

Gary L. Tessitore
Chairman, President and
Chief Executive Officer



September 17, 2003

Daniel M. Gillen, Chief
Decommissioning Branch
Office of Nuclear Material Safety and Safeguards
U.S. Nuclear Regulatory Commission
Mail Stop T-7F27
Washington, DC 20555-0001

**Re: Fansteel Inc.
Docket No. 40-7580
License SMB-911
Supplementary Information in Support of Request for Consent to
License Transfer and Request for Licensing Actions in Connection
with the Decommissioning Plan for the Muskogee, Oklahoma Site**

Dear Mr. Gillen:

On July 24, 2003, Fansteel Inc. ("Fansteel") submitted a request for prior written consent for the transfer of the referenced license from the current licensee, Fansteel, to MRI Inc., a corporation to be formed under Delaware law as part of Fansteel's exit from bankruptcy. Also on July 24, Fansteel submitted a request for several licensing actions in connection with the Decommissioning Plan for Fansteel's Muskogee, Oklahoma site, including a request for an exemption from 10 C.F.R. § 40.36(e). Fansteel herein submits the following supplementary information in support of the license transfer application and the request for licensing actions, as applicable:

- In connection with Fansteel's July 24 exemption request, by letter dated August 29, 2003, the NRC Staff requested that Fansteel submit drafts of its proposed financial instruments for NRC review. Accordingly, Fansteel has appended as Attachment 1 hereto the following draft instruments: (1) Primary FMRI Note (promissory note); (2) Secondary FMRI Note (promissory note); (3) Contingent FMRI Note (promissory note); (4) Indemnification Letter to the NRC; and (5) Pledge and Security Agreement in favor of the NRC. In its August 29 letter, the Staff states that it cannot approve draft documents and, accordingly, approval of the exemption request, if appropriate, cannot occur until after the signed original instruments are received and approved by the NRC. As an

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alternative, Fansteel would request that, consistent with NRC precedent and longstanding practice, particularly in the license transfer context, the Staff approve the execution of financial instruments and contracts subject to a license condition requiring the proposed documents to be executed in a form substantively identical to that approved by the NRC.¹ (Attachment 3 of Fansteel's transfer application provides a form of such conditions. *See* proposed conditions 32, 33, and 34.) This will be necessary, as Fansteel will be unable to provide executed originals of the notes prior to its exit from bankruptcy. However, because Fansteel must obtain this approval as a condition precedent to its exit from bankruptcy, Fansteel asks the NRC to adopt such an approach in approving the exemption, should the Staff find that the regulatory requirements for issuance of the exemption are met.

- Fansteel is including in this submission as Attachment 2 a form of Amendment Number Two to the Standby Trust Agreement. This form is to be used as the vehicle for amendment of the existing Agreement by Fansteel, the Bank of Waukegan, and to obtain the consent of the NRC, and its replacement with the amended Decommissioning Trust Agreement proposed by the Staff, as discussed below.
- Fansteel accepts the revisions made to the Standby Trust Agreement (renamed "Decommissioning Trust Agreement") by the NRC Staff as to Fansteel by letter dated September 12, 2003, with the following exceptions.
 - The last sentence of Section 3 and the approval block for the NRC should be deleted. The NRC's approval of the amendment of the present Standby Trust (and its restatement as the Decommissioning Trust Agreement) is granted through its approval of Amendment 2 to the Decommissioning Trust Agreement.
 - The last sentence of Section 19 should be stricken as potentially creating interpretation issues for the Trustee. In addition, it is not in accordance with the model Standby Trust Agreement contained in Appendix A to NUREG-1757, Vol. 3 (September 2003). The form of Decommissioning Trust Agreement will be forwarded to the Bank of Waukegan for its review and approval.
- Finally, Fansteel recently determined that the name "MRI Inc." is not available as a corporate name. Accordingly, Fansteel hereby requests that all references to "MRI Inc." or "MRI" be replaced by "FMRI Inc.," or "FMRI," as appropriate. This change is ministerial only, and does not modify the substance of the application in any way.

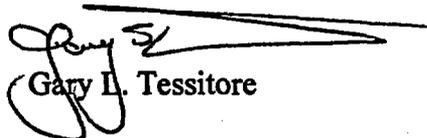
¹ *See, e.g.,* Pacific Gas and Electric Company (Diablo Canyon Nuclear Power Plant, Units 1 and 2); Order Approving Transfer of Licenses and Conforming Amendments, 68 Fed. Reg. 33,208, 33,209 (June 3, 2003) (approving the license transfer, subject to several conditions).

Daniel M. Gillen, Chief
September 17, 2003
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Fansteel

If you have any questions regarding this submission, please contact me at (847) 689-4900, extension 220.

Sincerely,



Gary L. Tessitore

Attachments

cc: James C. Shepherd, NRC/NMSS
NRC Document Control Desk
Maria E. Schwartz, Esq., NRC/OGC
Richard Gladstein, Esq., DOJ
Alan Tenenbaum, Esq., DOJ
Jeffrey S. Sabin, Esq., Schulte Roth & Zabel LLP
James R. Curtiss, Esq., Winston & Strawn LLP

**AMENDMENT NUMBER TWO
TO
STANDBY TRUST AGREEMENT**

This Amendment Number Two to Standby Trust Agreement dated February 3, 1994, and amended as of March 6, 1997, by and between Fansteel Inc., a Delaware corporation, herein referred to as the "Grantor", and the Bank of Waukegan as trustee under Trust No. 2740, and not individually, of Waukegan, Illinois, herein referred to as the "Trustee", is entered into this ___ day of ____, 2003.

WHEREAS, the Grantor and Trustee entered into the Standby Trust Agreement, as heretofore amended, herein referred to as the "Agreement", described above in conjunction with Grantor providing financial assurance that funds will be available when needed for required decommissioning activities described in the Agreement; and

WHEREAS, the Grantor originally elected to use letters of credit to provide financial assurance for the facilities identified in the Agreement; and

WHEREAS, because of issues related to remediation of the Grantor's Muskogee Site and other reasons, on January 15, 2002, the Grantor and eight of its subsidiaries filed for bankruptcy protection pursuant to Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware; and

WHEREAS, Amendment Number One to the Standby Trust Agreement was entered into on March 6, 1997, to amend Schedule A to reflect a revised cost estimate for decommissioning activities; and

WHEREAS, payment was made under the aforementioned letters of credit into the Standby Trust Fund by requests of the NRC dated February 27, 2002, and March 1, 2002; and

WHEREAS, upon emergence from Chapter 11, and in accordance with the terms and conditions of a confirmed Plan of Reorganization, a wholly-owned subsidiary of the Grantor, FMRI Inc., herein referred to as "FMRI", will undertake decontamination and decommissioning of the Muskogee Site; and

WHEREAS, FMRI will become the Nuclear Regulatory Commission, herein referred to as "NRC", licensee for License SMB-911 and will undertake full responsibility for decontamination and decommissioning of the Muskogee Site; and

WHEREAS, the Grantor and the NRC have agreed to a decommissioning funding mechanism for FMRI's remediation of the Muskogee Site which provides that the proceeds of the Standby Trust Fund will provide a portion of the amount of financial assurance for decommissioning of the Muskogee Site; and

WHEREAS, the Agreement executed by Grantor and Trustee must be amended to reflect the license transfer and the concomitant transfer of responsibility for the decommissioning funding mechanism agreed to by the Grantor and the NRC.

NOW, THEREFORE, the Grantor and the Trustee agree as follows:

1. In accordance with Section 15 of the Agreement, the Agreement is amended and reissued in its entirety and renamed as set forth in Attachment 1 (herein referred to as the "Amended Agreement"), hereto, to reflect the assumption of the obligation of FMRI from the Grantor to remediate the Muskogee Site pursuant to NRC License SMB-911 in accordance with an application to the NRC to transfer the license for the Muskogee Site dated July 24, 2003, as amended. The Trustee also has indicated its agreement to and acceptance of the Amended Agreement by its signature on this Amendment and Attachment 1. In accordance with Section 15 of the Agreement, the NRC has indicated its agreement to and acceptance of the Amended Agreement by its signature on this Amendment. FMRI will execute the Amendment to indicate its agreement to and acceptance of the Amended Agreement on the Effective Date of the "Joint Reorganization Plan of Fansteel Inc. and Subsidiaries."
2. This Amendment shall become effective upon the execution of the Amended Agreement by FMRI. The effectiveness of this amendment substitutes FMRI as Grantor of the Trust Fund and shall relieve Fansteel Inc. of any obligations as original Grantor of this Trust Fund.

IN WITNESS WHEREOF, the parties have caused this Amendment Number Two to be executed by the respective officers duly authorized and the corporate seals to be hereunto affixed, as necessary.

ATTEST: _____

BANK OF WAUKEGAN, as trustee aforesaid and
not individually

Its: _____

By: _____

ATTEST: _____

Fansteel Inc.

Its: _____

By: _____

CONSENTED TO:

U.S. NUCLEAR REGULATORY COMMISSION

By: _____

(SEAL)

FANSTEEL INC.
[Address]

FMRI INC.
[Address]

December __, 2003

United States Nuclear Regulatory Commission
[Address]

Ladies and Gentlemen:

Indemnification Letter

Reference is made to (i) the Promissory Note dated December __, 2003 (the "FMRI Primary Note") by Fansteel Inc. ("Fansteel") in favor of FMRI, Inc. ("FMRI") in the principal amount of \$30,600,000.00, (ii) the Promissory Note dated December __, 2003 (the "FMRI Secondary Note") by Fansteel in favor of FMRI in the principal amount of \$4,200,000.00, (iii) the Promissory Note, if any, by Fansteel in favor of FMRI in a principal amount to be determined (the "FMRI Contingent Note"), and (iv) the Pledge And Security Agreement dated as of December __, 2003 (the "Pledge Agreement") between FMRI, as Pledgor, and the United States Nuclear Regulatory Commission (the "NRC"), as Pledgee, pursuant to which FMRI pledged all of its right, title and interest in and to the FMRI Primary Note, in and to the FMRI Secondary Note and in and to the FMRI Contingent Note, if any, to the NRC.

The undersigned hereby jointly and severally agree to indemnify and hold the NRC harmless from and against any and all claims, damages, losses, liabilities, obligations, penalties, costs and expenses (including, without limitation, legal fees and disbursements of the NRC's counsel) to the extent that they arise out of or otherwise result from the Pledge Agreement (including, without limitation, enforcement of the Pledge Agreement and, pursuant thereto, the enforcement of the FMRI Primary Note, the FMRI Secondary Note, and the FMRI Contingent Note, if any, except claims, losses or liabilities resulting from the NRC's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

The undersigned hereby agree that upon demand Fansteel and FMRI will pay to the NRC the amount of any and all costs and expenses, including the reasonable fees and disbursements of the NRC's counsel and of any experts and agents, which the NRC may incur in connection with (i) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Pledged Interest (as defined in the Pledge Agreement), (ii) the exercise or enforcement of any of the rights of the NRC thereunder, or (iii) the failure by FMRI to perform or observe any of the provisions thereof.

No waiver, amendment or other modification of this letter agreement shall be effective unless in writing and signed by each party to be bound thereby.

This letter agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois applicable to contracts executed in and to be performed in that state.

Please confirm that the foregoing currently sets forth our agreement by signing and returning the duplicate copy of this letter agreement enclosed herewith.

FANSTEEL INC.,
a Delaware corporation

By: _____
Name:
Title:

FMRI INC.,
a Delaware corporation

By: _____
Name:
Title:

Acknowledgment and Consent,
Dated _____, 2003

UNITED STATES NUCLEAR REGULATORY COMMISSION

By: _____
Name:
Title:

PLEDGE AGREEMENT

PLEDGE AND SECURITY AGREEMENT dated as of _____, 2003,
made by FMRI, INC., a Delaware corporation (the "Pledgor"), in favor of the UNITED STATES
NUCLEAR REGULATORY COMMISSION (the "NRC").

WITNESSETH:

WHEREAS, Fansteel Inc., a Delaware corporation ("Reorganized Fansteel"), is the successor-in-interest to Fansteel Inc., a debtor and debtor-in-possession and co-proponent of the Joint Reorganization Plan of Fansteel Inc. and Subsidiaries dated _____, 2003 in Chapter 11 Case No. 02-10109(JJF)(Jointly Administered) (such plan, as amended, restated or otherwise modified from time to time, being hereinafter referred to as the "Reorganization Plan");

WHEREAS, pursuant to the Reorganization Plan, the Pledgor, a wholly-owned subsidiary of Reorganized Fansteel, has been organized as a special purpose vehicle as the successor-in-interest to Fansteel Inc., a Delaware corporation as it existed prior to substantial consummation of the Reorganization Plan ("Old Fansteel"), in respect of all licenses (including, but not limited to, the NRC License SMB-911 (Docket No. 40-7580)), permits, equipment, real property, improvements and the L/C Cash Reserve (as defined in the Reorganization Plan) in order to fulfill obligations under the licenses and the Amended Decommissioning Plan;

WHEREAS, pursuant to the Reorganization Plan, Reorganized Fansteel has the obligation to fund the operations and activities of FMRI, in furtherance of such obligation Reorganized Fansteel has executed the FMRI Primary Note dated the date hereof in favor of FMRI in the principal amount of \$30,600,000.00 (the "FMRI Primary Note") and the FMRI Secondary Note dated the date hereof in favor of FMRI in the principal amount of \$4,200,000.00 (the "FMRI Secondary Note") and has committed to make, if required, an additional note in favor of FMRI in an amount to be determined in the manner set forth in the Reorganization Plan and on such terms as may be mutually agreed to by the parties (the "FMRI Contingent Note");

WHEREAS, pursuant to the Reorganization Plan, the NRC shall be a third-party beneficiary of the FMRI Primary Note, the FMRI Secondary Note and, if any, the FMRI Contingent Note and the Pledgor shall grant the NRC a perfected first priority lien on and in the FMRI Primary Note and its proceeds, on and in the FMRI Secondary Note and its proceeds and, if any, on and in the Contingent Note and its proceeds;

NOW, THEREFORE, in consideration of the premises and the agreements herein and in order to satisfy the terms of the Reorganization Plan, the Pledgor agrees with the NRC as follows:

SECTION 1. Definitions. All capitalized terms used in this Agreement which are defined in the Reorganization Plan, the FMRI Primary Note, the FMRI Secondary Note or the FMRI Contingent Note, as applicable, or in Article 8 or Article 9 of the Uniform Commercial

Code (the "Code") currently in effect in the State of Illinois and which are not otherwise defined herein shall have the same meanings herein as set forth therein.

Definitions:

"Amended Decommissioning Plan" means Fansteel's decommissioning plan for the Muskogee Facility, dated January 14, 2003, as supplemented by letters dated May 8, 2003 and May 9, 2003, and resubmitted by Old Fansteel for review by the NRC on July 24, 2003, as the same may be further amended, modified, or supplemented.

SECTION 2. Pledge and Grant of Security Interest. The Pledgor hereby pledges and assigns to the NRC, and grants to the NRC a continuing security interest in, all of the Pledgor's right, title and interest in and to the following (the "Pledged Interests"):

(a) the FMRI Primary Note evidencing Reorganized Fansteel's obligation to the Pledgor (the "Primary Pledged Debt");

(b) the FMRI Secondary Note evidencing Reorganized Fansteel's obligation to the Pledgor (the "Secondary Pledged Debt");

(c) the FMRI Contingent Note, if any, evidencing Reorganized Fansteel's obligation to the Pledgor (the "Contingent Pledged Debt", together with the Primary Pledged Debt and the Secondary Pledge Debt, the "Pledged Debt");

(d) all cash, instruments, investment property and other property from time to time received, receivable or otherwise distributed in exchange for any or all of the Pledged Debt; and

(e) all proceeds (including proceeds of proceeds) of any and all of the foregoing;

in each case, whether now owned or hereafter acquired by the Pledgor and howsoever its interest therein may arise or appear (whether by ownership, security interest, claim or otherwise).

SECTION 3. Security for Obligations. The security interest created hereby in the Pledged Interests constitutes continuing collateral security for all of the following obligations, whether now existing or hereafter incurred (the "Obligations"):

(a) the prompt payment by Reorganized Fansteel, as and when due and payable (by scheduled maturity, required prepayment, acceleration, demand or otherwise), of all amounts from time to time owing by it in respect of the FMRI Primary Note, including, without limitation, principal of the FMRI Primary Note, all fees, commissions, expense reimbursements, indemnifications and all other amounts due or to become due under the FMRI Primary Note;

(b) the prompt payment by Reorganized Fansteel, as and when due and payable (by scheduled maturity, required prepayment, acceleration, demand or otherwise), of all amounts from time to time owing by it in respect of the FMRI Secondary Note, including,

without limitation, principal of the FMRI Secondary Note, all fees, commissions, expense reimbursements, indemnifications and all other amounts due or to become due under the FMRI Secondary Note;

(c) the prompt payment by Reorganized Fansteel, as and when due and payable (by scheduled maturity, required prepayment, acceleration, demand or otherwise), of all amounts from time to time owing by it in respect of the FMRI Contingent Note, if any, including, without limitation, principal of the FMRI Contingent Note, all fees, commissions, expense reimbursements, indemnifications and all other amounts due or to become due under the FMRI Contingent Note; and

(d) the due performance and observance by FMRI of all of its other obligations from time to time existing in respect of the Reorganization Plan.

SECTION 4. Delivery of the Pledged Collateral. The FMRI Primary Note and the FMRI Secondary Note shall be delivered to the NRC on or prior to the day of execution and delivery of this Agreement. The Contingent Note, if any, shall be delivered promptly to the NRC upon its execution. Pledgor further agrees that if within 90 days of Pledgor's receipt of written notice from the NRC to the Pledgor that the NRC, in its discretion, has deemed either of the Pledgor or Reorganized Fansteel to be in material breach of its obligations under the Amended Decommissioning Plan, the Pledgor and/or Fansteel, as the case may be, has not cured such material breach, if such breach is capable of being cured, then Pledgor shall deliver to the NRC all cash, instruments, investment property or other property that it has received and has in its possession and that it may receive from time to time in exchange for any or all of the Pledged Debt. All such instruments shall be held by or on behalf of the NRC pursuant hereto and shall be delivered in suitable form for transfer by delivery or shall be accompanied by duly executed assignment in blank, in a form substantially similar to the Form of Assignment and Acceptance attached hereto as Exhibit A. If any Pledged Interest consists of uncertified securities, unless the immediately following sentence is applicable thereto, the Pledgor shall cause the NRC (or its designated custodian or nominee) to become the registered holder thereof, or cause each issuer of such securities to agree that it will comply with the instructions originated by the NRC with respect to such securities without further consent by the Pledgor. If any Pledged Interest consists of security entitlements, the Pledgor shall transfer such security entitlements to the NRC (or its custodian, nominee or other designee), or cause the applicable securities intermediary to agree that it will comply with entitlement orders by the NRC without further consent by the Pledgor.

SECTION 5. Representations and Warranties. The Pledgor represents and warrants as follows:

(a) The Pledgor is and will be at all times the legal and beneficial owner of the Pledged Interests free and clear of any Lien except for the security interest created by this Agreement.

(b) This Agreement creates a valid security interest in favor of the NRC in the Pledged Interests, as security for the Obligations. The NRC's having possession of the FMRI Primary Note, the FMRI Secondary Note and, if any, the FMRI Contingent Note results in the perfection of such security interest. Such security interest is, or in the case of any Pledged

Interest in which the Pledgor obtains rights after the date hereof, will be, a perfected, first priority security interest. All action necessary or desirable to perfect and protect such security interest has been duly taken, except for the NRC's having possession of such instruments constituting Pledged Interests after the date hereof.

SECTION 6. Covenants as to the Pledged Interests. So long as any Obligations shall remain outstanding and the FMRI Primary Note, the FMRI Secondary Note and, if any, the Contingent Note shall not have been paid in full, the Pledgor will, unless the NRC shall otherwise consent in writing:

- (a) keep adequate records concerning the Pledged Interests;
- (b) at its expense, promptly deliver to the NRC a copy of each notice or other communication received by it in respect of the Pledged Interests;
- (c) at its expense, defend the NRC's right, title and security interest in and to the Pledged Interests against the claims of any Person;
- (d) at its expense, at any time and from time to time, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or desirable or that the NRC may reasonably request in order to (i) perfect and protect the security interest purported to be created hereby, (ii) enable the NRC to exercise and enforce its rights and remedies hereunder in respect of the Pledged Interests or (iii) otherwise effect the purposes of this Agreement;
- (e) not sell, assign (by operation of law or otherwise), exchange or otherwise dispose of the Pledged Interests;
- (f) not create or suffer to exist any Lien, security interest or other charge or encumbrance upon or with respect to the Pledged Interests except for the security interest created hereby;
- (g) not make or consent to any material amendment or other modification or waiver with respect to the Pledged Interests or enter into any agreement or permit to exist any restriction with respect to any Pledged Interest without the consent of the NRC which consent shall not be unreasonably withheld; and
- (h) not take or fail to take any action which would in any manner impair the enforceability of the NRC's security interest in any Pledged Interest.

SECTION 7. Additional Provisions Concerning the Pledged Interests.

- (a) The Pledgor hereby authorizes the NRC to file, without the signature of the Pledgor where permitted by law, one or more financing or continuation statements, and amendments thereto, relating to the Pledged Interests.
- (b) The Pledgor hereby irrevocably appoints the NRC as its attorney-in-fact and proxy, with full authority in the place and stead of the Pledgor and in the name of the

Pledgor or otherwise, from time to time in the NRC's discretion, to take any action and to execute any instrument which the NRC may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend, interest payment or other distribution in respect of any Pledged Interest and to give full discharge for the same. This power is coupled with an interest and is irrevocable until all of the Obligations are paid in full and the FMRI Primary Note and the FMRI Secondary Note shall have been terminated.

(c) If the Pledgor fails to perform any agreement or obligation contained herein, the NRC itself may perform, or cause performance of, such agreement or obligation, and the expenses of the NRC incurred in connection therewith shall be payable by Reorganized Fansteel and the Pledgor pursuant to the Indemnification Letter dated the date hereof in favor of the NRC by Reorganized Fansteel and the Pledgor (the "Indemnification Letter") and shall be secured by the Pledged Interests.

(d) Other than the exercise of reasonable care to assure the safe custody of the Pledged Interests while held hereunder, the NRC shall have no duty or liability to preserve rights pertaining thereto and shall be relieved of all responsibility for the Pledged Interests upon surrendering it or tendering surrender of it to the Pledgor. The NRC shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Interests in its possession if the Pledged Interests are accorded treatment substantially equal to that which the NRC accords its own property, it being understood that the NRC shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any Pledged Interest.

(e) The powers conferred on the NRC hereunder are solely to protect its interest in the Pledged Interests and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Pledged Interest in its possession, the NRC shall have no duty as to any Pledged Interest or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Pledged Interest.

SECTION 8. Remedies Upon Default. If any Default (as defined in the FMRI Primary Note, the FMRI Secondary Note and, if any, the FMRI Contingent Note, as applicable) shall have occurred and be continuing:

(a) The NRC may exercise in respect of the Pledged Interests, in addition to other rights and remedies provided for herein or otherwise available to it, all of the rights and remedies of a secured party on default under the Code then in effect in the State of Illinois; and without limiting the generality of the foregoing and without notice except as specified below, sell the Pledged Interests or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board or elsewhere, at such price or prices and on such other terms as the NRC may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least 10 business days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The NRC shall not be obligated to make any sale of Pledged Interests regardless of notice of sale having been given. The NRC may adjourn any public or private sale from time to

time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Any cash held by the NRC as Pledged Interests and all cash proceeds received by the NRC in respect of any sale of, collection from, or other realization upon, all or any part of the Pledged Interests may, in the discretion of the NRC, be held by the NRC as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the NRC pursuant to the Indemnification Letter) in whole or in part by the NRC against, all or any part of the Obligations in such order as the NRC shall elect consistent with the provisions of the Reorganization Plan. Any surplus of such cash or cash proceeds held by the NRC and remaining after payment in full of all of the Obligations shall be paid over to the Pledgor or to such person as may be lawfully entitled to receive such surplus.

SECTION 9. Notices, Etc. All notices and other communications provided for hereunder shall be in writing and shall be mailed (by certified mail, postage prepaid and return receipt requested), telecopied or delivered, if to the Pledgor or to the NRC, to such Person at its address specified below their signature hereto; or as to either such Person at such other address as shall be designated by such Person in a written notice to such other Person complying as to delivery with the terms of this Section 9. All such notices and other communications shall be effective (i) if sent by certified mail, return receipt requested, when received or 3 Business Days after mailing, whichever first occurs, (ii) if telecopied, when transmitted and confirmation is received, if transmitted on a Business Day and, if not, on the next Business Day or (iii) if delivered, upon delivery, if delivered on a Business Day and, if not, on the next Business Day.

SECTION 10. Miscellaneous.

(a) No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by the Pledgor and the NRC, and no waiver of any provision of this Agreement, and no consent to any departure by the Pledgor therefrom, shall be effective unless it is in writing and signed by the NRC, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b) No failure on the part of the NRC to exercise, and no delay in exercising, any right hereunder or under the FMRI Primary Note, the FMRI Secondary Note, the FMRI Contingent Note, if any, and the Reorganization Plan shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The rights and remedies of the NRC provided herein and in the FMRI Primary Note, in the FMRI Secondary Note, in the FMRI Contingent Note, if any, and in the Reorganization Plan are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law. The rights of the NRC under the FMRI Primary Note, the FMRI Secondary Note, the FMRI Contingent Note, if any, and the Reorganization Plan against any party thereto are not conditional or contingent on any attempt by the NRC to exercise any of its rights under the FMRI Primary Note, the FMRI Secondary Note and the Reorganization Plan against such party or against any other Person, including but not limited to, the Pledgor.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or

unenforceability without invalidating the remaining portions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

(d) This Agreement shall create a continuing security interest in the Pledged Interests and shall (i) remain in full force and effect until the payment in full or release of the Obligations and after the FMRI Primary Note, the FMRI Secondary Note and the FMRI Contingent Note, if any, shall have been paid in full and (ii) be binding on the Pledgor and, by its acceptance hereof, the NRC, and its respective successors, transferees and assigns and shall inure, together with all rights and remedies of the NRC hereunder, to the benefit of the NRC and its respective successors, transferees and assigns. None of the rights or obligations of the Pledgor or the NRC hereunder may be assigned or otherwise transferred without the prior written consent of the other party, which consent shall not be unreasonably withheld, and any such assignment or transfer shall be null and void.

(e) Upon the satisfaction in full of the Obligations after the FMRI Primary Note, the FMRI Secondary Note and the FMRI Contingent Note, if any, shall have been paid in full, (i) this Agreement and the security interests created hereby shall terminate and all rights to the Pledged Interests shall revert to the Pledgor, and (ii) the NRC will, upon the Pledgor's request and at the Pledgor's expense, (A) return to the Pledgor such of the Pledged Interests as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof, and (B) execute and deliver to the Pledgor, without recourse, representation or warranty, such documents as the Pledgor shall reasonably request to evidence such termination.

(f) This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, except as required by mandatory provisions of law and except to the extent that the validity and perfection or the perfection and the effect of perfection or non-perfection of the security interest created hereby, or remedies hereunder, in respect of any particular Pledged Interest are governed by the law of a jurisdiction other than the State of Illinois.

(g) This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one in the same agreement.

SECTION 11: Submission to Jurisdiction; Waivers. The Pledgor hereby irrevocably and unconditionally:

(a) Submits for itself and its property in any action, suit or proceeding relating to this Pledge Agreement or the FMRI Primary Note, the FMRI Secondary Note, the FMRI Contingent Note, if any, or the Reorganization Plan, or for recognition and enforcement of any judgment in respect thereof, to the jurisdiction of the United States Bankruptcy Court for the District of Delaware and the courts of the State of Illinois, the courts of the United States of America for the Northern District of Illinois, and appellate courts thereof;

(b) Agrees that any such action, suit or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such

action, suit or proceeding in any such court or that such action, suit or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) Irrevocably consents to the service of any and all process in any such action, suit or proceeding by the mailing of copies of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Pledgor, at its address set forth by its signature below or at such other address of which the NRC shall have been notified pursuant thereto;

(d) To the extent that the Pledgor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Pledgor hereby irrevocably waives such immunity in respect of its obligations under this Pledge Agreement;

(e) Agrees that nothing herein shall affect the right of the NRC to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(f) Waives any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

SECTION 12. JURY TRIAL WAIVER. THE PLEDGOR AND NRC (BY ITS ACCEPTANCE OF THIS PLEDGE AGREEMENT) HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM CONCERNING THIS PLEDGE AGREEMENT, THE FMRI PRIMARY NOTE, THE FMRI SECONDARY NOTE, THE FMRI CONTINGENT NOTE, IF ANY, OR ANY AMENDMENT, MODIFICATION OR OTHER DOCUMENT NOW OR HEREAFTER DELIVERED IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREE THAT ANY SUCH ACTION, PROCEEDING OR COUNTERCLAIM SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be executed and delivered by its officer thereunto duly authorized, as of the date first above written.

FMRI INC.,
a Delaware corporation

By: _____
Name:
Title:

Acknowledged and consented to
this ___ day of _____, 2003:

FANSTEEL INC.

By: _____
Name:
Title:

FORM OF ASSIGNMENT AND ACCEPTANCE

This Assignment and Assumption (the "Assignment") is dated as of the Effective Date set forth below and is entered into by and between FMRI INC. (the "Assignor") and the UNITED STATES NUCLEAR REGULATORY COMMISSION (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Note identified below (as it may be amended, supplemented, waived or otherwise modified from time to time, the "Note"), receipt of which is hereby acknowledged by the Assignee.

The Assignor hereby irrevocably assigns and transfers to the Assignee, and the Assignee hereby irrevocably accepts and assumes from the Assignor, as of the Effective Date, the interest in and to all of the Assignor's rights and obligations under [the FMRI Primary Note dated December __, 2003, made by FANSTEEL INC. in favor of FMRI in the principal amount of \$30,600,000.00 (the "FMRI Primary Note")/the FMRI Secondary Note dated December __, 2003, made by FANSTEEL INC. in favor of FMRI in the principal amount of \$4,200,000.00 (the "FMRI Secondary Note")/"/the FMRI Contingent Note dated _____, 20 __, made by FANSTEEL INC. in favor of FMRI in the principal amount of \$4,200,000.00 (the "FMRI Contingent Note")]. Such assignment is without recourse to the Assignor and, except as expressly provided in this Assignment, without representation or warranty by the Assignor.

(Print or type assignee's name, address and zip code below)

(Insert assignee's social security or tax I.D. No. below)

ASSIGNOR:

FMRI INC.

By: _____

Name:

Title:

[ADDRESS]

[ADDRESS]

[ADDRESS]

ASSIGNEE:

UNITED STATES NUCLEAR REGULATORY
COMMISSION

By: _____

Name:

Title:

[ADDRESS]

[ADDRESS]

[ADDRESS]

Effective Date: _____, 20__

FORM OF
PROMISSORY NOTE
(Contingent FMRI Note)

[\$ []

North Chicago, Illinois
_____, 200_

FOR VALUE RECEIVED and IN ACCORDANCE WITH the JOINT REORGANIZATION PLAN OF FANSTEEL, INC. AND SUBSIDIARIES, dated _____, 2003, under Chapter 11 of the Bankruptcy Code (as amended, modified or supplemented from time to time, the "Plan"), the undersigned, FANSTEEL INC., a Delaware corporation ("Fansteel"), HEREBY PROMISES TO PAY to the order of FMRI, INC., a Delaware corporation ("FMRI"), the principal sum of [] DOLLARS (\$[]) on or before [_____, 200_] (the "Maturity Date") in accordance with the payment schedule set forth below.

Definitions:

"Minimum Annual Payment" means a payment in the amount of \$[].

"Muskogee Facility" means Old Fansteel's site located at Number Ten Tantalum Place, Muskogee, Oklahoma.

"NRC" means the United States Nuclear Regulatory Commission.

"Old Fansteel" means Fansteel Inc., a Delaware Corporation, as it existed prior to the date of substantial consummation of the Reorganization Plan.

The principal of this Note shall be paid (i) in consecutive installments of the Minimum Annual Payment commencing on [_____, 200_] and continuing each [] thereafter and (ii) on the Maturity Date, in the event that the principal has not been repaid in full prior thereto, in a final installment equal to the amount necessary to repay in full the outstanding principal amount hereof.

All payments made to FMRI on account of principal hereof shall be noted by FMRI on the schedule that is attached hereto and hereby made a part hereof; provided, however, that any error or omission by FMRI in this regard shall not affect the obligation of Fansteel to pay the full amount of the principal due to FMRI.

If any amount payable hereunder shall be due on a day on which banks are required or authorized to close in Chicago (any other day being a "Business Day"), such payment may be made on the next succeeding Business Day.

Principal is payable in lawful money of the United States and in immediately available funds at the offices of [_____] , or at such other place as FMRI shall designate in writing to Fansteel.

Fansteel may, at its option, prepay this Note, in whole at any time or in part from time to time, without penalty or premium.

If any of the following shall occur (each a "Default"): (a) Fansteel shall fail to pay any principal of this Note when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (b) Fansteel shall fail to perform or observe any material covenant contained in this Note, and such failure, if capable of being remedied, shall remain unremedied for five days after written notice thereof shall have been given to Fansteel by FMRI; or (c) Fansteel shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Fansteel seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Fansteel or for any substantial part of its property; or Fansteel shall take any action to authorize or effect any of the actions set forth above in this clause (d); or (e) any provision of this Note or any other related document shall at any time for any reason be declared to be null and void by a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by Fansteel, or a proceeding shall be commenced by Fansteel seeking to establish the invalidity or unenforceability thereof, or Fansteel shall deny that it has any liability or obligation hereunder or thereunder;

then FMRI may (i) declare the outstanding principal amount of this Note to be immediately due and payable, whereupon the outstanding principal amount of this Note shall become and shall be forthwith due and payable, without diligence, presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, and (ii) exercise any and all of its other rights under applicable law, hereunder.

All payments made by Fansteel hereunder will be made without setoff, counterclaim or other defense. All such payments shall be made free and clear of and without deduction for any present or future income, stamp or other taxes, levies, imposts, deductions, charges, fees, withholding, restrictions or conditions of any nature now or hereafter imposed, levied, collected, withheld or assessed by any jurisdiction or by any political subdivision or taxing authority thereof or therein, and all interest, penalties or similar liabilities, excluding taxes on the overall net income of FMRI (such non-excluded taxes are hereinafter collectively referred to as the "Taxes"). If Fansteel shall be required by law to deduct or to withhold any Taxes from or in respect of any amount payable hereunder, (i) the amount so payable shall be increased to the extent necessary so that after making all required deductions and withholdings (including Taxes on amounts payable to FMRI pursuant to this sentence) FMRI receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) Fansteel shall make such deductions or withholdings and (iii) Fansteel shall pay the full amount deducted or withheld to the relevant taxation authority in accordance with applicable law. Whenever any Tax is payable by Fansteel, as promptly as possible thereafter Fansteel shall send FMRI an official receipt showing payment. In addition, Fansteel agrees to pay any present or future taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, recordation or filing of, or otherwise with respect to, this Note (hereinafter referred to as "Other Taxes"). Fansteel will indemnify FMRI for the full amount of Taxes or Other Taxes (including, any Taxes or Other Taxes on amounts payable to FMRI under this paragraph) paid by FMRI and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, upon written demand by FMRI therefor.

Fansteel agrees that all notices or other communications provided for hereunder shall be in writing (including telecommunications) and shall be mailed, telecopied or delivered to Fansteel at the address of Fansteel set forth next to its signature, or at such other address as may hereafter be specified by Fansteel to FMRI (at its address set forth herein) in writing. All notices and communications shall be effective (i) if mailed, when received or three days after mailing, whichever is earlier, (ii) if telecopied, when transmitted and confirmation is received, if transmitted on a Business Day and, if not, on the next Business Day and (iii) if delivered, upon delivery, if delivered on a Business Day and, if not, on the next Business Day.

Fansteel agrees that the NRC, pursuant to the Pledge Agreement, dated the date hereof, by FMRI in favor of the NRC, shall be a third-party beneficiary of this Note.

No failure on the part of FMRI or the NRC, as the case may be, to exercise, and no delay in exercising, any right, power, privilege or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof by FMRI or the NRC, as the case may be, preclude any other or further exercise thereof or the exercise of any other right, power, privilege or remedy of FMRI. No amendment or waiver of any provision of this Note, nor consent to any departure by Fansteel therefrom, shall in any event be effective unless the same shall be in writing and signed by FMRI or the NRC, as the case may be, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Fansteel hereby agrees to pay on demand all costs and expenses (including, without limitation, all reasonable fees and expenses of counsel to FMRI) incurred by FMRI in connection with (i) the preparation, execution, delivery, administration and amendment of this Note and the other Documents, and (iii) the enforcement of rights of FMRI or the NRC, as the case may be, and the collection of all amounts due, hereunder.

Fansteel hereby (i) irrevocably submits to the jurisdiction of the United States Bankruptcy Court for the District of Delaware or any Illinois State or Federal court sitting in Chicago in any action or proceeding arising out of or relating to this Note, (ii) waives any defense based on doctrines of venue or forum non conveniens, or similar rules or doctrines, and (iii) irrevocably agrees that all claims in respect of such an action or proceeding may be heard and determined in the United States Bankruptcy Court for the District of Delaware or such Illinois State or Federal court. Fansteel would (by its acceptance hereof) waive any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Note.

This Note shall be governed by, and construed in accordance with, the laws of the State of Illinois.

FANSTEEL INC.

By: _____

Name:

Title:

Address: _____

Attention _____

Telephone: _____

Telex: _____

Telecopier: _____

PROMISSORY NOTE
(Secondary FMRI Note)

\$4,200,000.00

North Chicago, Illinois
December __, 2003

FOR VALUE RECEIVED and IN ACCORDANCE WITH the JOINT REORGANIZATION PLAN OF FANSTEEL, INC. AND SUBSIDIARIES, dated _____, 2003, under Chapter 11 of the Bankruptcy Code (as amended, modified or supplemented from time to time, the "Plan"), the undersigned, FANSTEEL INC., a Delaware corporation ("Fansteel"), HEREBY PROMISES TO PAY to the order of FMRI, INC., a Delaware corporation ("FMRI"), the principal sum of FOUR MILLION TWO HUNDRED THOUSAND DOLLARS (\$4,200,000.00) on or before December 31, 2023 (the "Maturity Date") in accordance with the payment schedule set forth below.

Definitions:

"Minimum Annual Payment" means a payment in the amount of \$282,000.00.

"Muskogee Facility" means Old Fansteel's site located at Number Ten Tantalum Place, Muskogee, Oklahoma.

"NRC" means the United States Nuclear Regulatory Commission.

"Old Fansteel" means Fansteel Inc., a Delaware Corporation, as it existed prior to the date of substantial consummation of the Reorganization Plan.

The principal of this Note shall be paid (i) in consecutive installments of the Minimum Annual Payment commencing on [January 1, 2009] and continuing each [January 1] thereafter and (ii) on the Maturity Date, in the event that the principal has not been repaid in full prior thereto, in a final installment equal to the amount necessary to repay in full the outstanding principal amount hereof.

All payments made to FMRI on account of principal hereof shall be noted by FMRI on the schedule that is attached hereto and hereby made a part hereof; provided, however, that any error or omission by FMRI in this regard shall not affect the obligation of Fansteel to pay the full amount of the principal due to FMRI.

If any amount payable hereunder shall be due on a day on which banks are required or authorized to close in Chicago (any other day being a "Business Day"), such payment may be made on the next succeeding Business Day.

Principal is payable in lawful money of the United States and in immediately available funds at the offices of _____

_____, or at such other place as FMRI shall designate in writing to Fansteel.

Fansteel may, at its option, prepay this Note, in whole at any time or in part from time to time, without penalty or premium.

If any of the following shall occur (each a "Default"): (a) Fansteel shall fail to pay any principal of this Note when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (b) Fansteel shall fail to perform or observe any material covenant contained in this Note, and such failure, if capable of being remedied, shall remain unremedied for five days after written notice thereof shall have been given to Fansteel by FMRI; or (c) Fansteel shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Fansteel seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Fansteel or for any substantial part of its property; or Fansteel shall take any action to authorize or effect any of the actions set forth above in this clause (d); or (e) any provision of this Note or any other related document shall at any time for any reason be declared to be null and void by a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by Fansteel, or a proceeding shall be commenced by Fansteel seeking to establish the invalidity or unenforceability thereof, or Fansteel shall deny that it has any liability or obligation hereunder or thereunder;

then FMRI may (i) declare the outstanding principal amount of this Note to be immediately due and payable, whereupon the outstanding principal amount of this Note shall become and shall be forthwith due and payable, without diligence, presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, and (ii) exercise any and all of its other rights under applicable law, hereunder.

All payments made by Fansteel hereunder will be made without setoff, counterclaim or other defense. All such payments shall be made free and clear of and without deduction for any present or future income, stamp or other taxes, levies, imposts, deductions, charges, fees, withholding, restrictions or conditions of any nature now or hereafter imposed, levied, collected, withheld or assessed by any jurisdiction or by any political subdivision or taxing authority thereof or therein, and all interest, penalties or similar liabilities, excluding taxes on the overall net income of FMRI (such non-excluded taxes are hereinafter collectively referred to as the "Taxes"). If Fansteel shall be required by law to deduct or to withhold any Taxes from or in respect of any amount payable hereunder, (i) the amount so payable shall be increased to the extent necessary so that after making all required deductions and withholdings (including Taxes on amounts payable to FMRI pursuant to this sentence) FMRI receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) Fansteel shall make such deductions or withholdings and (iii) Fansteel shall pay the full amount deducted or withheld to the relevant taxation authority in accordance with applicable law. Whenever any Tax is payable by Fansteel, as promptly as possible thereafter Fansteel shall send FMRI an official receipt showing payment. In addition, Fansteel agrees to pay any present or future taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, recordation or filing of, or otherwise with respect to, this Note (hereinafter referred to as "Other Taxes"). Fansteel will indemnify FMRI for the full amount of Taxes or Other Taxes (including, any Taxes or Other Taxes on amounts payable to FMRI under this paragraph) paid by FMRI and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, upon written demand by FMRI therefor.

Fansteel agrees that all notices or other communications provided for hereunder shall be in writing (including telecommunications) and shall be mailed, telecopied or delivered to Fansteel at the address of Fansteel set forth next to its signature, or at such other address as may hereafter be specified by Fansteel to FMRI (at its address set forth herein) in writing. All notices and communications shall be effective (i) if mailed, when received or three days after mailing, whichever is earlier, (ii) if telecopied, when transmitted and confirmation is received, if transmitted on a Business Day and, if not, on the next Business Day and (iii) if delivered, upon delivery, if delivered on a Business Day and, if not, on the next Business Day.

Fansteel agrees that the NRC, pursuant to the Pledge Agreement, dated the date hereof, by FMRI in favor of the NRC, shall be a third-party beneficiary of this Note.

No failure on the part of FMRI or the NRC, as the case may be, to exercise, and no delay in exercising, any right, power, privilege or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof by FMRI or the NRC, as the case may be, preclude any other or further exercise thereof or the exercise of any other right, power, privilege or remedy of FMRI. No amendment or waiver of any provision of this Note, nor consent to any departure by Fansteel therefrom, shall in any event be effective unless the same shall be in writing and signed by FMRI or the NRC, as the case may be, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Fansteel hereby agrees to pay on demand all costs and expenses (including, without limitation, all reasonable fees and expenses of counsel to FMRI) incurred by FMRI in connection with (i) the preparation, execution, delivery, administration and amendment of this Note and the other Documents, and (iii) the enforcement of rights of FMRI or the NRC, as the case may be, and the collection of all amounts due, hereunder.

Fansteel hereby (i) irrevocably submits to the jurisdiction of the United States Bankruptcy Court for the District of Delaware or any Illinois State or Federal court sitting in Chicago in any action or proceeding arising out of or relating to this Note, (ii) waives any defense based on doctrines of venue or forum non conveniens, or similar rules or doctrines, and (iii) irrevocably agrees that all claims in respect of such an action or proceeding may be heard and determined in the United States Bankruptcy Court for the District of Delaware or such Illinois State or Federal court. Fansteel would (by its acceptance hereof) waive any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Note.

This Note shall be governed by, and construed in accordance with, the laws of the State of Illinois.

FANSTEEL INC.

By: _____

Name:

Title:

Address: _____

Attention _____

Telephone: _____

Telex: _____

Telecopier: _____

PROMISSORY NOTE

(Primary FMRI Note)

\$30,600,000.00

North Chicago, Illinois
December __, 2003

FOR VALUE RECEIVED and IN ACCORDANCE WITH the JOINT REORGANIZATION PLAN OF FANSTEEL, INC. AND SUBSIDIARIES, dated _____, 2003, under Chapter 11 of the Bankruptcy Code (as amended, modified or supplemented from time to time, the "Reorganization Plan"), the undersigned, FANSTEEL INC., a Delaware corporation ("Fansteel"), HEREBY PROMISES TO PAY to the order of FMRI, INC., a Delaware corporation ("FMRI"), the principal sum of THIRTY MILLION SIX HUNDRED THOUSAND DOLLARS (\$30,600,000.00) on or before December 31, 2013 (the "Maturity Date") in accordance with the payment schedule set forth below.

Definitions:

"Additional Mandatory Prepayment" means a payment made from time to time by Fansteel to FMRI comprised of insurance proceeds recovered by Fansteel with respect to the Muskogee Facility claims and/or Asset Sale Proceeds. No Additional Mandatory Prepayment shall be counted in computing the \$4,000,000.00 limit of the Annual Mandatory Prepayment.

"Annual Mandatory Prepayment" means an annual payment to be made within 100 days of Fansteel's fiscal year-end, in an amount equal to 50% of Excess Available Cash, up to a maximum of \$4,000,000.00, provided however, that if in any given fiscal year (A) the sum of the two Minimum Semi-Annual Payments and 50% of Excess Available Cash is less than (B) the budgeted amount for the current-year's remediation costs, then, additionally, up to 50% of the prior fiscal year-end cash balance shall be paid to FMRI, as and to the extent permissible under applicable law, so that FMRI shall have been reimbursed in full by Fansteel for the current year's remediation costs.

"Asset Sale Proceeds" means, with respect to any Asset sale by Fansteel outside of the ordinary course of business, 50% of the first \$2,000,000.00 of sale proceeds, 35% of the next \$3,000,000.00 of sale proceeds, and 25% of all sale proceeds in excess of \$5,000,000.00, in each case net of (i) all transaction costs and (ii) all amounts, if any, due to Fansteel's secured creditors as a result of such sale(s); provided however, that Asset Sale Proceeds for purposes of this Note does not include the Old Fansteel Divestiture Asset Sale Proceeds.

"Asset(s)" means any and all real or personal property of any nature, including, without limitation, any real estate, buildings, structures, improvements, privileges, rights, easements, leases, subleases, licenses, goods, materials, supplies, furniture, fixtures, equipment, work in process, accounts, chattel paper, cash, deposit accounts, reserves, deposits, contractual rights, intellectual property rights, claims, causes of action and any other general intangibles of Fansteel, as the case may be, of any nature whatsoever.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as codified in title 11 of the United States Code, 11 U.S.C. §§ 101-1330, as now in effect or hereafter amended, and as applicable to the Fansteel Chapter 11 Case.

"Cash" means cash and cash equivalents, including, but not limited to, wire transfers, bank deposits, checks and legal tender of the United States

"Excess Available Cash" means an amount to be determined by Fansteel within 90 days of each Fansteel fiscal year-end and to be certified by Fansteel's independent auditors, such amount to be equal to (A) the difference in dollars between the fiscal year-end cash balance of Fansteel and the previous fiscal year-end cash balance of Fansteel, less (B) the sum of (i) the net increase in borrowings, if any, in dollars by Fansteel against its credit lines, (ii) the Remaining Asset Sale Proceeds, if any, and (iii) capital expenditures of Fansteel, provided, that if such capital expenditures exceed 5% of consolidated sales in any given fiscal year, the amount in dollars equal to the excess of such capital expenditures over 5% of consolidated sales shall be added back to the fiscal year-end cash balance for the purpose of determining "Excess Available Cash."

"Exit Facility" means the new senior secured credit facility, in an aggregate principal amount of \$ _____, between Fansteel and Wellman Dunamics, Inc., as borrowers, and _____, as lender, dated the date hereof.

"Exit Muskogee Note Funding" means the funding, if any, provided to Fansteel pursuant to the Exit Facility that is specifically designated as funding for the obligations of Fansteel under this Note.

"Fansteel" has the meaning set forth in the preamble hereto.

"L/C Cash Reserve" means all Cash on deposit with the Bank of Waukegan, Waukegan, Illinois, pursuant to the Standby Trust Agreement dated February 3, 1994, as amended, by and between Fansteel and the Bank of Waukegan as trustee under Trust No. 2740.

"Maturity Date" has the meaning set forth in the preamble hereto.

"Minimum Semi-Annual Payment" means a payment in the amount of \$700,00.00.

"FMRI" has the meaning set forth in the preamble hereto.

"Muskogee Facility" means Old Fansteel's site located at Number Ten Tantalum Place, Muskogee, Oklahoma.

"NRC" means the United States Nuclear Regulatory Commission.

"Old Fansteel" means Fansteel Inc., a Delaware Corporation, as it existed prior to the date of substantial consummation of the Reorganization Plan.

"Old Fansteel Divestiture Asset Purchase Agreement" means the asset purchase agreement dated as of _____, 2003, by and among Old Fansteel, as seller, and _____, as purchaser, governing the terms and conditions of the Old Fansteel Divestiture Asset Sale.

"Old Fansteel Divestiture Asset Sale" means the sale by Fansteel of (i) substantially all of the assets of Old Fansteel's Hydro Carbide and California Drop Forge operating divisions, (ii) certain assets of Old Fansteel's Plantsville Division, and (iii) the equipment and inventory of Old Fansteel's Lexington Facility pursuant to the Old Fansteel Divestiture Asset Purchase Agreement.

"Old Fansteel Divestiture Asset Sale Proceeds" means the net proceeds of the Old Fansteel Divestiture Asset Sale.

"Remaining Asset Sale Proceeds" means, with respect to any Asset sale by Fansteel outside of the ordinary course of business, 50% of the first \$2,000,000.00 of sale proceeds, 65% of the next \$3,000,000.00 of sale proceeds, and 75% of all sale proceeds in excess of \$5,000,000.00, in each case net of (i) all transaction costs and (ii) all amounts, if any, due to Fansteel's secured creditors as a result of such sale(s); provided however, that Remaining Asset Sale Proceeds for purposes of this Note does not include any Old Fansteel Divestiture Asset Sale Proceeds.

"Reorganization Plan" has the meaning set forth in the preamble hereto.

The principal of this Note shall be paid as follows:

Principal shall be paid in (i) an initial payment of \$250,000.00 on the date hereof, (ii) consecutive installments of the Minimum Semi-Annual Payment commencing on _____, 2003 and continuing thereafter on the same day of Fansteel's _____ and _____ fiscal quarters, (iii) an Annual Mandatory Prepayment, (iv) Additional Mandatory Prepayments from time to time as required pursuant to the covenants set forth in this Note and (v) on the Maturity Date, in the event that the principal has not been repaid in full prior thereto, the final installment shall be a payment equal to the amount necessary to repay in full the outstanding principal balance hereof.

All payments made to FMRI on account of principal hereof shall be noted by FMRI on the schedule that is attached hereto and hereby made a part hereof; provided, however, that any error or omission by FMRI in this regard shall not affect the obligation of Fansteel to pay the full amount of the principal due to FMRI.

If any amount payable hereunder shall be due on a day on which banks are required or authorized to close in Chicago (any other day being a "Business Day"), such payment may be made on the next succeeding Business Day.

Principal is payable in lawful money of the United States and in immediately available funds at the offices of _____

_____, or at such other place as FMRI shall designate in writing to Fansteel.

Fansteel may, at its option, prepay this Note, in whole at any time or in part from time to time, without penalty or premium.

Fansteel hereby agrees that during the term of this Note:

1. Fansteel shall pay to FMRI any Exit Muskogee Note Funding that Fansteel receives;
2. All insurance proceeds, if any, received by Fansteel with respect to the successful prosecution of Muskogee Facility insurance claims (except for such insurance proceeds used to repay FMRI's borrowings, if any, from the L/C Cash Reserve) shall be paid to FMRI to make Additional Mandatory Prepayment(s);

3. All Asset Sale Proceeds, if any, received by Fansteel (except for such Asset Sale Proceeds used to repay FMRI's borrowings, if any, from the L/C Cash Reserve) shall be paid to FMRI to make Additional Mandatory Prepayment(s); and

4. Fansteel shall not pay a dividend to any shareholder.

If any of the following shall occur (each a "Default"): (a) Fansteel shall fail to pay any principal of this Note when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (b) Fansteel shall fail to perform or observe any material covenant contained in this Note, and such failure, if capable of being remedied, shall remain unremedied for thirty days after written notice thereof shall have been given to Fansteel by FMRI; or Fansteel shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Fansteel seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for Fansteel or for any substantial part of its property; or Fansteel shall take any action to authorize or effect any of the actions set forth above in this clause (d); or (e) any provision of this Note or any other related document shall at any time for any reason be declared to be null and void by a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by Fansteel, or a proceeding shall be commenced by Fansteel seeking to establish the invalidity or unenforceability thereof, or Fansteel shall deny that it has any liability or obligation hereunder or thereunder;

then FMRI may (i) declare the outstanding principal amount of this Note to be immediately due and payable, whereupon the outstanding principal amount of this Note shall become and shall be forthwith due and payable, without diligence, presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, and (ii) exercise any and all of its other rights under applicable law, hereunder.

All payments made by Fansteel hereunder will be made without setoff, counterclaim or other defense. All such payments shall be made free and clear of and without deduction for any present or future income, stamp or other taxes, levies, imposts, deductions, charges, fees, withholding, restrictions or conditions of any nature now or hereafter imposed, levied, collected, withheld or assessed by any jurisdiction or by any political subdivision or taxing authority thereof or therein, and all interest, penalties or similar liabilities, excluding taxes on the overall net income of FMRI (such non-excluded taxes are hereinafter collectively referred to as the "Taxes"). If Fansteel shall be required by law to deduct or to withhold any Taxes from or in respect of any amount payable hereunder, (i) the amount so payable shall be increased to the extent necessary so that after making all required deductions and withholdings (including Taxes on amounts payable to FMRI pursuant to this sentence) FMRI receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) Fansteel shall make such deductions or withholdings and (iii) Fansteel shall pay the full amount deducted or withheld to the relevant taxation authority in accordance with applicable law. Whenever any Tax is payable by Fansteel, as promptly as possible thereafter Fansteel shall send FMRI an official receipt showing payment. In addition, Fansteel agrees to pay any present or future taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, recordation or filing of, or otherwise with respect to, this Note

(hereinafter referred to as "Other Taxes"). Fansteel will indemnify FMRI for the full amount of Taxes or Other Taxes (including, any Taxes or Other Taxes on amounts payable to FMRI under this paragraph) paid by FMRI and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, upon written demand by FMRI therefor.

Fansteel agrees that all notices or other communications provided for hereunder shall be in writing (including telecommunications) and shall be mailed, telecopied or delivered to Fansteel at the address of Fansteel set forth next to its signature, or at such other address as may hereafter be specified by Fansteel to FMRI (at its address set forth herein) in writing. All notices and communications shall be effective (i) if mailed, when received or three days after mailing, whichever is earlier, (ii) if telecopied, when transmitted and confirmation is received, if transmitted on a Business Day and, if not, on the next Business Day, and (iii) if delivered, upon delivery, if delivered on a Business Day and, if not, on the next Business Day.

Fansteel agrees that the NRC, pursuant to the Pledge Agreement, dated the date hereof, by FMRI in favor of the NRC, shall be a third-party beneficiary of this Note.

No failure on the part of FMRI or the NRC, as the case may be, to exercise, and no delay in exercising, any right, power, privilege or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof by FMRI or the NRC, as the case may be, preclude any other or further exercise thereof or the exercise of any other right, power, privilege or remedy of FMRI. No amendment or waiver of any provision of this Note, nor consent to any departure by Fansteel therefrom, shall in any event be effective unless the same shall be in writing and signed by FMRI or the NRC, as the case may be, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Fansteel hereby agrees to pay on demand all costs and expenses (including, without limitation, all reasonable fees and expenses of counsel to FMRI) incurred by FMRI in connection with (i) the preparation, execution, delivery, administration and amendment of this Note and the other Documents, and (iii) the enforcement of the rights of FMRI and/or the NRC, as the case may be, and the collection of all amounts due, hereunder.

Fansteel hereby (i) irrevocably submits to the jurisdiction of the United States Bankruptcy Court for the District of Delaware or any Illinois State or Federal court sitting in Chicago in any action or proceeding arising out of or relating to this Note, (ii) waives any defense based on doctrines of venue or forum non conveniens, or similar rules or doctrines, and (iii) irrevocably agrees that all claims in respect of such an action or proceeding may be heard and determined in the United States Bankruptcy Court for the District of Delaware or such Illinois State or Federal court. Fansteel would (by its acceptance hereof) waive any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Note.

This Note shall be governed by, and construed in accordance with, the laws of the State of Illinois.

FANSTEEL INC.

By: _____
Name: _____
Title: _____
Address: _____
Attention: _____
Telephone: _____
Telex: _____
Telecopier: _____