

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Chapter 11
)
FANSTEEL INC., *et al.*,¹) Case No. 02-10109 (JF)
) (Jointly Administered)
Debtors.)
)
[Related Docket No. 861]

**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

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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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 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 upon the subjoined consent of counsel for the Official Committee of Unsecured Creditors, and sufficient cause appearing therefor, it is hereby

ORDERED, ADJUDGED AND DECREED that:

1. The Motion is granted in its entirety.
2. The Debtors' renewal and extension of the Insurance Program with AIG as more fully described in the Motion and the exhibits annexed thereto is hereby authorized and approved, 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, including a renewal of the Program for the year ending June 30, 2004, in the ordinary course of business, and execute all

documents necessary to effectuate the assumption and renewal of the Insurance Program, without further order of the Court and this order shall govern such renewals.

3. The Debtors are hereby authorized to assume and do hereby 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 delivery by the Debtors to AIG of additional collateral for the year ended June 30, 2003, consisting of a letter of credit in the amount of \$670,000 and an additional claims fund in the amount of \$57,671, and the delivery by the Debtors to AIG of an additional letter of credit for the year ending June 30, 2004 in the amount of \$718,000 (of which amount \$518,000 is in replacement of cash collateral used by AIG to satisfy outstanding losses), to secure the Debtors' payment and reimbursement obligations under the Insurance Program, is hereby authorized and approved, 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 reimbursement and other obligations under the Insurance Program shall be entitled to administrative expense 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, provided, however, in the event of a sale of all or substantially all of the assets

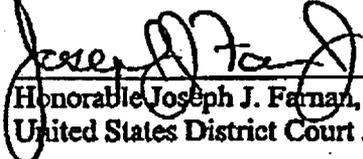
or property of one or more of the Debtors, the Insurance Program may be cancelled and terminated by the Debtors without payment of any cancellation surcharge or penalty, provided, nothing contained herein shall affect AIG's right to retain the minimum and deposit for the workers' compensation coverage.

7. Inasmuch as the Debtor are to meet their obligations under the assumed Insurance Program without further order of the Court, no request for payment of administrative exponso need be filed, and in the absence of a liquidation of the Debtors, AIG shall be exempted from any administrative expense claims bar date. AIG shall have thirty (30) days from the date of the entry of this order to amend the unliquidated pre-petition unsecured claims filed against the estates of Fansteel, Inc. (Claim No. 818), Fansteel Holdings, Inc. (Claim No. 819), and Wellman Dynamics Corp. (Claim No. 820) (collectively, the "AIG Claims") for the purpose of asserting any fixed, liquidated claim which AIG may have against any of such debtors in connection with any insurance coverages and services provided to such debtors other than the coverages and services provided under the Insurance Program. In the event any AIG Claim is not amended and liquidated within the thirty (30) day period provided herein, such unliquidated AIG claim shall be deemed withdrawn and disallowed.

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: July 30, 2003


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