
Debtors.)

**EMERGENCY MOTION OF DEBTORS
AND DEBTORS IN POSSESSION FOR ENTRY
OF INTERIM AND FINAL ORDERS (A) AUTHORIZING
SECURED AND PRIORITY FINANCING PURSUANT TO BANKRUPTCY
CODE SECTIONS 364(c) AND RULE 4001 OF THE FEDERAL
RULES OF BANKRUPTCY PROCEDURE, AND (B) GRANTING RELATED RELIEF**

The above-captioned debtors and debtors in possession (collectively, the "Debtors") hereby move the Court, pursuant to Sections 105, 503(b), 507, 362, 363 and 364 of title 11 of the United States Code (the "Bankruptcy Code"), and Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), for the entry of interim and final orders (a) authorizing secured and priority financing (the "DIP Financing") to be provided by HBD Industries, Inc. (the "Lender"), pursuant to Bankruptcy Code Sections 364(c) and Rule 4001 of the Federal Rules of Bankruptcy Procedure, and (b) granting related relief (the "Motion"). The Lender is controlled by Edward P. Evans, Robert S. Evans and Thomas D. Evans, Jr., who are directors and collectively own 46% of the outstanding equity of Fansteel Inc.

A copy of the Interim Order which Debtors seek to have entered upon the conclusion of the

¹ The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

Interim Hearing is attached hereto as Exhibit A. The form of DIP Financing credit agreement (the "DIP Credit Agreement") is attached hereto as Exhibit B. In further support of this Motion, Debtors respectfully represent as follows:²

Jurisdiction

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding under 28 U.S.C. §§ 157(b)(2)(A), (D), (G), (K), (M), and (O).

2. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory predicates for the relief requested herein are Bankruptcy Code sections 105, 361, 362, 363, 364, 503(b), and 507 and Bankruptcy Rules 2002, 4001 and 9014.

Background

4. Fansteel and the other eight Debtors (each a direct or indirect wholly-owned subsidiary of Fansteel) have been engaged for over 70 years in the business of manufacturing and marketing specialty metal products with today's operations being conducted at ten manufacturing facilities (five of which are owned by Fansteel) in nine states. Collectively, Debtors have approximately 1,250 employees, substantially all on a full time basis, including approximately 365 employees that are working under collective bargaining agreements with four

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in the DIP Credit Agreement and Affidavit of Gary L. Tessitore, the President and Chief Executive Officer of Fansteel Inc., in Support of First Day Motions (the "Tessitore Affidavit"), filed contemporaneously herewith, which are incorporated herein by reference.

different unions. Each Debtor is operated separately, with separate employees, separate operations and separately maintained books and records.

A. Pre-Petition Unsecured Lenders

5. Prior to the Petition Date, The Northern Trust Company ("NTC"), as agent for itself and M&I Bank ("M&I"), had extended to Fansteel a \$30 million unsecured revolving facility (the "Pre-Petition Credit Facility"), which provided for up to \$20 million in revolving advances for working capital and up to \$10 million in letters of credit. Fansteel is the only borrower under the Pre-Petition Credit Facility and none of the other Debtors has any obligations thereunder; however, under the Pre-Petition Credit Facility, Fansteel agreed not to permit any of its direct or indirect subsidiaries (including all of the other Debtors) to incur indebtedness or to pledge any of their assets, subject to certain exceptions. As of the Petition Date, there was approximately \$8.5 million outstanding under the Pre-Petition Credit Facility in addition to \$6.5 million in outstanding letters of credit, which includes a \$3.7 million letter of credit in favor of the NRC.³

B. Causes Leading to the Bankruptcy Filings

6. The operations of Debtors' respective businesses have involved compliance with state and federal environmental laws, including the Atomic Energy Act. The Debtors' bankruptcy cases are an outgrowth of the discontinuation of one of Fansteel's operations that was conducted from the 1950s through 1989 at a site owned and operated by Fansteel in Muskogee, Oklahoma (the "Muskogee Site"). At the Muskogee Site, Fansteel, in accordance

³ There is a second letter of credit in favor of the NRC in the amount of approximately \$750,000, which is not issued pursuant to the Pre-Petition Credit Facility.

with a license obtained from the U.S. Nuclear Regulatory Commission (the "NRC") in 1967, processed tantalum ore for further processing at Fansteel's plant in North Chicago. Tantalum naturally occurs with other metals, including uranium and thorium, each of which is radioactive, and the processing of tantalum results in, among other things, radioactive residues and soils. Fansteel, in accordance with applicable regulations promulgated by the NRC, is required, upon discontinuance of its business to remediate these residues and soils.

7. In 1989, Fansteel discontinued its operations at the Muskogee Site. Notwithstanding such discontinuation, Fansteel has remained at all times in compliance with its NRC license, and has maintained the Muskogee Site in a manner that protects the health and safety of its employees and the public. Following its discontinuation of operations at the Muskogee Site, Fansteel developed a method to reprocess the residues at the Muskogee Site and to remediate the contaminated soils, and obtained the approval of the NRC for various aspects of such reprocessing and remediation. Unfortunately, due to operational problems in the plant and the significant decline in the price of tantalum during the second and third quarters of 2001, operation of the reprocessing facility was determined to be uneconomic, requiring Fansteel, as a matter of generally accepted accounting principals, in its financial statements for the quarter ended September 30, 2001, to write off the costs that Fansteel had expended in designing and building the reprocessing plant (approximately \$32 million), and to take an immediate reserve for the reasonably anticipated costs of remediating the radioactive residues and soils that remain on the Muskogee Site without regard to any reprocessing (an approximately \$57 million reserve).

8. Fansteel's plight was further aggravated by the actions of NTC and M&I.

In mid October 2001, Fansteel promptly informed NTC of the prospective write-off and reserve required with respect to the Muskogee Site, and requested waivers of any events of default arising under the Pre-Petition Credit Facility as a result thereof, as well as an amendment of the loan documents governing the Pre-Petition Credit Facility in order either to allow Fansteel sufficient additional availability under the Pre-Petition Credit Facility or to allow Fansteel's subsidiaries to borrow funds on a secured basis which, in either case, would have provided the Debtors with sufficient liquidity to avoid a bankruptcy filing. However, NTC refused these requests and, on November 19, 2001, accelerated the Pre-Petition Credit Facility, froze all of the Debtors' accounts that were maintained at NTC and M&I and set-off amounts owed under the Pre-Petition Credit Facility against those accounts. As a result of the freeze and such set-off, the Debtors no longer had access to the funds necessary to operate their respective businesses and a bankruptcy filing became inevitable.

Relief Requested

9. As a result of arms-length, good faith negotiations between the parties, Lender has agreed to provide debtor in possession financing to Debtors on certain terms and conditions ("DIP Financing"). Pursuant to Section 364 of the Bankruptcy Code, Debtors need Court approval of such financing. An urgent need exists for Debtors to obtain funds to meet payroll and other employee-related obligations, purchase inventory, pay vendors and otherwise maintain operations as a going concern. Without the proposed financing, Debtors will be unable to continue business operations for any extended period, leading to a total shutdown of Debtors'

operations. Absent the relief proposed by this Motion, Debtors' ability to maximize the value of their respective estates for the benefit of their creditors will be irreparably jeopardized.

A. Overview of the Financing Arrangement and Related Relief

10. Certain aspects of the proposed DIP Financing are summarized below⁴:

Borrower/Guarantors:	Debtors, jointly and severally.
Term:	Earlier of 70 days after closing or closing of sale of accounts receivable pursuant to an Order requested by the Debtors' Motion for Order (A) Scheduling A Hearing On the Proposed Sale of Accounts Receivable Free Adverse Claims; (B) Approving Auction and Bidding Procedures; and (C) Approving Termination Fee (the "Sale Motion").
Maximum Loan Amount:	\$3,000,000.
Availability/Formulas:	Term loan. Up to \$500,000 available upon entry of the Interim Order.
Interest Rate:	Prime rate plus 1.5% (non-default rate).
Security Interest:	First priority lien on all accounts and inventory and proceeds thereof. The Lenders also shall be granted a superpriority claim under Bankruptcy Code § 364(c)(1) having priority over any and all administrative expenses of the kind specified by Bankruptcy Code §§ 503(b), 507(a)(1) and 507(b), and any other superpriority claims.
Carve-Out:	U.S. Trustee's fees and court costs only.
Facility Fees:	None.
Events of Default:	Set forth in agreement. Includes conversion to chapter 7 or appointment of trustee or examiner with expanded powers or any application therefore; and includes certain adverse actions by government under environmental laws.
Miscellaneous:	Prepayment permitted at any time without penalty.

B. Legal Authority

11. Section 364(c) of the Bankruptcy Code provides, in pertinent part, that:

(c) If the trustee is unable to obtain unsecured credit allowable under section 503(b)(1) of this title as an administrative expense, the court, after notice and a hearing, may authorize the obtaining of credit or the incurring of debt –

(1) with priority over any or all administrative expenses of the kind specified in section 503(b) or 507(b) of this title;

⁴ All capitalized terms not defined herein have the meaning ascribed to them in the proposed Interim Order or DIP Credit Agreement. The summary of the DIP Financing provided herein is a summary only. Parties-in-interest should review in their entirety the Interim Order and DIP Credit Agreement. In the event that there is any inconsistency between the summary provided herein and the terms of the Interim Order and/or DIP Credit Agreement, the terms of those specific documents shall control.

(2) secured by a lien on property of the estate that is not otherwise subject to a lien; or

(3) secured by a junior lien on property of the estate that is subject to a lien.

11. U.S.C. § 364(c) (2001).

C. Debtors Were Unable to Obtain Credit on More Favorable Terms

12. In satisfying the standards of Sections 364(c) of the Bankruptcy Code, a debtor need not seek credit from every available source, but should make a reasonable effort to seek other sources of credit available of the type set forth in Sections 364(a) and (b). See, e.g., *In re Snowshoe Co.*, 789 F.2d 1085, 1088 (4th Cir. 1986) (trustee had demonstrated by good faith effort that credit was not available without senior lien by unsuccessfully contacting other financial institutions in immediate geographic area; “the statute imposes no duty to seek credit from every possible lender before concluding that such credit is unavailable”); *In re Ames Dep’t Stores, Inc.*, 115 B.R. 34, 40 (Bankr. S.D.N.Y. 1990) (finding that debtors demonstrated the unavailability of unsecured financing where debtors approached several lending institutions).

13. Debtors have not been able to obtain post-petition financing on an unsecured basis pursuant to Section 364(a) or (b) of the Bankruptcy Code.

14. Pursuant to Section 364(c) of the Bankruptcy Code, a debtor may, in the exercise of its business judgment, incur secured debt if the debtor has been unable to obtain unsecured credit and the borrowing is in the best interests of the estate. See, e.g., *In re Simasko Prod. Co.*, 47 B.R. 444, 448-9 (D. Colo. 1985) (authorizing interim financing agreement where debtor’s best business judgment indicated financing was necessary and reasonable for benefit of estate); *In re Ames Dep’t Stores*, 115 B.R. 34, 38 (Bankr. S.D.N.Y. 1990) (with respect to post-

petition credit, courts "permit Debtor in possession to exercise their basic business judgment consistent with their fiduciary duties."). See also 3 Collier on Bankruptcy ¶ 364.03, at 364-7-18 (15th ed. rev. 1999).

15. Debtors satisfy the requirements of Sections 364(c) of the Bankruptcy Code because, as set forth in the Tessitore Affidavit, Debtors are unable to obtain credit otherwise. Additionally, in light of Debtors' need for immediate and short-term financing, the costs associated with obtaining a loan from an institutional lender would far exceed any benefit which such financing would provide to Debtors above and beyond the proposed financing from the Lender.⁵ In fact, Debtors believe that the terms of the proposed financing from the Lender represents the best terms available to Debtors.

D. Protections Under Bankruptcy Code § 364(e)

16. While the persons who control Lender are members of Debtors' board of directors (the Lender is controlled by Edward P. Evans, Robert S. Evans, and Thomas D. Evans, Jr., who are directors and collectively own 46% of the outstanding equity of Fansteel Inc.), the terms of the proposed DIP Financing do not inure to their benefit. In fact, the terms of the proposed financing are more beneficial to Debtors' estates than the terms of any potential loan from an institutional lender.

17. Debtors believe that the terms and conditions of the DIP Financing are fair and reasonable under the circumstances of these cases, and were negotiated in good faith and at

⁵ Concurrently herewith, Debtors have filed the Sale Motion to establish bidding procedures for the sale of their accounts receivable. Debtors will use the proceeds from the sale of their accounts receivable in order to pay-off the short-term financing obtained through this Motion and to finance Debtors' on-going business operations during the pendency of these chapter 11 cases.

arm's length, with all parties represented by experienced counsel. Accordingly, the Lender should be provided with the benefit and protection of Section 364(e) of the Bankruptcy Code, such that if any of the provisions of the DIP Financing are later modified, vacated, stayed or terminated by subsequent order of this or any other Court, the Lender shall be fully protected with respect to any amounts previously disbursed.

E. Need for Immediate Borrowings to Avoid Irreparable Harm

18. Pursuant to Bankruptcy Rule 4001(c)(2), a minimum of fifteen (15) days' notice is required before a final hearing on this Motion may commence. However, such Rule provides that the Court "may conduct a hearing before such 15 day period expires, but may authorize the obtaining of credit only to the extent necessary to avoid immediate and irreparable harm to the estate pending a final hearing." Fed. R. Bankr. P. 4001 (c)(2).

19. It is essential to the continued operation of Debtors' business that they be authorized by this Court to obtain interim financing as requested pending this final hearing on this Motion. Specifically, pursuant to the proposed Interim Order, Debtors would be permitted to borrow post-petition on an interim basis from the Lender up to \$500,000 pending a final hearing. Without the requested DIP Financing, Debtors have inadequate funds with which to operate their businesses, pay their employees, purchase inventory, and preserve their assets. Funds are needed to meet Debtors' working capital and other liquidity needs, and to prosecute their chapter 11 cases in an orderly manner. In the absence of immediate post-petition financing, Debtors' ability to reorganize and preserve the going concern value of their businesses and assets would be immediately and irreparably harmed.

20. Accordingly, Debtors respectfully request that, pending a final hearing on this Motion, the terms and provisions of the DIP Financing be implemented and approved on an emergency interim basis, to the extent of authorizing Debtors to obtain interim post-petition financing as provided for in the proposed Interim Order.

Notice

A. Notice of Interim Financing Request

21. Debtors submit that the exigencies of their chapter 11 cases and Debtors' immediate need for funds do not permit broad notice of Debtors' request for emergency interim financing under this Motion. Therefore, Debtors respectfully request that the Court deem adequate and sufficient the written notice of the Motion and interim hearing (served via facsimile, overnight mail or courier service) on (i) the Office of the United States Trustee; (ii) counsel for the Lender; (iii) each of the Debtors' twenty largest unsecured creditors; (iv) the Nuclear Regulatory Commission; and (v) the Securities and Exchange Commission.

B. Notice With Respect to Final Financing Order

22. Pursuant to Bankruptcy Rule 4001, Debtors respectfully request that they be authorized to provide notice of the final hearing on this Motion by serving a copy of the Motion, together with all exhibits thereto (unless previously served) and the Interim Order, by overnight mail or courier service, upon (i) the Office of the United States Trustee; (ii) counsel for the Lender; (iii) each of the Debtors' twenty largest unsecured creditors; (iv) the Nuclear Regulatory Commission; (v) the Securities and Exchange Commission; (vi) counsel to any official committee(s) which may be appointed; and (vii) all parties who have entered their

appearance pursuant to Bankruptcy Rule 2002. The cost of mailing a notice to all creditors in these chapter 11 cases would be exceedingly expensive, and would not, in Debtors' view, confer any material benefit on Debtors, their estates or their creditors. Accordingly, and in light of the urgency of the relief requested, Debtors respectfully request that any further notice of the Final Hearing, and of the relief requested herein, other than as expressly provided for in this Motion, be dispensed with and waived.

WHEREFORE, Debtors respectfully request that the Court enter the Interim Order, substantially in the form attached hereto: (i) approving and authorizing the DIP Financing on an interim basis, (ii) granting the rights to Lender contained therein, (iii) establishing the procedures

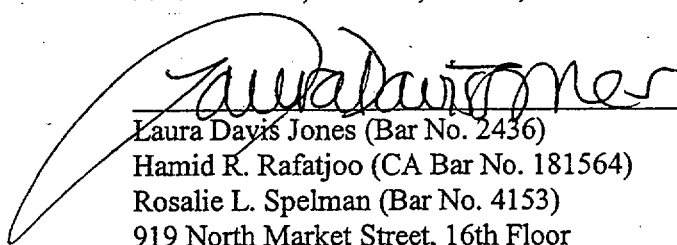
and noticing requirements in respect of the final hearing on the Motion, (iv) authorizing borrowing on a secured basis consistent with the DIP Credit Agreement and (v) granting such other and further relief as the Court may deem proper.

Dated: January 15, 2002

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[Proposed] Counsel for Fansteel Inc., et al.
Debtors and Debtors In Possession

DEBTOR-IN-POSSESSION CREDIT AND SECURITY AGREEMENT

Among

FANSTEEL INC.

**a Debtor and a Debtor-in-Possession under Chapter 11 of the Bankruptcy Code
("Fansteel")**

and

**THE SUBSIDIARIES OF FANSTEEL NAMED HEREIN,
each a Debtor and a Debtor-in-Possession under Chapter 11 of the Bankruptcy Code**

as Borrowers

and

HBD INDUSTRIES, INC.

as Lender

Dated as of January 14, 2002

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DEBTOR-IN-POSSESSION CREDIT AND SECURITY AGREEMENT

Dated as of January 14, 2002

DEBTOR-IN-POSSESSION CREDIT AND SECURITY AGREEMENT, dated as of January 14, 2002, among Fansteel Inc., a Delaware corporation ("Fansteel"), a debtor and debtor-in-possession under Title 11 of the United States Code (the "Bankruptcy Code") and each of its direct and indirect subsidiaries other than those listed on Schedule I hereto, each a debtor and debtor-in-possession (collectively, and together with Fansteel, the "Borrowers") in cases pending under chapter 11 of the Bankruptcy Code (each a "Case" and collectively, the "Cases"), and HBD Industries, Inc., a Delaware corporation (the "Lender").

INTRODUCTORY STATEMENT

On January 14, 2002, the Borrowers filed voluntary petitions with the Bankruptcy Court (as defined below) initiating the Cases and have continued in the possession of their assets and in the management of their business pursuant to sections 1107 and 1108 of the Bankruptcy Code.

The Borrowers have requested that the Lender provide the Borrowers, as debtors-in-possession, with loans in an aggregate principal amount not to exceed Three Million (\$3,000,000) Dollars to finance the Borrowers' working capital needs and other general corporate purposes.

As set forth herein, subject to entry of orders satisfactory to the Lender by the Court having jurisdiction over the respective chapter 11 cases of Borrowers, the Lender is willing to make the Loans (as defined below) available to the Borrowers.

Accordingly, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS

SECTION 1.01 Defined Terms.

As used in this Agreement, the following terms shall have the meanings specified below:

"Accounts" shall have the meaning given to it in the UCC and shall include, whether or not so included in such meaning, (i) all accounts created by or arising from the Borrowers' sales of inventory or rendition of services to their customers, and (ii) all accounts arising from sales, rendition of services made under the Borrowers' trade names or styles, whether or not presently in effect, or replevin, reclamation and stoppage in transit relating to any or all of the foregoing or arising therefrom through any of the Borrowers' divisions or otherwise; (iii) unpaid seller's rights (including rescission); (iv) rights of the Borrowers to payment for inventory sold or leased; (v) rights to any inventory represented by an account, including rights

to returned or repossessed inventory; (vi) reserves and credit balances arising hereunder; (vii) guarantees or collateral for any of the foregoing; (viii) insurance policies or rights relating to any of the foregoing; and (ix) cash and non-cash Proceeds of any and all of the foregoing.

"Affiliate" shall mean, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (ii) that directly or indirectly owns more than 10% of any class of the capital stock, of or equity interests in, such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Debtor-in-Possession Credit and Security Agreement, as the same may from time to time be further amended, modified or supplemented.

"Applicable Laws" shall mean all applicable provisions of constitutions, statutes, laws, rules, treaties, regulations and orders of all Governmental Authorities and all applicable orders, rules and decrees of courts and arbitrators.

"Bankruptcy Code" shall mean The Bankruptcy Reform Act of 1978, as heretofore and hereafter amended, and codified as 11 U.S.C. Section 101 et seq. and any successor statute.

"Bankruptcy Court" shall mean the United States Bankruptcy Court for the District of Delaware, the United States District Court for the District of Delaware or any other court having jurisdiction over the Cases from time to time.

"Base Rate" shall mean the prime rate of interest per annum announced by Mellon Bank, NA or Citizens Bank of Pennsylvania, whichever is higher, plus 1.5%.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States as constituted from time to time.

"Borrowers" shall have the meaning set forth in the Introduction.

"Borrowing" shall mean the incurrence of Loans made from the Lender on a single date.

"Business Day" shall mean any day except a Saturday, Sunday or other day on which either (i) in the case of any action to be taken by the Bankruptcy Court or any filing with the Bankruptcy Court, the Court is observing a "legal holiday" as provided in Rule 9006(a) of the Federal Rules of Bankruptcy Procedure, or (ii) in all other cases, any day on which JP Morgan Chase is required or permitted to be closed under the laws of the State of New York.

"Capital Stock" shall mean any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent

ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Cases" shall mean the chapter 11 cases of each of the Borrowers pending in the Bankruptcy Court.

"Chattels" shall mean all of the Borrowers' fixtures, furnishings, fittings, appliances, apparatus, equipment, building materials and components, machinery and articles of personal property, of whatever kind or nature, including any replacements, Proceeds or products thereof and additions thereto, other than those owned by lessees, now or at any time hereafter intended to be or actually affixed to, attached to, placed upon, or used in any way in connection with the complete and comfortable use, enjoyment, development, occupancy or operation of the Premises, and whether located on or off the Premises.

"Closing Date" shall mean the date on which this Agreement has been executed and the conditions precedent to the making of the initial Loans set forth in Section 4.01 have been satisfied or waived, which date shall occur promptly upon entry of the Interim Borrowing Order, but not later than January 31, 2002 or such later date as agreed to by the Lender (in its sole and absolute discretion).

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collateral" shall mean Accounts and Inventory; and all Proceeds and products of the foregoing, including all rights under all permits granted in favor of the Borrowers, all rights under all contracts or agreements to which the Borrowers may be a party and any other collateral delivered to the Lender by or on behalf of the Borrowers pursuant to any collateral agreement, including, without limitation, this Agreement, and any other Loan Document.

"Contracts" shall mean, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof, including, without limitation, (a) all rights of the Borrowers to receive moneys due and to become due to it thereunder or in connection therewith, (b) all rights of the Borrowers to damages arising out of, or for, breach or default in respect thereof and (c) all rights of the Borrower to perform and to exercise all remedies thereunder.

"Contractual Obligation" shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its assets or property is bound.

"Default Rate of Interest" shall mean a rate of interest per annum equal to the sum of: (a) the Base Rate and (b) five percent (5.00%), but in no event in excess of the maximum amount of interest permitted by law.

"Designated Borrowing Officer" shall mean the Chief Executive Officer or the Chief Financial Officer or such other officer as shall be designated from time to time in writing by Fansteel to the Lender.

"Dollars" and "\$" shall mean lawful money of the United States of America.

"Environmental Damages" shall mean all claims, lawsuits, decrees, judgments, damages (including, without limitation, punitive damages), orders, losses, demands, obligations, penalties, fines, interest, fees, liabilities (including liability in negligence, strict liability, and criminal liability), encumbrances, liens, costs, and expenses of whatever kind or nature (whether incurred as a result of a third-party claim or otherwise), contingent or otherwise, matured, or unmatured, foreseeable or unforeseeable, direct or indirect, including, without limitation, consultant, expert, medical, laboratory, and attorney fees and disbursements, arising from or relating to Environmental Laws, including without limitations: (i) damages for personal injury or threatened personal injury (including, without limitation, sickness, disease or death) or injury or threatened injury to property or natural resources, including, without limitation, the costs of demolition and rebuilding of any improvements on real property, (ii) liabilities or obligations relating to Remedial Action, a Release or threatened Release, or the violation or threatened violation of or noncompliance with Environmental Laws, and (iii) attorney fees, costs and expenses incurred in enforcing this Agreement or any other Loan Document or collecting any sums due hereunder, and (iv) liability to indemnify or compensate (whether in contribution or otherwise) any Person for costs expended in connection with the items referenced in subparagraphs (i) and (ii) of this definition.

"Environmental Laws" shall mean all international, national, state, provincial, regional, federal, municipal and local laws (including, without limitation, principles or rules of common law and decisional law), statutes, codes, ordinances, rules, regulations, decrees, judgments, directives, binding policies, Environmental Permits, orders or other legally binding requirements and any interpretations thereof by any Governmental Authority relating to or addressing the environment (including, without limitation, natural resources) or the health or safety of humans or other living organisms, whether now existing or hereafter in effect, and in each case as amended, including but not limited to, (i) the Atomic Energy Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act, the Solid Waste Disposal Act, the Oil Pollution Act of 1990, the Rivers and Harbors Act of 1899, the Federal Water Pollution Control Act, the Clean Water Act, the Occupational Safety and Health Act ("OSHA"), the Clean Air Act, the Coastal Zone Management Act of 1972, the Emergency Planning and Community Right to Know Act, and (ii) those relating to or addressing (a) the introduction into commerce, use, handling, transportation, treatment, storage, disposal, release or threatened release, removal or remediation of, or response, abatement, or corrective action with respect to, any Hazardous Material, (b) workplace or worker safety and health, or (c) personal injury, sickness, disease, death, public welfare or property damage relating to Hazardous Materials.

"Environmental Lien" shall mean a Lien in favor of any Governmental Authority for (i) any liability under or related to Environmental Law, or (ii) damages arising from or costs incurred by such Governmental Authority in response to a Release or threatened Release of a Hazardous Material.

"Environmental Permits" shall mean all permits, consents, licenses, filings, and other approvals, authorizations, or submissions of information required under Environmental Laws.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) which is a member of a group of which a Borrower is a member and which is under common control within the meaning of Section 414(b) or (c) of the Code and the regulations promulgated and rulings issued thereunder.

"Event of Default" shall have the meaning given such term in Section 7.

"Excluded Assets" shall mean (i) the Real Estate of Fansteel located in Muskogee, Oklahoma, (ii) any License, permit or other authority, issued by the NRC, (iii) any source, by-product, or special nuclear material of facility subject to the licensing jurisdiction of the NRC and any other assets or property containing or contaminated by any of the foregoing, and (iv) any proceeds of the foregoing.

"Expenses" shall mean all costs and expenses incurred by Lender in connection with the negotiation, preparation and closing of the Loan Documents and the transactions contemplated therein together with the enforcement of any and all rights and remedies available to Lender hereunder and under applicable law with respect thereto including all reasonable attorneys' fees, costs and expenses.

"Filing Date" shall mean January 14, 2002.

"Final Borrowing Order" shall have the meaning given such term in Section 4.01(b).

"Final Order" shall mean an order or judgment of the Bankruptcy Court as entered on the docket that has not been reversed, stayed, modified or amended, and as to which the time to appeal, petition for certiorari, or seek reargument or rehearing has expired and as to which no appeal, reargument, petition for certiorari, or rehearing is pending or as to which any right to appeal, reargue, petition for certiorari or seek rehearing has been waived in writing in a manner satisfactory to the Lender or, if an appeal, reargument, petition for certiorari, or rehearing thereof has been sought, the order or judgment of the Bankruptcy Court has been affirmed by the highest court to which the order was appealed or from which the reargument or rehearing was sought, or certiorari has been denied, and the time to take any further appeal or to seek certiorari or further reargument has expired.

"First Day Orders" shall have the meaning given such term in Section 4.01(d).

"GAAP" shall mean generally accepted accounting principles applied in accordance with Section 1.02.

"Governmental Authority" shall mean any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality or any court, in each case whether of the United States or foreign.

"Hazardous Material" shall mean any substance, material or waste in any form whatsoever (including, without limitation, any product) regulated, restricted, or addressed by, under or pursuant to any Environmental Law, including, without limitation, any pollutant, contaminant, hazardous, radioactive or toxic substance or waste, special waste, medical waste, oil petroleum, oil-derived or petroleum-derived substance or waste, asbestos, potential or suspect asbestos-containing material, polychlorinated biphenyls ("PCBs"), any additive thereto or constituent thereof, or any media contaminated with any of the foregoing.

"Improvements" shall mean the Borrowers' owned or leased structures or buildings and replacements thereof, now or hereafter located upon the Premises, together with all other portions of the Real Estate, including all the Borrowers' owned or leased plant equipment, apparatus, machinery and fixtures of every kind and nature whatsoever forming part of said structures or buildings.

"Insufficiency" shall mean, with respect to any Pension Plan, the amount, if any, of its unfunded benefit liabilities within the meaning of Section 4001(a)(18) of ERISA.

"Interim Borrowing Order" shall have the meaning given such term in Section 4.01(b).

"Inventory" shall have the meaning given such term in Section 9-102(a)(48) of the UCC and shall include, whether or not so included in such meaning, all of the Borrowers' present and hereafter acquired merchandise, inventory and goods, and all additions, substitutions and replacements thereof, wherever located, together with all goods and materials used or usable in manufacturing, processing, packaging or shipping same; in all stages of production -- from raw materials through work-in-progress to finished Goods together with insurance policies or rights relating to any of the foregoing and cash and non-cash Proceeds of any and all of the foregoing.

"Investments" shall have the meaning given such term in Section 6.05.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind whatsoever (including any conditional sale or other title retention agreement or any lease in the nature thereof).

"Loan" shall have the meaning given such term in Section 2.01(a).

"Loan Borrowing Notice" shall mean the notice defined in Section 2.02 of this Agreement, substantially in the form of Exhibit 2.02 hereto.

"Loan Documents" shall mean each of this Agreement, the Interim Borrowing Order, the Final Borrowing Order, the Notes and all other instruments, agreements and documents from time to time delivered in accordance with or otherwise relating to any Loan Document.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, assets, property, condition (financial or otherwise) of the Borrowers taken as a whole or (b) the validity or enforceability of this Agreement or any of the other Loan Documents or the rights or remedies of the Lender hereunder or thereunder.

"Maturity Date" shall mean the date that is the earlier of (a) seventy (70) days after the Closing Date and (b) the date on which the sale of the Accounts of Borrowers, or a portion thereof, to The CIT Group or another third party closes.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined under Section 4001(a)(3) of ERISA.

"Multiple Employer Plan" shall mean a Single Employer Plan, which (i) is maintained for employees of any of the Borrowers or its ERISA Affiliate and at least one Person other than any of the Borrowers and its ERISA Affiliates or (ii) was so maintained and in respect of which any of the Borrowers or its ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such Plan has been or were to be terminated.

"Notes" shall have the meaning given such term in Section 2.03(e).

"NRC" shall mean the Nuclear Regulatory Commission and any agreement state that is operating under the authority of the Atomic Energy Act.

"Obligations" shall mean all Loans and advances made or to be made by the Lender to the Borrowers or to others for the Borrowers' account; any and all indebtedness and obligations which may at any time be owing by the Borrowers to the Lender pursuant to this Agreement, or any other Loan Document or any other document entered into in connection herewith, therewith or otherwise, or the transactions contemplated hereby or thereby, whether now in existence or incurred by the Borrowers from time to time hereafter; whether secured by pledge, lien upon or security interest in any of the Borrowers' assets or property or the assets or property of any other Person; whether such obligations and indebtedness are absolute or contingent, joint or several, matured or unmatured, direct or indirect and whether the Borrowers are liable to the Lender for such indebtedness as principal, surety, endorser, guarantor or otherwise. Obligations shall include indebtedness or obligations incurred by, or imposed on, the Lender as a result of environmental claims arising out of the Borrowers' operation of its businesses.

"Order" shall mean the Interim Borrowing Order and/or the Final Borrowing Order, as appropriate to the context.

"Other Taxes" shall have the meaning given such term in Section 2.07(b).

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA, or any successor agency or entity performing substantially the same functions.

"Pension Plan" shall mean a defined benefit pension or retirement plan which meets and is subject to the requirements of Section 401(a) of the Code.

"Permitted Investments" shall mean, with respect to any Person (a) direct obligations of the United States of America or of any agency thereof or obligations guaranteed as to principal and interest by the United States of America or of any agency thereof, in either case maturing not more than 90 days from the date of acquisition thereof by such Person; (b) deposit accounts with or certificates of deposit and bankers' acceptances issued by any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least \$500,000,000, maturing not more than 90 days from the date of acquisition thereof by such Person; (c) commercial paper rated A-1 or better or P-1 by Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies ("S&P"), or Moody's Investors Service, Inc. ("Moody's"), respectively, maturing not more than 90 days from the date of acquisition thereof by such Person; (d) Investments in money market funds rated AAAM or AAAM-G by S&P and P-1 by Moody's; and (e) Investments in mutual funds investing primarily in the securities described in clauses (a) through (d) above.

"Permitted Liens" shall mean Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other similar Liens (other than Environmental Liens and any Lien imposed under ERISA) in existence on the Filing Date with respect to the Inventory and extensions, renewals or replacements of any such Lien, provided that the principal amount of the obligation secured thereby is not increased and that any such extension, renewal or replacement is limited to the property originally encumbered thereby.

"Person" shall mean any natural person, corporation, division of a corporation, partnership, trust, joint venture, association, company, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Premises" shall mean any land structures or buildings and replacements thereof owned or leased by the Debtors.

"Pre-Petition Payment" shall mean a payment (by way of adequate protection or otherwise) of principal or interest or otherwise on account of any pre-petition Indebtedness or trade payables or other pre-petition claims against any Borrower.

"Proceeds" shall mean "proceeds", as such term is defined in Section 9-102(a)(64) of the UCC and, to the extent not included in such definition, shall include, without limitation, (a) any and all proceeds of any insurance, indemnity, warranty, guaranty or letter of credit payable to the Borrowers, from time to time with respect to any of the Collateral, (b) all payments (in any form whatsoever) paid or payable to the Borrowers from time to time in connection with any taking of all or any part of the Collateral by any governmental authority or any Person acting under color of governmental authority, (c) all judgments in favor of the Borrowers in respect of the Collateral and (d) all other amounts from time to time paid or payable or received or receivable under or in connection with any of the Collateral.

"Real Estate" shall mean all estate, right, title and interest of the Borrowers in, to and under any and all of the following described property, whether now held or hereafter

acquired: (i) the Premises; (ii) the Improvements; (iii) the Chattels; (iv) all of the Borrowers' interests, if any, in and to all rents, royalties, issues, profits, revenue, income and other benefits of the Real Estate; (v) all leases of the Real Estate or portions thereof now or hereafter entered into and all right, title and interest of the Borrowers thereunder, including, without limitation, cash or securities deposited thereunder to secure performance by the lessees of their obligations thereunder, whether such cash or securities are to be held until the expiration of the terms of such leases or applied to one or more of the installments of rent becoming due immediately prior to the expiration of such terms, including any guaranties of such leases; and (vi) all of the Borrowers' interests, if any, in and to all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards, and all rights of the Borrowers to refunds of real estate taxes and assessments.

"Release" shall mean the release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migrating into the indoor or outdoor environment of any Hazardous Material.

"Remedial Action" shall mean any action to investigate, remove, remediate, respond to, contain, abate, take corrective action with respect to, monitor, treat, reduce (whether by volume, toxicity or otherwise) or in any other way address known or suspected Hazardous Material in the indoor or outdoor environment (including, without limitation, within buildings and other structures).

"Requirement of Law" shall mean, as to any Person, the Certificate or Articles of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its assets or property or to which such Person or any of its assets or property is subject.

"Responsible Officer" shall mean, with respect to the Borrowers, the chief executive officer, president, chief financial officer, controller or vice president in charge of financial matters thereof, but in any event, with respect to financial matters, the treasurer or vice president in charge of financial matters thereof.

"Subsidiary" shall mean, with respect to any Person (herein referred to as the "parent"), any corporation, association or other business entity (whether now existing or hereafter organized) of which at least a majority of the securities or other ownership interests having ordinary voting power for the election of directors is, at the time as of which any determination is being made, owned or controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Superpriority Claim" shall mean a claim against any of the Borrowers in any of the Cases which is an administrative expense claim having priority over any or all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code.

"Termination Date" shall mean the earlier to occur of (i) the Maturity Date, (ii) the acceleration of the Loans in accordance with the terms hereof.

"Trade Accounts Receivable" shall mean, as to the Borrowers, that portion of its Accounts which arises from the sale of Inventory or the rendition of services in the ordinary course of business of the Borrowers.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the State of New York.

"US Trustee's Carve Out" shall have the meaning given such term in Section 9.03.

SECTION 1.02 **Terms Generally.** The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. All references herein to Sections, Exhibits and Schedules shall be deemed references to Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time.

SECTION 2. AMOUNT AND TERMS OF CREDIT

SECTION 2.01 **Commitment of the Lender.** The Lender agrees upon the terms, and subject to the conditions herein set forth, to make a term loan, in one or more installments (each a "Loan" and collectively, the "Loans") to the Borrowers on and after the Closing Date and on and after the date when the Final Borrowing Order shall have been entered (the "Final Order Date"), in an aggregate principal amount not to exceed \$3,000,000; provided, however, that the aggregate amount of the Loans made on and after the Closing Date but before the Final Order Date shall not exceed \$500,000

SECTION 2.02 **Notice and Manner of Borrowing.** (a) The Borrowers shall deliver to the Lender a written or telegraphic or facsimile notices (effective upon receipt) (a "Loan Borrowing Notice") on or after the Order Date. Each Loan Borrowing Notice must (A) be substantially in the form of Exhibit 2.02 hereto, and (B) specify the date and the amount of such Loan. Upon fulfillment of the applicable conditions set forth in Section 4 hereof, the Lender shall make such Loans available to the Borrowers in immediately available funds by depositing the amount in such account as the Borrowers may from time to time designate to the Lender in writing.

(b) The Lender shall be entitled to rely conclusively on the Designated Borrowing Officer's authority to request a Loan on behalf of the Borrowers until the Lender receives written notice to the contrary. The Lender shall have no duty to verify the authenticity of the signature appearing on any written Loan Borrowing Notice and, with respect to an oral request for a Loan, the Lender shall have no duty to verify the identity of any Person representing himself as a Designated Borrowing Officer.

(c) The Lender shall not incur any liability to the Borrowers in acting upon any telephonic notice referred to above which the Lender believes to have been given by the Designated Borrowing Officer or for otherwise acting in good faith under this Section 2.02 and, upon the funding of a Loan by the Lender in accordance with this Agreement pursuant to any such telephonic notice, the Borrowers shall have effected a Loan hereunder.

SECTION 2.03 Repayment of Loans; Evidence of Debt.

(a) The Borrowers hereby unconditionally, jointly and severally, promise to pay to the Lender the then unpaid principal amount of each Loan and all other Obligations outstanding hereunder on the Termination Date.

(b) The Borrowers shall maintain or cause to be maintained an account or accounts evidencing the indebtedness of the Borrowers to the Lender resulting from each Loan made by the Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Lender shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to the Lender hereunder and (iii) the amount of any sum received by the Lender hereunder.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrowers to repay the Loans in accordance with the terms of this Agreement.

(e) The Borrowers shall execute one or more promissory notes (the "Notes") to Lender, in form and substance acceptable to Lender, to evidence the Loans.

SECTION 2.04 Interest on the Loans. Interest on the Loans at the Base Rate shall be due and payable on the Termination Date.

SECTION 2.05 Default Interest. In the event that, for any reason, the Borrowers do not pay the unpaid principal of the Loans and all other Obligations outstanding on the Termination Date, the Borrowers shall, on demand, from time to time, pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at the Default Rate of Interest.

SECTION 2.06 Optional Prepayment of Loans. The Borrowers may, without penalty or premium, at any time and from time to time, prepay any Loans then outstanding, in whole or in part. Any such prepayment shall be applied first to accrued and unpaid interest on the Loans and then to the outstanding principal due on the Loans. Borrowers shall not have the right to reborrow any amount so prepaid.

SECTION 2.07 Taxes. (a) Any and all payments by any Borrower hereunder

shall be made free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) taxes imposed on or measured by the net income or overall gross receipts of the Lender (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes, if any, imposed on the Lender (or Transferee) by the United States or any jurisdiction under the laws of which the Lender (or Transferee) is organized or in which the applicable lending office of any the Lender (or Transferee) is located or any political subdivision thereof or by any other jurisdiction or by any political subdivision or taxing authority therein other than a jurisdiction in which the Lender or such Lender (or Transferee) would not be subject to tax but for the execution and performance of this Agreement and (ii) taxes, levies, imposts, deductions, charges or withholdings ("Amounts") with respect to payments hereunder to a Lender (or Transferee) in accordance with laws in effect on the later of the date of this Agreement and the date such Lender (or Transferee) becomes a Lender (or Transferee, as the case may be), but not excluding, with respect to such Lender (or Transferee), any increase in such Amounts solely as a result of any change in such laws occurring after such later date or any Amounts that would not have been imposed but for actions (other than actions contemplated by this Agreement) taken by the Borrowers after such later date (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lender (or any Transferee), (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Lender (or Transferee) (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions and (iii) the Borrowers shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

(b) In addition, the Borrowers agree to pay any current or future stamp or documentary taxes or any other excise or property taxes, charges, assessments or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrowers will indemnify each Lender (or Transferee) for the full amount of Taxes and Other Taxes paid by such Lender (or Transferee), as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within thirty (30) days after the date any Lender (or Transferee), as the case may be, makes written demand therefor. If a Lender (or Transferee) shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrowers pursuant to this Section, it shall promptly notify the Borrowers of the availability of such refund and shall, within (thirty) 30 days after receipt of a request by the Borrowers unless a shorter period is required to comply with other laws or agreements, apply for such refund at the Borrowers' expense. If any Lender (or Transferee) receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrowers pursuant to this Section, it

shall promptly notify the Borrowers of such refund and shall, within thirty (30) days after receipt of a request by the Borrowers (or promptly upon receipt, if the Borrowers have requested application for such refund pursuant hereto), repay such refund to the Borrowers (to the extent of amounts that have been paid by the Borrowers under this Section with respect to such refund plus interest that is received by the Lender (or Transferee) as part of the refund), net of all out-of-pocket expenses of such Lender (or Transferee) and without additional interest thereon; provided that the Borrowers, upon the request of such Lender (or Transferee), agrees to return such refund (plus penalties, interest or other charges) to such Lender (or Transferee) in the event such Lender (or Transferee) is required to repay such refund. Nothing contained in this subsection (c) shall require any Lender (or Transferee) to make available any of its tax returns (or any other information relating to its taxes that it deems to be confidential).

(d) Within thirty (30) days after the date of any payment of Taxes or Other Taxes withheld by the Borrowers in respect of any payment to the Lender (or Transferee), the Borrowers will furnish to the Lender, at its address referred to on the signature pages hereof, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) The Borrowers shall not be required to pay any additional amounts to any Lender (or Transferee) in respect of United States federal withholding tax pursuant to subsection (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Lender (or Transferee) to comply with the provisions of subsection (a) above.

(g) Any Lender (or Transferee) claiming any additional amounts payable pursuant to this Section 2.07 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrowers or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue and would not, in the sole reasonable determination of such Lender (or Transferee), be otherwise materially disadvantageous to such Lender (or Transferee).

SECTION 2.08 No Discharge; Survival of Claims. Each of the Borrowers agrees that (i) its Obligations hereunder shall not be discharged by the entry of an order confirming a plan of reorganization in the cases (and each of the Borrowers, pursuant to Section 1141(d)(4) of the Bankruptcy Code, hereby waives any such discharge) and (ii) the Superpriority Claim granted to the Lender pursuant to the Interim Borrowing Order and Final Borrowing Order and described in Section 9.03 and the Liens granted to the Lender pursuant to the Interim Borrowing Order and Final Borrowing Order and described in Section 9.03 shall not be affected in any manner by the entry of an order confirming such a plan.

SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to make Loans, each of the Borrowers, jointly and severally, represent and warrant as follows:

SECTION 3.01 Organization and Authority. Each of the Borrowers (i) is a corporation duly organized and validly existing under the laws of the state of its incorporation and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which the failure to so qualify would have a Material Adverse Effect; (ii) subject to the entry by the Bankruptcy Court of the Interim Borrowing Order and Final Borrowing Order has the requisite corporate power and authority to effect the transactions contemplated hereby, and by the Loan Documents to which it is a party, and (iii) subject to the entry by the Bankruptcy Court of the Interim Borrowing Order and Final Borrowing Order has all requisite corporate power and authority and the legal right to own, pledge, mortgage and operate its properties, and to conduct its business as now or currently proposed to be conducted.

SECTION 3.02 Due Execution. Upon the entry by the Bankruptcy Court of the Interim Borrowing Order and Final Borrowing Order, the execution, delivery and performance by each of the Borrowers of each of the Loan Documents to which it is a party (i) are within the respective corporate powers of each of the Borrowers, have been duly authorized by all necessary corporate action including the consent of shareholders where required, and do not (A) contravene the charter or by-laws of any of the Borrowers, (B) violate any law (including, without limitation, the Securities Exchange Act of 1934) or regulation (including, without limitation, Regulations T, U or X of the Board of Governors of the Federal Reserve System), or any order or decree of any court or governmental instrumentality, (C) conflict with or result in a breach of, or constitute a default under, any indenture, mortgage or deed of trust or any lease, agreement or other instrument binding on the Borrowers or any of their properties or if such a conflict exists the provisions of the Order dispose if any such conflict in a manner satisfactory to Lender (D) result in or require the creation or imposition of any Lien upon any of the property of any of the Borrowers other than the Liens granted pursuant to this Agreement, the other Loan Documents or the Order; and do not require the consent, authorization by or approval of or notice to or filing or registration with any Governmental Authority other than the entry of the Orders. Upon the entry by the Bankruptcy Court of the Interim Borrowing Order and Final Borrowing Order, this Agreement has been duly executed and delivered by each of the Borrowers. This Agreement is, and each of the other Loan Documents to which each of the Borrowers is or will be a party, when delivered hereunder or thereunder, will be, a legal, valid and binding obligation of each of the Borrowers, enforceable against the Borrowers in accordance with its terms and the terms of the Order.

SECTION 3.03 Statements Made. The information that has been delivered in writing by any of the Borrowers to the Lender or to the Bankruptcy Court in connection with any Loan Document, and any financial statement delivered pursuant hereto or thereto (other than to the extent that any such statements constitute projections), as of the date so delivered, contained no untrue statement of a material fact and did not omit to state a material fact necessary to make such statements not misleading; and, to the extent that any such information constitutes projections, such projections were prepared in good faith on the basis of assumptions, methods, data, tests and information believed by such Borrower to be reasonable at the time such projections were furnished.

SECTION 3.04 Financial Statements. The Borrowers have furnished the Lender with copies of (i) the audited consolidated financial statement and schedules of the Borrowers for

the fiscal year ended December 31, 2000 and (ii) the unaudited consolidated financial statement and schedules of the Borrowers for the eleven month period ending November 30, 2001. Such financial statements present fairly in all respects the financial condition and results of operations of the Borrowers on a consolidated basis as of such dates and for such periods; such balance sheets and the notes thereto disclose all liabilities, direct or contingent, of the Borrowers as of the dates thereof required to be disclosed by GAAP and such financial statements were prepared in a manner consistent with GAAP, subject (in the case of such fiscal quarter statement) to normal year end adjustments. No material adverse change in the operations, business, properties, assets, prospects or condition (financial or otherwise) of the Borrowers, taken as a whole, has occurred from that set forth in the Borrowers' consolidated financial statements for the fiscal year ended December 31, 2000 or the fiscal quarter ended September 30, 2001 other than those which have been disclosed to the Lender in writing and those related to the commencement of the Cases.

SECTION 3.05 Ownership. Each of the Persons listed on Schedule 3.05 is a wholly-owned, direct or indirect Subsidiary of Fansteel, and, except as set forth on Schedule 3.05, Fansteel owns no other Subsidiary, whether directly or indirectly.

SECTION 3.06 Liens. Except for Liens granted to Lender herein, there are no Liens in the Collateral. None of the Borrowers are party to any contract, agreement, lease or instrument the performance of which, either unconditionally or upon the happening of an event, will result in or require the creation of a Lien on the Collateral or otherwise result in a violation of this Agreement other than the Liens granted in favor of the Lender and the Lender as provided for in this Agreement. None of the Borrowers are subject to any Environmental Law or other law or regulation which could result in the creation of a Lien on any Collateral or otherwise result in a violation of this Agreement.

SECTION 3.07 Insurance. All policies of insurance of any kind or nature owned by or issued to the Borrowers, including, without limitation, policies of fire, theft, product liability, public liability, property damage, other casualty, employee fidelity, workers' compensation, employee health and welfare, title, property and liability insurance, are in full force and effect and are of a nature and provide such coverage (including self insurance) as is customarily carried by companies of the size and character of the Borrowers.

SECTION 3.08 The Orders. On the Closing Date, the Interim Borrowing Order will have been entered and will not have been stayed, amended, vacated, reversed or rescinded (without the prior written consent of the Lender). On the date of the making of each additional Loan, the Interim Borrowing Order or the Final Borrowing Order, as the case may be, shall have been entered and shall not have stayed, vacated or rescinded (without the prior written consent of the Lender). Upon the maturity (whether by the acceleration or otherwise) of any of the Obligations of the Borrowers hereunder and under the other Loan Documents, the Lender shall, be entitled to immediate payment of such Obligations, and to enforce the remedies provided for hereunder, without further application to or order by the Bankruptcy Court.

SECTION 3.09 Use of Proceeds. The proceeds of the Loans shall be used to finance the Borrowers' working capital needs and other general corporate purposes consistent with the cash flow projections submitted to the Board of Directors of Fansteel on January 7,

2002, a true and exact copy of which is attached hereto as Exhibit 3.09 provided that (i) none of the proceeds of the Loans shall be used to (a) make any payments or distributions to or on behalf of any non-Borrower Affiliate, (b) challenge (1) the validity, perfection or priority of security interests on assets of the Borrowers in favor of the Lender or (2) the enforceability of the obligations of the Borrowers or any other obligors under the Loan Documents, (c) investigate, commence or prosecute any claim or cause of action against the Lender or (d) pay fees to professionals retained in the Cases in an amount in excess of \$500,000 exclusive of prepetition retainers.

SECTION 3.10 **Broker's or Finder's Commissions.** No broker's or finder's or placement fee or commission will be payable by the Borrowers with respect to this Agreement or any other Loan Document or the transactions contemplated hereby or thereby, and the Borrowers will hold the Lender harmless from any claim, demand or liability for broker's or finder's or placement fees or commissions alleged to have been incurred by the Borrowers in connection with this Agreement or any other Loan Document or such transactions.

SECTION 3.11 **Application of Proceeds.** The proceeds of the Loan will be used by the Borrowers only for the purposes described in Section 3.09 hereof. Neither the Borrowers nor Lender acting on its behalf has taken or will take any action which might cause this Agreement to violate Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same hereafter may be in effect.

SECTION 3.12 **Labor Matters.** There are no strikes or other material labor disputes against the Borrowers or, to the knowledge of the Borrowers, threatened. Hours worked by and payments made to any employee of the Borrowers have not been in violation of the Fair Labor Standards Act or any other applicable law dealing with such matters, except to the extent that any such violation would not result in a Material Adverse Effect.

SECTION 3.13 **Material Agreements.** All material leases and other material agreements to which the Borrowers are a party are valid and binding and in full force and effect and, to the best knowledge of the Borrowers, no default (other than by virtue of the Commencement of the Cases) has occurred or is continuing thereunder and no consent need be obtained (other than consents which have been or will be obtained prior to the Closing Date from any Person (or notice given) in respect of any such lease or agreement in connection with the transactions contemplated hereby. The Borrowers enjoy peaceful and undisturbed possession of all leases necessary in any respect material to the business of the Borrowers for the operation of their respective properties and assets.

SECTION 3.14 **No Regulatory Restrictions on Borrowing.** None of the Borrowers is (i) an "investment company", within the meaning of the Investment Company Act of 1940, as amended, (ii) a "holding company", or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended or (iii) otherwise subject to any regulatory scheme (other than the Bankruptcy Code) which restricts its ability to incur Indebtedness and grant Liens hereunder.

SECTION 3.15 Representations Concerning Cash Management System. The summary of Borrowers' cash management system set forth in the motion with respect to the relevant First Day Order is accurate and complete in all material respects as of the Closing Date and does not omit to state any material fact necessary to make the statements set forth therein not misleading. There has been no material change to the cash management system since the Closing Date except such changes as have been disclosed to the Lender in writing.

SECTION 3.16 Survival of Representations and Warranties. All statements contained in any certificate or other document delivered to the Lender by or on behalf of the Borrowers pursuant to or in connection with this Agreement or under any other Loan Document shall be deemed to constitute representations and warranties under this Agreement with the same force and effect as the representations and warranties expressly set forth herein. Each of the Borrowers' representations and warranties thereunder and hereunder shall survive the execution and delivery of the same and any investigation by the Lender.

SECTION 4. CONDITIONS OF LENDING

SECTION 4.01 Conditions Precedent to Initial Loans. The obligation of the Lender to make any Loan is subject to the following conditions precedent:

(a) **Supporting Documents.** The Lender shall have received for each of the Borrowers a certificate of the Secretary or an Assistant Secretary of that entity dated the date of the initial Loans hereunder, whichever first occurs, and certifying (A) that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of each of the Borrowers authorizing the Borrowings hereunder, the execution, delivery and performance in accordance with their respective terms of this Agreement, the Loan Documents the Certificates of Incorporation and the by-laws of the Borrowers, and any other documents required or contemplated hereunder or thereunder and the granting of the security interest and other Liens contemplated hereby, and (B) as to the incumbency and specimen signature of each officer of that entity executing this Agreement and the Loan Documents or any other document delivered by it in connection herewith or therewith (such certificate to contain a certification by another officer of that entity as to the incumbency and signature of the officer signing the certificate referred to in this clause (a)).

(b) **Orders.**

Interim Borrowing Order. At the time of the making of the initial Loans, the Lender shall have received a certified copy of an order of the Bankruptcy Court in substantially the form of Exhibit A-1 (the "Interim Borrowing Order") approving the Loan Documents and granting the Superpriority Claim status and senior and other Liens described in Section 9.03 which Interim Borrowing Order: (i) shall have been entered, upon an application or motion of the Borrowers satisfactory in form and substance to the Lender, on such prior notice to such parties as may in each case be satisfactory to the Lender; (ii) shall authorize extensions of credit in an amount not in excess of \$500,000; (iii) shall contain a finding that the Lender has acted in good faith under Section 364(e) of the Bankruptcy Code; (iv) shall approve the payment

by the Borrowers of all of the Expenses; (v) shall be in full force and effect; and (vi) shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Lender and, if the Interim Borrowing Order is the subject of a pending appeal in any respect, neither the making of such Loans nor the performance by any of the Borrowers of any of their respective obligations hereunder or under the Loan Documents or under any other instrument or agreement referred to herein shall be the subject of a presently effective stay pending appeal.

Final Borrowing Order. At the time of making of any Loan other than the Loans authorized by the Interim Borrowing Order, the Lender shall have received a certified copy of an order of the Bankruptcy Court in substantially the form of the Interim Borrowing Order (the "Final Borrowing Order") approving on a final basis the Loan Documents and granting the Superpriority Claim status and senior and other Liens described in Section 9.03 which Final Borrowing Order: (i) shall have been entered, upon an application or motion of the Borrowers satisfactory in form and substance to the lender, on such prior notice to such parties as may be in each case be satisfactory to the Lender; (ii) shall authorize extensions of credit in an aggregate amount not in excess of \$3,000,000; (iii) shall contain a finding that the Lender has acted in good faith under Section 364(e) of the Bankruptcy Code; (iv) shall approve the payment by the Borrowers of all of the Expenses; (v) shall be in full force and effect; and (vi) shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Lender and, if the Final Borrowing Order is the subject of a pending appeal in any respect, neither the making of such Loans nor the performance by any of the Borrowers of any of their respective obligations hereunder or under the Loan Documents or under any other instrument or agreement referred to herein shall be the subject of a presently effective stay pending appeal.

(c) Due Diligence. The Lender's completion of such legal, financial and other due diligence, as Lender deems, in its sole judgment and discretion, necessary and appropriate.

(d) First Day Orders. All of the "first day orders" entered by the Bankruptcy Court at the time of the commencement of the Cases (the "First Day Orders") shall be reasonably satisfactory in form and substance to the Lender.

(e) Payment of Expenses. The Borrowers shall have paid to the Lender the then unpaid balance of all accrued and unpaid Expenses then due and payable under and pursuant to this Agreement.

(f) Corporate and Judicial Proceedings. All corporate and judicial proceedings and all instruments and agreements in connection with the transactions among the Borrowers, the Lender contemplated by this Agreement shall be satisfactory in form and substance to the Lender and the Lender shall have received all information and copies of all documents and papers, including records of corporate and judicial proceedings, which the Lender may have reasonably requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate, governmental or judicial authorities.

(g) Information. The Lender shall have received such information (financial or otherwise) as may be requested by the Lender and shall have discussed the Borrowers' business plan heretofore delivered to the Lender with the Borrowers' management and shall be satisfied with the nature and substance of such discussions.

(h) Compliance with Laws. The Borrowers shall have granted the Lender access to and the right to inspect all reports, audits and other internal information of the Borrowers relating to environmental matters, and any third party verification of certain matters relating to compliance with environmental laws and regulations requested by the Lender, and the Lender shall be satisfied that the Borrowers are in compliance in all material respects with all applicable Environmental Laws and regulations and be reasonably satisfied with the costs of maintaining such compliance.

(i) UCC Searches. The Lender shall have received UCC searches conducted in the jurisdictions in which the Borrowers conduct business (dated as of a date reasonably satisfactory to the Lender), reflecting the absence of Liens and encumbrances on the assets of the Borrowers.

(j) CIT Commitment. The Lender shall have received a copy of a commitment letter from The CIT Group, in form and substance satisfactory to Lender, pursuant to which The CIT Group or an affiliate thereof, agrees to purchase Accounts of the Borrowers not later than seventy (70) days from and after the Filing Date for an amount and on terms satisfactory to Lender.

(k) Closing Documents. The Lender shall have received all documents required by this Agreement reasonably satisfactory in form and substance to the Lender.

(l) Insurance. The Lender shall have received a certificate or certificates of insurance from an independent insurance broker or brokers confirming the insurance coverage of all of the Borrowers' Inventory with financially sound and reputable insurance companies or associations in such amounts and against such risks as are usually carried by companies engaged in the same or similar business naming Lender as "loss payee" in form and substance acceptable to Lender. Such insurance coverage shall be satisfactory to the Lender in its reasonable discretion.

SECTION 4.02 Conditions Precedent to Loan. The obligation of the Lender to make any Loan is subject to the following additional conditions precedent:

(a) Notice. The Lender shall have received a notice with respect to such borrowing or issuance, as the case may be, as required by Section 2.02.

(b) Representations and Warranties. All representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of each Borrowing with the same effect as if made on and as of such date except to the extent such representations and warranties expressly relate to an earlier date.

(c) No Default. On the date of each Borrowing hereunder, no Event of Default or event which upon notice or lapse of time or both would constitute an Event of Default shall have occurred and be continuing.

(d) Entry of Orders. The Interim Borrowing Order or the Final Borrowing Order shall be in full force and effect and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Lender, provided, that at the time of the making of any Loan while the Interim Borrowing Order is in effect the aggregate amount of which, when added to the sum of the principal amount of all Loans then outstanding, shall not exceed the amount authorized by the Interim Borrowing Order. The Final Borrowing Order shall have been entered by the Bankruptcy Court no later than thirty (30) days after the entry of the Interim Borrowing Order and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Lender. If the Interim Borrowing Order or the Final Borrowing Order is the subject of a pending appeal in any respect, neither the making of the Loans nor the performance by any of the Borrowers of any of their respective obligations under any of the Loan Documents shall be the subject of a presently effective stay pending appeal.

(e) Payment of Expenses. The Borrowers shall have paid to the Lender the then unpaid balance of all accrued and unpaid Expenses then due and payable under and pursuant to this Agreement.

SECTION 5. AFFIRMATIVE COVENANTS

From the date hereof and for so long as any amount or Obligation to Lender shall remain outstanding or unpaid under this Agreement, the Borrowers agree that, unless the Lender shall otherwise consent in writing, the Borrowers will:

SECTION 5.01 Financial Statements, Reports, etc. In the case of the Borrowers, deliver to the Lender:

(a) as soon as possible, and in any event within five (5) business days of the Closing Date, a consolidated pro forma balance sheet of the Borrowers' financial condition as of the Filing Date;

(b) promptly, from time to time, such information regarding the operations, business affairs and financial condition of any of the Borrowers, or compliance with the terms of any material loan or financing agreements as the Lender, may reasonably request; and

(c) furnish to the Lender and its counsel promptly after the same is available, copies of all pleadings, motions, applications, judicial information, financial information and other documents filed by or on behalf of any of the Borrowers with the Bankruptcy Court in the Cases, or distributed by or on behalf of any of the Borrowers to any official committee appointed in the Cases.

SECTION 5.02 Corporate Existence. Preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises

necessary or desirable in the normal conduct of its business except (i) if in the reasonable business judgment of the Borrowers, it is in its best economic interest not to preserve and maintain such rights, privileges, qualifications, permits, licenses and franchises, (ii) as otherwise permitted in connection with sales of assets permitted by Section 6.06, and (iii) where such failures taken together are not reasonably likely to have a Material Adverse Effect.

SECTION 5.03 Insurance. (a) Keep the Inventory and all other insurable properties of the Borrowers insured at all times, against such risks, including fire and other risks insured against by extended coverage, as is customary with companies of the same or similar size in the same or similar businesses; and maintain in full force and effect public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by the Borrowers in such amounts and with such deductibles as are customary with companies of the same or similar size in the same or similar businesses and in the same geographic area; and (b) maintain such other insurance or self insurance as may be required by law.

SECTION 5.04 Obligations and Taxes. With respect to each Borrower, pay all its material obligations arising after the Filing Date promptly and in accordance with their terms and pay and discharge promptly all material taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property arising after the Filing Date, before the same shall become a default, as well as all material lawful claims for labor, materials and supplies or otherwise arising after the Filing Date which, if unpaid, would become a Lien or charge upon such properties or any part thereof; provided, however, that each Borrower shall not be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings (if the Borrowers shall have set aside on their books adequate reserves therefor).

SECTION 5.05 Notice of Event of Default, Investigations, Violations, etc. Promptly give to the Lender notice in writing of:

(a) any Event of Default or the occurrence of any event or circumstance which with the passage of time or giving of notice or both would constitute an Event of Default;

(b) any litigation, investigations or proceeding which may exist at any time between any of the Borrowers and any Governmental Authority; and

(c) Any written notices the Borrowers receive from any Governmental Authority or any other third party of any Environmental Damages (real or potential) relating to the Operations (or prior operations of the Borrowers or any of their predecessors in interest or title), the Properties or any property formerly owned, leased, or operated by the Borrowers (or their predecessors in interest or title) or at any disposal facility which received Hazardous Materials generated by the Borrowers (or their predecessors in interest or title) and of all expenditures (actual or anticipated) in excess of \$250,000 for (A) Remedial Action or (B) environmental compliance.

SECTION 5.06 Books and Records, Inspection and Collateral Review Rights.

The Borrowers will keep proper books of record and account in which full, true and correct entries in conformity with GAAP in all material respects and all material Requirements of Law are made of all dealings and transactions in relation to its business and activities. Each of the Borrowers will permit any representatives designated by the Lender, upon reasonable prior notice, to visit and inspect their financial records and properties, to examine and make extracts from their books and records, and to discuss their affairs, finances and condition with their officers and independent accountants, all at such reasonable times and during normal business hours.

SECTION 5.07 **Conduct of Business and Maintenance of Existence, etc.** (a) Continue to engage in the business currently engaged in and (b) comply with all Contractual Obligations and Requirements of Law.

SECTION 5.08 **Cash Management System.** Establish and maintain, or continue to maintain, a cash management system which shall be reasonably acceptable to the Lender and shall include provisions reasonably satisfactory to the Lender.

SECTION 5.09 **Environmental Matters.** (a) Comply, and cause compliance by all Persons present at any time at or performing work relating to the Properties or Operations (including, without limitation, contractors, consultants, lessees, operators, and users of the Properties), with all Environmental Laws applicable to the Properties and Operations and to them in connection with the Properties or Operations and maintain the Properties in a neat and orderly manner;

(b) perform or cause to be performed, in full compliance with applicable Environmental Laws, any Remedial Action required by such Environmental Laws to be performed by them; and

SECTION 5.10 **Perfection of Security Interests.** To the extent requested by the Lender, the Borrowers will comply with the requirements of state and federal laws in order to grant to the Lender for the benefit of the Lender valid and perfected security interests in the Collateral with the priority set forth in Section 9.03. The Lender is hereby authorized by the Borrowers to file any financing statements covering the Collateral whether or not such Borrower's signature appears thereon. The Borrowers will do whatever the Lender may reasonably request, from time to time, by way of: filing notices of liens, mortgages, financing statements, amendments, renewals and continuations thereof; cooperating with the Lender's custodians; keeping stock records; transferring proceeds of Collateral to the Lender's possession; and performing such further acts as the Lender may reasonably require in order to effect the purposes of this Agreement and the other Loan Documents.

SECTION 5.11 **Maintenance of Property.** Each Borrower will keep all Collateral useful and necessary in its business in good working order and condition, ordinary wear and tear and casualty excepted. Each Borrower will maintain all property leased to it and all property operated by it under a management contract as required by the provisions of the applicable lease or management contract.

SECTION 5.12 **Compliance with Law.** Each Borrower will comply in all respects with all Applicable Laws (and the rules and regulations thereunder), except where the

necessity of compliance therewith is contested in good faith by appropriate measures or proceedings, in which case adequate and reasonable reserves will be established in accordance with GAAP and notice of each such contest (other than contests in the ordinary course of business set forth in the form of footnotes to cost reports) shall be given to the Lender and where such compliance, when taken together, will not be reasonably likely to result in a Material Adverse Effect.

SECTION 5.13 **Reporting.**

Borrowers shall furnish a copy to Lender of all monthly operating reports filed by the Borrowers with the Bankruptcy Court within two (2) Business Days from and after such filing and advise Lender, on a monthly basis no later than the tenth day of each month, of the amount of fees paid by Borrowers to its professionals during the preceding calendar month exclusive of prepetition retainers.

SECTION 6. **NEGATIVE COVENANT**

From the date hereof and for so long as any Obligation to Lender shall remain outstanding or unpaid under this Agreement, unless the Lender shall otherwise consent in writing, none of the Borrowers will (nor will apply to the Bankruptcy Court for authority to):

SECTION 6.01 **Liens.** Incur, create, assume or suffer to exist any Lien on any of the collateral other than Liens in favor of the Lender.

SECTION 6.02 **Merger, etc.** Consolidate or merge with or into another Person.

SECTION 6.03 **Chapter 11 Claims.** Incur, create, assume, suffer to exist or permit any other Superpriority Claim which is pari passu with or senior to the claims of the Lender against the Borrowers hereunder.

SECTION 6.04 **Transactions with Affiliates.** Sell or transfer any property or assets to, or otherwise engage in any other material transactions with, any of their Affiliates (other than any other Borrower), other than in the ordinary course of business at prices and on terms and conditions not less favorable to the such Borrowers than could be obtained on an arm's-length basis from unrelated third parties.

SECTION 6.05 **Investments, Loans and Advances.** Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment in, any other Person (including, without limitations, to any Subsidiary of the Borrowers that has not commenced a Case) (all of the foregoing, "Investments"), except for (i) ownership by the Borrowers of the capital stock of each of the Subsidiaries listed on Schedule 3.05, (ii) Permitted Investments, and (iii) advances and loans among the Borrowers in the ordinary course of business.

SECTION 6.06 **Disposition of Assets.** Sell or otherwise dispose of any assets (including, without limitation, the capital stock of any Subsidiary) except for (i) sales of Inventory, Fixtures and Equipment in the ordinary course of business, (ii) sales of surplus

equipment no longer used in production, (iii) sales or other dispositions of Excluded Assets, and (iv) the sale of Accounts to The CIT Group or another Person for an amount sufficient to satisfy the Obligations provided that The Cit Group or such other person directly pays Lender for the full amount of the Obligations on closing of the sale of the Accounts.

SECTION 6.07 **Nature of Business.** Modify or alter in any material manner the nature and type of their business as conducted at or prior to the Filing Date or the manner in which such business is conducted (except as required by the Bankruptcy Code), it being understood that disposition of assets permitted by Section 6.06 shall not constitute such a material modification or alteration, provided that The Cit Group or such other person directly pays Lender for the full amount of the Obligations on closing of the sale of the Accounts.

SECTION 6.08 **Use of Proceeds.** Use any of the proceeds of the Loan (i) in a manner not consistent with Section 3.09 hereof or (ii) in order to (a) finance or make any Investment in any foreign affiliate or foreign operations of any Borrower, (b) challenge (1) the validity, perfection or priority of security interests on assets of the Borrowers in favor of the Lender or (2) the enforceability of the obligations of the Borrowers or any other obligors under the Loan Documents, or (c) investigate, commence or prosecute any claim or cause of action against the Lender.

SECTION 6.09 **Limitation on Repayments; Prepetition Obligations.** The Borrowers shall not, except as otherwise allowed pursuant to the Interim Borrowing Order or Final Borrowing Order, (i) make any Pre-Petition Payment or other payment or prepayment on or redemption or acquisition for value of any prepetition Indebtedness or other pre-Filing Date obligations of any Borrower, (ii) pay any interest on any prepetition Indebtedness of any Borrower (whether in cash, in kind securities or otherwise), or (iii) make any payment or create or permit any Lien pursuant to Section 361 of the Bankruptcy Code (or pursuant to any other provision of the Bankruptcy Code authorizing adequate protection), or apply to the Bankruptcy Court for the authority to do any of the foregoing; provided that, (a) the Borrowers may make payments for administrative expenses that are allowed and payable under Sections 330 and 331 of the Bankruptcy Code, and are consistent with the cash flow projections submitted to the Board of Directors of Fansteel on January 7, 2002, (b) the Borrowers may make payments permitted by the First Day Orders, and (c) the Borrowers may make payments to such other claimants and in such amounts as may be consented to by the Lender and approved by the Bankruptcy Court.

SECTION 6.10 **Orders; Payment of Claims.**

(a) At any time seek, consent to or suffer to exist any modification, stay, vacation or amendment of the Interim Borrowing Order or Final Borrowing Order except for any modifications and amendments previously agreed to in writing by the Lender.

(b) Prior to the date on which the Obligations have been paid in full in cash and this Agreement has been terminated, pay any administrative expense or other claims except (i) fees and disbursements of professionals retained by the Borrowers or any statutory committee appointed in the Cases that have been allowed by, or are otherwise payable pursuant to, an order of the Bankruptcy Court, (ii) other administrative expense claims incurred in the ordinary course

of the business of the Borrowers, (iii) Pre-Petition Payments permitted under Section 6.09 or 7.01(j), and (iv) charges of the Office of the United States Trustee.

SECTION 6.11 Payment of Fees to Professionals

So long as any of the Obligations are outstanding, Borrowers shall not pay the professionals retained in the Cases in excess of \$500,000 in the aggregate exclusive of prepetition retainers. The preceding restriction shall not be construed as a limitation on the amount of the obligations that Borrowers may incur to its professionals but solely a limitation as to the amount of the payments that Borrowers may make to its professionals while any of the Obligations are outstanding.

SECTION 7. EVENTS OF DEFAULT

SECTION 7.01 Events of Default. In the case of the happening of any of the following events and the continuance thereof beyond the applicable period of grace if any (each, an "Event of Default"):

(a) any representation or warranty made by the Borrowers in this Agreement or in any Loan Document or in connection with this Agreement or the credit extensions hereunder or any statement or representation made in any report, financial statement, certificate or other document furnished by any of the Borrowers to the Lender under or in connection with this Agreement, shall prove to have been false or misleading in any material respect when made or delivered; or

(b) default shall be made in the payment of any (i) Expenses or interest on the Loans or reimbursable costs and expenses when due, and such default shall continue unremedied for more than one (1) Business Day or (ii) principal of the Loans or other amounts payable by the Borrowers hereunder when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise; or

(c) default shall be made by any of the Borrowers in the due observance or performance of any covenant, condition or agreement contained in Section 6 hereof; or

(d) default shall be made by any of the Borrowers in the due observance or performance of any other covenant, condition or agreement to be observed or performed pursuant to the terms of this Agreement or any of the other Loan Documents and such default shall continue unremedied for more than ten (10) days (or, in the case of a default under Sections 5.05 or 5.09, for more than five (5) days after a Responsible Officer has knowledge of such default); or

(e) any of the Cases shall be dismissed or converted to a case under chapter 7 of the Bankruptcy Code; a trustee under chapter 7 or chapter 11 of the Bankruptcy Code, a responsible officer or an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in Section 1106(a)(3) and (4) of the Bankruptcy Code) under Section 1106(b) of the Bankruptcy Code shall be appointed in any of the Cases and the order appointing such trustee, responsible officer or examiner shall not be reversed or vacated within

thirty (30) days after the entry thereof; or any Borrower shall file an application seeking any of the foregoing; or an application shall be filed by a Borrower for the approval of any other Superpriority Claim (other than the U.S. Trustee's Carve-Out) in any of the Cases which is pari passu with or senior to the claims of the Lender against any of the Borrowers hereunder, or there shall arise or be granted any such pari passu or senior Superpriority Claim; or

(f) the Bankruptcy Court shall enter an order or orders granting relief from the automatic stay applicable under Section 362 of the Bankruptcy Code to the holder or holders of any security interest to permit foreclosure (or the granting of a deed in lieu of foreclosure or the like) on any assets of the Borrowers which have a value in the aggregate in excess of \$150,000 in the aggregate; or

(g) any material provision of any Loan Document shall, for any reason, cease to be valid and binding on any of the Borrowers, or any of the Borrowers shall so assert in any pleading filed in any court; or

(h) an order of the Bankruptcy Court shall be entered reversing, amending, supplementing, staying, vacating or otherwise modifying any of the Orders except to the extent agreed by the Borrowers and the Lender; or

(i) any judgment or order as to a post-petition liability or debt for the payment of money in excess of \$150,000 that is not covered by insurance shall be rendered against any of the Borrowers and the enforcement thereof shall not have been stayed; or

(j) except as permitted by the Order, the Borrowers shall not make any Pre-Petition Payment other than Pre-Petition Payments authorized by the Bankruptcy Court (w) and permitted pursuant to Section 6.09, (x) not in excess of \$6,500,000 in respect of certain critical vendors and valid reclamation claims, (y) in respect of accrued payroll and related expenses and employee benefits as of the Filing Date or (z) in accordance with other "first day" orders approved by the Lender; or

(k) any Borrower is criminally indicted or convicted under any law that could lead to a forfeiture of any Collateral (as determined by the Lender in its sole discretion) or the Lender is aware of a governmental investigation with respect thereto, or any Governmental Authority takes any action to seize, require the turn over or appoint a receiver for any Borrower or any of its Properties (other than any of such Properties rejected pursuant to Section 365 of the Bankruptcy Code or abandoned pursuant to section 554 of the Bankruptcy Code); or

(l) the NRC or any other Governmental Authority that takes any actions with respect to licenses, permits, Remedial Actions, violations of Environmental Laws or otherwise which the Lender believe in its reasonable discretion may in any way have a Material Adverse Effect on the Borrowers' businesses, the Collateral, or the Lender's ability to receive timely repayment in full in cash with respect to the Loans; or

(m) the security interests purported to be created by any Loan Document shall cease to be, or shall be asserted by any Borrower or any other party not to be, a valid, perfected, security interest in the Collateral covered thereby with the priorities set forth in Section 9.03

then, and in every such event and at any time thereafter during the continuance of such event, and without further order of or application to the Bankruptcy Court, the Lender may, by notice to the Borrowers (with a copy to counsel for any official creditors' committee appointed in the Cases and to the United States Trustee for the District of Delaware), take one or more of the following actions, at the same or different times: (i) declare the Loans then outstanding to be forthwith due and payable, whereupon the principal of the Loans together with accrued interest thereon and any unpaid accrued Expenses and all other liabilities of the Borrowers accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrowers, anything contained herein or in any other Loan Document to the contrary notwithstanding; and (ii) exercise any and all remedies under the Loan Documents and under applicable law available to the Lender.

SECTION 7.02 Automatic Stay. During the continuance of an Event of Default, upon five (5) Business Day's notice to the Borrowers, any creditors' committees in the Cases and the United States Trustee, the automatic stay provided under section 362 of the Bankruptcy Code shall be deemed automatically vacated to permit the Lender to take immediately any action permitted under this Agreement, the other Loan Documents, the Bankruptcy Code, the UCC or other applicable law with respect to the Collateral or otherwise.

SECTION 8. TERMINATION

SECTION 8.01 Termination of Agreement. The Agreement, unless extended in the sole and absolute discretion of the Lender, shall automatically terminate when all of the Obligations to Lender have been fully paid and performed.

SECTION 8.02 Termination Upon an Event of Default. Notwithstanding the foregoing the Lender may, and if required by the Lender to do so shall, terminate this Agreement and the Loan immediately upon the occurrence and during the continuance of an Event of Default; provided, however, that if the Event of Default is an event listed in paragraph (l) of Section 7.01 of this Agreement, the Lender may regard this Agreement as terminated and notice to that effect is not required.

SECTION 8.03 Maturity of Obligations Upon Termination. All Obligations shall become due and payable as of the Termination Date or upon the earlier occurrence of an Event of Default as described in Section 7.01 hereof and, pending a final accounting, if the Lender determines in its good faith judgment that there is a reasonable basis for doing so, the Lender may withhold any balances in the Borrowers' account (unless supplied with an indemnity satisfactory to the Lender) to cover all of the Obligations then due and payable hereunder. All of the Lender's rights, liens and security interests shall continue from and after any termination until payment in full of all Obligations to Lender including, without limitation, all Loans and other amounts then due and payable hereunder or under any other Loan Document at the date of such termination.

SECTION 9. COLLATERAL

SECTION 9.01 Grant of Lien. As security for the prompt payment in full of all

Loans made and to be made to the Borrowers from time to time by the Lender pursuant hereto, as well as to secure the payment in full of all other Obligations hereunder, each of the Borrowers pledge and grant to the Lender and its successors and assigns an undivided continuing lien upon and security interest in the Collateral of the Borrowers having the priority set forth in Section 9.03 below. Without limiting the scope of the pledge and grant made under the preceding sentence the lien and security interests granted hereunder shall extend and attach to each of the Borrower's right, title and interest in and to the following, whether presently owned or hereafter acquired by such Borrower: (a) all Accounts; (b) all Inventory; and (c) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing, including all rights under all permits granted in favor of the Borrowers, all rights under all contracts or agreements to which the Borrowers may be a party, and other collateral delivered to the Lender by or on behalf of the Borrowers pursuant to any collateral agreement, and any assignment of insurance policies. Notwithstanding anything herein to the contrary, the Lender shall not receive a lien, security interest or other interest of any kind in any of the Excluded Assets.

SECTION 9.02 Accounts. (a) In furtherance of the continuing assignment and first priority security interest in the Borrowers' Accounts, each of the Borrowers will, upon the creation of Accounts, execute and deliver to the Lender in such form and manner as the Lender may reasonably require such confirmatory schedules of Accounts as the Lender may reasonably request, and such other appropriate reports designating, identifying and describing the Accounts as the Lender may reasonably require. In addition, upon the Lender's request the Borrowers shall provide the Lender with copies of agreements with, or purchase orders from, the Borrowers' customers, and copies of invoices to customers, proof of shipment or delivery and such other documentation and information relating to said Accounts and other Collateral as the Lender may require. Failure to provide the Lender with any of the foregoing shall in no way affect, diminish, modify or otherwise limit the liens and security interests granted herein. Each of the Borrowers as to itself hereby authorizes the Lender to regard its printed name or rubber stamp signature on assignment schedules or invoices as the equivalent of a manual signature by one of its authorized officers or Agents.

(b) Each of the Borrowers hereby represents and warrants to the Lender as of the date of each Loan that: each Trade Account Receivable is based on an actual and bona fide sale and delivery of goods or rendition of services to customers, made by the Borrowers in the ordinary course of its business; such Trade Accounts Receivable are, and the goods and inventory sold to create such Trade Accounts Receivable were, the exclusive property of the Borrowers and such Trade Accounts Receivable are not, and such goods and inventory were not, subject to any lien, consignment arrangement, encumbrance, security interest or financing statement whatsoever, other than the Liens granted to the Lender; the invoices evidencing such Trade Accounts Receivable are in the name of the Borrowers; the customers of the Borrowers have accepted the goods or services, owe and are obligated to pay the full amounts stated in the invoices according to their terms, without dispute, offset, defense, counterclaim or contra, except for disputes and other matters arising in the ordinary course of business; provided that no amount payable to the Borrowers under or in connection with any Account in excess of \$100,000 in the aggregate for the Borrowers is evidenced by any instrument or chattel paper which has not been delivered to the Lender.

(c) Each of the Borrowers confirm to the Lender as of the date of each Loan that any and all taxes or fees relating to its business, its sales, its Accounts or goods relating thereto, are its sole responsibility and that same will be paid by the Borrowers when due and that none of said taxes or fees represent a lien on or claim against the Accounts except for Permitted Liens.

(d) Until the Lender has advised the Borrowers to the contrary after the occurrence and during continuation of an Event of Default, each of the Borrowers may and will enforce, collect and receive all amounts owing on the Accounts at its expense; such right to enforce, collect and receive all such amounts shall terminate at the election of the Lender, upon the occurrence and during the continuance of any Event of Default. Notwithstanding the preceding, if Lender has advised the Borrowers of the occurrence of an Event of Default and while such an Event of Default is continuing, the Borrowers shall, at Lender's request, continue to collect the Accounts for the benefit of the lender at no expense to the Lender. Any checks, cash, notes or other instruments or property received by the Borrowers with respect to any Accounts, and all other amounts received by the Borrowers, whether from a disposition of assets or otherwise, shall be held by the Borrowers in trust for the Lender, separate from the Borrowers' own property and funds, and immediately turned over to the Lender with proper assignments or endorsements. No checks, drafts or other instrument received by the Lender shall constitute final payment to the Lender unless and until such instruments have actually been collected.

(e) Each of the Borrowers agree to notify the Lender promptly of any matters (whether or not arising in the ordinary course of business) adversely affecting the value, enforceability or collectibility of any of the Accounts and of all material customer disputes, offsets, defenses, counterclaims, returns, rejections and all reclaimed or repossessed merchandise or goods. Each of the Borrowers agree to issue credit memoranda promptly (with duplicates to the Lender upon request after the occurrence and during the continuation of an Event of Default) upon accepting returns or granting allowances, and may continue to do so until the Lender has notified the Borrowers that an Event of Default has occurred and is continuing and that all future credits or allowances are to be made only after the Lender's prior written approval. Upon the occurrence and during the continuance of an Event of Default and on notice from the Lender, each of the Borrowers agree that all returned, reclaimed or repossessed merchandise or goods shall be set aside by the Borrowers, marked with the Lender's name for the benefit of the Lender and held by the Borrowers for the Lender's account as owner and assignee.

SECTION 9.03 Priority and Liens. (a) Upon entry of the Interim Borrowing Order and Final Borrowing Order, the Obligations of the Borrowers hereunder and under the Loan Documents: (i) pursuant to Section 364(c)(1) of the Bankruptcy Code, shall at all times constitute allowed administrative expense claims in the Cases having priority over all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code; and (ii) pursuant to Section 364(c)(2) of the Bankruptcy Code, shall at all times be secured by perfected first priority Liens on the Collateral subject only to the payment of (A) unpaid fees pursuant to 28 U.S.C. §1930 and to the Clerk of the Bankruptcy Court (collectively, the "U.S. Trustee's Carve-Out").

SECTION 9.04 Perfection of Security Interests. (a) The liens and security interests granted herein shall be deemed valid, enforceable and perfected by entry of the Interim Borrowing Order and Final Borrowing Order. Notwithstanding anything herein to the contrary, no financing statement, notice of lien or similar instrument in any jurisdiction or filing office need be filed or any other action taken in order to validate or perfect the liens and security interests granted by or pursuant to this Agreement or the Interim or Final Borrowing Orders.

(b) The liens and security interests, lien property, administrative priorities and other rights and remedies granted to the Lender pursuant to this Agreement, the Interim and Final Borrowing Orders (specifically including but not limited to the existence, perfection and priority of the Liens and security interests provided herein and the administrative priority provided herein) shall not be modified, altered or impaired in any manner by any other financing or extension of credit or incurrence of debt by the Borrowers (pursuant to section 364 of the Bankruptcy Code or otherwise), or by any dismissal or conversion of the Cases, or by any other act or omission whatsoever. Without limitation, notwithstanding any such order, financing, extension, incurrence, dismissal, conversion, act or omission:

(i) except for the U.S. Trustee's Carve-Out having priority over the Obligations, no costs or expenses of administration which have been or may be incurred in the Cases or any conversion of the same or in any other proceedings related thereto, and no priority claims or claims related to any Environmental Law, are or will be prior to or on a parity with any claim of the Lender against the Borrowers in respect of any Obligation;

(ii) the liens and security interests set forth in Section 9.01 shall constitute valid, first priority perfected liens and security interests having the priority set forth in Section 9.03; and

(iii) the liens and security interests granted hereunder shall continue valid and perfected without the necessity that financing statements or any other documents be filed or that any other action be taken under applicable nonbankruptcy law.

(c) Notwithstanding subsections (a) and (b) of this Section 9.04, or any failure on the part of the Borrowers and the Lender to perfect, maintain, protect or enforce the liens and security interests in the Collateral granted hereunder, the Interim and Final Borrowing Orders shall automatically, and without further action by any Person, perfect such liens and security interests against the Collateral.

SECTION 9.05 Performance by the Lender of Borrowers' Obligations. If the Borrowers fail to perform or comply with any of their agreements contained herein and the Lender, as provided for by the terms of this Agreement, shall perform or comply, or otherwise cause performance or compliance, with such agreement, the reasonable expenses of the Lender incurred in connection with such performance or compliance, together with interest thereon at the rate then in effect in respect of the Loans, shall be payable by the Borrowers to the Lender on demand and shall constitute Obligations secured by the Collateral. Performance of Borrowers' obligations as permitted under this Section 9.05 shall in no way constitute a violation of the

automatic stay provided by section 362 of the Bankruptcy Code and each of the Borrowers hereby waives applicability thereof. Moreover, the Lender shall not in any way be responsible for the payment of any costs incurred in connection with preserving or disposing of Collateral pursuant to section 506(c) of the Bankruptcy Code and the Collateral may not be charged for the incurrence of any such cost.

SECTION 9.06 Limitation on the Lender' Duty in Respect of Collateral. The Lender shall not have any duty as to any Collateral in its possession or control or in the possession or control of the Lender or nominees of or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto, except that the Lender shall use reasonable care with respect to the Collateral in their possession or under their control. Upon request of the Borrowers, the Lender shall account for any moneys received by them in respect of any foreclosure on or disposition of the Collateral.

SECTION 9.07 Continuance of Security Interests. The rights and security interests granted to the Lender hereunder are to continue in full force and effect, notwithstanding the termination of this Agreement or the fact that the account maintained in the name of the Borrowers on the books of the Lender may from time to time be temporarily in a credit position, until the final payment in full to the Lender of all Loans and other Obligations (other than the Obligations under Sections 2.07 and 10.05 hereof that arise from and after such final payment in full) due and payable hereunder and under the other Loan Documents and the termination of this Agreement.

SECTION 9.08 Excluded Assets and NRC. Nothing that the Lender is permitted or required to do under the Loan Documents shall (i) be deemed to enable the Lender to control in any way any of the Excluded Assets, or (ii) deem the Lender to be or become (x) a licensee under the NRC or (y) subject in any way whatsoever to licensing by, or jurisdiction of, the NRC.

SECTION 9.09 Further Assurances. Each of the Borrowers shall give to the Lender, and/or shall use reasonable efforts to cause the appropriate party to give to the Lender, from time to time such additional consents, agreements and documentation with respect to the Collateral as the Lender shall require (in its sole and absolute discretion).

SECTION 10. MISCELLANEOUS

SECTION 10.01 Notices. Notices and other communications provided for herein shall be in writing (including telegraphic, telex, facsimile, email or cable communication) and shall be mailed, telegraphed, telexed, transmitted, cabled, emailed or delivered, if to any of the Borrowers, in care of the Fansteel Inc., Number One Tantalum Place, North Chicago, IL 60064, Attn: Gary Tessitore, President, Tel. No. 847-689-4900. Facsimile No. 847-689-0307 with copies to Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn: Jeffrey A. Sabin, Esq., Telephone No. (212) 756-2002, Facsimile No. (212) 593-5955 and if to the Lender to HBD Industries, Inc, 5200 Upper Metro Place, Dublin, Ohio 43017, Attn. Randy L. Greely, Telephone No. 614-526-7000, Facsimile No. 614-526-7020 with copies to Kirkpatrick & Lockhart LLP, 1251 Avenue of the Americas, New York, New York 10020; Attn: Jeffrey N. Rich, telephone no. (212) 536-4097; facsimile no. (212) 536-3901, or such other address as such

party may from time to time designate by giving written notice to the other parties. Except for the notice provided in Section 7.02 hereof, all notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the fifth Business Day after the date when sent by registered or certified mail, postage prepaid, return receipt requested, if by mail; or when delivered to the telegraph company, charges prepaid, if by telegram; or when receipt is acknowledged, if by any telegraphic communications, or facsimile equipment of the sender; or on the first Business Day after delivery to an overnight courier (charges prepaid); or when received, if by hand delivery; in each case addressed to such party as provided in this Section 10.01 or in accordance with the latest unrevoked written direction from such party; provided, however, that in the case of notices to the Lender notices pursuant to the preceding sentence with respect to change of address and pursuant to Section 2 shall be effective only when received by the Lender.

SECTION 10.02 Survival of Agreement, Representations and Warranties, etc.

All warranties, representations and covenants made by any of the Borrowers herein or in any certificate or other instrument delivered by it or on its behalf in connection with this Agreement shall be considered to have been relied upon by the Lender and shall survive the making of the Loans herein contemplated regardless of any investigation made by the Lender or on its behalf and shall continue in full force and effect so long as any amount due or to become due hereunder is outstanding and unpaid and so long as the commitments have not been terminated. All statements in any such certificate or other instrument shall constitute representations and warranties by each of the Borrowers hereunder with respect to the Borrower.

SECTION 10.03 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Borrowers, the Lender and their respective successors and assigns. The Borrowers may not assign or transfer any of their rights or obligations hereunder without the prior written consent of all of the Lender.

SECTION 10.04 Expenses. Whether or not the transactions hereby contemplated shall be consummated, the Borrowers agree to pay all out-of-pocket expenses incurred by the Lender (including but not limited to the reasonable fees and disbursements of Kirkpatrick & Lockhart LLP, special counsel for the Lender, any other counsel that the Lender shall retain and any internal or third-party appraisers, consultants and auditors advising the Lender) as to which invoices have been furnished, in connection with the preparation, execution, delivery and administration of this Agreement and the other Loan Documents, the making of the Loans, the perfection of the Liens contemplated hereby, the syndication of the transactions contemplated hereby, the reasonable and customary costs, fees and expenses of the Lender in connection with its periodic field audits, monitoring of assets, the costs of electronic communications services and publicity expenses, and, during the continuance of an Event of Default, all reasonable out-of-pocket expenses incurred by the Lender in the enforcement or protection of the rights of any one or more of the Lender in connection with this Agreement or the other Loan Documents, including but not limited to the reasonable fees and disbursements of any counsel for the Lender. Such payments shall be made on the date of the Interim Borrowing Order and thereafter on demand, promptly upon delivery of a statement setting forth such costs and expenses. The obligations of the Borrowers under this Section shall survive the termination of this Agreement

and/or the payment of the Loans. All of the Obligations of Borrowers under this Section 10.04 shall be part of and included in the term "Expenses".

SECTION 10.05 **Indemnity.** Each of the Borrowers agree to indemnify, defend and hold harmless the Lender and their directors, officers, employees, and Affiliates (each an "**Indemnified Party**") from and against any and all expenses, losses, claims, damages and liabilities, including attorneys fees, incurred by such Indemnified Party arising out of claims made by any Person in any way relating to (a) the transactions contemplated hereby or (b) any Environmental Damages in connection with the Borrowers, the Properties or Operations, including, without limitation, those arising out of (i) any Release or threatened Release on any property presently or formerly owned, leased, or operated by the Borrowers (or their predecessors in interest or title) or at any disposal facility which received Hazardous Materials generated by the Borrower (or its predecessors in interest or title); (ii) any violation of Environmental Laws; (iii) any Remedial Actions; and (iv) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to exposure to Hazardous Materials used, handled, generated, transported or disposed of by the Borrowers (or their predecessors in interest or title); but excluding therefrom all expenses, losses, claims, damages, and liabilities to the extent that they are determined by the final judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnified Party. The obligations of the Borrowers under this Section shall survive the termination of this Agreement and/or the payment of the Loans.

SECTION 10.06 **CHOICE OF LAW.** THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL IN ALL RESPECTS BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE, WITHOUT TAKING INTO ACCOUNT ANY CONFLICT OF LAWS PRINCIPLES THEREOF, AND THE BANKRUPTCY CODE.

SECTION 10.07 **No Waiver.** No failure on the part of the Lender to exercise, and no delay in exercising, any right, power or remedy hereunder or any of the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

SECTION 10.08 **Section 506(c) Waiver.** In consideration of the Loans being made available to the Borrowers by the Lender, each of the Borrowers hereby agree not to assert and affirmatively waives any claim it otherwise might have under section 506(c) of the Bankruptcy Code and agrees that the Collateral securing the Obligations to the Lender may be charged with costs or expenses only as provided for hereunder with respect to the U.S. Trustee's Carve-Out.

SECTION 10.09 **Reversal of Payments.** To the extent the Borrowers make a payment or payments to the Lender or the Lender receives any payment or Proceeds of the Collateral for the Borrowers benefit, which payment(s) or Proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or Proceeds received, the Obligations thereof intended to be satisfied shall be revived and continue in full force and effect, as if such payment or Proceeds had not been received.

SECTION 10.10 **Extension of Maturity.** Should any payment of principal or of interest or any other amount due hereunder become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of principal, interest shall be payable thereon at the rate herein specified during such extension.

SECTION 10.11 **Amendments, etc.** No modification, amendment or waiver of any provision of this Agreement or the other Loan Documents, and no consent to any departure by any of the Borrowers therefrom, shall in any event be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 10.12 **Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.13 **Headings.** Section headings used herein are for convenience only and are not to affect the construction of or be taken into consideration in interpreting this Agreement.

SECTION 10.14 **Execution in Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same instrument.

SECTION 10.15 **Prior Agreements.** This Agreement represents the entire agreement of the parties with regard to the subject matter hereof and the terms of any letters and other documentation entered into between any of the Borrowers and the Lender prior to the execution of this Agreement which relate to Loans to be made hereunder shall be replaced by the terms of this Agreement.

SECTION 10.16 **Further Assurances.** Whenever and so often as reasonably requested by the Lender, the Borrowers will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things as may be necessary and reasonably required in order to further and more fully vest in the Lender all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred by this Agreement and the other Loan Documents (including, without limitation, the execution and filing of UCC financing statements and mortgages).

SECTION 10.17 **WAIVER OF JURY TRIAL.** EACH OF THE BORROWERS, THE LENDER AND THE LENDER HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

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

BORROWERS:

FANSTEEL INC.

By: _____
Name:
Title:

PHOENIX AEROSPACE CORP.

By _____
Name:
Title:

FANSTEEL HOLDINGS, INC.

By _____
Name:
Title:

AMERICAN SINTERED TECHNOLOGIES, INC.

By _____
Name:
Title:

CUSTOM TECHNOLOGIES CORP.

By _____
Name:
Title:

FANSTEEL SCHULZ PRODUCTS

By _____
Name:
Title:

WASHINGTON MANUFACTURING CO.

By _____
Name:
Title:

ESCAST, INC.

By _____
Name:
Title:

LENDER:

HBD INDUSTRIES, INC.

By _____
Name:
Title:

Exhibit A-1 to the

FORM OF INTERIM BORROWING ORDER

SCHEDULE 3.05

SUBSIDIARIES

Fansteel Sales Corp. (Barbados)

HydroCarbide Acquisition Co. (Delaware)

HydroCarbide Corp. (Delaware)

Fansteel de Mexico S. de R.L. de C.V.

SCHEDULE 3.06

LIENS

See Attached Listing

SCHEDULE 6.07

TRANSACTIONS WITH AFFILIATES
[TO BE SATISFACTORY TO THE LENDER]

F-1

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

FANSTEEL, INC., et. al.,

Debtors.

Chapter 11

Case No. 02-10109 ()

**INTERIM ORDER PURSUANT TO SECTIONS 363 AND 364(c) OF THE
BANKRUPTCY CODE AUTHORIZING DEBTORS-IN-POSSESSION TO BORROW
MONIES AND INCUR SECURED PRIORITY ADMINISTRATION INDEBTEDNESS**

Upon the Motion dated January 15, 2002 (the "Motion") of Fansteel Inc., Phoenix Aerospace Corp., Fansteel Holdings, Inc., American Sintered Technologies, Inc., Custom Technologies Corp., Fansteel Schulz Products, Washington Manufacturing Co., Wellman Dynamics, and Escast, Inc., Debtors and Debtors-In-Possession (collectively the "Debtors"), for an Order, inter alia, (a) authorizing the Debtors to borrow monies from HBD Industries, Inc. (the "Lender"); (b) authorizing the Debtors to incur secured and superpriority administration obligations under 11 U.S.C. § 364(c) to the Lender for loans, advances and other financial accommodations to be made by the Lender to the Debtors from time to time in amounts in accordance with the Loan Documents (as hereinafter defined) and this Interim Order as hereinafter set forth, together with interest and such other charges and expenses, including attorneys' fees (hereinafter the "Post-Petition Indebtedness") in accordance with the terms of this Interim Order and the Loan Documents to be executed and delivered in connection with the transactions referred to herein; (c) securing full payment to the Lender of the Post-Petition

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1-17-02

Indebtedness by granting to the Lender liens and security interests as hereinafter provided; (d) authorizing the Debtors to execute and deliver to the Lender a certain Debtor-In-Possession Credit and Security Agreement in the form annexed to the Motion as Exhibit "A" (the "Credit Agreement") and all of the "Loan Documents", as such term is defined in the Credit Agreement, and such other instruments and agreements as are necessary or reasonably requested by the Lender to effectuate any of the foregoing (hereinafter collectively referred to as the "Loan Documents"); (e) granting the Lender a superpriority administration claim as hereinafter provided; (f) seeking interim approval of the Loan Documents; and (g) scheduling a hearing (the "Final Hearing") to consider final approval of the Loan Documents and the transactions contemplated thereby; and

IT APPEARING, that on January 14, 2002 (the "Petition Date"), the Debtors filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, et seq. (the "Bankruptcy Code") with this Court, and the Debtors have continued in the management and possession of their respective businesses and properties as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code; and

IT FURTHER APPEARING, that the Debtors do not have the funds necessary to meet their payroll and other necessary expenses for the continued operation of their businesses and have requested that the Lender make loans and advances, and furnish other financial accommodations to the Debtors on a secured basis pursuant to the terms and conditions of this Order; and

IT FURTHER APPEARING, that the relief requested herein is essential for the continued operation of the Debtors' businesses; and

IT FURTHER APPEARING, that no other sources of financing are available to the Debtors on more favorable terms than the financing offered by the Lender; and

IT FURTHER APPEARING, that the Debtors are unable to obtain unsecured credit allowable as an administration expense under section 503(b)(1) of the Bankruptcy Code; and

IT FURTHER APPEARING, certain shareholders and directors of the Lender are officers, directors and/or shareholders of one or more of the Debtors, and the Lender is willing to make the loans contemplated by the Loan Documents provided that this Interim Order is entered after full disclosure to all Notice Persons (as hereinafter defined) of the aforementioned relationships,

IT FURTHER APPEARING, that the Loan Documents and the financing arrangement contemplated therein between the Debtor and the Lender has been entered into by the Lender in good faith as required by section 364(e) of the Bankruptcy Code; and

IT FURTHER APPEARING, that the Debtors have given notice of the hearing on the Motion to each of the Debtors' twenty largest unsecured creditors, The Nuclear Regulatory Commission, the Securities and Exchange Commission and the Office of the United States Trustee (collectively the "Notice Persons") and the hearing thereon having been held by this Court on January 17, 2002; and

IT FURTHER APPEARING, that sufficient and adequate notice of the Motion and the hearing with respect thereto has been given pursuant to Bankruptcy Rule 4001(c), and no further notice of or hearing on the relief sought is required; and

IT FURTHER APPEARING, that good, adequate and sufficient cause has been shown to justify the granting of the relief requested herein, and upon the record of the hearing held by this Court and good and sufficient cause having been shown for entry of this Interim Order,

NOW, THEREFORE, upon the Motion, and the pleadings in this case, and the record of the proceedings heretofore held before this Court with respect to the Motion, this Court finds as follows:

A. The Debtors are unable to obtain unsecured credit, allowable under sections 503(b) and 507(b) of the Bankruptcy Code, or pursuant to section 364(a) and (b) of the Bankruptcy Code.

B. No source of financing exists on more favorable terms than the financing offered by the Lender.

C. The Debtors have provided actual notice of the terms of the Motion and the relief requested thereunder by facsimile or overnight delivery on or before January 15, 2002 to all of the Notice Persons and the attorneys for the Lender, all as more fully described in the Certificate of Service filed by counsel for the Debtors. Accordingly, sufficient and adequate notice of the Motion and the hearing with respect thereto has been given pursuant to Bankruptcy Rule 4001(c) and section 102(1) of the Bankruptcy Code as required by section 364(e) of the Bankruptcy Code and no further notice of, or hearing on the relief sought in the Motion is necessary or required.

D. Consideration of the Motion constitutes a "core proceeding" as defined in 28 U.S.C. §§157(b)(2)(A), (D), (G) and (O). This Order is subject to, and the Lender is entitled to the benefits of and the provisions of section 364(e) of the Bankruptcy Code. This Court has

jurisdiction over this proceeding and the parties and property affected hereby pursuant to 28 U.S.C. §§157 and 1334.

E. The terms of the Loan Documents between the Debtors and the Lender, pursuant to which post-petition loans and advances may be made by the Lender to the Debtors, have been negotiated in good faith and at arm's length, as these terms are used in section 364(e) of the Bankruptcy Code, and are in the best interests of the Debtors' estates and their creditors.

F. Good, adequate and sufficient cause has been shown to justify the granting of the relief requested herein, and it is accordingly.

ORDERED, that the Debtors and Lender have agreed on Loan Documents and the terms and conditions thereof are incorporated herein by reference; and it is further

ORDERED, that the Debtors be, and each of them hereby is, authorized to execute and enter into each of the Loan Documents; and it is further

ORDERED, that pursuant to section 364 of the Bankruptcy Code, the Debtors be, and each of them hereby is authorized to borrow monies from, obtain other financial accommodations from and incur obligations to the Lender and the Lender is authorized to make advances to the Debtors in accordance with the terms of the Loan Documents, in an amount not to exceed Five Hundred Thousand (\$500,000) Dollars from the Closing Date, as such term is defined in the Loan Documents, until the entry of the Final Borrowing Order, as such term is defined in the Loan Documents, following the Final Hearing and it is further

ORDERED, that the obligations of the Debtors to the Lender under the Loan Documents shall be joint and several; and it is further

ORDERED, that the Debtors shall use the proceeds of the loans and advances made by the Lender to Debtors solely for the payment of employee salaries, payroll taxes, collection of accounts, and other general operating and working capital purposes, and for such other general corporate purposes of the Debtors as may be permitted in accordance with the terms and conditions of the Loan Documents; and it is further

ORDERED, that effective as of the Petition Date, pursuant to section 364(c) (2) and (3) of the Bankruptcy Code, payment to the Lender of all of the Post-Petition Indebtedness be and hereby is secured by the Debtors' grants to the Lender of liens on and security interests in the "Collateral", as such terms as defined in the Debtor-In-Possession Credit and Security Agreement including, without limitation, the following assets of the Debtors;

(a) (i) all accounts created by or arising from the Debtors' sales of inventory or rendition of services to their customers, and (ii) all accounts arising from sales, rendition of services made by the Debtors under their trade names or styles, whether or not presently in effect, or replevin, reclamation and stoppage in transit relating to any or all of the foregoing or arising therefrom through any of the Debtors' divisions or otherwise; (iii) unpaid seller's rights (including rescission); (iv) rights of the Debtors' to payment for inventory sold or leased; (v) rights to any inventory represented by an account, including rights to returned or repossessed inventory; (vi) reserves and credit balances arising hereunder; (vii) guarantees or collateral for any of the foregoing; (viii) insurance policies or rights relating to any of the foregoing; and (ix) cash and non-cash proceeds of any and all of the foregoing. The liens on the Collateral granted hereunder and under the Loan Documents shall be first priority on any Collateral not otherwise

subject to a lien, and shall be junior to all liens to which the Collateral was otherwise subject on the Petition Date.

(b) all of the Debtors' present and hereafter acquired merchandise, inventory and goods, and all additions, substitutions and replacement thereof, wherever located, together with all goods and materials used or usable in manufacturing, processing, packaging or shipping same; in all stages of production -- from raw materials through work-in-progress to finished goods together with insurance policies or rights relating to any of the foregoing and cash and non-cash proceeds of any and all of the foregoing. The liens on the Collateral granted hereunder and under the Loan Documents shall be first priority on any Collateral not otherwise subject to a lien and shall be junior to all liens to which the Collateral was otherwise subject on the Petition Date.

ORDERED, that the security interests granted to Lender in the Loan Documents and authorized herein are deemed perfected without the necessity of the filing by the Lender of Uniform Commercial Code Financing Statements or other instruments.

ORDERED, that the Post-Petition Indebtedness shall have superpriority pursuant to section 364(c)(1) of the Bankruptcy Code over any other superpriority claim granted in this case and over all administrative expenses incurred and priority claims arising in this case or any subsequent case, including those claims specified in sections 503(b), 506(c), 507(a), 507(b) of the Bankruptcy Code and such superpriority claim in favor of the Lender shall at all times be senior to the rights of the Debtors or trustee in this or any subsequent case under the Bankruptcy Code, but which superpriority claims shall not be payable from any recoveries from actions brought pursuant to the provisions of chapter 5 of the Bankruptcy Code; and it is further

ORDERED, that notwithstanding the foregoing, the liens, security interests and superpriority claims granted to the Lender shall not be senior to or have priority over the quarterly fees payable to the United States Trustee pursuant to 28 U.S.C. §1930; and it is further

ORDERED, that except as provided in the Loan Documents, until all of the Post-Petition Indebtedness shall have been indefeasibly paid in full or the Lender shall have consented thereto in writing, the Debtors may not at any time apply for or acquiesce in an application for an order (i) which authorizes under section 363 of the Bankruptcy Code the use of the cash proceeds of the Collateral, or (ii) under section 364 of the Bankruptcy Code, which authorizes the obtaining of credit or the incurring of indebtedness secured by a lien and security interest on property which is equal or senior to that possessed by the Lender, or by a superpriority claim, which is equal or superior to that granted to the Lender herein; and it is further

ORDERED, that the Debtors be, and each of them, hereby is authorized and directed to promptly reimburse the Lender for all present and future costs and expenses incurred by the Lender to effectuate the financing transactions herein described in this Interim Order to the extent set forth in the Loan Documents, including, but not limited to, all filing and recording fees, reasonable audit and field examination expenses, other costs and expenses, and reasonable attorneys' fees relating to the Loan Documents, including, but not limited to, negotiating, documenting, and obtaining this Court's approval of the Loan Documents, and all proceedings in connection with the interpretation, implementation, amendment, modification, and administration of the Loan Documents and the enforcement of the Lender's rights thereunder, and all reasonable costs and expenses arising in connection therewith or related thereto, all of

which costs and expenses shall be and are included in the Post-Petition Indebtedness; and it is further

ORDERED, that the Loan Documents shall continue in full force and effect until all of the "Obligations" as such term is defined in the Debtor-In-Possession Credit and Security Agreement are fully paid, unless terminated as provided therein; and it is further

ORDERED, that in the event of the occurrence of any default or Event of Default under any of the Loan Documents (A) all of the Post-Petition Indebtedness shall become immediately due and owing and all obligations of the Lender hereunder and under the Loan Documents or otherwise shall terminate, and (B) at any time thereafter, the Lender may settle an order upon five (5) Business Days' notice to counsel for the Debtors, counsel for any statutory committee appointed in any of the Debtors' chapter 11 cases, if any, and the United States Trustee, seeking relief from the automatic stay under section 362 of the Bankruptcy Code to permit the Lender to assert its rights as a secured party after default, as provided in the Loan Documents, the Uniform Commercial Code and other applicable law, to, at its sole discretion, proceed against and realize upon the Collateral, all without further Order of this Court; and it is further

ORDERED, that the provisions of this Order shall survive entry of any subsequent Order, whether the same be an Order confirming a Plan or Plans of reorganization the Debtors or converting one or more of these chapter 11 cases to a case or cases under chapter 7 of the Bankruptcy Code, and the provisions of this Order as well as the liens, security interests, and superpriority claims arising pursuant thereto in favor of the Lender shall continue in this and any subsequent case under the Bankruptcy Code and shall be binding on the Debtors' successors and assigns (including any trustee or other fiduciary hereafter appointed as a legal representative of

the Debtors or with respect to property of the Debtors' estates whether in these chapter 11 cases or any subsequent chapter 7 case), and such liens, security interests, and superpriority claims shall maintain their priority as provided for under this Order until all of the Post-Petition Indebtedness is paid in full; and it is further

ORDERED, subject to the terms of the Loan Documents, that the Post-Petition Indebtedness and the Loan Documents shall not be altered, extended or affected by any plan confirmed in these chapter 11 cases or by any other action taken or relief sought in these chapter 11 cases or any subsequent chapter 7 case of a Debtor hereafter; and it is further

ORDERED, that the Lender shall be entitled to the full protection of section 364(e) of the Bankruptcy Code and in the event any or all of the provisions of this Interim Order are hereafter modified, vacated or stayed by subsequent order of this Court or any other court, such stay, modification or vacatur shall not affect either the (a) validity of any obligations to the Lender incurred pursuant to this Interim Order and the Loan Documents and which is incurred prior to the effective date of such stay, modification or vacatur, or (b) the validity and enforceability of any lien, security interest and/or superpriority claim authorized herein with respect to any such obligations to the Lender, and notwithstanding such stay, modification or vacatur, any obligations of the Debtors to the Lender pursuant to this Interim Order arising prior to the effective date of such stay, modification or vacatur shall be governed in all respects by the original provisions of this Interim Order, and the Lender shall be entitled to all of its rights, privileges and benefits, including, without limitation, the liens, security interests, superpriority claims and collection rights granted herein to or for the benefit of the Lender; and it is further

ORDERED, that the Loan Documents are subject to the terms and conditions of this Order, and to the extent that any of the terms and conditions of the Loan Documents are in conflict with the terms of this Interim Order, this Interim Order shall govern; and it is further

ORDERED, that the Debtors shall promptly mail copies of this Order to (a) their twenty largest unsecured creditors, (b) The Office of the United States Trustee for Region Three, (c) The Nuclear Regulatory Commission, (d) the Securities and Exchange Commission; (e) the Lender; and 9(f) all parties who have entered their appearance pursuant to Bankruptcy Rule 2002; and it is further

ORDERED, that any other further obligation for notice of the relief granted herein and of the Final Hearing shall be, and hereby is, dispensed with and waived; and it is further

ORDERED, that the Final hearing is scheduled on the Motion for February 7, 2002, at 5:00 p.m. before this Court; and it is further

ORDERED, that any party in interest objecting to the relief sought at the Final Hearing shall serve and file a written objection, which objection shall be served upon (i) counsel for the Debtors, Pachulski, Stang, Ziehl, Young & Jones P.C., 919 North Market Street, Wilmington, Delaware 9800-8705, Attention: Laura Davis Jones, Esq. and Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attention: Jeffrey S. Sabin, Esq. and Mark A. Broude, Esq. and (ii) counsel for the Lender, Kirkpatrick & Lockhart LLP, 1251 Avenue of the Americas, New York, New York 10022, Attention: Jeffrey N. Rich, Esq. so that it is received no later than five (5) days before such hearing; and it is further

ORDERED, that the Clerk of Court is hereby directed to forthwith enter this Order on the docket of this Court maintained with regard to these cases.

Dated: Wilmington, Delaware
January 17 2002


JUDGE