

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: May 1, 2003 at 4:00 p.m. E.T.
Hearing Date: TBD (Only if objections are timely filed)

**NOTICE OF DEBTORS' MOTION FOR ORDER PURSUANT
TO BANKRUPTCY CODE SECTIONS 364 AND 365 AUTHORIZING
(I) RENEWAL OF DEBTORS' INSURANCE PROGRAM (II) ASSUMPTION
OF PRE-PETITION PAYMENT AGREEMENT, AS AMENDED AND
EXTENDED, AND (III) DELIVERY OF ADDITIONAL
COLLATERAL TO SECURE DEBTORS' REIMBURSEMENT OBLIGATIONS**

TO: ALL PARTIES REQUIRED TO RECEIVE NOTICE PURSUANT TO
DEL. BANKR. LR 2002-1.

The captioned debtors and debtors in possession (collectively, the "Debtors") hereby submit the Debtors' Motion for Order Pursuant to Bankruptcy Code Sections 364 and 365 Authorizing (I) Renewal of Debtors' Insurance Program, (II) Assumption of Pre-Petition Payment Agreement, As Amended and Extended, and (III) Delivery of Additional Collateral to Secure Debtors' Reimbursement Obligations (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 May 1, 2003 at 4:00 p.m. 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,

¹The 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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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) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022 (Attn: Jeffrey S. Sabin, Esq.); (iii) the Office of the United States Trustee, 844 King Street, Suite 2313, Lockbox 35, Wilmington, Delaware 19801 (Attn: David Buchbinder, Esq.).

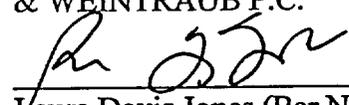
IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED BY THE APPLICATION WITHOUT FURTHER NOTICE OR HEARING.

Dated: April 11, 2003

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Debtors-in-Possession

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In re:) Chapter 11
)
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**DEBTORS' MOTION FOR ORDER PURSUANT TO
BANKRUPTCY CODE SECTIONS 364 AND 365 AUTHORIZING
(I) RENEWAL OF DEBTORS' INSURANCE PROGRAM,
(II) ASSUMPTION OF PRE-PETITION PAYMENT
AGREEMENT, AS AMENDED AND EXTENDED, AND
(III) DELIVERY OF ADDITIONAL COLLATERAL TO
SECURE DEBTORS' REIMBURSEMENT OBLIGATIONS**

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 section 364(c)(2) and section 365 of title 11 of the United States Code (the "Bankruptcy Code"), authorizing the Debtors to (a) renew their workers' compensation and liability insurance coverage (the insurance policy, together with the related payment agreement and other related documents, collectively, the "Insurance Program") with National Union Fire Insurance Company of Pittsburgh, PA and certain other affiliates of American International Group, Inc. ("AIG"), (b) assume the expense and loss reimbursement and other payment obligations under the policies and agreements comprising the Insurance Program, as amended and extended, and (c) deliver additional collateral to AIG to secure the Debtors'

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.

payment and reimbursement obligations under the Insurance Program. In support of the Motion, the Debtors respectfully represent as follows:

Jurisdiction

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

This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A) and (D).

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

3. By order entered on January 22, 2002 [Docket No. 39], the United States District Court for the District of Delaware withdrew the reference of these chapter 11 cases; the cases are being administered by the bankruptcy court, but under the jurisdiction of the United States District Court for the District of Delaware as an Article III court [Docket No. 75].

4. Sections 365(a) and 364(c)(2) of the Bankruptcy Code provide the basis for the relief sought in this Motion.

Background

5. On January 15, 2002 (the "Petition Date"), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. During the course of the first day hearings on the Debtors' motions, the Court entered an order directing the joint administration of the Debtors' cases, for procedural purposes only.

6. Since the Petition Date, the Debtors have continue in possession of their properties and are operating and managing their businesses as debtors and debtors in possession pursuant to Bankruptcy Code §§ 1107 and 1108.

7. No request has been made for the appointment of a trustee or examiner. On January 28, 2002, an Official Committee of Unsecured Creditors (the "Committee") was appointed by the United States Trustee.

The Debtors' Pre-Petition Insurance Program

8. In the ordinary course of their businesses and as required under the laws of the various states in which they operate, the Debtors maintain workers' compensation policies and programs to provide their employees with workers' compensation coverage on claims arising from or related to their employment with the Debtors, as well as other insurance policies against various types of loss claims, including commercial general liability, automobile liability and excess general liability.

9. Because the Debtors operate in several states and require insurance coverage of substantial breadth and scope, only a few insurance companies are capable of providing the level of coverage and flexibility required to service claims on a nationwide basis. Prior to the Petition Date, with only a few exceptions (e.g., the State of West Virginia with respect to workers' compensation coverage), nationwide workers' compensation, commercial general liability insurance and certain other liability insurance coverage was provided to the Debtors under a Paid-Loss Payments Plan with AIG. Under the Paid-Loss Payments Plan Insurance Program, AIG pays for losses and expenses that are insured under the applicable policies and, pursuant to the terms of a certain Payment Agreement effective as of June 30, 2001, a copy of which is annexed hereto as Exhibit A (the "AIG Payment Agreement"), the Debtors have undertaken to reimburse AIG for certain of those losses and expenses.

10. To insure that the Debtors' obligations under the Insurance Program were met, at the time the insurance coverage was obtained the Debtors were required to collateralize their reimbursement and payment obligations under the AIG Payment Agreement. Accordingly, prior to the Petition Date, the Debtors delivered to AIG collateral totaling \$1,550,000, consisting of three letters of credit, each in the amount of \$491,800, and a claims payment fund in the

amount of \$74,600, securing the Debtors' payment obligations for the policy period commencing on June 30, 2001 and expiring on June 30, 2002 (the "AIG Collateral").

11. With the commencement of the Chapter 11 cases, it was critical for the Debtors to continue their policies and programs, including both the policies and programs provided by AIG and other private insurers utilized by the Debtors² and the coverage provided by the State of West Virginia where private insurance coverage was prohibited. Because the failure to provide coverage mandated by state law would subject the Debtors to substantial potential liability exposure and, in some states, would also subject the Debtors and/or their officers to severe penalties, the Debtors, as part of their first-day motion to pay pre-petition employee wages, commissions and benefits, also sought authority to continue their existing workers' compensation policies and programs and, in connection therewith, pay to AIG and the Debtors' other private insurers any pre-petition premiums and retroactive premium adjustments relating back to pre-petition months. By order dated January 17, 2002, the relief requested by the Debtors was granted by this Court.

Renewal of the AIG Insurance Program

12. On June 30, 2002, the workers' compensation and general liability policies with AIG were up for renewal. Accordingly, the Debtors' insurance broker, AON Risk Services, contacted AIG and AIG submitted its proposal for renewal of the Insurance Program for an additional one-year term expiring on June 30, 2003. That proposal is set forth in the binder dated June 28, 2002, annexed hereto as Exhibit B (the "Binder"). As indicated by the Binder, based upon the estimated program expenses and a loss forecast made by AIG, the estimated payment

² The insurance provided by AIG covers employees of all the Debtors in all states except (i) coverage for employees of American Sintered Technologies is provided by The PMA Insurance Group, (ii) Fansteel's California Drop Forge plant is self-insured, but a monthly flat-rate conversion fee is paid to Crawford & Co., and (iii) the State of West Virginia.

obligations of the Debtors for the renewal term has been calculated at \$1,653,474. In order to secure those obligations, AIG is requiring additional collateral from the Debtors in the form of a \$670,000 letter of credit and an additional claims fund of \$57,671. As reflected by the Schedule of Policies and Payments executed by AIG on July 22, 2002, a copy of which is annexed hereto as Exhibit C, the additional collateral (which increases the total collateral deposited with AIG pursuant to the AIG Payment Agreement from \$1,550,000 to \$2,277,071) will collateralize all of the Debtors' payment obligations for losses arising under the applicable policies, whether the claims were incurred during the initial policy year or the renewal year.

13. As reflected by the Binder, Exhibit B hereto, AIG has conditioned renewal of the coverage on assumption of the Insurance Program in order to ensure that the Debtors' obligations to reimburse AIG will have administrative expense status, regardless of whether the workers' compensation claims arise pre-petition or post-petition. Accordingly, the renewal binder provides, in pertinent part, that renewal is contingent on:

"The United States Bankruptcy Court for the District of Delaware, approving the renewal Insurance Program with Fansteel, Inc. for the policy period commencing on June 30, 2002 and ending on June 30, 2003, pursuant to an order satisfactory to American International Group and the assumption of the existing insurance program in its entirety, commencing on June 30, 2001 and currently ending on June 30, 2002, pursuant to an order reasonably satisfactory to American International Group

You agree that failure to obtain this approval and assume the existing Insurance Program is grounds for cancellation of the renewal Insurance Program policies."

Relief Requested and Basis Therefor

14. By this Motion, the Debtors seek the entry of an order pursuant to section 364(c)(2) and section 365 of the Bankruptcy Code authorizing the Debtors to (a) renew the Insurance Program with AIG for additional one year terms, (b) assume the expense and loss

reimbursement and other payment obligations under the policies and agreements comprising the Insurance Program, as amended and extended, and (c) deliver additional collateral to AIG to secure the Debtors' payment and reimbursement obligations under the Insurance Program. A copy of the proposed order granting the relief requested in the Motion is annexed hereto as Exhibit D.

15. Upon renewal of the Insurance Program, there is no question that any premiums, fees or payments required for the post-petition coverage provided by such renewal policies are necessary costs of the estates, entitling AIG to assert an administrative expense claim under section 503(b)(1)(A) of the Bankruptcy Code in the event such payments are not made. AIG has, however, also conditioned the renewal of coverage on assumption pursuant to Code section 365 of the pre-petition policies and agreements comprising the Insurance Program, including the AIG Payment Agreement, in order to ensure that any retrospective premium or payment obligations of the Debtors relating to a pre-petition period are also afforded administrative expense status.

16. Although the case law is divided on the question of whether insurance policies are executory for purposes of Bankruptcy Code section 365, as a general proposition, where, as in this case, the insurance policy or program has not expired as of the Petition Date, and the insurer has a continuing obligation to provide coverage and the debtors have continuing payment obligations, the insurance policy or program is an executory contract which can be assumed or rejected by the debtors-in-possession. See, e.g., Counties Contracting and Cost. Co. v. Constitution Life Ins. Co., 855 F.2d 1054, 1060 (3d Cir. 1988); In re American Med. Imaging Corp., 133 B.R. 45, 55 (Bankr. E.D. Pa. 1991); In re Gamma Fishing Co., 70 B.R. 949, 951 (Bankr. S.D. Cal. 1987); In re Wheeling-Pittsburgh Steel Corp., 54 B.R. 772, 779 (Bankr. W.D. Pa. 1985) (unexpired retrospective premium insurance policies providing workers' compensation,

general liability and business auto coverage were executory under § 365).

17. Although Code section 365(a) does not provide a standard for determining when assumption or rejection of an executory contract is appropriate, the courts have traditionally applied the "business judgment" standard in determining whether assumption or rejection should be approved. Where the debtor-in-possession has determined that assumption or rejection is in the best interest of its business, the bankruptcy court's oversight is limited to "only a cursory review of a trustee's decision." See In re G.I. Industries, Inc., 204 F.3d 1276, 1282 (9th Cir. 2000). In this case, there are sound business reasons for the Debtors to assume the Insurance Program with AIG.

18. The Debtors' status as Chapter 11 debtors-in-possession would make it difficult for the Debtors to now obtain alternative proposals from other insurance carriers and, absent assumption, the Debtors may not be able to obtain coverage for certain coverage areas. Moreover, any alternative arrangements for workers' compensation coverage would undoubtedly be substantially more expensive than the existing program and would require more security than the additional collateral which is now being requested by AIG. Accordingly, the Debtors have chosen to bind coverage with AIG for the renewal period and submit that the assumption of the Insurance Program, as renewed and extended, under Bankruptcy Code section 365(a) is in the best interest of the Debtors and their estates.

19. As previously set forth, in order to secure the estimated payment and reimbursement obligations of the Debtors for the renewal term, AIG is requiring additional collateral from the Debtors in the form of a \$670,000 letter of credit and an additional claims fund of \$57,671. Section 364(c) of the Bankruptcy Code provides, in pertinent part, that if "the trustee is unable to obtain unsecured credit . . . the court, after notice and a hearing, may

authorize the obtaining of credit or the incurring of debt . . . (2) secured by a lien on property of the estate that is not otherwise subject to a lien" By reason of the debtor-in possession financing facility provided by the Debtors' post-petition lender, Congress Financial Corp. ("Congress"), the Debtors will be able to deliver to AIG the letter of credit and additional deposit required pursuant to the terms of the Binder. Moreover, the Debtors have been advised by their insurance broker that a paid loss retrospective insurance program could not be obtained from an alternative carrier on an unsecured basis and that the additional security is reasonable based on the Debtors' actual claims experience.

Notice

20. Notice of this Motion will be provided to (a) the Office of the United States Trustee; (b) counsel to the Committee; (c) counsel to Congress, and (d) all parties required to receive notice pursuant to Delaware Local Rule of Bankruptcy 2002-1(b). In light of the nature of the relief requested, the Debtors submit that no further notice should be required.

WHEREFORE, the Debtors respectfully request that the Court enter an order, substantially in the form attached hereto as Exhibit D, (i) approving the renewal of the Debtors' Insurance Program with AIG for additional one year terms, (ii) authorizing the Debtors to assume the expense and loss reimbursement and other payment obligations under the policies and agreements comprising the Insurance Program, as amended and extended, (iii) authorizing the delivery of additional collateral to AIG, consisting of a letter of credit and an additional claims fund, to secure the Debtors' payment and reimbursement obligations under the Insurance

Program, and (iv) granting the Debtors such other and further relief as is necessary and proper.

Dated: April 11, 2003

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

Exhibit A



Payment Agreement

for a

Risk Management Program

effective on the 30th day of June 2001

by and between us,

National Union Fire Insurance Company of Pittsburgh, Pa.

On behalf of itself and all its affiliates including, but not limited to:

**American Home Assurance Company
The Insurance Company of the State of Pennsylvania
National Union Fire Insurance Company of Pittsburgh, Pa.
Commerce and Industry Insurance Company
Birmingham Fire Insurance Company
Illinois National Insurance Company
American International South Insurance Company
AIU Insurance Company**

And *you*, our Client

FANSTEEL, INC.

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WHAT IS THIS PAYMENT AGREEMENT ABOUT?

This Payment Agreement, referred to hereinafter as "this Agreement", is a part of a *Program*. The *Program* comprises a uniquely negotiated set of agreements between you and us. We would not have entered into any of them without your agreement on all of them.

It describes:

- when you must pay us,
- how much each payment will be,
- what collateral you must provide to assure those payments, and
- how we will resolve defaults and disagreements about payments.

WHO HAS AGREED TO THIS AGREEMENT?

This Agreement is between:

- you, the organization(s) named as "our Client" in the *Schedule*, and
- us, the insurer(s) named in the *Schedule*.

The words "we", "us" or "our" in this Agreement refers to the insurer(s) named in the *Schedule*.

WHAT HAVE YOU AND WE AGREED TO?

We have agreed to the following:

- to provide you insurance and services according to the *Policies* including their Endorsements described in the *Schedule*, and other agreements; and
- to defer our demand for full payment of the entire amount of Your Payment Obligation if you make partial payments according to this Agreement.

To induce us to agree as above,

You have agreed to the following:

- to pay us all Your Payment Obligation and to perform all your other obligations according to this Agreement and *Schedule* for all entities covered by the *Policies*;
- to provide us with collateral according to this Agreement and *Schedule*;

WHEN DOES THIS AGREEMENT BEGIN?

This Agreement begins on the Effective Date shown in the first page (the title page) of this Agreement. Unless otherwise agreed in writing, this Agreement will also apply to any policies and *Schedules* that we may issue as renewals, revisions, replacements or additions to the attached *Schedule* and the *Policies* listed there.

WHEN WILL THIS AGREEMENT END?

This Agreement will end only after you and we have settled and paid all obligations between you and us relating to this Agreement. Neither you nor we may cancel this Agreement without the other's consent.

WHICH WORDS HAVE SPECIAL MEANINGS IN THIS AGREEMENT?

Words with special meanings in the *Policies* have the same meanings in this Agreement as they have in the *Policies*. Non-italicized capitalized words in this Agreement are defined in the *Policies*, or their meanings are otherwise described in this Agreement.

The following are definitions of other special words. Terms printed in this Agreement in italic typeface have the meanings described below.

1. "ALAE" means Allocated Loss Adjustment Expense as defined in the *Policies*.
2. "Deductible Loss Reimbursements" means the portion of any Loss and ALAE we pay that you must reimburse us for under any "Deductible" or "Loss Reimbursement" provisions of a *Policy*.
3. "Loss" or "Losses" means damages, benefits or indemnity that we become obligated under the terms of the *Policies* to pay to claimants.

Payment Agreement

4. **"Policy" or "Policies"** means any or all of the insurance policies described by their policy numbers in the *Schedule*, and their endorsements, modifications, replacements and renewals. *Policy* also includes any additional insurance policies that we may issue to you that you and we agree in writing to include as *Policies*.
5. **"Predecessors"** means insurance policies or other contracts that we have with you that became effective prior to the effective date of this Agreement, under which you have unpaid payment obligations to us of the kind described under *Your Payment Obligation*, whether or not such obligations are yet due and payable.
6. **"Program"** refers collectively to the following:
 - the insurance and other services we provide under the *Policies* and their *Predecessors*,
 - other services we provide under other agreements,
 - the terms under which we will calculate the premiums for the *Policies*,
 - the terms under which you must pay *Your Payment Obligation*, and
 - the terms under which you must deposit collateral.
7. **"Retained Amount" or "Retention"** means one of the following:
 - **Self-Insured Retention:** the amount specified in the applicable *Policy* as your Self-Insured Retention per occurrence, accident, offense, claim or suit; or
 - **Deductible:** the amount specified in the applicable *Policy* as the Reimbursable or Deductible portion of *Loss* we pay per occurrence, accident, offense, claim or suit; or
 - **Loss Limit:** the portion of any *Loss* we pay because of an occurrence, offense, accident, claim or suit, that we will include in the computation of the premiums.

The *Policies* show the type of *Retention* that applies to any specific occurrence, offense, accident, claim or suit.

8. **"Schedule"** means each of the attachments to this Agreement that describes specific elements of the Agreement for a specified period of time. Each *Schedule* is a part of this Agreement. Additional *Schedules* or amendments to *Schedules* may be attached to this Agreement from time to time by mutual agreement between you and us.
9. **"You"** means the person or organization named as our Client in the title page of this Agreement, its predecessor and successor organizations, and each of its subsidiary, affiliated or associated organizations that are included as Named Insureds under any of the *Policies* or their *Predecessors*. Each is jointly and severally liable to us for the entire amount of *Your Payment Obligation*.
10. **"Your Payment Obligation"** means your obligation to pay us for the insurance and services in accordance with the terms of the *Program*. *Your Payment Obligation* includes, but is not limited to, any of the following that apply according to this Agreement, the *Policies*, their *Predecessors*, terms described in the *Schedule*, and other agreements:
 - the premiums and premium surcharges,
 - *Deductible Loss Reimbursements*,
 - Service and credit fees,
 - your obligation to indemnify us for any amount that we may pay on your behalf because of any occurrence, accident, offense, claim or suit with respect to which you are a self-insurer,
 - any other fees, charges, or obligations as shown in the *Schedule* or as may arise as you and we may agree from time to time; and

Your Payment Obligation includes any portion of the premiums, premium surcharges, *Deductible Loss Reimbursements* or other obligations that we shall have calculated on the basis of our reserves for *Loss* and *ALAE*. Those reserves shall include specific reserves on known *Losses* and *ALAE*, reserves for incurred but not reported *Losses* and *ALAE*, and reserves for statistically expected development on *Losses* and *ALAE* that have been reported to us. Any *Loss* development factors we apply in determining such reserves will be based on our actuarial evaluation of relevant statistical data including, to the extent available and credible, statistical data based upon your cumulative *Loss* and *ALAE* history.

WHAT ELSE SHOULD YOU KNOW ABOUT YOUR PAYMENT OBLIGATION?

Amounts: We will calculate *Your Payment Obligation* according to the methods stated in the *Policies* or their *Predecessors* and any other agreements between us related to the *Policies* or their *Predecessors*.

You must abide by the results under this Agreement of any payment of *Loss* or *ALAE* that the claims service provider or we shall have made in the absence of negligence and in good faith under any of the *Policies*.

Credit: Credit is the postponement of *your* payment of some or all of *Your Payment Obligation* beyond the effective date of any insurance policies to which such obligations pertain. Any extension of credit to *you* under this Agreement, including any deferral or waiver of the collection of collateral from *you*, is not an assumption by us of any of *your* obligations to us. Any extension of credit to *you* does not limit our right to enforce *your* performance under this Agreement.

Payment of the credit fee, if any, shown in the *Schedule* is neither payment of premium for insurance of any kind nor payment of *Deductible Loss Reimbursements*.

Conversion: "Conversion" is the process to end the deferral of our demand for full payment of the entire amount of *Your Payment Obligation* under any policies that may remain unpaid as of the date of the conversion. .

We may require a Conversion for the *Policies* described in the *Schedule* on or after the date shown in the *Schedule* as the Conversion Date or upon the occurrence of default. If we do, *you* will have to pay us in cash any difference between the items below:

- *Your Payment Obligation* in total for those *Policies* as of the Conversion Date, and
- the sum of the payments *you* will already have made to us for them.

Commutation: *You* and we may agree at any time to commute the terms of any insurance policy under which the total amount of *Your Payment Obligation* is uncertain. "Commutate" means to change the uncertain amount of *your* future obligations into a certain fixed payment obligation or a certain fixed plan to determine *Your Payment Obligation*.

We may require that *you* commute *your Deductible Loss Reimbursement* obligations on or after the date shown in the *Schedule* as the Conversion Date and otherwise in accordance with the terms of the *Policies* relating thereto, and the description of *Your Payment Obligation* in this Agreement, prior to exercising our right of Conversion above.

WHEN MUST YOU PAY YOUR PAYMENT OBLIGATION?

All payments are due by the due date stated in the Invoice, Notice or Bill or in the *Schedule*, or if no due date is stated, within 30 days of the date of such Invoice, Notice or Bill.

WHAT IS THE PAYMENT PLAN?

Deposit and Installments

You must pay us a Deposit and Installments in the amounts and by the dates shown in the *Schedule* for the *Policies* described in the *Schedule*. If so shown in the *Schedule*, the Deposit includes a Claims Payment Deposit. The Claims Payment Deposit will not bear interest. We will return the amount of the Claim Payment Deposit to *you* when *you* have paid us all amounts due us.

If the total amount of claims we shall have paid on *your* behalf exceeds the sum of the Claims Payment Deposit for three (3) consecutive billing periods, we may require *you* to pay us additional funds for the Claims Payment Deposit. However, the entire Claims Payment Deposit shall not exceed 250% of the average amount of the claims we had paid in each of the prior 3 periods.

Payment Agreement

Additional Payments

You must also make payments in addition to the Deposit and Installments according to the Payment Method described under "Additional Payments" in the *Schedule*.

WHAT IS THE BILLING METHOD?

You have chosen the **Direct Billing Method** or the **Automatic Withdrawal Method**, or a combination of both. Your choices are shown in the *Schedule*.

Direct Billing Method

Installments: We will bill you at the address, at the intervals and for the amounts shown in the *Schedule* as "Installments". You must pay us those amounts by their Due Dates.

The first installment may include a deposit to fund our initial payments of *Loss* and *ALAE* on your behalf. That deposit, if any, will not bear interest. We will return the remainder of such deposit, if any, for the *Policies* described in the *Schedule* when you have paid us all premiums under the Conversion and Commutation terms for those *Policies*.

Additional Payments: For the Additional Payments described under "WHAT IS THE PAYMENT PLAN?", we will further bill you as necessary for the payment of *Losses* within your "Retention" and your share of *ALAE* covered by the *Policies*. We will not bill more than permitted under any Aggregate Stop provisions that apply to the *Policies*.

Automatic Withdrawal Method

Installments: We will bill you at the address and at the intervals for the amounts shown in the *Schedule* as "Installments", and you must pay us those amounts by their Due Dates. The first installment may include a deposit to fund our initial payments of *Loss* and *ALAE* on your behalf. That deposit, if any, will not bear interest.

Other Payments: For the Additional Payments described under "WHAT IS THE PAYMENT PLAN?", we will draw funds from the "Automatic Withdrawal Account" described in the *Schedule* as necessary for the payment of *Losses* within your "Retention" and your share of *ALAE* covered by the *Policies*. We will not withdraw more than permitted under any Aggregate Stop provisions that apply to the *Policies*.

You hereby authorize us to withdraw funds from that Account upon our demand.

You must pay enough cash into that "Automatic Withdrawal Account" to cover our expected payments of *Loss* within your *Retention* and your share of *ALAE* during the next Claims Payment Fund Coverage Period shown in the *Schedule*. The minimum amount of such cash funds is shown in the *Schedule* as "Minimum Amount". You must make a payment in that amount into that Account immediately whenever its balance falls below 25% of that amount. Interest earned on that Account belongs to you.

WHAT ABOUT COLLATERAL?

Collateral is Required

You must deliver collateral acceptable to us to secure Your *Payment Obligation* at the time(s), in the form(s) and in the amount(s) shown in the *Schedule*.

Grant of Security Interest and Right to Offset

You grant us a possessory security interest in any property you deliver to us to secure Your *Payment Obligation*. You also grant us a continuing first-priority security interest and right of offset with respect to all premiums, surcharges, dividends, cash, accounts, or funds that are payable to you and are now or may in the future come into our possession for this *Program*. You agree to assist us in any reasonable way to enable us to perfect our interest. You direct us to hold all such sums as collateral for Your *Payment Obligation* as they may be payable now or may become payable in the future.

Payment Agreement

Letter of Credit

Any letter of credit must be clean, unconditional, irrevocable and evergreen. It must be from a bank that we and the Securities Valuation Office of the National Association of Insurance Commissioners have approved and in a form acceptable to us. It must be in the amount shown in the *Schedule*.

If any letter of credit is canceled, no later than 30 days before that letter of credit expires, you must deliver to us a substitute letter of credit that complies with the requirements set forth above. The substitute letter of credit must take effect no later than the date of termination of the expiring letter of credit. Your duty to deliver such a letter of credit will continue until you have satisfied all your obligations under this Agreement and the *Policies*.

If you fail to provide us with a qualifying substitute letter of credit as indicated above, we may draw upon the existing letter of credit in full.

Other Collateral

With respect to any collateral we accept other than a letter of credit, including but not limited to any collateral we hold in trust or escrow, any agreements between you and us about our respective rights and obligations with respect to such collateral are incorporated by reference into this Agreement. Nothing in those agreements will limit or modify any of our rights under this Agreement.

Collateral Reviews

The collateral in the form and amount shown in the *Schedule* or in other agreements between you and us is subject to reviews and revisions as described below.

We will review our collateral requirement annually. In addition, we may review our collateral requirement at any time that we may deem reasonably necessary, including at any time after an event such as but not limited to the following:

1. the non-renewal or cancellation of any insurance policy we have issued to you to which this or a substantially similar agreement applies,
2. the failure or violation of any financial covenants or tests, or minimum financial rating (if any) specified in the *Schedule*,
3. the occurrence of any direct or indirect transaction for the merger or consolidation, or the conveyance, sale, transfer, dividend, spin-off, lease, or sale and lease back, of all or any material portion of your property, assets, business or equity to any other entity,
4. any material adverse change in the financial condition of you, your subsidiaries or affiliates taken separately or in combination, or any other entity on which we rely for security or guarantee in connection with this Agreement,

At each other's request we will cooperate with you or your designated consultant, and you will cooperate with us, in the conduct of such reviews.

Collateral Adjustment Procedure

The additional collateral that you must provide us will be in the amount of the difference between the total unpaid amount of *Your Payment Obligation* and any similar obligation incurred before the inception of this Agreement (including any portion of *Your Payment Obligation* that has been deferred and is not yet due) and the total amount of your collateral that we then hold. This amount may be adjusted on the basis of our evaluation of your financial condition. If such difference is a negative sum, that sum is the amount that we will return to you. However, we are not obligated to return collateral to you if you are in default of any provision of this Agreement or any other agreement relating to the *Program*.

If as a result of any review we find that we require additional collateral, you will provide us such additional collateral within 30 days of our written request. If a return of collateral to you is indicated, we will return annually the indicated amount to you within 30 days of our written acknowledgement thereof.

Payment Agreement

Financial Information

You must provide financial information to us as a basis for our collateral reviews within 14 days after our request.

If you are not subject to the reporting requirements of the Securities and Exchange Act of 1934, you must provide us copies of your audited annual financial statements.

If we so request, you must provide us such financial information as we may reasonably deem necessary to determine your financial condition, including but not limited to copies of your completed quarterly financial statements. Those statements must include the following:

- balance sheet,
- income statement
- statement of retained earnings,
- cash flow statement,
- notes to the statements, and
- any supplemental schedules.

Reporting Requirement

You must give us notice either when you learn of the event (including the unmatured event) of any default as described in the section titled "What is a Default", or an event described in the section titled "Collateral Reviews" in this Agreement; or you must give us notice of any material financial or operational condition that you are obligated to report to any other provider of credit to you.

WHAT IS DEFAULT?

Default is any of the following:

1. failure by you or any of your subsidiaries or affiliates to perform within 5 days after its due date any obligation you or any of your subsidiaries or affiliates have under this Agreement or any other agreement with us, or
2. your insolvency, or the occurrence of any of the following:
 - the commencement of liquidation or dissolution proceedings, your general failure to pay debts as they become due, general assignment by you for the benefit of creditors, the filing by or against you of any petition, proceeding, case or action under the provisions of the United States Bankruptcy Code or other such law relating to debtors, the appointment of, or the voluntary or involuntary filing for a petition for the appointment of, a receiver, liquidator, rehabilitator, trustee, custodian or similar official to take possession or control of any of your property; or
 - your default on any material outstanding debt not cured within its applicable cure period, if any.
3. the cancellation by you of any insurance policy we have issued to you to which this or a similar agreement applies.
4. your presentation of information to us that includes any material inaccuracy or incompleteness in any representation, warranty or condition precedent you make in connection with this Agreement or the insurance afforded by any of the Policies or their Predecessors.

WHAT MAY WE DO IN CASE OF DEFAULT?

If default occurs, we may take steps that are reasonably necessary to protect our interest. Our right to take such steps shall not be limited by the submission of any dispute to arbitration. We will exercise good faith consistent with usual and customary commercial and credit practice in selecting and exercising such steps. We may take steps such as the following:

1. We may declare the entire unpaid amount of Your Payment Obligation immediately due and payable.
2. We may change any or all unexpired Policies under Loss Reimbursement or Deductible plans to Non-Deductible plans for the remaining term of any such Policy, to become

Payment Agreement

- effective after ten days written notice to *you*. We will therewith increase the premiums for those *Policies* in accordance with our applicable rating plan.
3. We may draw upon, liquidate, or take ownership of collateral regardless of the form and hold or apply such amounts to *Your Payment Obligations* under this Agreement or any other agreement between *you* and us, or under any *Policies* we have issued to *you*.
 4. We may require *you* to deliver to us additional collateral, including an amendment to the letter of credit or an additional letter of credit or other additional collateral in an amount equal to the debited amount. The other additional collateral, letter of credit or its amendment must conform to the requirements described above. *You* must deliver it within 10 days of *your* receipt of a written notice from us.
 5. We may cancel any or all unexpired *Policies* as if for non-payment of premium or *Deductible Loss Reimbursements*. We may apply any return of premium resulting from the cancellation to remedy any default.
 6. We may withhold payment of claims to *you* or any of *your* subsidiaries or affiliates.
 7. We may satisfy *your* obligations to us in whole or in part by set-off against any moneys, securities or other consideration of *yours* received by, pledged to, held by or otherwise available to us in connection with this *Program* prior to the satisfaction in full of *your* obligations to us. *You* authorize us after any default to charge any account that *you* maintain with us in connection with this *Program* in order to satisfy any of *your* obligations.

HOW WILL DISAGREEMENTS BE RESOLVED?

What if we disagree about payment due?

So long as *you* are not in default under this Agreement, if *you* disagree with us about any amount that we have asked *you* to pay, within the time allowed for payment *you* will:

- give us written particulars about the items with which *you* disagree; and
- pay or accept those items with which *you* do not disagree.

We will review the disputed items and provide *you* with further explanations, details, or corrections. *You* must pay us the correct amounts for the disputed items within 10 days of agreement between *you* and us about their correct amounts. Disputed items not resolved within 60 days after our response to *your* written particulars will be in default.

Unresolved disputes must be settled by Arbitration

If a dispute that *you* and we cannot settle by mutual agreement arises about this agreement or any transaction related to it, that dispute must be submitted to 3 arbitrators. We may submit to such arbitration any dispute not resolved within 30 days after it arises.

You must notify us in writing as soon as *you* have submitted a dispute to arbitration. We must notify *you* in writing as soon as we have submitted a dispute to arbitration.

This Section will apply whether that dispute arises before or after termination of this Agreement.

How arbitrators must be chosen: *You* must choose one arbitrator and we must choose another. They will choose the third. If *you* or we refuse or neglect to appoint an arbitrator within 30 days after written notice from the other party requesting it to do so, or if the two arbitrators fail to agree on a third arbitrator within 30 days of their appointment, either party may make an application to a Justice of the Supreme Court of the State of New York, County of New York and the Court will appoint the additional arbitrator or arbitrators.

Qualifications of arbitrators: Unless *you* and we agree otherwise, all arbitrators must be executive officers or former executive officers of property or casualty insurance or reinsurance companies or insurance brokerage companies, or risk management officials in an industry similar to *yours*, domiciled in the United States of America not under the control of either party to this Agreement.

How the arbitration must proceed: The arbitration must take place in New York, New York unless *you* and we agree otherwise. The arbitration must be governed by the United States Arbitration Act, Title 9 U.S.C. Section 1, et seq. Judgment upon the award rendered by the arbitrators may be entered by a court having jurisdiction thereof.

You and we must both submit our respective cases to the arbitrators within 30 days of the appointment of the third arbitrator. The arbitrators must make their decision within 60 days

Payment Agreement

following the termination of the hearing, unless you and we consent to an extension. The majority decision of any two arbitrators, when filed with you and us, will be final and binding on you and on us.

The arbitrators must interpret this Agreement as an honorable engagement and not merely a legal obligation. They are relieved of all judicial formalities. They may abstain from following the strict rules of law. They must make their award to effect the general purpose of this Agreement in a reasonable manner.

The arbitrators must render their decision in writing, based upon a hearing in which evidence may be introduced without following strict rules of evidence, but in which cross-examination and rebuttal must be allowed.

The arbitrators may award compensatory money damages and interest thereupon. They may order you to provide collateral to the extent required by this Agreement. They will have exclusive jurisdiction over the entire matter in dispute, including any question as to its arbitrability. However, they will not have the power to award exemplary damages or punitive damages, however denominated, whether or not multiplied, whether imposed by law or otherwise.

Expenses of Arbitration: You and we must each bear the expense of our respective arbitrator and must jointly and equally bear with each other the expense of the third arbitrator and of the arbitration.

TO WHOM MUST YOU AND WE GIVE NOTICES?

We will mail or deliver all notices to you at your address in the *Schedule*. You must mail or deliver all notices to our Law Representative with a copy to our Account Executive at the address specified in the *Schedule*. All notices must be in writing.

WHAT LAW WILL GOVERN THIS AGREEMENT?

This Agreement will be governed by the laws of the State of New York.

MAY YOU OR WE ASSIGN RIGHTS UNDER THIS AGREEMENT?

You may not assign any of your rights or obligations under this Agreement to anyone else without our written consent. We may assign our rights and remedies under this Agreement to others.

WILL PAST FORBEARANCE WAIVE RIGHTS UNDER THIS AGREEMENT?

Our past forbearance, neglect or failure to enforce any or all provisions of this Agreement, or to give notice of insistence upon strict compliance with it, will not be a waiver of any of our rights. A waiver of rights in a past circumstance will not be a course of conduct that waives any rights in any subsequent circumstance.

WHO MUST PAY TO ENFORCE THIS AGREEMENT?

If you or we fail to perform or observe any provisions under this Agreement, the other may incur reasonable additional expenses to enforce or exercise its remedies. Either you or we must reimburse the other upon demand and presentation of clear and convincing supporting evidence for any and all such additional expenses.

HOW MAY THIS AGREEMENT BE CHANGED?

This Agreement may be changed only by agreement by you and us, as evidenced by a written addendum to this Agreement, duly executed by the authorized representatives of each.

WHAT IF THE LAW CHANGES?

If any part of this Agreement should become unenforceable because of any change in law, the remainder of this Agreement will remain in full force and effect.

Payment Agreement

ARE YOU AUTHORIZED TO MAKE THIS AGREEMENT?

You hereby represent and warrant that your execution, delivery and performance of this Agreement have been authorized by all necessary corporate actions. The individual executing this agreement on your behalf has full right and authority to execute and deliver this agreement and to bind you jointly and severally.

SIGNATURES

TO SIGNIFY AGREEMENT, you and we have caused this Agreement to be executed by the duly authorized representatives of each.

For us:

In New York, New York,

This 16th day of July, 2001

Signed by Clara V. Pincus

Typed Name Clara V. Pincus

Title Commercial Accounts Manager

For you:

In _____,

This 16th day of July, 2001

Signed by R. M. M. Ester

Typed Name _____

Title _____

Exhibit B

OUR PRIMARY CASUALTY PROGRAM BINDER

**FOR:
FANSTEEL, INC.
1 TANTALUM PLACE
NORTH CHICAGO, ILLINOIS**

*Program Effective Date: 06-30-02
Program Expiration Date: 06-30-03*

**AON RISK SERVICES (DICK SCHERDER)
1000 DOMINION TOWER
PITTSBURGH, PA. 15222**

Presented by:

**AIG Risk Management
Commercial Risk Division
900 Dominion Tower
Pittsburgh, PA 15222
(412) 288-2175**

PROGRAM PRICING

Insured's Retentions: \$ 250,000 for Workers' Compensation

PAID LOSS RETRO WITH DEDUCTIBLE BUY-BACK

1.	PROGRAM EXPENSES	
	Basic Expenses (Minimum & Deposit)	\$ 470,104
	<i>Adjusted at a rate of \$1.6482 per \$ 100 audited WC payroll</i>	
	<i>Estimated payroll – \$ 28,523,000</i>	
	State Taxes, Boards & Bureaus and Residual Market Loadings	\$ Incl.
	<i>Adjustable on actual states rates.</i>	
	Workers' Compensation Excess Premium (Minimum & Deposit)	\$ Incl.
	Commission (\$72000)	\$ Incl
2.	ESTIMATED LOSSES	\$ 1,161,688
3.	MINIMUM STOP LOSS ATTACHMENT POINT	\$ 600,000
	<i>Adjusted at a rate of \$2.1036 per \$100 audited WC payroll</i>	
	<i>Estimated payroll = \$28,523,000</i>	
4.	AGGREGATE STOP LOSS ATTACHMENT POINT	\$ 1,800,000
	<i>Adjusted at a rate of \$6.3107 per \$100 audited WC payroll</i>	
	<i>Estimated payroll = \$28,523,000</i>	
5.	SPECIAL TAX & ASSESSMENT CHARGES	\$ 22,933
6.	AS PAID LOSSES ARE BILLED MONTHLY A LOSS CONVERSION FACTOR OF 1.07 WILL BE APPLIED.	
7.	TOTAL ESTIMATED INSURANCE COST (1. +2 + 4.)	\$ 1,654,725

Security Requirements

CLAIMS PAYMENT FUND	\$ 57,671
SECURITY –due at inception	\$ 670,000

Program Terms & Conditions:

1. "Special Tax and Assessment Charges" are additional charges levied by various states in which the Insured conducts its operations. These charges are not considered premium, but rather are charged in addition to premium and represent a separate component of your overall insurance cost.
 2. Premium is due in NONE equal installments including G.L and Automobile Special Taxes & Assessments, Claims Payment Fund and Security are all due with the first installment.
 3. Program is written for a one-year term. All coverages provided are outlined in coverage exhibits; these may differ from those requested.
 4. Program is subject to the receipt of both our Payment Agreement & Schedule, signed by an officer of the insured and returned to us within 60 days of your receipt of such agreements. Failure to return a fully executed Payment Agreement & Schedule within the aforementioned time frame may result in all Program Expenses, Losses and Security becoming immediately due and payable to us in cash. Failure to pay such amount within 10 days thereafter shall entitle us to cancel the insurance program and to terminate all services provided under this program.
6. **REMEMBER THAT CLAIMS HANDLING IS OUTSIDE THE PROGRAM AT A L.C.F. OF 1.07.**

Coverage Extensions

Coverage: *Workers' Compensation – One Year Term Effective: 06/30/02-06/30/03*

WC4552416	COMMERCE & INDUSTRY	ALL OTHER STATES
WC4552417	COMMERCE & INDUSTRY	CALIFORNIA
DBP4552418	NATIONAL UNION FIRE INS. CO.	DEDUCTIBLE BUY BACK POLICY

Limits:	Workers' Compensation:	Statutory
	Employers' Liability:	\$ 1,000,000 Each Accident
		\$ 1,000,000 By Disease: Each Employee
		\$ 1,000,000 By Disease: Policy Limit

Terms and Conditions:

1. Various State Mandatory Endorsements
2. Large Risk Rating Plan Endorsement (LRRP)AOS, short form on Calif policy.
3. Allocated Loss Adjustment expenses are pro/rata
See Option C under LRRP
4. Voluntary Compensation Endorsement(If any)WC000311A
5. U.S.L. & H. Endorsement (If any)WC000106A)AOS; WC040101(CALIF.) assuming no exposure
6. Unintentional Errors & Omissions (WC990011)
- 7.

All Endorsements to be issued using either AIG-approved or NCCI-approved wording.

The above terms supercede all terms in specifications or application.

Coverage: **General Liability – One Year Term Effective: 06/30/02-06/30/03**

GL4571472 Insurance Co. State of Pennsylvania All states

Limits:	\$ 2,000,000	General Aggregate
	\$ 1,000,000	Products/Completed Operations Aggregate
	\$ 1,000,000	Personal/Advertising Liability Limit
	\$ 1,000,000	Combined Single Limit each Occurrence
	\$ 50,000	Fire Damage Liability, Any One Fire
	\$ 5,000	Medical Payments, Any One Person

Estimated annual exposure (sales): \$84,487,000

Composite rate per \$1000 of sales : \$2.6846

Estimated Annual Premium: \$226,814

Commission: 10%

Terms and Conditions:

1. Asbestos Exclusion (AIG 65165)
2. Total Pollution Exclusion/Hostile Fire (CG2155)
3. Employment Related Practices Exclusion(CG2147)
4. Lead Exclusion (S58332)
5. Exclusion-Designated Products – Weapon Components – CG2133
6. Additional Insureds - Vendors (CG2015)
7. Additional Insureds – Managers or Lessors of premises (CG20110)
8. Additional Insureds – Lessor of Leased Equipment (CG2028)
9. Broad form Named Insured Endorsement – AIG 61944
10. Employee Benefits AIG 51767 (\$1,000,000 Limit/ \$1,000 Deductible)
11. Composite Rate (AIG71709)
12. Aircraft Products Exclusion and Grounding End (AIG62251)
13. When we do not Renew (AIG 62134)
14. Fellow Employee Exclusion deleted (AIG64006)
15. Amendment of Duties in event of occurrence, offense, claim or suit (AG61707)
16. Unintentional Errors and Omissions (AIG62132)
17. Waiver of Transfer of Rights of Recovery CG2402
18. Impaired Property Exclusion deleted (AIG65323)
19. B.I. Definition Extension (AIG67260)
20. Deletion of Contractual Liability Exclusion Coverage B (AIG65329)
21. 90 Days Notice of Cancellation/10 Days Notice for Non-Payment.
22. Incidental Medical Malpractice (AIG65157)
23. Schedule of Locations.
24. Nuclear Energy Liability Exclusion IL0021
25. Exclusion Designated Professional Services CG2116
26. Occurrence form 10/01 ed, CG0001

These terms supercede all terms on specifications or application.

Coverage: *Automobile Liability – One Year Term Effective: 06/30/02-06/30/03*

CA1468177 INSURANCE COMPANY STATE OF PENNSYLVANIA, AOS (GROUP AUTO)
CA1468179 INSURANCE COMPANY STATE OF PENNSYLVANIA, TEXAS (GROUP AUTO)
CA1468178 INSURANCE COMPANY STATE OF PENNSYLVANIA, AOS (FANSTEEL)
CA1468180 INSURANCE COMPANY STATE OF PENNSYLVANIA, TEXAS (FANSTEEL)

Limits: \$ 1,000,000 Combined Single Limit each Occurrence for Liability
\$ Statutory Uninsured/Underinsured Motorists Coverage
\$ Statutory Personal Injury Protection
\$ 5,000 Medical Payments
500 ded Collision (group units only)
500 ded Comprehensive (group units only)

Premium: Corporate Wheels :	Texas	\$ 2,181	+ \$ 3 Surcharge	\$ 2,184	(1 unit)
	AOS	20,217	+ \$ 71.30 Surcharge	\$ 20,217.30	(24 units)
Group:	Texas	9,540	+ \$ 5 Surcharge	\$ 9,545	(5 units)
	AOS	25,020	0	\$ 25,020	(13 units)
	Total	56,958	+ \$79.30 Surcharge	\$57,037.30	

Commission: 10%

Estimated number of units: 6 (Texas)
37 (AOS)
43

All policies must be scheduled, no composite rate.

Terms and conditions:

1. Exclude Punitive Damages
2. Various State Mandatory Endorsements
3. Drive Other Car Coverage Endorsement CA-9910, names on file with the company.
4. Nuclear Energy Endorsement IL0021
5. Auto Medical Payments, CA9903
6. Fellow Employee Exclusion (AIG64007)
7. Hired Autos Specified as Covered Autos You Own(CA9916)
8. Employees as Insures (CA9933)
9. Loss Payees (CA9944)
10. Broad Form Named Insured (AIG61944)
11. Additional Insured Lessor (CA2001)
12. Duties in Event of Accident, Claim, Suit or Loss (AIG61709)
13. 90 Notice of Cancellation/10 Days Notice of Non-Payment
14. No Um/Uim Coverage in either Ohio or Michigan

These terms supercede all terms on specifications or application.

This binder is contingent upon:

The United States Bankruptcy Court for the District of Delaware, approving the renewal Insurance Program with Fansteel, Inc. for the policy period commencing on June 30, 2002 and ending on June 30, 2003, pursuant to an order satisfactory to American International Group and the assumption of the existing insurance program in its entirety, commencing on June 30, 2001 and currently ending on June 30, 2002, pursuant to an order reasonably satisfactory to American International Group on or before June 31, 2002.

You agree that failure to obtain this approval and assume the existing Insurance Program on or before July 31, 2002 is grounds for cancellation of the renewal Insurance Program policies.

SIGNATURES

TO SIGNIFY AGREEMENT, you and we have caused this Binder to be executed by the duly authorized representatives of each.

For us:

In Pittsburgh, Pennsylvania,

this 28TH day of JUNE

Signed by _____

Typed Name Billie J. Schaefer

Title Senior Underwriter

Signed by _____

Typed Name Clara V. Pincus

Title Regional Commercial Manager

Address 900 Dominion Tower

Pittsburgh, PA

For you:

In _____,

This ____ day of _____, 2002__

Signed by _____

Typed Name _____

Title _____

Address _____

Exhibit C

Schedule of Policies and Payments

Paid-Loss Payments Plan

Effective from 8/30/2001 to 6/30/2002

Annexed to the PAYMENT AGREEMENT

effective on 06/30/01

by and between us,

National Union Fire Insurance Company of Pittsburgh, Pa.

on behalf of itself and all its affiliates including but not limited to

**American Home Assurance Company
The Insurance Company of the State of Pennsylvania
National Union Fire Insurance Company of Pittsburgh, Pa
Commerce and Industry Insurance Company
Birmingham Fire Insurance Company
Illinois National Insurance Company
American International South Insurance Company
AIU Insurance Company
and you, our Client**

FANSTEEL, INC.

on behalf of yourself and all your subsidiaries or affiliates except those listed below:

(None)

For our use only: Contract Number

Your Address:

Street Number One Tantalum Place
City North Chicago State IL Zip 60064 Telephone 847-689-4900

Your Representative: Dick Scherder

Firm: Aon Risk Services
Street 1000 Dominion Tower, 625 Liberty Avenue
City Pittsburgh State PA Zip 15222 Telephone 412-594-7618

Our Account Executive: Billie J. Schaefer

American International Group
Street 900 Dominion Tower, 625 Liberty Avenue
City Pittsburgh State PA Zip 15222 Telephone 412-288-2175

Our Law Representative: Ms Virginia Doty

American International Group
Street 160 Water Street, 24th Floor
City New York State NY Zip 10038 Telephone 212-820-4545

Remit Payments to:

American International Group
Street P.O. Box 10472
City Newark State NJ Zip 07193 Telephone

Remit Collateral to: Arthur Stillwell

American International Group
Street 70 Pine Street
City New York State NY Zip 10270 Telephone 212-770-8428

A. Policies and Other Agreements

Workers' Compensation and Employers Liability Insurance
 WC4552416 WC4552417

Commercial General Liability Insurance
 GL4571472

Automobile Liability Insurance
 CA1468177 CA1468178 CA1468179 CA1468180

Other Insurance
 DBP4552418

Other Agreements (Describe)

B. Payment Plan:

1. Cash Deposit, Installments and Estimated Deferred Amounts

Payment No.	Due Date	Provision for Expenses and Excess Losses ⁽¹⁾	Special Taxes and Surcharges	Annual Credit Fee	Provision for Limited Losses ⁽²⁾	Your Estimated Payment Obligation
Deposit	6/30/2001	\$54,173.00	\$20,690.00	\$0.00	\$0.00	\$74,863.00
2	7/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
3	8/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
4	9/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
5	10/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
6	11/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
7	12/30/2001	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
8	1/30/2002	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
9	2/28/2002	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
10	3/28/2002	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
11	4/28/2002	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
12	5/28/2002	\$54,165.00	\$0.00	\$0.00	\$0.00	\$54,165.00
13	0	\$0.00	\$0.00	\$0.00	\$0.00	\$ 0.00
Subtotals		\$649,988.00	\$20,690.00	\$ 0.00	\$ 0.00	\$870,678.00
DLP*		N/A	N/A	N/A	\$1,550,000.00	\$1,550,000.00
DEP*		\$0.00	\$0.00	\$0.00	N/A	\$ 0.00
Totals		\$649,988.00	\$20,690.00	\$ 0.00	\$1,550,000.00	\$2,220,678.00

DLP means "Deferred Loss Provision". This is the estimated amount you must pay us as "Regular Loss payments" and "Sizeable Loss Payments" described below.

DEP means "Deferred Expense Provision". This is an estimated amount that you must pay us as follows:

Notes: (1) "Provision for Expenses and Excess Losses" is a part of the Premium

(2) "Provision for Limited Losses" includes provision for Loss within your *Retention* (both Deductible and Loss Limit) and your share of *ALAE*. Any "Deposit" in this column is the Claims Payment Deposit. Refer to definitions in the Payment Agreement.

2. Adjustments

The sums shown above are only estimated amounts. If *Your Payment Obligation* changes under the terms of the *Policies*, we will promptly notify you as such changes become known to us. All additional or return amounts relating thereto shall be payable in accordance with the terms of the Payment Agreement.

3. Additional Payments

On a Monthly basis, we will report to you the amounts of *Loss* and *ALAE* that we have paid under the *Policies*. You must subsequently pay us as described below.

Regular Loss Payments: Regular Loss Payments apply in addition to the amounts shown with Due Dates in Section B above.

We will bill you or withdraw funds from the Automatic Withdrawal Account (whichever Billing Method applies as shown below) at the periodic intervals stated above for the amounts of *Loss* within your *Retention* and your share of *ALAE* that we will have paid under the *Policies*, less all amounts you will have paid us to date as such Regular Loss Payments and the Sizable Loss Payments described below.

Sizable Loss Payments: If we must make payment for any *Loss* within your *Retention* and your share of *ALAE* arising out of a single accident, occurrence, offense, claim or suit that in combination exceeds the Sizable Loss Payment Amount of \$25,000, you must pay us the amount of that payment of *Loss* within 10 days after you receive our bill.

Billing Method:

- Billing to
- You at your address shown in the Schedule, or
- Your Representative at its address shown in the Schedule; or
- Automatic Withdrawal from the account described below.

If Automatic Withdrawal Account applies: Minimum Amount: \$0

Name of Depository Institution:

Address:

Account Number:

4. Conversion

The Conversion Date for each *policy* described in section A above shall be the date 66 months after the inception of such *policy*.

On or shortly after the Conversion Date upon the presentation of our invoice, you must pay in cash the entire unpaid amount of *Your Payment Obligation* for such *policies*.

C. Security Plan

1. Collateral

Collateral on Hand (by Type)	Amount of Collateral
	\$0
	\$0
	\$0
Total Collateral on Hand	\$ 0

Additional Collateral Required (by Type)	Amount of Collateral	Due Date
LOC	\$491,800	6/30/2001
LOC	\$491,800	9/30/2001
LOC	\$491,800	12/30/2001
Claims Payment Fund	\$74,600	6/30/2001
Total Additional Collateral Required	\$1,550,000	

2. Financial Covenants, Tests, or Minimum Credit Ratings

We may require additional collateral from you in the event of the following:

a. Credit Trigger:

- i. If the credit rating of the entity named below and for the type of debt described below, promulgated by Standard & Poor's Corporation ("S&P") or by Moody's Investors Services, Inc. ("Moody's"), drops below the grade shown respectively under S&P or Moody's, or
- ii. If S&P or Moody's withdraws any such rating.

We may require and you must deliver such additional collateral according to the Payment Agreement up to an amount such that our unsecured exposure will not exceed the amount shown as the Maximum Unsecured Exposure next to such rating in the grid below.

"Unsecured exposure" is the difference between the total unpaid amount of Your Payment Obligation (including any similar obligation incurred before the inception of the Payment Agreement and including any portion of Your Payment Obligation that has been deferred and is not yet due) and the total amount of your collateral that we hold.

Name of Entity: Type of Debt Rated:

Ratings at Effective Date		
S&P	Moody's	Unsecured Exposure at Effective Date
Potential Future Ratings		
S&P	Moody's	Maximum Unsecured Exposure
AA-	Aa3	\$0
A-	A3	
BBB	Baa2	
BB	Ba2	

b. Other Financial Tests or Covenants:

3. Adjustment of Credit Fee

If the amount of unsecured exposure is changed because of your delivery of additional collateral to us due to the requirements under item 2 above, the Credit Fee shall be adjusted on a pro-rata basis from the date of such delivery.

SIGNATURES

IN WITNESS WHEREOF, you and we have caused this "Schedule" to be executed by the duly authorized representatives of each.

For us, National Union Fire Insurance Company of Pittsburgh Pa., on behalf of itself and all its affiliates,

For you: FANSTEEL, INC.)

this 16th day of July, 2001

this 16th day of July, 2001

Signed by Clara V. Pincus

Signed by R. M. M. Ltee

Typed Name Clara V. Pincus

Typed Name

Title Commercial Accounts Manager

Title

Total Collateral Required

\$1,550,000

Exhibit D

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.)

**ORDER PURSUANT TO BANKRUPTCY CODE SECTIONS 364 AND 365
AUTHORIZING (I) RENEWAL OF DEBTORS' INSURANCE PROGRAM,
(II) ASSUMPTION OF PRE-PETITION PAYMENT AGREEMENT,
AS AMENDED AND EXTENDED, AND
(III) DELIVERY OF ADDITIONAL COLLATERAL TO SECURE
DEBTORS' REIMBURSEMENT OBLIGATIONS**

Upon consideration of the motion (the "Motion") of Fansteel Inc., a Delaware corporation, and its direct and indirect subsidiaries, as debtors and debtors in possession (the "Debtors"), for the entry of an order, pursuant to section 364(c)(2) and section 365 of title 11 of the United States Code (the "Bankruptcy Code"), authorizing the Debtors to (a) renew their workers' compensation and liability insurance coverage (the insurance policies, together with the related payment agreement and other related documents, collectively, the "Insurance Program") with National Union Fire Insurance Company of Pittsburgh, PA and certain other affiliates of American International Group, Inc. ("AIG"), (b) assume the expense and loss reimbursement and other payment obligations under the policies and agreements comprising the Insurance Program, as amended and extended, and (c) deliver additional collateral to AIG to secure the Debtors' payment and reimbursement obligations under the Insurance Program; and it appearing that the Court has jurisdiction to consider the Motion under 28 U.S.C. § 1334 and that this matter is a

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.

core matter under 28 U.S.C. § 157(b)(2); and the Court having determined that the relief requested in the Motion, as set forth in this Order, is in the best interests of the Debtors, their estates, and their creditors; and it appearing that due notice of the Motion was given to all parties required to receive notice pursuant to Delaware Rule of Bankruptcy Procedure 2002-1(b), and that no further or other notice need be given; and sufficient cause appearing therefor, it is hereby

ORDERED, ADJUDGED AND DECREED that:

1. The Motion is granted in its entirety.

2. The Debtors are hereby authorized to renew and extend the Insurance Program with AIG as more fully described in the Motion and the exhibits annexed thereto, and AIG is hereby authorized to continue the insurance coverages provided under the Insurance Program upon the terms and conditions set forth in the Payment Agreement, the Binder and the Schedule of Policies and Payments annexed as Exhibits "A", "B" and "C," respectively, to the Motion, for a renewal term expiring on June 30, 2003. In addition, the Debtors are authorized to enter into further renewals of the Program in the ordinary course of business, without further order of the Court and this order shall govern such renewals.

3. The Debtors are hereby authorized to assume the Insurance Program with AIG in its entirety pursuant to section 365 of the Bankruptcy Code, including but not limited to, the expense and loss reimbursement and other payment obligations under the policies and agreements comprising the Insurance Program, as amended and extended. The Debtors will cure all defaults within ten (10) business days of entry of this order and will pay their obligations under the Insurance Program, including premium and losses, in the ordinary course of business, without further order of the Court. All prior payments under the Insurance Program are approved.

4. The Debtors are hereby authorized to deliver to AIG additional collateral consisting of a letter of credit in the amount of \$670,000 and an additional claims fund in the amount of \$57,671 to secure the Debtors' payment and reimbursement obligations under the Insurance Program, and AIG is hereby granted a continuing first priority security interest and lien on such additional collateral and on all premiums, surcharges, dividends or funds payable to the Debtors under the Insurance Program pursuant to section 364(c)(2) of the Bankruptcy Code. Nothing contained herein shall be construed to limit the security interest granted to AIG in connection with the Insurance Program and the related security documentation.

5. In the event of a default by the Debtors of any of their obligations under the Insurance Program and the failure of the Debtors to cure the default within ten (10) business days after the Debtors' receipt of written notice of the default, to be delivered by AIG, by hand-delivery or by fax, to the Debtors, their counsel and the Debtors' post-petition lender, Congress Financial Corp., the automatic stay provisions of section 362 of the Bankruptcy Code shall be modified without further order of this Court to the extent necessary, to permit AIG to exercise all rights and remedies set forth in the policies and agreements comprising the Insurance Program, as amended and extended, including cancellation of the Insurance Program and foreclosure on any AIG Collateral in its possession, including without limitation, drawing on any letters of credit, in part or in full, and any deficiency claim remaining, after application of the proceeds of the AIG Collateral to the Debtors' outstanding obligations, shall be an administrative expense claim entitled to priority under section 503(b) of the Bankruptcy Code.

6. AIG may adjust, settle and pay insured claims, utilize funds provided for that purpose, and otherwise carry out the terms and conditions of the Insurance Program, without further order of the Court; provided, however, nothing herein shall grant relief from the stay to a

non-workers compensation claimant to pursue any claim in a non-bankruptcy court. The Insurance Program may not be altered by the Debtors' plan of reorganization ("Plan") and shall survive the Plan.

7. Inasmuch as the Debtor are to meet their obligations under the assumed Insurance Program without further order of the Court, no additional proof of claim or request for payment of administrative expense need be filed, and AIG shall be exempted from any bar date that may issue for the filing of same.

8. The Debtor's rights against all collateral held by AIG, in whatever form, shall be governed by the terms of the Insurance Program, and the Debtor shall not take any action against AIG in the Bankruptcy Court that is inconsistent with the terms of the documentation, including, without limitation, actions for turnover or estimation.

9. This order shall bind the Debtors, their successors in interest and assigns, including, without limitation, any trustee in bankruptcy.

Dated: Wilmington, Delaware
_____, 2003

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