

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

| | | |
|---|---|--|
| In re: |) | Chapter 11 |
| FANSTEEL INC., <i>et al.</i> , ¹ |) | Case No. 02-10109 (JJF) |
| |) | (Jointly Administered) |
| Debtors. |) | |
| |) | Objection Deadline: February 11, 2002 at 4:00 p.m. |
| |) | Hearing Date: February 14, 2002 at 12:30 p.m. |

**NOTICE OF APPLICATION PURSUANT TO FEDERAL RULE OF BANKRUPTCY
PROCEDURE 2014(A) FOR ORDER UNDER SECTION 327(A) OF THE
BANKRUPTCY CODE AUTHORIZING THE EMPLOYMENT AND RETENTION OF
LINCOLN PARTNERS L.L.C. AS INVESTMENT BANKERS FOR
DEBTORS AND DEBTORS IN POSSESSION**

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 *Application Pursuant to Federal Rule of Bankruptcy Procedure 2014(a) for Order Under Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Lincoln Partners L.L.C. as Investment Bankers for Debtors and Debtors in Possession* (the “Application”) with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801 (the “Court”), seeking the retention of Lincoln Partners L.L.C. as their investment bankers. A true and correct copy of the Application is attached hereto.

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.
27311-001\DOCS_DE:38712.1

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Objections and other responses to the Application, 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 11, 2002 at 4:00 p.m. prevailing eastern time.

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

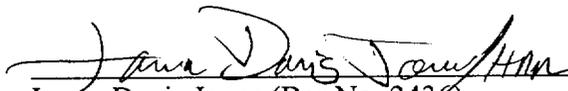
IN THE EVENT THAT ANY OBJECTION OR RESPONSE IS FILED AND SERVED IN ACCORDANCE WITH THIS NOTICE, A HEARING ON THE APPLICATION WILL BE HELD ON FEBRUARY 14, 2002 AT 12:30 P.M. EASTERN TIME BEFORE THE HONORABLE JOSEPH J. FARNAN, JR., UNITED STATES DISTRICT COURT JUDGE FOR THE DISTRICT OF DELAWARE, 844 N. KING STREET, 6TH FLOOR, COURTROOM 6A, WILMINGTON, DELAWARE.

Dated: January 22, 2002

SHULTE ROTH & ZABEL LLP
Jeffrey S. Sabin
Mark A. Broude
919 Third Avenue
New York, NY 10022
Telephone: (212) 756-2000
Facsimile: (212) 593-5955

and

PACHULSKI, STANG, ZIEHL, YOUNG & JONES P.C.



Laura Davis Jones (Bar No. 2436)
Hamid Rafatjoo (CA Bar No. 181564)
Rosalie L. Spelman (Bar No. 4153)
919 North Market Street, 16th Floor
P.O. Box 8705
Wilmington, DE 19899-8705 (Courier 19801)
Telephone: (302) 652-4100
Facsimile: (302) 652-4400

[Proposed] Co-Counsel for the 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.)

**APPLICATION PURSUANT TO FEDERAL RULE OF BANKRUPTCY PROCEDURE
2014(A) FOR ORDER UNDER SECTION 327(a) OF THE BANKRUPTCY CODE
AUTHORIZING THE EMPLOYMENT AND RETENTION OF
LINCOLN PARTNERS L.L.C. AS INVESTMENT BANKERS
FOR DEBTORS AND DEBTORS IN POSSESSION**

The captioned debtors and debtors in possession (collectively the “Debtors” or “Fansteel”) hereby submit this Application Pursuant to Federal Rule of Bankruptcy Procedure 2014(a) for an Order Under Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Lincoln Partners L.L.C., as Investment Bankers for Debtors and Debtors in Possession (the “Application”). In support of this Application, Debtors rely on the Affidavit of Patrick M. Goy, a Managing Director of Lincoln Partners (“Goy Affidavit”). In addition, Debtors respectfully represent as follows:

Jurisdiction

1. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. § 1334.

This matter is a core proceeding within the meaning of 28 U.S.C. §§ 157(b)(2).

2. The statutory bases for the relief requested herein are sections 327(a), 328 and 330 of the Bankruptcy Code and Bankruptcy Rules 2002, 2014 and 6004.

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.

Background

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

A. Pre-Petition Unsecured Lenders

4. 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.²

B. Causes Leading to the Bankruptcy Filings

5. 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 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.

6. 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

² 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.

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).

7. 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

8. By this Application, Debtors seek to employ and retain the firm of Lincoln Partners L.L.C. ("Lincoln Partners") as their investment bankers. Accordingly, Debtors respectfully request the entry of an order pursuant to section 327(a) of the Bankruptcy Code authorizing them to employ and retain the firm of Lincoln Partners as their investment bankers during these chapter 11 case.

9. Debtors seek to retain Lincoln Partners as their investment bankers because of Lincoln Partners' considerable experience providing investment banker's services in bankruptcy proceedings. Consequently, the Debtors believe that Lincoln Partners is well qualified to assist the Debtors in this case.

10. Subject to Court approval in accordance with Section 330(a) of the Bankruptcy Code, compensation will be payable to Lincoln Partners in accordance with the terms of the letter agreement between Lincoln Partners and Fansteel, Inc. dated January 14, 2002, (the "Letter Agreement") attached hereto as Exhibit A.

11. Lincoln Partners will assist the Company's management by:
- a) indentifying corporations, partnerships, individuals or other entities who might be interested in entering into a Transaction with Fansteel relating to it or one or more of its Specified Divisions ("Divisions");
 - b) compiling a compendium of data that provides information on the Divisions' operations, management, results of operations and financial condition and that incorporates current financial data and other information deemed relevant by the Company (as amended and supplemented from time to time) (the "Information Memorandum");
 - c) formulating and recommending a strategy for the sale of one or more of its Divisions;
 - d) contacting and eliciting interest from prospective purchasers;

- e) conveying information desired by prospective purchasers not contained in the Information Memorandum (the "Supplemental Information");
- f) reviewing and evaluating prospective purchasers;
- g) reviewing and analyzing all proposals, both preliminary and firm, that are received from prospective purchasers;
- h) negotiating to the extent requested by the Company, with prospective purchasers; and
- i) providing testimony and restructuring advice to the extent reasonably requested by the Company in connection with any judicial proceeding for the approval of a Transaction.

12. To the best of Debtors' knowledge, and except as disclosed in the Goy Affidavit, Lincoln Partners has not represented Debtors, their creditors, equity security holders, or any other parties in interest, or its respective attorneys, in any matter relating to Debtors or their estates.

13. To the best of Debtors' knowledge and except as otherwise disclosed in the Goy Affidavit, Lincoln Partners does not hold or represent any interest adverse to Debtors' estates. Lincoln Partners is a "disinterested person" as that phrase is defined in Section 101(14) of the Bankruptcy Code. Lincoln Partners' employment is necessary and in the best interests of Debtors and their estates.

14. Lincoln Partners will receive an initial non-refundable cash retainer of \$50,000 from Debtors upon execution of the Letter Agreement, dated January 14, 2002, between Lincoln Partners and Fansteel. A true and correct copy of the Letter Agreement is attached hereto and incorporated herein by reference.

Notice

15. Notice of this Application has been given to: (i) the U.S. Trustee and (ii) counsel to Debtors' proposed postpetition lenders. Debtors will also provide notice of this Application to Debtors' twenty (20) largest unsecured creditors and all parties who have entered their appearance pursuant to Rule 2002 of the Federal Rules of Bankruptcy Procedure. In light of the nature of the relief requested, Debtors submit that no other or further notice is required.

WHEREFORE, Debtors request entry of an Order substantially in the form attached hereto, authorizing Debtors to employ and retain Lincoln Partners as investment bankers, and granting such other and further relief as is just and proper.

FANSTEEL INC., FANSTEEL HOLDINGS, INC.,
CUSTOM TECHNOLOGIES CORP., ESCAST, INC.,
WELLMAN DYNAMICS CORP., WASHINGTON MFG.
CO., PHOENIX AEROSPACE CORP., AMERICAN
SINTERED TECHNOLOGIES, INC., FANSTEEL
SCHULZ PRODUCTS, INC.

By: 
Its: CEO

EXHIBIT A



EXHIBIT A

January 14, 2002

Mr. G. L. Tessitore
Chairman, President and Chief Executive Officer
Fansteel, Inc.
Number One Tantalum Place
North Chicago, IL 60064

Dear Mr. Tessitore:

This Letter Agreement confirms our mutual understanding regarding the retention of Lincoln Partners L.L.C. ("Lincoln Partners") by Fansteel, Inc. (the "Company") to act as its exclusive investment banking representative in connection with the proposed sale of the Company or one or more of its divisions, subsidiaries, lines of business or joint ventures ("Divisions").

Lincoln Partners' Services and Role

1. Lincoln Partners will assist the Company's management in: (a) identifying corporations, partnerships, individuals or other entities (each together with its affiliates, a "Prospective Purchaser") who might be interested in entering into a Transaction (as defined in paragraph two) with the Company relating to the Specified Divisions (as defined in paragraph eight); (b) compile a compendium of data that provides information on the Specified Divisions' operations, management, results of operations and financial condition and that incorporates current financial data and other information deemed relevant by the Company (as amended and supplemented from time to time) (the "Information Memorandum"); (c) formulating and recommending a strategy for the sale of the Specified Divisions; (d) contacting and eliciting interest from Prospective Purchasers; (e) conveying information desired by Prospective Purchasers not contained in the Information Memorandum (the "Supplemental Information"); (f) reviewing and evaluating Prospective Purchasers; (g) reviewing and analyzing all proposals, both preliminary and firm, that are received from Prospective Purchasers; (h) negotiating, to the extent requested by the Company, with Prospective Purchasers; and (i) providing testimony and restructuring advice to the extent reasonably requested by the Company in connection with any judicial proceeding for the approval of a Transaction. The initial list of Prospective Purchasers will be submitted in writing by Lincoln Partners to the Company as will any subsequent list of Prospective Purchasers.

2. As used in this Letter Agreement, the term "Transaction" shall mean: (a) the acquisition, directly or indirectly, by a Prospective Purchaser (which may include a group of Prospective Purchasers) in a single transaction or a series of transactions, of (i) all or a significant portion of the assets or operations of the Company, or one or more of its Divisions or (ii) beneficial ownership of fifty percent (50%) or more of the outstanding stock or voting power of the Company or another entity which owns the stock or assets of a Division or the Company; (b) any merger, consolidation, reorganization, recapitalization, business combination or other transaction pursuant to which the Company or the voting control of the Company, is acquired by, or



combined with, a Prospective Purchaser; or (c) any other transaction involving a transfer of a material interest in the Company or one or more of its Divisions or lines of business, including without limitation by means of investment by a third party, a strategic alliance or joint venture; provided, however, that the term "Transaction" shall not include in whole or in part the reorganization or restructuring of the Company or any of its Divisions in connection with any Chapter 11 proceeding under the Bankruptcy Code which does not include a sale of a Division or Divisions or the Company by Lincoln Partners (as defined below).

3. In order that the Company and Lincoln Partners best coordinate their efforts to effect a Transaction during the period of Lincoln Partners' engagement, the Company and Lincoln Partners agree that: (a) Lincoln Partners will be the sole and exclusive investment banking representative of the Company in the sale of the Specified Divisions; (b) in the event the Company continues or initiates any discussions relating to the possible sale of any of the Specified Divisions other than through Lincoln Partners, the Company agrees to coordinate these discussions with Lincoln Partners and each of those entities so contacted shall be deemed to be a Prospective Purchaser; (c) in the event the Company receives an unsolicited inquiry concerning any of the Specified Divisions with respect to matters covered by this Letter Agreement, the Company will refer any such inquiry to Lincoln Partners and each of these unsolicited inquiries for the Specified Divisions shall be deemed to be a Prospective Purchaser; and (d) Lincoln Partners will not contact any Prospective Purchaser unless such Prospective Purchaser is approved by the Company and will not furnish any Information (as defined below) to any such Prospective Purchaser unless approved by the Company. The Company and Lincoln Partners also agree that if a Prospective Purchaser enters into a Transaction for the Company or one or more of its Divisions, then Lincoln Partners shall be entitled to a Success Fee (as defined in paragraph eight). The Company shall not, during the period of Lincoln Partners' engagement, retain any other investment banking representative unless Lincoln Partners is offered such engagement on terms generally no less favorable than any other firm would be willing to undertake such assignment.

Information

4. In connection with Lincoln Partners' activities on the Company's behalf, the Company will furnish Lincoln Partners with information and data concerning the Company and the Divisions (the "Information"). To the best of the Company's knowledge all Information: (a) made available to Lincoln Partners by the Company; or (b) contained in any Information Memorandum or Supplemental Information will, at all times during the period of engagement of Lincoln Partners hereunder, be complete and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances under which such statements are made. Further, any projections provided by the Company to Lincoln Partners contained in the Information, Information Memorandum or Supplemental Information will be prepared in good faith and will be based upon assumptions which, in light of the circumstances under which they are made, are reasonable. The Company will promptly notify Lincoln Partners if it learns of any material inaccuracy or misstatement in, or omission from, any Information previously delivered to Lincoln Partners. The Information Memorandum and every item of Supplemental Information will be specifically approved by the Company in advance of distribution. The



Company acknowledges and agrees that Lincoln Partners will be using and relying on the Information (and information available from public sources and other sources deemed reliable by Lincoln Partners) without assuming any responsibility for independent verification thereof or independent appraisal of any of the Company's or any Division's assets. Lincoln Partners does not assume responsibility for the accuracy or completeness of the Information or any other information regarding the Company or any Division.

5. In evaluating Prospective Purchasers, Lincoln Partners will be using publicly available information; information contained in public reports provided by third party vendors (such as Dun & Bradstreet, Inc.); and other information furnished to Lincoln Partners by such Prospective Purchasers. Lincoln Partners does not assume responsibility for the accuracy or completeness of any information regarding a Prospective Purchaser contained in public sources or provided by a Prospective Purchaser.

6. The Company will provide Lincoln Partners with reasonable access to the Company's employees, independent accountants and legal counsel and other third parties having a relationship with the Company to the extent Lincoln Partners shall deem reasonably necessary in connection with the performance of its services hereunder.

7. In the event that the Company commences a Chapter 11 proceeding, the Company, as soon as possible, will use reasonable efforts (i) to obtain approval by the Bankruptcy Court of the engagement and compensation and reimbursement of expenses agreement described herein in accordance with sections 327 and 328 of title 11 of the United States Code ("Bankruptcy Code") and other applicable law and (ii) to assist Lincoln Partners in obtaining Bankruptcy Court approval of Lincoln Partners' compensation and expenses as described herein. The compensation described in paragraph eight below has been agreed upon and shall be payable as provided herein, except that upon the commencement of a Chapter 11 proceeding, such payment will be made when approved by the Bankruptcy Court. In the event the Company obtains secured financing, other than the contemplated financing from HBD Industries, the Company agrees that it shall obtain from the secured lenders a carve out sufficient for the payment of fees earned by Lincoln Partners from the proceeds of a Transaction which may include assets upon which lenders' liens are attached. The Company acknowledges and agrees that the compensation payable to Lincoln Partners hereunder is reasonable. Furthermore, the Company understands that the hours worked, the results achieved, or the ultimate benefit to the Company and its bankruptcy estate of the work performed may be variable and the Company has taken this into account in setting the compensation described in paragraph eight below. Lincoln Partners will make every effort to coordinate with the other professionals retained by the Company in its bankruptcy case in order to eliminate unnecessary duplication or overlap of work.

Compensation

8. In consideration of Lincoln Partners' services pursuant to this Letter Agreement, Lincoln Partners shall be entitled to receive, and the Company agrees to pay Lincoln Partners, the following compensation:



- (a) An initial non-refundable cash retainer of \$50,000 payable to Lincoln Partners, which will be paid upon execution of this Letter Agreement.
- (b) A monthly non-refundable cash retainer of \$30,000 payable to Lincoln Partners of which 50% of the first three monthly payments will be applied to the initial Success Fee paid as defined herein.
- (c) If a Transaction or Transactions are consummated with the Division or Divisions (a "Specified Division") listed below there shall be paid to Lincoln Partners fees ("Success Fee") as indicated:

| <u>Division(s)</u> | <u>Success Fee</u> |
|---|---|
| California Drop Forge | \$300,000 plus 5% of Sale Price over \$5.5 million plus \$100,000 if a Transaction is closed within 90 days of engagement. |
| California Drop Forge and Schulz Products, Inc. | \$300,000 plus 5% of the Sale Price over \$8 million plus \$150,000 if a Transaction is closed within 90 days of engagement. |
| VR/Wesson - Hydro Carbide (including Plantsville and Lexington) | \$425,000 plus 5% of the Sale Price over \$18.5 million plus \$200,000 if a Transaction is closed within 90 days of engagement. |
| VR/Wesson - Hydro Carbide | \$300,000 plus 5% of the Sale Price over \$14.5 million plus \$150,000 if a Transaction is closed within 90 days of engagement. |
| VR/Wesson - Hydro Carbide and Plantsville | \$300,000 plus 5% of the Sale Price over \$15 million plus \$150,000 if a Transaction is closed within 90 days of engagement. |
| VR/Wesson - Hydro Carbide and Lexington | \$300,000 plus 5% of the Sale Price over \$17 million plus \$150,000 if a Transaction is closed within 90 days of engagement. |
| VR/Wesson - Plantsville and Lexington | \$200,000 plus 5% of the Sale Price over \$4 million. |
| VR/Wesson - Lexington | \$200,000 plus 5% of the Sale Price over \$4 million. |

In the event of a separate Transaction with a Prospective Purchaser for a Division or Divisions (other than a Specified Division) or the Company, Lincoln Partners shall be entitled to a Success Fee per Transaction equal to \$300,000 plus a percentage of the Sale Price over an amount to be negotiated in good faith by the Company and Lincoln Partners. No success fee shall be due



Lincoln Partners for a transaction related to a Division that is not a Specified Division or the Company with an entity that is not a Prospective Purchaser.

- (d) The Success Fees shall be earned, due and payable in cash at the time of the closing of a Transaction, and shall be calculated in accordance with the following principles:
- (i) The portion of the Sale Price received by the Company at closing shall be computed consistently with paragraph nine hereof; and
 - (ii) The amount of Success Fee payable with respect to any holdback, escrowed amount or contingent portion of the Sale Price shall be paid when such amounts are paid to the Company or its estate unless the Company and Lincoln Partners can agree to such amount that will be paid at closing.

9. For the foregoing purposes the "Sale Price" shall be the aggregate consideration in connection with a Transaction, including without limitation the sum of the following values identified in (a) through (g).

- (a) Cash and cash equivalents paid to the Company or its estate;
- (b) Market value of any common stock issued to the Company or its estate;
- (c) The market value of any preferred stock issued to the Company or its estate;
- (d) The face value of any notes or other evidence of indebtedness issued to the Company or its estate;
- (e) The face value of any debt for money borrowed and owed by the Company which is assumed and/or forgiven by or in connection with the entity purchasing the Company (the "Purchaser");
- (f) Consideration paid or payable under covenants not to compete, earn-outs, royalties, and management or consulting arrangements (such terms not to encompass standard employment agreements) between the Company and the Purchaser; and
- (g) The book value (net of reserves and other provisions) of the trade accounts receivable associated with the Company's Division(s), to the extent that the Transaction relates to such Division, and the fair market value of other readily liquid and marketable Company assets listed on such Division's balance sheet, prepared in a manner consistent with past practices, but retained by the Company's estate after closing.

10. Notwithstanding termination of this Letter Agreement or Lincoln Partners' engagement hereunder, in the event the Company (i) consummates a Transaction with a Prospective Purchaser pursuant to a definitive sale agreement entered into during the term hereof, or (ii) if the Company terminates this Letter Agreement and the Company consummates a Transaction



with a Prospective Purchaser or enters into a definitive sale agreement regarding a Transaction with a Prospective Purchaser within eighteen (18) months of the termination date of this Letter Agreement (which subsequently results in a Transaction), Lincoln Partners shall be entitled to the Success Fee as set forth in paragraph eight above.

11. In addition to the fees described in paragraph eight above, the Company agrees to promptly reimburse Lincoln Partners, upon request from time to time, for all reasonable out-of-pocket expenses incurred by Lincoln Partners in connection with the matters contemplated by this Letter Agreement, including without limitation, transportation, lodging, meals, communications, copying, printing and document services. The Company also agrees to promptly reimburse Lincoln Partners for its out-of-pocket expenses for legal services up to \$5,000, provided however, that the Company agrees that the Company's counsel shall assist in the preparation of fee applications on behalf of Lincoln Partners required by the Bankruptcy Court. Lincoln Partners will provide the Company with a reasonably itemized list of such out-of-pocket expenses for which reimbursement is required.

12. The Company hereby agrees to include Lincoln Partners in any final bankruptcy court order which holds providers of professional services to the Company harmless for their actions.

Other Terms

13. Either party hereto may terminate this Letter Agreement at any time but only upon written notice to the other party, without liability or continuing obligation except as set forth in this paragraph 13. The parties further agree that this Letter Agreement shall be deemed terminated if the Bankruptcy Court shall not have approved the retention of Lincoln Partners within twenty-five (25) days of the commencement of the Company's bankruptcy case and in the case of a termination pursuant to this sentence, the provision of paragraph 10(ii) above shall not apply. Neither the termination of this Letter Agreement nor Lincoln Partners' engagement hereunder shall affect: (a) any compensation earned by Lincoln Partners up to the date of termination or completion, or after termination, as the case may be, pursuant to paragraph eight; (b) the reimbursement of expenses incurred by Lincoln Partners up to the date of termination or completion, as the case may be, pursuant to paragraph 11; (c) the provisions of paragraphs 16 and 17 of this Letter Agreement, all of which shall remain operative and in full force and effect; and (d) the Confidentiality Agreement entered into between Lincoln Partners and the Company on July 27, 2000.

14. Lincoln Partners makes no representations, express or implied, that its efforts on behalf of the Company will result in a Transaction.

15. Lincoln Partners agrees that there will be no obligation on the part of the Company to negotiate with or accept any offer from any prospective purchaser unless, in the Company's sole discretion, the terms and conditions shall be acceptable to the Company and the Bankruptcy Court approves such offer.



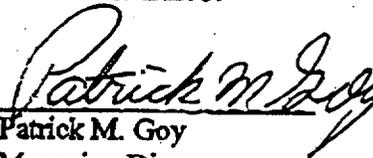
16. Any advice rendered by Lincoln Partners pursuant to this Letter Agreement may not be disclosed publicly without Lincoln Partners' prior written consent, except as required by the Bankruptcy Code or legal process.

17. Lincoln Partners may publish, at its own expense, an advertisement announcing the completion of a Transaction (including the name of the Company and the Division) and Lincoln Partners' role therein.

If the foregoing correctly sets forth our understanding, please sign the enclosed copy of this Letter Agreement in the space provided and return it to us.

Very truly yours,

Lincoln Partners L.L.C.

By: 
Patrick M. Goy
Managing Director

Accepted and agreed to this
___ day of January 2002

Fansteel, Inc.

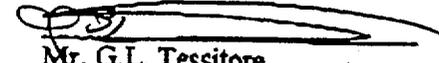
By: 
Mr. G.L. Tessitore
Chairman, President and Chief Executive Officer

EXHIBIT B

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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

State of Illinois)
)ss
County of Cook)

AFFIDAVIT OF PATRICK M. GOY

I, Patrick M. Goy having been first duly sworn, state:

1. I am a Managing Director of Lincoln Partners, L.L.C. ("Lincoln Partners") an investment banking firm.
2. Lincoln Partners, its members and associates, have extensive experience in investment banking matters, including the sale of companies involved in insolvency proceedings. The firm is well qualified to represent the debtor and debtors-in-possession and is willing to accept employment on the terms set forth in the Application to Employ Investment Bankers filed with the Court.
3. Lincoln Partners, its members and associates, have not represented or been employed by the debtor and debtors-in-possession in the twelve months prior to filing.
4. Lincoln Partners, its members and associates, have not held any position with the debtors and debtors-in-possession in the two years prior to filing.

5. Lincoln Partners, its members and associates, have not been represented or employed by any officer, director, shareholder, partner, limited partner, or any other entity that has guaranteed an obligation of the debtor, or is liable on an obligation of the debtor, or pledged property to secure an obligation of the debtor, in the twelve months prior to filing.

6. Lincoln Partners, its members and associates, have not represented or been employed by any of the listed 20 largest creditors of the Debtors within the year prior to the date of the petition.

7. Lincoln Partners, its members and associates, have no connection with any other party in interest, their respective attorneys and accountants, the United States Trustee, or any person employed in the office of the United States Trustee.

8. Lincoln Partners, its members and associates, do not hold or represent any interest adverse to that of the estate.

9. Lincoln Partners, its members and associates, have knowledge regarding the issues pending in this case, and its services are necessary and appropriate and will be of great benefit to the debtor and the estate.

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.

10. Lincoln Partners, its members and associates, will seek, subject to approval of the Court, compensation, as set for in the Application and in the Letter Agreement attached as Exhibit A to the Application and incorporated in the Application by reference.



Patrick M. Goy
Managing Director
Lincoln Partners
181 West Madison Street Ste 3750
Chicago, IL 60602

STATE OF ILLINOIS)
) SS:
COUNTY OF Will)

Before me, a Notary Public, in and for said State and County, personally appeared Patrick M. Goy who being first duly sworn upon his oath, deposes and says that he has read the above and foregoing and affirms the truth of its contents.

DATED this 14th day of January, 2002.

My Commission Expires:

Krista L. Giertuga
_____, Notary Public
Resident of Will County, IL



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. |) | |

**ORDER UNDER SECTION 327(a) OF THE BANKRUPTCY CODE
AUTHORIZING THE EMPLOYMENT AND RETENTION OF
LINCOLN PARTNERS L.L.C. AS INVESTMENT BANKERS
FOR DEBTORS AND DEBTORS IN POSSESSION**

Upon the application of the above-captioned debtors and debtors in possession (collectively, the “Debtors”), for Application Pursuant To Federal Rule of Bankruptcy Procedure 2014(a) For Order Under Section 327(a) of the Bankruptcy Code Authorizing the Employment and Retention of Lincoln Partners L.L.C. (“Lincoln Partners”) as investment bankers for Debtors and Debtors in Possession (the “Application”), and upon the Affidavit of Patrick M. Goy, a Managing Director of Lincoln Partners, in support thereof (“Goy Affidavit”); and the Court being satisfied based on the representations made in the Application and in the Goy Affidavit that said professionals represent no interest adverse to Debtors’ estates with respect to the matters upon which they are to be engaged, that they are disinterested persons as that term is defined under Section 101(14) of the Bankruptcy Code, as modified by Section 1107(b) 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.

Bankruptcy Code, and that their employment is necessary and would be in the best interests of Debtors' estates, and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that the Application is granted; and it is further

ORDERED that in accordance with Section 327(a) of the Bankruptcy Code, Debtors are authorized to employ and retain the Firm as investment bankers on the terms set forth in the Application and the Goy Affidavit; and it is further

ORDERED that the Firm shall be entitled to allowance of compensation and reimbursement of expenses, upon the filing and approval of interim and final applications pursuant to the Federal Rules of Bankruptcy Procedure, the Local Rules of this Court and such other orders as this Court may direct.

Wilmington, Delaware
Dated: _____, 2002

JUDGE