

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Chapter 11
)
FANSTEEL INC., *et al.*,¹) Case No. 02-10109 (JJF)
) (Jointly Administered)
)
Debtors.)
Objection Deadline: February 3, 2003 at 12:00 p.m.
(noon) E.T.
(Hearing only if objections are filed)

**NOTICE OF MOTION FOR ORDER PURSUANT TO 11 U.S.C. §§ 363 AND 364
AUTHORIZING DEBTORS TO ENTER INTO THIRD AMENDMENT TO
DEBTOR IN POSSESSION LOAN AND SECURITY AGREEMENT WITH, AND TO
PAY AMENDMENT FEE TO, CONGRESS FINANCIAL CORPORATION**

**To all parties entitled to notice pursuant to
Local Bankruptcy Rule 2002-1(b):**

On January 13, 2003, the above-captioned debtors and debtors in possession in the above-captioned chapter 11 cases (the "Debtors"), filed the attached Motion For Order Pursuant to 11 U.S.C. §§ 363 and 364 Authorizing Debtors to Enter Into Third Amendment to Debtor in Possession Loan and Security Agreement With, and to Pay Amendment Fee to, Congress Financial Corporation (the "Motion").

Objections or responses, if any, to the Motion, must be filed with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801, on or before February 3, 2003 at 12:00 p.m. (noon) Eastern Time. At the same time, you must also serve a copy of the response or objection upon co-counsel for the Debtors: (i) Pachulski, Stang, Ziehl, Young & Jones P.C., 919 North Market Street, Suite 1600, P.O. Box 8705, Wilmington, Delaware 19899-8705 (courier 19801) (Attn: Laura Davis Jones, Esq.); (ii)

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, and American Sintered Technologies, Inc

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Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022 (Attn: Jeffrey S. Sabin, Esq.); and upon the Office of the United States Trustee (Attn: David Buchbinder, Esq.), 844 King Street, Suite 2313, Lockbox 35, Wilmington, Delaware 19801.

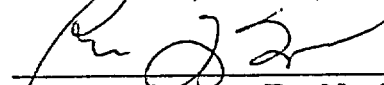
IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED BY THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Dated: January 13, 2003

SCHULTE ROTH & ZABEL LLP
Jeffrey S. Sabin (JSS-7600)
Lawrence V. Gelber (LVG-9384)
Michael R. Mitchell (MRM-9279)
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and

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



Laura Davis Jones (Bar No. 2436)
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Co-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. 02-10109 (JJF)
Debtors.) (Jointly Administered)
Objection Deadline: February 3, 2003 at 12:00 p.m.
(noon) E.T.
(Hearing only if objections are filed)

**MOTION FOR ORDER PURSUANT TO 11 U.S.C. §§ 363 AND 364 AUTHORIZING
DEBTORS TO ENTER INTO THIRD AMENDMENT TO DEBTOR IN POSSESSION
LOAN AND SECURITY AGREEMENT WITH, AND TO PAY AMENDMENT
FEE TO, CONGRESS FINANCIAL CORPORATION**

Fansteel Inc., a Delaware corporation, and its direct and indirect subsidiaries, as debtors and debtors in possession (the "Debtors"), hereby move (the "Motion") this Court for the entry of an order, pursuant to sections 363 and 364 of title 11, United States Code (the "Bankruptcy Code"), authorizing the Debtors to (a) enter into a third amendment (the "Third Amendment") to that certain post-petition Loan and Security Agreement dated May 2, 2002 (as previously amended, the "DIP Facility") with Congress Financial Corporation ("the "DIP Lender"), and (b) pay to the DIP Lender a fee in connection with the Third Amendment in the amount of \$25,000 (the "Amendment Fee"). In support of this Motion, the Debtors respectfully represent as follows:

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., and American Sintered Technologies, Inc.

Background

1. On January 15, 2002 (the "Petition Date"), the Debtors each filed with this Court voluntary petitions for relief under 11 U.S.C. §§ 101 et seq., as amended. The Debtors continue to operate their businesses and manage their affairs as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in any of the Debtors' chapter 11 cases (together, the "Cases"). A creditors' committee (the "Committee") was appointed in these Cases on January 28, 2002.

Debtors' Structure And Operations

2. Fansteel Inc. ("Fansteel") and the other seven 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 nine manufacturing facilities (five of which are owned by Fansteel) in nine states. Collectively, the Debtors have approximately 962 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.

Jurisdiction and Venue

3. This Court has jurisdiction over this matter under 28 U.S.C. §§ 157 and 1334. Venue is proper under 28 U.S.C. §§ 1408 and 1409. This is a core proceeding as defined in 28 U.S.C. § 157(b)(2). The statutory predicates for the requested relief are 11 U.S.C. §§ 363 and 364; Fed. R. Bankr. P. 2002, 4001 and 6004; and Local Bankruptcy Rules 2002-1 and 4001-2.

Relief Requested

4. By this Motion, the Debtors seek entry of an order authorizing the Debtors to enter into the Third Amendment to the DIP Facility with, and to pay the Amendment Fee to, the DIP Lender.

Basis For Relief

5. On May 21, 2002, this Court entered the Final Order Authorizing Debtors To Incur Post-Petition Debt, Grant Liens and Provide Other Security and Other Relief to Congress Financial Corporation (the "Final DIP Order"), pursuant to which the Debtors were authorized, on a final basis, to secure post-petition debtor-in-possession financing under the DIP Facility. To date, the Debtors have not drawn, nor do they anticipate drawing, any amounts under the DIP Facility

The First Amendment to the DIP Facility

6. On May 20, 2002, the Debtors and the DIP Lender entered into an amendment to the DIP Facility (the "First Amendment") whereby, among other things, (i) the maximum credit amount available under the DIP Facility was reduced from \$20 MM to \$13.1 MM; (ii) the unused line fee was increased from 0.375% to 0.50% per annum; and (iii) the early termination fee was increased from 2% to 2.5% for the period ending May 2, 2003 and from 2% to 2.25% for the period from May 2, 2003 to May 2, 2004. The Final DIP Order approved both the DIP Facility and the First Amendment.

The Second Amendment to the DIP Facility

7. On October 25, 2002, the Debtors and the DIP Lender amended the DIP Facility for a second time (the "Second Amendment") in connection with the sale of Fansteel's 100% interest in the issued and outstanding capital stock of its former subsidiary, Schulz Products, Inc. Among other things, the Second Amendment (i) amended the definition of "Deposits" to exclude good faith deposits from proposed purchasers who would bid on the sale of the shares, and (ii) provided that the sale proceeds would be deposited into an account controlled by the DIP Lender pursuant to a control agreement satisfactory to the DIP Lender.

The Proposed Third Amendment to the DIP Facility

8. By the Third Amendment, a copy of which is attached hereto as Exhibit A, the Debtors and the DIP Lender have agreed to the terms of a further modification of the DIP Facility. To the extent not modified by the Third Amendment or the order approving such amendment, the terms and conditions of the Final DIP Order and the DIP Facility, as previously amended and modified by the First Amendment and the Second Amendment, shall remain in full force and effect. The principal material provisions of the Third Amendment are reproduced below²:

- Consent to Escast Fixed Asset Sales. Subject to the terms and conditions hereof, Lender hereby consents to the consummation of the Escast Fixed Asset Sales. The foregoing consent shall not constitute (a) a modification or alteration of the terms, conditions or covenants of the Loan Agreement or any document entered into in connection therewith, or (b) a waiver of any Events of Default that may exist, or a waiver, release or limitation upon the exercise by Lender of any of its rights, legal or equitable,

² Any capitalized terms used in the following summary that are not defined herein are ascribed the meanings given to such terms in the Third Amendment

hereunder, except as to the matters to which Lender herein expressly consents. Except as set forth herein, Lender reserves any and all rights and remedies which it has had, has or may have under the Loan Agreement.

- Consent Regarding Use of Proceeds from Escast Fixed Asset Sales. Subject to the terms and conditions hereof, Borrowers and Lender hereby agree that all of the proceeds from the consummation of the Escast Fixed Asset Sales (the "Sale Proceeds") shall be deposited in an account controlled by the Lender pursuant to a control agreement satisfactory to Lender. So long as no Event of Default has occurred and is continuing, the Sale Proceeds may be withdrawn from such account by Borrowers and used (i) as provided for in the next sentence, with respect to the Sale Proceeds of the Escast Equipment Sale and (ii) in a manner agreed to by Borrowers and the Committee (as hereinafter defined) and consented to by Lender, with respect to the Sale Proceeds of the Escast Real Estate Sale (in each case, with such proceeds remaining in such account that is controlled by the Lender if an Event of Default has occurred and is continuing). Borrowers and the committee of unsecured creditors appointed in the Bankruptcy Case (the "Committee") have agreed that the Sale Proceeds of the Escast Equipment Sale may be used to pay any of the following: (i) any court approved professional fees pursuant to Order Under 11 U.S.C. § § 105(a) and 331 Establishing Procedures For Interim Compensation and Reimbursement of Expenses For Professionals and Committee Members entered February 20, 2002 and Order Authorizing Debtors To Employ And Compensate Certain Professionals Utilized In The Ordinary Course of Business entered February 21, 2002; (ii) claims of critical vendors pursuant to that Stipulated And Agreed Order Modifying Order Authorizing Payment of Pre-Petition Critical Vendors Claims And Establishing Procedures For Future Arrangements entered March 14, 2002; and (iii) allowed administrative expenses under 11 U.S.C. § 503(b) as the Borrowers and the Committee may agree from time to time.
- Amendment to Loan Agreement. Subject to the terms and conditions hereof, effective as of December 31, 2002, Section 9.17 of the Loan Agreement is amended and restated in its entirety, as follows:

"9.17 EBITDA Covenant.

Borrowers shall not permit EBITDA to be less than (a) (\$950,000), for the three month period ending on March 31, 2003, (b) (\$1,300,000) for the six (6) month period ending on June 30, 2003, (c) (\$1,750,000), for the nine (9) month period ending on September 30, 2003, (d) (\$1,700,000), for the twelve (12) month period ending on December 31, 2003 or (e) \$3,000,000, for any twelve (12) month period ending on any March 31, June 30, September 30 or December 31 thereafter; provided, that the foregoing covenant shall not become applicable until the date upon which either (i) the outstanding balance of the Loans and Letter of Credit

Accommodations is equal to or greater than \$2,500,000 or (ii) Excess Availability is equal to or less than \$2,500,000 (and the foregoing covenant shall be applicable at all times on and after any date upon which either (i) the outstanding balance of the Loans and Letter of Credit Accommodations is equal to or greater than \$2,500,000 or (ii) Excess Availability is equal to or less than \$2,500,000)."

- Condition. This Third Amendment shall be effective upon (i) its execution and delivery by all parties hereto, (ii) the Bankruptcy Court's approval of the terms of this Third Amendment and (iii) the payment by Borrowers of an amendment fee of \$25,000 to Lender, which amendment fee shall be (a) in consideration and the terms of this Third Amendment and in consideration of the Lender's November 25, 2002 letter waiving Borrowers' violation of Section 9.17 of the Loan Agreement for the period ended September 30, 2002, (b) non-refundable and fully earned as of the date hereof and (c) in addition to, and not in lieu of, all other fees charged to Borrowers under the Financing Agreements.

9. Section 1(b)(viii) of the Final DIP Order addresses the sale of assets by the Debtors, as follows: "The Debtors shall apply the proceeds of any such sale to the outstanding amounts under the Loan Agreement, and the Debtors shall deposit into an escrow account any amounts in excess of the outstanding amounts under the Loan Agreement, pending further order of this Court or agreement of the Committee with respect to the use of such amounts." As set forth above, there are no loans outstanding under the DIP Facility. Moreover, the Debtors and the Committee have reached agreement as to permitted uses of the sale proceeds. By the Third Amendment, the DIP Lender has consented to the use of the sale proceeds as required under section 4(b) of the Final DIP Order.³

Applicable Authority

³ 4(b) Prohibition Against Use of Cash Collateral. No Order shall be entered in any Case authorizing any Debtor to use Cash Collateral, unless in addition to the satisfaction of all requirements of Code § 363 for the use of such Cash Collateral: (a) Lender has consented to such order, (b) there is no Postpetition Debt outstanding at the time of the entry of such an order, and no obligation of Lender to extend additional Postpetition Debt; or (c) such Cash Collateral is first used to immediately pay the Postpetition Debt in full

10. The Debtors acknowledge that Payment of the Amendment Fee could be defined to be either (i) the incurrence of additional debt under the DIP Facility, subject to bankruptcy court approval under section 364 of the Bankruptcy Code or (ii) a use of estate assets outside of the ordinary course of business, requiring bankruptcy court approval under section 363 of the Bankruptcy Code. Accordingly, in an abundance of caution, the Debtors are seeking the Court's approval of their payment of the Amendment Fee.

11. Pursuant to section 364 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 11 U.S.C. §§364(c), (d); In re Ames Dept. Stores, Inc., 115 B.R. 34, 38, (Bankr. S.D.N.Y. 1990).

12. The Debtors negotiated the Third Amendment at arm's length and pursuant to their business judgment, which is to be accorded deference. See, e.g., Brav v. Shenandoah Fed. Sav. & Loan Ass'n (In re Snowshoe Co.), 789 F.2d 1085, 1088 (4th Cir. 1986) (approving debtor-in-possession financing necessary to sustain seasonal business); In re Ames Department Stores, 115 B.R. 34, 40 (S.D.N.Y. 1990) ("cases consistently reflect that the court's discretion under section 364 is to be utilized on grounds that permit reasonable business judgment to be exercised so long as the financing agreement does not contain terms that leverage the bankruptcy process and powers or its purpose is not so much to benefit the estate as it is to benefit parties in interest").

13. Section 363(b) of the Bankruptcy Code provides that a debtor "after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." To approve a use, sale or lease of property other than in the ordinary course of business, the Court must find "some articulated business justification." See In re Martin (Myers v. Martin), 91 F.3d 389, 395 (3d Cir. 1996); In re Abbotts Dairies of Penn., Inc., 788 F.2d 143

(3d Cir. 1986) (requiring good faith); In re Delaware and Hudson Ry. Co., 124 B.R. 169 (D. Del. 1991) (concluding that the requirements for a sale outside the ordinary course of business included a sound business purpose, adequate and reasonable notice, a fair and reasonable price, and a good faith purchaser).

14. The Third Amendment clearly benefits the Debtors' estates and creditors and preserves and enhances the Debtors' going concern value. Provided that the Debtors are not in Default under the DIP Facility, the Third Amendment permits proceeds realized from the sale of certain assets to be utilized for the payment of professional fees, claims of critical vendors and other allowed administrative claims, thereby eliminating, or at the very least, further delaying any need for the Debtors to draw on the DIP Facility—a clear benefit to the estate. In addition, under the Third Amendment, the Debtors' EBITDA targets are reduced from \$4 MM to \$3 MM, thus lessening the possibility of a Default. Moreover, if the Debtors continue to fund their operations without drawing on the DIP Facility, or are able to limit the outstanding balance under the DIP Facility to less than \$2.5 million while maintaining excess availability under the Facility at more than \$2.5 million, the modified EBITDA covenants set forth in the DIP Facility will not ever become applicable. The Third Amendment, thus, offers the Debtors an enhanced ability to avoid any events of Default under the EBITDA covenants, as well as the negative consequences and significant costs attendant thereto. Further, until such time as the EBITDA covenants, as modified by the Third Amendment, become applicable, the Debtors will realize additional savings equal to costs associated with monitoring and reporting the EBITDA targets.

15. Accordingly, the Debtors submit, that because the Third Amendment provides a clear benefit to the Debtors' estates and creditors, under the circumstances, the payment of Amendment Fee is an exercise of sound business judgment.

16. The Debtors further submit that the terms and conditions of the Third Amendment were negotiated by the parties in good faith and at an arms' length and, accordingly, the DIP Lender should be accorded the protections provided under section 364(e) of the Bankruptcy Code with respect of the DIP Facility and the Third Amendment.

Notice

17. Notice of this Motion has been given to all parties entitled to notice under Local Bankruptcy Rule 2002-1(b). The Debtors submit that in light of the nature of the relief requested, no other or further notice need be given.

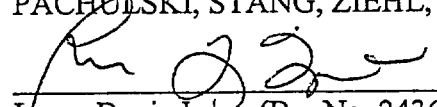
WHEREFORE, the Debtors respectfully request that the Court enter (a) an order (a) authorizing the Debtors to enter into a Third Amendment to the DIP Facility, (b) authorizing the payment of the Amendment Fee to the DIP Lender in connection with the Third Amendment, and (c) granting the Debtors such other and further relief as is just and proper.

Dated: January 13, 2003

SCHULTE, ROTH & ZABEL LLP
Jeffrey S. Sabin (JSS-7600)
Lawrence V. Gelber (LVG-9384)
Michael R. Mitchell (MRM-9279)
919 Third Avenue
New York, New York 10022
Telephone: (212) 756-2000
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and

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



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Hamid Rafatjoo (CA Bar No. 181564)
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Wilmington, Delaware 19899-8705 (Courier 19801)
Telephone: (302) 652-4100
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and
Debtors-in-Possession

Exhibit A

CONSENT AND THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Consent and Third Amendment to Loan and Security Agreement (the "Third Amendment") is made as of January 10, 2003, between Congress Financial Corporation (Central) ("Lender") and Fansteel Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Fansteel"), Fansteel Holdings, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Holding Sub"), Custom Technologies Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Custom"), Escast, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, an Illinois corporation ("Escast"), Wellman Dynamics Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Wellman"), Washington Manufacturing Company, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Washington"), Phoenix Aerospace Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Phoenix"), American Sintered Technologies, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("American"; American, Fansteel, Holding Sub, Custom, Escast, Wellman, Washington and Phoenix are collectively "Borrowers" and individually a "Borrower").

RECITALS

WHEREAS, Borrowers and Lender are parties to that certain Loan and Security Agreement dated May 2, 2002 (as the same has been amended, supplemented or otherwise modified, the "Loan Agreement") and various other documents, instruments and agreements (as amended, supplemented or otherwise modified from time to time, the "Financing Agreements");

WHEREAS, Escast has proposed to sell (i) its real estate located at 2080 Limbus Avenue in Sarasota, Florida (the "Sarasota Premises") (the "Escast Real Estate Sale") and (ii) the Equipment of Escast that is located at the Sarasota Premises and identified in the July 3, 2002 Appraisal prepared by Standard Industrial Machinery Co., Inc., a copy of which is attached hereto as Exhibit A (the "Escast Equipment Sale" and, together with the Escast Real Estate Sale, the "Escast Fixed Asset Sales"); and

WHEREAS, Lender and Borrowers have agreed to amend the EBITDA covenant set forth in Loan Agreement as set forth herein;

NOW THEREFORE, in consideration of the provisions set forth herein, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the same meanings herein as given to such terms in the Loan Agreement.

2. Consent to Escast Fixed Asset Sales. Subject to the terms and conditions hereof, Lender hereby consents to the consummation of the Escast Fixed Asset

Sales. The foregoing consent shall not constitute (a) a modification or alteration of the terms, conditions or covenants of the Loan Agreement or any document entered into in connection therewith, or (b) a waiver of any Events of Default that may exist, or a waiver, release or limitation upon the exercise by Lender of any of its rights, legal or equitable, hereunder, except as to the matters to which Lender herein expressly consents. Except as set forth herein, Lender reserves any and all rights and remedies which it has had, has or may have under the Loan Agreement.

3. Consent Regarding Use of Proceeds from Escast Fixed Asset Sales.

Subject to the terms and conditions hereof, Borrowers and Lender hereby agree that all of the proceeds from the consummation of the Escast Fixed Asset Sales (the "Sale Proceeds") shall be deposited in an account controlled by the Lender pursuant to a control agreement satisfactory to Lender. So long as no Event of Default has occurred and is continuing, the Sale Proceeds may be withdrawn from such account by Borrowers and used (i) as provided for in the next sentence, with respect to the Sale Proceeds of the Escast Equipment Sale and (ii) in a manner agreed to by Borrowers and the Committee (as hereinafter defined) and consented to by Lender, with respect to the Sale Proceeds of the Escast Real Estate Sale (in each case, with such proceeds remaining in such account that is controlled by the Lender if an Event of Default has occurred and is continuing). Borrowers and the committee of unsecured creditors appointed in the Bankruptcy Case (the "Committee") have agreed that the Sale Proceeds of the Escast Equipment Sale may be used to pay any of the following: (i) any court approved professional fees pursuant to Order Under 11 U.S.C. § 105(a) and 331 Establishing Procedures For Interim Compensation and Reimbursement of Expenses For Professionals and Committee Members entered February 20, 2002 and Order Authorizing Debtors To Employ And Compensate Certain Professionals Utilized In The Ordinary Course of Business entered February 21, 2002; (ii) claims of critical vendors pursuant to that Stipulated And Agreed Order Modifying Order Authorizing Payment of Pre-Petition Critical Vendors Claims And Establishing Procedures For Future Arrangements entered March 14, 2002; and (iii) allowed administrative expenses under 11 U.S.C. § 503(b) as the Borrowers and the Committee may agree from time to time.

4. Amendment to Loan Agreement. Subject to the terms and conditions hereof, effective as of December 31, 2002, Section 9.17 of the Loan Agreement is amended and restated in its entirety, as follows:

" 9.17 EBITDA Covenant.

Borrowers shall not permit EBITDA to be less than (a) (\$950,000), for the three month period ending on March 31, 2003, (b) (\$1,300,000) for the six (6) month period ending on June 30, 2003, (c) (\$1,750,000), for the nine (9) month period ending on September 30, 2003, (d) (\$1,700,000), for the twelve (12) month period ending on December 31, 2003 or (e) \$3,000,000, for any twelve (12) month period ending on any March 31, June 30, September 30 or December 31 thereafter; provided, that the foregoing covenant shall not become applicable until the date upon which either (i) the outstanding balance of the Loans and Letter of Credit Accommodations is equal to or greater than \$2,500,000 or (ii) Excess Availability is equal to or

less than \$2,500,000 (and the foregoing covenant shall be applicable at all times on and after any date upon which either (i) the outstanding balance of the Loans and Letter of Credit Accommodations is equal to or greater than \$2,500,000 or (ii) Excess Availability is equal to or less than \$2,500,000). "

5. Condition. This Third Amendment shall be effective upon (i) its execution and delivery by all parties hereto, (ii) the Bankruptcy Court's approval of the terms of this Third Amendment and (iii) the payment by Borrowers of an amendment fee of \$25,000 to Lender, which amendment fee shall be (a) in consideration and the terms of this Third Amendment and in consideration of the Lender's November 25, 2002 letter waiving Borrowers' violation of Section 9.17 of the Loan Agreement for the period ended September 30, 2002, (b) non-refundable and fully earned as of the date hereof and (c) in addition to, and not in lieu of, all other fees charged to Borrowers under the Financing Agreements.

6. Miscellaneous.

(a) Expenses. Borrowers agree to pay, on demand, all costs and expenses of Lender (including the fees and expenses of outside counsel for Lender) in connection with the preparation, negotiation, execution, delivery and administration of this Third Amendment and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided in this Section 6(a) shall survive any termination of the Loan Agreement as amended hereby.

(b) No Default: Accuracy of Representations and Warranties. Borrowers represent and warrant that (i) no Default or Event of Default has occurred and is continuing and (ii) the representations and warranties contained in the Loan Agreement and the other Financing Agreements are true and accurate in all material respects as of the date hereof with the same force and effect as if such had been made on and as of the date hereof (other than those which, by their terms, specifically are made as of certain date prior to the date hereof).

(c) Governing Law. This Third Amendment shall be a contract made under and governed by the internal laws of the State of Illinois.

(d) Counterparts. This Third Amendment may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same amendment.

(e) Successors. This Third Amendment shall be binding upon Borrowers and Lender and their respective successors and assigns, and shall inure to the benefit of Borrowers, Lender and their respective successors and assigns.

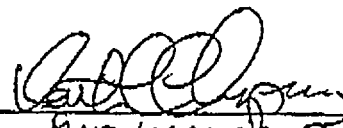
(f) Ratification. Except as herein amended, the Loan Agreement shall remain unchanged and in full force and effect, and is hereby ratified in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective officers thereunto duly authorized and delivered at Chicago, Illinois as of the date first above written.

LENDER

BORROWERS

CONGRESS FINANCIAL CORPORATION FANSTEEL INC.
(CENTRAL)

By 
Title FIRST US PRESIDENT

By _____
Title _____

FANSTEEL HOLDINGS, INC.

By _____
Title _____

CUSTOM TECHNOLOGIES CORP.

By _____
Title _____

ESCAST, INC.

By _____
Title _____

FANSTEEL, INC.

Fax:847-689-1816

Jan 10 2003 13:48

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IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective officers thereunto duly authorized and delivered at Chicago, Illinois as of the date first above written.

LENDER

BORROWERS

CONGRESS FINANCIAL CORPORATION FANSTEEL INC.
(CENTRAL)

By _____
Title _____

By R.M.M. Ltee
Title Vice President & CFO

FANSTEEL HOLDINGS, INC.

By R.M.M. Ltee
Title Treasurer

CUSTOM TECHNOLOGIES CORP.

By R.M.M. Ltee
Title Treasurer

BSCAST, INC.

By R.M.M. Ltee
Title Vice President

FANSTEEL, INC.

Fax: 847-689-1816

Jan 10 2003 13:48

P.06

WELLMAN DYNAMICS CORP.

By R.M.M. Ltee
Title Vice President

WASHINGTON MANUFACTURING
COMPANY, INC.

By R.M.M. Ltee
Title Vice President

PHOENIX AEROSPACE CORP.

By R.M.M. Ltee
Title Treasurer

AMERICAN SINTERED
TECHNOLOGIES, INC.

By R.M.M. Ltee
Title Vice President

Exhibit A

See attached

July 3, 2002

Fansteel Intercast
3600 Formosa
Suite 13
McAllen, TX 78503

Attn: Ray Chapman

Re: Appraisal of Machinery & Equipment

Dear Mr. Chapman,

Pursuant to your request I, as a certified AMEA appraiser, have prepared an appraisal on the equipment located at Fansteel Intercast in Sarasota, Florida. I personally viewed the machinery on June 21, 2002, after which I conducted an investigation into the market conditions for this type of equipment in order to make an impartial report. After a thorough analysis of the machinery and current market condition, it is my opinion that the fair market value of the machinery and equipment is \$149,400.00 and the liquidation value is \$94,850.00.

I certify that I do not have any present or future interest in the appraised property. The fee charged for this appraisal is not contingent on the values reported nor were any undisclosed fees, commissions or other compensation received.

Respectfully Submitted,


W. Robert O'Neal, AEA

WRO/po

STANDARD INDUSTRIAL MACHINERY
P. O. BOX 3301
OXFORD, AL 36202

CERTIFICATION

I certify that, to the best of my knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analysis opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased professional analysis, opinions and conclusions.

I have no present or prospective interest in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.

My compensation is not contingent on an action or event resulting from the analysis, opinions or conclusions in, or the use of, this report.

My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Association of Machinery and Equipment Appraisers Standards and Procedures of Professional Appraisal Ethics and Practice and Uniform Standard of Professional Appraisal Practice.

I have made a personal inspection of the property that is the subject of this report.

No one provided significant professional assistance to the person signing this report.


W. Robert O'Neal

STANDARD INDUSTRIAL MACHINERY CO., INC.
P. O. BOX 3301
OXFORD, AL 36203

QUALIFICATIONS

I have been in the business of buying, selling and liquidating metalworking machinery since 1977. I have been a member of Machinery Dealers National Association(MDNA) since 1987. I have been appraising machinery since 1980. I have been an accredited member of Association of Machinery and Equipment Appraisers(AMEA) since 1993.

FANSTEEL INTERCAST
2080 LIMBUS AVENUE
SARASOTA, FLORIDA 34243

APPRAISAL

JUNE 21, 2002

FANSTEEL INTERCAST
2080 LIMBUS AVENUE
SARASOTA, FL 34243

JUNE 21, 2002

APPRAISAL

<u>MACHINE</u>	<u>LIQUIDATION</u>	<u>FAIR MARKET</u>
1. KODAK 14" COMPARATOR, MDL 14-24	\$ 1,000	\$ 1,500
2. 24" X 36" X 3" GRANITE SURFACE PLATE ON STAND	\$ 250	\$ 400
3. ROCKWELL HARDNESS TESTER, MDL 2-1/2-A, OLD	\$ 500	\$ 1,000
4. NIKON MICROSCOPE COMPARATOR, S/N 55111	\$ 200	\$ 350
5. ELOX EDM SINKER, TYPE 8-2012, S/N 011804	\$ 3,000	\$ 5,000
6. XLO EDM SINKER, 6 X 12, 25 AMP	\$ 1,500	\$ 3,000
7. BRIDGEPORT MILL, 9X42, S/N 221696, ACCURITE DRO, TROYKE CROSS SLIDE ROTARY TABLE	\$ 3,000	\$ 4,500
8. BRIDGEPORT MILL, 9X42, MITS DRO, S/N 229547,] TROYKE CROSS SLIDE ROTARY TABLE	\$ 3,000	\$ 4,500
9. BRIDGEPORT MILL, 9X42, ACCURITE DRO, S/N 221678	\$ 3,000	\$ 4,500
10. MILLTRONICS PARTNER, CNC, 12"X40" TABLE, S/N 3113	\$15,000	\$25,000
11. 24" X 24" X 4" SURFACE PLATE ON STAND	\$ 250	\$ 400
12. 18" X 24" X 3" SURFACE PLATE	\$ 100	\$ 200
13. 15" X 54" LEBLOND REGAL SERVO SHIFT LATHE, 8" 3-JAW, S/N 12C241	\$ 5,000	\$ 7,500
14. HARDING TOOL ROOM LATHE, OLD	\$ 500	\$ 1,000
15. POWERMATIC DRILL, 2 HEAD ON 24" X 80" TABLE, V.S., MODEL 1200	\$ 600	\$ 1,000
16. BRIDGEPORT MILL, 2J, TROYKE CROSS SLIDE TABLE, S/N 198597	\$ 3,000	\$ 4,500
17. BRIDGEPORT w/2 AXIS CNC PROTO TRAK CONTROL, S/N 274967, 1997	\$12,000	\$15,000

MACHINE	LIQUIDATION	FAIR MARKET
18. BRIDGEPORT MILL, 2I, ACCURITE, TROYKE CROSS SLIDE TABLE, S/N 229542	\$ 3,000	\$ 4,500
19. BRIDGEPORT MILL, TROYKE CROSS SLIDE TABLE, VISE, S/N 229540, HEAD NEEDS REBUILDING	\$ 2,000	\$ 3,000
20. BRIDGEPORT MILL, TROYKE CROSS SLIDE, VISE, S/N 221689, ANILAM DRQ	\$ 3,000	\$ 4,500
21. POWERMATIC 2 SPINDLE DRILL, MODEL 1200 ON 24X80 TABLE	\$ 800	\$ 1,500
22. JOHANSSON SWING HEAD DRILL	\$ 500	\$ 1,000
23. BOYAR-SCHULTZ 6 X 12 SURFACE GRINDER, S/N 21772	\$ 1,500	\$ 2,500
24. BOYAR-SCHULTZ, 612 H SURFACE GRINDER, S/N 28300	\$ 1,500	\$ 2,500
25. BOYAR-SCHULTZ 612 SURFACE GRINDER, S/N 17556	\$ 1,500	\$ 2,500
26. TORIT DUST COLLECTOR, MDL 90-81, S/N B6939	\$ 300	\$ 600
27. 6" GRINDER FOR CARBIDE	\$ 50	\$ 100
28. 8" CENTRAL GRINDER	\$ 100	\$ 150
29. COSA CARBIDE DRILL GRINDER	\$ 200	\$ 500
30. 18" X 24" X 3" SURFACE PLATE, (5) @ 200 AND \$300 EACH	\$ 1,000	\$ 1,500
31. DECKEL ENGRAVER, GK12-4500-2038	\$ 500	\$ 1,500
32. GALLMEYER LIVINGSTON SURFACE GRINDER, MDL 370, S/N 370188, 1966	\$ 5,000	\$ 7,500
33. TORIT DUST COLLECTOR, MDL 75	\$ 200	\$ 400
34. DELTA TABLE TOP VERTICAL BAND SAW, 7/8" BLADE	\$ 50	\$ 100
35. FAMCO ARBOR PRESS, #3	\$ 100	\$ 200
36. POWERMATIC 1 SPINDLE DRILL, MDL 100, 18X18 TABLE	\$ 400	\$ 700
37. 4" BELT SANDER	\$ 100	\$ 150

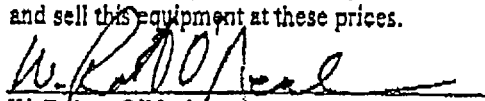
CONTINUED

<u>MACHINE</u>	<u>LIQUIDATION</u>	<u>FAIR MARKET</u>
38. 1" BELT SANDER	\$ 50	\$ 100
39. BRIDGEPORT MILL, 2I, ACCURITE DRO, VISE	\$ 2,500	\$ 3,500
40. MAXIMAT LATHE, EMCO, S/N 147869	\$ 1,000	\$ 2,500
41. MILLER SYNCHRO WAVE WELDER, S/N KH531243	\$ 800	\$ 1,200
42. MILLER MATIC 185, 100 AMP	\$ 600	\$ 900
43. DEWALT 12" ABRASIVE SAW	\$ 500	\$ 100
44. DATSUN FORKLIFT, 5,000 LB, CUSHION TIRES, PROPANE, S/N FG105-00755	\$ 1,500	\$ 2,500
45. ROL-LIFT PALLET LIFT	\$ 100	\$ 200
46. WELLSAW MDL 8 HORIZONTAL BANDSAW	\$ 400	\$ 700
47. POWERMATIC MDL 87 VERTICAL BANDSAW, S/N 8187001	\$ 1,000	\$ 2,200
48. 16" DOALL VERTICAL BANDSAW	\$ 500	\$ 1,200
49. BRIDGEPORT MILL, 2I, POWER FEED RISER, S/N 219803	\$ 3,000	\$ 4,000
50. 5 HP SPEEDAIR AIR COMPRESSOR	\$ 500	\$ 750
51. 1 HP SPEEDAIR AIR COMPRESSOR	\$ 200	\$ 300
52. MISCELLANEOUS COMPUTERS AND OFFICE EQUIPMENT	\$ 5,000	\$ 8,000
53. MISCELLANEOUS TOOLS, DRILLS, TOOLING, ETC.	\$ 1,000	\$ 2,000
54. WORK BENCHES	\$ 1,000	\$ 1,500
55. MISCELLANEOUS INSPECTION EQUIPMENT, MIKS, CALIPERS, HEIGHT GAGES, ETC.	\$ 1,500	\$ 3,000

TOTALS:

~~\$94,850~~ ~~\$149,400~~
89,350 140,400

The above listed prices and at liquidation and fair market values. This does not constitute and offer to buy and sell this equipment at these prices.


W. Robert O'Neal

STANDARD INDUSTRIAL MACHINERY
P. O. BOX 3301
OXFORD, AL 36203

STATEMENT OF CONDITIONS

All facts and data set forth in this report are based upon an estimate of value only and are true and accurate to the best of the appraiser's knowledge and belief.

No investigation has been made into the title to the property and all items listed are assumed to be the property of the subject company.

No consideration has been given to liens or encumbrances which may be against the property other than those discussed in this report.

I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.

The appraised property has been personally inspected unless otherwise stated.

This appraisal has been made in accordance with accepted appraisal practices and in accordance with the Association of Machinery and Equipment Appraisers *Standards and Procedures of Professional Appraisal Ethics and Practice* and the *Uniform Standards of Professional Appraisal Practice* and reflects the best judgement of the appraiser. When appropriate, new and used equipment dealers have been consulted for comparable prices; and catalogs, trade publications and comparative results of auction sales have been utilized.

Information provided by others has been assumed to be correct for the purposes of this report and no responsibility is taken for the accuracy of same.

Since conclusions by the appraiser are based upon judgements, isolation of any single element as the sole basis of comparison to the whole appraisal may be inaccurate.

The fees for this appraisal are not contingent upon values reported.

Consideration for possible environmental hazards from any source goes beyond the scope of this appraisal.

It is assumed that there are no hidden or unapparent conditions of the equipment which would render it more or less valuable.

Other limitations or assumptions, if any, are clearly defined and individually set out at that point relating to the subject.

The appraiser is not required to give testimony, be present in any court of law, or appear before any commission or board by reason of this appraisal, unless prior arrangements have been made.

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.)	

**ORDER PURSUANT TO 11 U.S.C. §§ 363 AND 364 AUTHORIZING
DEBTORS TO ENTER INTO THIRD AMENDMENT TO
DEBTOR IN POSSESSION LOAN AND SECURITY AGREEMENT WITH, AND TO
PAY AMENDMENT FEE TO, CONGRESS FINANCIAL CORPORATION**

The above-captioned debtors and debtors-in-possession having filed their motion (the "Motion")² for an Order Pursuant to 11 U.S.C. §§ 363 and 364 Authorizing Debtors to Enter Into Third Amendment to Debtor in Possession Loan Agreement With, and to Pay Amendment Fee to, Congress Financial Corporation; and the Court having determined that the motion is supported by, and is in the exercise of, the sound business judgment of the Debtors; and the Court having further determined that the relief requested in the Motion is in the best interests of the Debtors, their estates, their creditors and other parties-in-interest; and it appearing that notice of the Motion, given as set forth in the Motion, was good and sufficient under the particular circumstances and no other or further notice need be given; and upon the record herein; and after due deliberation thereon; and for cause appearing therefor; it is hereby

ORDERED, ADJUDGED, AND DECREED THAT:

1. The Motion is granted.

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, and American Sintered Technologies, Inc

² Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the Motion

2. The Debtors are authorized, under sections 363 and 364 of the Bankruptcy Code, to enter into the Third Amendment with, and to pay the \$25,000 Amendment Fee to, the DIP Lender.

3. This Court retains jurisdiction to enforce and implement the terms and provisions of this order.

Dated: February ___, 2003

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