

IN THE UNITED STATES DISTRICT COURT

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FOR THE DISTRICT OF DELAWARE

40-7580

In re: _____)
FANSTEEL, INC., et. al.,¹)
Debtors.)

Civil Case No. 02-44 (JJF)

FINAL 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 14, 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), 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 Final Order and the Loan

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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"Post-Petition Indebtedness") in accordance with the terms of this Final 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 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 (together with those changes announced in connection with the signing of the Interim Order, as defined below)(the "Credit Agreement"), the form of which is attached hereto as Exhibit "A" 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 15, 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 the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy 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, by order of the Bankruptcy Court dated January 17, 2002, the Debtors' chapter 11 cases are being jointly administered pursuant to Fed.R.Bankr.P. 1015(b); and

IT FURTHER APPEARING, that, by order of this Court dated January 22, 2002, the references of the Debtors' chapter 11 cases to the Bankruptcy Court have been withdrawn, in their entirety, pursuant to 28 U.S.C. § 157(d); and

IT FURTHER APPEARING, that, pursuant to 11 U.S.C. § 1102, on January 28, 2002, the United States Trustee appointed an Official Committee of Unsecured Creditors (the "Creditors' Committee") in these jointly administered cases;

IT FURTHER APPEARING, that on January 17, 2002, following a hearing before the Bankruptcy Court on that same date, the Bankruptcy Court signed an 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 (the "Interim Order"), which Interim Order, among other things scheduled a final hearing (the "Final Hearing"), to consider the relief sought in the Motion at ^{4:30}~~5:00~~ p.m. on February 7, 2002; 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 Final 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 Final 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 Final Hearing 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 Final Hearing thereon having been held by this Court on February 7, 2002; and

IT FURTHER APPEARING, that sufficient and adequate notice of the Motion and the Final Hearing has been given pursuant to Fed.R.Bankr.P. 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 Final Hearing held by this Court and good and sufficient cause having been shown for entry of this Final 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 and the Final Hearing by facsimile, overnight delivery or regular mail on or before January 22, 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 Final Hearing has been given pursuant to Fed.R.Bank.P. 4001(c) and section 102(1) of the Bankruptcy Code as required by section 364(c) 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 Final 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 Loan Documents be, and, each of them and the terms and conditions thereof, hereby are approved in all respects and 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 aggregate amount not to exceed Three Million (\$3,000,000) Dollars from the Closing Date, 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 Final 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 Credit Agreement; 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 Final 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 Final 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 Final 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 Final 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 Final 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 Final 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 Final 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 Final Order, and to the extent that any of the terms and conditions of the Loan Documents are in conflict with the terms of this Final Order, this Final Order shall govern; and it is further

ORDERED, that the Debtors shall promptly mail copies of this Final 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 (f) all parties who have entered their appearance pursuant to Fed.R.Bankr.P. 2002; and it is further

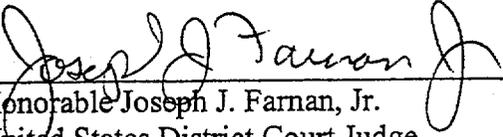
ORDERED, that any other further obligation for notice of the relief granted herein shall be, and hereby is, dispensed with and waived; and it is further

ORDERED, that notwithstanding anything to the contrary herein, in the Credit Agreement or in the Loan Documents (i) all financial and other information that has been or is required to be delivered to the Lender shall be delivered to counsel to the Creditors' Committee as soon as practicable (with respect to information already delivered to the lender) or substantially contemporaneously with its delivery to the Lender (with respect to information to be delivered on or after the date of this Order), such information to include, but not be limited to, that information specified in the following sections of the Credit Agreement: Section 3.04 (Financial Statements), Section 4.01 (Conditions Precedent to Initial Loans), Section 4.02 (Conditions Precedent to Loan), Section 5.01 (Financial Statement, Reports, etc.), Section 5.05 (Notice of Events of Default, Investigations, Violations, etc.), Section 5.06 (Books and Records, Inspection, and Collateral Review Rights), Section 5.13 (Reporting), Section 10.01 (Notices); (ii) there shall be no prohibition against use of the proceeds of the loans authorized herein to

as defined in Section 1.01 and contemplated by Section 10.04 of the Credit Agreement, and all such Expenses shall be reasonable; and it is further

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

Dated: Wilmington, Delaware
February 7, 2002



Honorable Joseph J. Farnan, Jr.
United States District Court Judge