

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Case No. 02-10109(JJF)
)
FANSTEEL INC., et al.,¹) Chapter 11
) (Jointly Administered)
Debtors.)

Objection Deadline: October 31, 2003 at 4:00 p.m. E.T.
Hearing Date: To be determined (only if objections are timely filed)

**MOTION OF DEBTORS TO SHORTEN NOTICE OF
TIME PERIOD AND TO APPROVE FORM AND MANNER THEREOF**

The debtors and debtors-in-possession (the "Debtors") in the captioned cases, by and through their undersigned counsel, hereby move this Court pursuant to Rule 2002 of the Federal Rule of Bankruptcy Procedure (the "Bankruptcy Rules"), Section 102 of chapter 11 of title 11 of the United States Code ("Bankruptcy Code"), and Del. Bankr. L.R. 9006-1(e) for entry of an order providing that the notice period with respect to the attached *Emergency Motion For Order Authorizing Debtors To Pay Expense Deposits In Connection With A Proposed Exit Financing Facility* (the "Motion") be shortened as set forth below.

1. The Debtors seek Court approval to shorten the notice period for the attached Motion, which requests authorization to pay of an initial expense deposit in the sum of \$40,000 and an additional deposit equal to the estimated cost of appraisals, not to exceed \$60,000 without further approval of the Court, (collectively, the "Expense Deposits") in connection with a proposed exit financing facility (the "Congress Exit Facility").

¹ The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

BKRPO1

2. In connection with the implementation of the Amended Joint Plan of Reorganization of Fansteel and Subsidiaries (the "Amended Plan"), the Debtors anticipate that they will finalize the material terms of a new senior secured credit facility prior to the date of confirmation, pursuant to which the Reorganized Debtors will have access to sufficient working capital to refinance amounts, if any, outstanding on the Effective Date of the Amended Plan under the DIP Facility, make other payments required to be made on the Effective Date or the Distribution Date, including without limitation funding cash payments to the distribution account for general unsecured creditors, and/or provide additional borrowing capacity to the applicable Reorganized Debtor following the Effective Date of the Amended Plan. The Debtors are currently engaged in discussions with Congress, their DIP facility lender, with respect to such an exit facility with a credit line availability of approximately \$10 million.

3. Congress has indicated a preliminary interest in entering into an exit financing facility with the Debtors and has provided the Debtors with a proposal outlining the Congress Exit Facility, a copy of which is attached to the Motion. As is customary in the industry, however, Congress has requested that Fansteel pay to it an initial deposit of \$40,000 from which Congress will be authorized to pay the cost of its field examinations, legal fees and other expenses associated with its due diligence efforts relating to an Congress Exit Facility. Payment of the Expense Deposits will advance the discussions with, and due diligence to be performed by, Congress necessary for credit approval and in advance of an agreement relative to the proposed Congress Exit Facility

4. The Debtors request prompt consideration of the Motion, because time is of the essence under the circumstances. The hearing on the Joint Reorganization Plan of Fansteel Inc. and Subsidiaries is set for November 17, 2003.

5. Exit financing is not only necessary to satisfy the Debtors' exit obligations and to sustain the capital needs of the Reorganized Debtors following exit from Chapter 11, but an exit facility of at least \$3 million is also a condition to the effectiveness of the Debtors' Amended Plan. Court authority is necessary to permit Fansteel to pay the Expense Deposits described above.

6. Debtors seek an order from this Court requiring that objections, if any, to the Motion be filed with the Court and served upon both undersigned counsel and co-counsel on or before October 24, 2003 at 4:00 p.m. Eastern Time, and providing that, if any objection is entered, an emergency hearing will be held on the Motion at a time and date to be set by the Court. If a hearing is to be held, further notice will be given of the time, date and location of the hearing.

7. In addition to shortening the time period for the notice of the Motion, the Debtors also request that the Court approve the attached Notice that sets forth an objection period of approximately eight days. Debtors believe that, under the circumstances, and the significant benefit to the estates of a rapid approval of the Motion, such a notice period is justified. Service of this Motion will be made on all parties required to receive notice pursuant to the Del. Bankr. L.R. 2002-1(b).

WHEREFORE, Debtors respectfully request the entry of an Order approving the

timing and attached form of Notice on those parties required to receive service pursuant to Del.

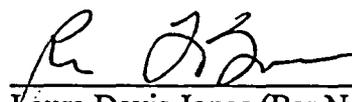
Bnkr.L.R. 2002(b).

Dated: October 15, 2003

SCHULTE ROTH & ZABEL LLP
Jeffrey S. Sabin (JSS 7600)
919 Third Avenue
New York, NY 10022
Telephone: (212) 756-2000
Facsimile: (212) 593-5955

and

PACHULSKI, STANG, ZIEHL, YOUNG, JONES
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Laura Davis Jones (Bar No. 2436)
Rosalie L. Spelman (Bar No. 4153)
919 North Market Street, 16th Floor
P.O. Box 8705
Wilmington, DE 19899-8705 (Courier 19801)
Telephone: (302) 652-4100
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and Debtors in Possession

SO ORDERED this ___ day
of _____, 2003

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

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Case No. 02-10109(JJF)
)
FANSTEEL INC., *et al.*,¹) Chapter 11
) (Jointly Administered)
Debtors.)

Objection Deadline: October 24, 2003 at 4:00 p.m. (noon), E.T.
Hearing Date: To be determined (only if objections are timely filed)

NOTICE OF MOTION

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

PLEASE TAKE NOTICE that on or about October 16, 2003, the debtors and debtors-in-possession (the "Debtors") filed with United States District Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801 (the "Bankruptcy Court") the attached *Emergency Motion For Order Authorizing Debtors To Pay Expense Deposits In Connection With A Proposed Exit Financing Facility* (the "Motion") be shortened as set forth below.

PLEASE TAKE FURTHER NOTICE that responses or objections, if any, to the relief requested in the Motion must be in writing, filed with the Bankruptcy Court, and served upon both undersigned counsel for Debtors so as to be received by 4:00 p.m., Eastern Time on October 24, 2003.

PLEASE TAKE FURTHER NOTICE that, if any objections are timely filed and served, a hearing on the Motion will be held at a time, date, and location to be determined by the

¹ The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

Court. Only timely filed and received written objections will be considered by the Court at the hearing. If objections are filed, you will receive a further notice of the time and place of the hearing.

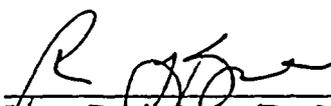
IF NO OBJECTIONS ARE TIMELY FILED AND SERVED IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Dated: October 15, 2003

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Co-Counsel for the Debtors and Debtors in Possession

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:) Chapter 11
)
FANSTEEL INC., et al.,¹) Case No. 02-10109 (JJF)
) (Jointly Administered)
Debtors.)

**Objection Deadline: October 24, 2003 at 4:00 p.m.E.T.
Hearing Date: To be determined (only if objections are timely filed)**

**EMERGENCY MOTION FOR ORDER AUTHORIZING
DEBTORS TO PAY EXPENSE DEPOSITS IN CONNECTION
WITH A PROPOSED EXIT FINANCING FACILITY**

Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (collectively, the "Debtors"), move the Court (the "Motion") for entry of an order authorizing the payment to Congress Financial Corporation (Central) ("Congress") of an initial expense deposit in the sum of \$40,000 and an additional deposit equal to the estimated cost of appraisals, not to exceed \$60,000 without further approval of the Court, (collectively, the "Expense Deposits") in connection with a proposed exit financing facility (the "Congress Exit Facility"). In support of this Motion, the Debtors respectfully represent as follows:

JURISDICTION

1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

¹ The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., and American Sintered Technologies, Inc.

BACKGROUND

A. The Bankruptcy Filing

2. On January 15, 2002 (the "Petition Date"), the Debtors filed voluntary petitions for relief under 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"). Thereafter, the Court entered an order pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), directing that the Debtors' separate chapter 11 cases (the "Cases") be procedurally consolidated and jointly administered by this Court.

3. The Debtors continue to manage their respective properties and operate their respective businesses as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

4. On January 29, 2002, the Office of the United States Trustee for the District of Delaware appointed an official committee of unsecured creditors (the "Committee") for the Cases. No trustee or examiner has been appointed in any of the Cases.

B. The Debtors' Business Operations

5. Fansteel and the other seven Debtors (each a direct or indirect wholly-owned subsidiary of Fansteel) have been engaged for over 70 years in the business of manufacturing and marketing specialty metal products, with today's operations being conducted at ten manufacturing facilities (five of which are owned by Fansteel) in nine states. Collectively, the Debtors have approximately 962 employees, substantially all on a full time basis, including approximately 365 employees that are working under collective bargaining agreements with four different unions. Each Debtor is operated separately, with separate employees, separate operations and separately maintained books and records.

C. Events Leading to the Bankruptcy Filings

6. The operations of the Debtors' respective businesses have involved compliance with state and federal environmental laws, including the Atomic Energy Act. The Cases are an outgrowth of the discontinuation of one of Fansteel's operations that was conducted from the 1950s through 1989 at a site owned and operated by Fansteel in Muskogee, Oklahoma (the "Muskogee Site"). In 1989, Fansteel discontinued its operations at the Muskogee Site and was required, under its license and NRC regulations, to decommission and remediate the facility. Thereafter, Fansteel, with the approval of the NRC, spent in excess of \$30 million to construct a facility on its Muskogee property designed to reprocess radioactive residues and to extract valuable materials so as to make the facility economically feasible and to facilitate decommissioning.

7. Unfortunately, the construction and start up of the Muskogee reprocessing plant was plagued with numerous technical and operational difficulties significantly reducing the estimated processing capacity of the facility. In addition, the economic and pricing assumptions underlying the construction and approval of the reprocessing plant were dramatically and adversely affected during the second half of 2001 as part of the fall out from the significant downturn in the electronics and telecommunications industries (which would have been the end-users of the reprocessed materials). As a result, Fansteel was required under GAAP to write-off the approximately \$32 million costs expended to design and build the reprocessing plant and to take an immediate reserve of \$57 million for the reasonably anticipated costs of remediating the radioactive residues and soils that remain on the Muskogee Facility without regard to any reprocessing.

8. The resulting \$80+ million write-off, together with the effects of the recessionary US economy, particularly in the manufacturing sectors serviced by the Debtors, caused defaults under then existing credit lines and eliminated most trade credit. Although the Debtors expended much time and effort in seeking an out of court resolution to their financial difficulties, the inability to obtain financing for its businesses required the commencement of these Chapter 11 Cases.

D. Post-Petition Financing and Plan of Reorganization

9. The Debtors filed for relief under Chapter 11 on January 15, 2002; yet, the Debtors were unable to obtain DIP financing until May 2002. From November 19, 2001 through May 2002, the Debtors operated with no access to external financing, while contending with a severe recession in the industries served by many of its businesses and a catastrophic downturn in aerospace business following September 11, 2001. Finally, in May 2002 – four months after the Petition Date – the Debtors were able to arrange for DIP financing from Congress (the "DIP Facility"), which DIP Facility, as amended, provided Fansteel with a maximum credit limit of \$13,100,000.

10. Once the DIP Facility was in place, the Debtors worked closely with their financial and legal advisors to develop revised business plans, projections and valuations of their assets which were essential to the formulation and negotiation of a consensual plan of reorganization in the Chapter 11 Cases. In addition, Fansteel worked to develop a revised decommissioning plan for the Muskogee Site, another step critical to serious plan negotiations with the various interested parties in the Cases. Thereafter, the Debtors engaged in protracted discussions with the key creditor constituents, including the Committee, the NRC, the Environmental Protection Agency ("EPA"), the Pension Benefit Guaranty Corporation ("PBGC"),

the Department of the Navy, and the various state regulatory agencies, and ultimately reached substantial agreement on the terms and provisions of a consensual plan of reorganization for the Debtors.

11. The Joint Reorganization Plan of Fansteel Inc and Subsidiaries (the "Plan") was filed by the Debtors and the Committee with this Court, together with a proposed Disclosure Statement, on July 24, 2003. Thereafter and on September 18, 2003, the Amended Joint Plan of Reorganization of Fansteel Inc and Subsidiaries (the "Amended Plan") was filed with this Court. On September 30, 2003, the proposed Amended Disclosure Statement was approved and the hearing on confirmation of the Amended Plan is scheduled for November 17, 2003.

12. In connection with the implementation of the Amended Plan, the Debtors anticipate that they will finalize the material terms of a new senior secured credit facility prior to the date of confirmation, pursuant to which the Reorganized Debtors will have access to sufficient working capital to refinance amounts, if any, outstanding on the Effective Date of the Amended Plan under the DIP Facility, make other payments required to be made on the Effective Date or the Distribution Date, including without limitation funding cash payments to the distribution account for general unsecured creditors, and/or provide additional borrowing capacity to the applicable Reorganized Debtor following the Effective Date of the Amended Plan. The Debtors are currently engaged in discussions with Congress, their DIP facility lender, with respect to such an exit facility with a credit line availability of approximately \$10 million.

RELIEF REQUESTED

13. Congress has indicated a preliminary interest in entering into an exit financing facility with the Debtors and has provided the Debtors with a proposal outlining the Congress Exit Facility, a copy of which is attached hereto as Exhibit "A." As is customary in the industry,

however, Congress has requested that Fansteel pay to it an initial deposit of \$40,000 from which Congress will be authorized to pay the cost of its field examinations, legal fees and other expenses associated with its due diligence efforts relating to an Congress Exit Facility. On a preliminary basis, Congress requires payment in advance of the \$40,000 expense deposit before it will commence work in earnest toward the proposed Congress Exit Facility. In addition to the initial deposit, Congress will require an additional deposit once it receives estimates of the cost of appraisals of the Debtors' assets in an amount equal to those estimates. The additional deposit shall not exceed \$60,000 without further approval by the Debtors and this Court. In the experience of the Debtors and their bankruptcy professionals, the Expense Deposits requested by Congress are reasonable, customary and in accordance with standard industry practice.

14. As reflected by the proposal annexed hereto as Exhibit "A," if the proposed Congress Exit Facility is not ultimately approved, any unused portion of the Expense Deposits will be returned to Fansteel. If the proposed Congress Exit Facility is approved and booked, any unused portion of the Expense Deposits will be credited to the Congress Exit Facility loan account, but if the Facility is approved but fails to close within 45 days, or if Fansteel intentionally fails to disclose any information material to Congress' loan approval decision, then the unused portion of the Expense Deposits will be retained by Congress.

15. The Debtors request prompt consideration of this Motion and entry of an Order granting the Motion, Exhibit "B" annexed hereto, to permit Fansteel to pay the Expense Deposits described above. Payment of the Expense Deposits will advance the discussions with, and due diligence to be performed by, Congress necessary for credit approval and in advance of an agreement relative to the proposed Congress Exit Facility. Exit financing is not only necessary to satisfy the Debtors' exit obligations and to sustain the capital needs of the Reorganized Debtors

following exit from Chapter 11, but an exit facility of at least \$3 million is also a condition to the effectiveness of the Debtors' Amended Plan.

16. Based upon the foregoing, the Debtors respectfully request that this Court enter an order authorizing Fansteel to pay to Congress the initial deposit of \$40,000, and any additional deposit thereafter in an amount equal to the estimated cost of appraisals of the Debtors' assets, provided that such additional deposit does not exceed \$60,000, without further notice or a hearing.

WHEREFORE, the Debtors respectfully request that the Court enter an order granting the relief requested, and granting the Debtors such other relief as may be appropriate.

Dated: New York, New York
October 15, 2003

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

Exhibit A
Congress Exit Facility Proposal

CONGRESS FINANCIAL

Congress Financial Corporation
150 S. Wacker Drive, Suite #2200
Chicago, Illinois 60606

Tel (312) 332-0420
Fax (312) 444-8423
www.congressfinancial.com



October 7, 2003

Fansteel, Inc.
One Tantalum Place
North Chicago, Illinois 60064

Attention: Mike McEntee

Gentlemen:

You have provided us with certain information and have discussed with us the current and future needs for the financing of Fansteel, Inc. and its subsidiaries or affiliates (the "Company") upon the confirmation of a plan of reorganization for the Company (the "Plan") in the currently pending Chapter 11 case of the Company under the U.S. Bankruptcy Code.

In connection therewith, we are pleased to submit our proposal to provide a secured revolving credit facility of up to \$10,000,000 to the Company (the "Credit Facility"). The Credit Facility will be used in connection with the Plan to satisfy all claims, secured and unsecured, and administrative claims pursuant to the Plan and for future working capital purposes.

The exact structure and terms of the proposed Credit Facility cannot be precisely stated until the completion of our field examinations and credit investigations. However, in general, we contemplate that the Credit Facility may be structured as follows:

1. Revolving Credit Facility.

(a) Amount: Revolving loans of up to \$10,000,000 based upon the lending formulas, and subject to the sublimits and other terms described below.

(b) Lending Formulas:

(i) Trade Accounts: Up to eighty-five percent (85%) of the net amount of eligible trade accounts receivable of the Company. Eligible trade accounts receivable and the net amounts thereof will be determined by us pursuant to general criteria which will be set forth in the loan documentation. Generally, eligible trade accounts receivable will exclude accounts which are unpaid more than sixty (60)

days past the original due date thereof, but in any event which are unpaid more than ninety (90) days from the original invoice date thereof or which are unpaid more than one hundred twenty (120) days from the original invoice thereof (for accounts with special dating terms), accounts owed by an account debtor which has more than fifty percent (50%) of the aggregate amount thereof unpaid more than such number of days past the original invoice date thereof and/or due date, contra accounts, poor credits, employee or affiliate accounts receivable, and those other accounts which do not constitute collateral acceptable for lending purposes pursuant to criteria established by us. Foreign receivables may be considered eligible under certain circumstances on a case-by-case basis.

- (ii) Inventory: An inventory sublimit of up to the lesser of i) \$3,500,000 or ii) up to sixty percent (60%) of the value of eligible raw material and finished goods inventory of the Company, in each case valued at the lower of cost or market, as determined by us, with cost determined under the first-in-first-out method (the "Inventory Sublimit"). Such advance rate is subject to results satisfactory to us of an appraisal of the inventory to be conducted at the expense of the Company by an independent appraiser acceptable to us. Such advance rate shall not exceed eighty percent (80%) of the appraised net orderly liquidation value. Eligible inventory will be determined by us pursuant to general criteria which will be set forth in the loan documentation. Generally, eligible inventory will exclude work-in-process, packaging, obsolete inventory, and those other items which do not constitute collateral acceptable for lending purposes pursuant to criteria established by us.
- (iii) Fixed Assets: A fixed asset sublimit of up to the lesser of: i) \$2,000,000 or ii) eighty (80%) of the appraised net forced liquidation value of eligible equipment (the "Fixed Asset Sublimit"). Such value will be as determined by appraisals, conducted at the expense of the Company, by independent appraisers acceptable to us. Eligible equipment will be determined by us and, in general, shall exclude fixtures, equipment subject to a security interest or lien of any other person or entity, leased equipment and worn-out or obsolete equipment.
- (c) Fixed Asset Sublimit Amortization: The Fixed Asset Sublimit will amortize in consecutive equal monthly reductions commencing on the first day of the first month after the closing and on the first day of each month thereafter. The amount of each monthly reduction will be calculated based on a sixty (60) month amortization.
- (d) Inventory Loan Limit: The maximum amount of loans available in respect of eligible inventory shall not exceed \$3,500,000 at any time, notwithstanding the total value of eligible inventory and including for this purpose our reliance on eligible inventory to be acquired under commercial letters of credit opened by or through us under the letter of credit facility described below.

2. Letter of Credit Facility.

- (a) **Amount:** Letters of credit arranged through us ("LCs") of up to an aggregate amount at any time outstanding of \$2,500,000, included within the overall Revolving Credit Facility.
- (b) **LC Reserves Against Availability:** Reserves against the revolving loans otherwise available equal to (i) one hundred percent (100%) minus the percentage set forth above for the inventory lending formula multiplied by the cost of the goods being purchased with the LC, plus (ii) duty, freight and cost of transport within the U.S., will be required when opening LCs for the purpose of purchasing eligible inventory, provided all negotiable documents of title are consigned to the issuing bank. If the negotiable documents of title are not consigned to the issuing bank, a reserve against the revolving loans of one hundred percent (100%) of the amount of LCs opened will be required. LCs which are opened for other purposes approved by us will require reserves of one hundred percent (100%) of the amount of such LCs.
- (c) **Letter of Credit Fee:** Two and one-half percent (2.50%) per annum on the daily outstanding balance of the LCs payable monthly in arrears. All applicable bank and opening charges will be in addition to our fee and charged to the loan account of the Company.
3. **Collateral.** All obligations of the Company and any corporate guarantors to us will be secured by first and only security interests in and liens upon all present and future assets of the Company and any corporate guarantors, including all accounts, contract rights, general intangibles, chattel paper, documents, instruments, deposit accounts, investment property, inventory, equipment, fixtures and real property, and all products and proceeds thereof, except for those liens allowed by us.
4. **Interest Rate.** The interest rate on loans shall be one percent (1.00%) percent per annum above the rate announced from time to time by Wachovia Bank National Association, as its "prime rate" (subject to a higher rate after default). Collections will be credited to the loan account of the Company on a daily basis, allowing one business day after our receipt of a wire transfer of federal funds into our payment account designated for such purpose.
5. **Fees.** All fees listed below are in addition to interest and other fees and charges provided for herein and may, at our option, be charged directly to any loan account(s) of the Company maintained with us.
- (a) **Closing Fee:** One percent (1.00%) of the Credit Facility, earned and payable in full at closing. If, upon the request of the Company, we elect to issue a commitment letter, one-half (1/2) of the closing fee will be payable to us upon issuance of the commitment letter as a non-refundable commitment fee.
- (b) **Servicing Fee:** \$7,500 for each quarter or part thereof during the term of the arrangements, payable quarterly in advance.
- (c) **Unused Line Fee:** One-half of one percent (.50%) per annum on the difference between

the average monthly balance of revolving loans, including the fixed asset sublimit, and LCs outstanding under the Credit Facility and \$10,000,000, payable monthly.

- (d) **Early Termination Fee:** If the Credit Facility is terminated for any reason prior to the end of the then current term:
- (i) Three percent (3.00%) of the Credit Facility if terminated on or prior to the first anniversary of the date of closing;
 - (ii) Two percent (2.00%) of the Credit Facility if terminated after the first anniversary and on or prior to the second anniversary of the date of closing; and
 - (iii) One percent (1.00%) of the Credit Facility if terminated after the second anniversary and prior to the third anniversary of the date of closing or at any other time prior to the end of the then current term.
6. **Term.** The Credit Facility will have an initial term of three (3) years from the date of closing, with additional one-year renewal periods thereafter unless either party gives sixty (60) days prior written notice to the other party of the intention to terminate the Credit Facility.
7. **Expenses.** The Company agree to pay all reasonable legal and closing expenses, including attorneys' fees and disbursements, filing and search fees, appraisal fees and field examination expenses and per diem field examination charges, whether or not this transaction closes. We charge \$800 per person per day for our field examiners in the field and in the office, plus travel, hotel and all other out-of-pocket expenses. All such expenses shall be paid to us upon demand, together with such advance funds on account of such expenses and charges as we may from time to time request. This Section shall survive the expiration or termination of this letter.
8. **Deposits.** As evidence of our mutual good faith, and in consideration of our having incurred and continuing to incur certain expenses in the expectation of establishing the financing arrangements between us and the Company, we request that the Company deposit with us \$40,000 against our expenses. In addition to this initial deposit, upon receiving estimates of the cost of appraisals, we will require an additional deposit equal to the amount of those estimates prior to commencing the appraisals. These deposits will be due within three business days of Bankruptcy Court approval for payment of the deposits. The deposit for estimated appraisal costs will not exceed \$60,000 without approval of the Bankruptcy Court. These amounts, together with any other deposits at any time received by us will be:
- (a) **Returned to the Company,** less the cost of our field examinations, legal fees and other expenses directly related to the loan application and credit review, if our credit approval of the proposed financing is not obtained;
 - (b) **Retained by us,** and credited to the loan account of the Company, less the expenses described in paragraph (a) above, if the credit is approved and booked;

- (c) Retained by us, as a fee in addition to expenses payable by the Company as set forth above, if our credit approval of the proposed financing is obtained and the transaction does not close within forty-five (45) days from the date of such approval, whether as a result of your election not to do business with us or a failure to fulfill any of the conditions of the proposed financing as approved by us; and
 - (d) Retained by us, as a fee in addition to expenses payable by the Company as set forth above, if at any time during the loan and credit review, the Company intentionally misleads us or intentionally fails to disclose material information which, if disclosed, would have had a material adverse impact on the loan approval.
9. Other Information and Conditions. This proposal does not represent a commitment to lend. Our proposal is expressly subject to review of certain other information, satisfactory completion of our field examinations, credit investigations and analysis and approval by our credit committee. Such approval, if obtained at all, shall be contingent upon a closing taking place within forty-five (45) days thereafter, after which time this proposal will require reapproval by our credit committee even if we continue to work on this transaction. Such reapproval, if obtained, may result in different terms or conditions, or in a determination not to consummate the transaction. No commitment to lend shall be implied from any action by us or on our behalf. Communication to you of credit committee approval or reapproval shall not constitute a commitment to lend, unless expressly so stated in a commitment letter signed by us and you.

In addition, subject to such conditions as may be established in connection with the credit approval, we would anticipate that the closing of the Credit Facility will be subject to the satisfaction, in a manner acceptable to us, of the following:

- (a) The Company continuing to furnish us with all financial information, projections, budgets, business plans, cash flows and such other information as we reasonably request from time to time. We shall have received current agings of receivables, current perpetual inventory records and/or rollforwards of accounts and inventory through the date of closing, together with supporting documentation, and other documents and information that will enable us to accurately identify and verify the eligible collateral at or before closing in a manner satisfactory to us and including documentation with respect to inventory in transit, goods in bonded warehouses or at other third-party locations. We may require daily or weekly reporting of collateral information from the Company and/or may establish in our records a loan account for the Company prior to closing. Such actions should not be construed as a commitment to lend or to waive or modify any conditions to lending.
- (b) Satisfactory legal review of the terms of the Credit Facility and its structure by our counsel, and execution and delivery of loan documents, all in form and substance satisfactory to us. The loan documents will include, among other documents, a loan agreement, security agreements, UCC financing statements, intercreditor agreements (if applicable), agreements from certain third parties, opinion letters of counsel, the guarantee of the obligations of the Company to us by its corporate subsidiaries and

affiliates. Such loan documents will contain provisions, representations, warranties, conditions, covenants and events of default satisfactory to us and our counsel.

- (c) The excess availability under the lending formulas provided for above, subject to sublimits and reserves shall be not less than an amount acceptable to us at the closing, after the payment of fees and expenses of the transaction and the application of the proceeds of the initial loans, and after deduction for past due payables and other obligations. Accounts payable of the Company must be at a level and in a condition reasonably acceptable to us.
- (d) We will require as additional collateral the real property located in Washington, Iowa, Creston, Iowa and Emporium, PA.
- (e) The Company shall deliver, at its expense, environmental audits of its plants and real estate conducted by an independent environmental engineering firm acceptable to us and in form, scope and methodology satisfactory to us, confirming that (i) the Company is in compliance with all applicable environmental use laws, regulations, codes and ordinances in all material respects and (ii) there is no material potential or actual liability of the Company for any remedial action with respect to any environmental condition or any other significant environmental problems.
- (f) Our satisfaction with the application of "fresh start" accounting rules to the Company's Plan.
- (g) A order by the Bankruptcy Court having jurisdiction over the Chapter 11 case of the Company (the "Confirmation Order"), in form and substance satisfactory to us, shall have been entered, following due notice to all creditors and other parties-in-interest, confirming the Plan and continuing such findings and ordering such relief as we may request. The confirmation order shall remain in full force and effect as of the 31st day following the date of entry thereof and the Effective Date may occur any time thereafter if no stay of such order is in effect.
- (h) At or prior to closing of the Credit Facility, we shall have received evidence, satisfactory to us, that the Plan, as confirmed by the Confirmation Order, has been consummated and all agreements and undertakings of the parties thereunder to be performed by such time shall have been satisfied and performed.
- (i) No material adverse change in the business, operations, profits or prospects of the Company or in the condition of the assets of the Company shall have occurred since the date of our latest field examinations.
- (j) This transaction and the events contemplated herein must close by December 31, 2003 or forty-five (45) days from the date of our credit approvals, whichever is earlier.

The terms and conditions described in this proposal letter are intended as an outline only and this

proposal letter does not purport to include or summarize all of the terms, conditions, covenants and other provisions, which will be contained in the loan documents.

This letter is delivered to the Company on the condition that its existence and its contents will not be disclosed by the Company without our prior written approval except (i) as may be required to be disclosed in any legal proceeding or as may otherwise be required by law and (ii) on a confidential and "need to know" basis, to your directors, officers, employees, advisors and agents.

Unless accepted by the Company and as so accepted, received by us by the close of business in Chicago on October 17, 2003, this proposal shall expire at such time.

This letter is solely for your benefit and is not to be relied upon by any third party.

We look forward to continuing to work with you and your associates in this transaction.

Very truly yours,

CONGRESS FINANCIAL CORPORATION

(CENTRAL)



Keith C. Chapman
First Vice President

ACCEPTED on this 15th day of October, 2003:

FANSTEEL, INC.

By: R. M. M. Lee
Title: Vice President - CFO

cc: William R. Davis, CEO - Congress Financial Corp. (New York)
Barry Kastner, BVP - Congress Financial Corp. (New York)
Chris Calabrese, SVP - Congress Financial Corp. (New York)
Richard A. Cini, VP - Congress Financial Corp. (New York)
Richard A. Dickard, SVP - Congress Financial Corp. (Chicago)
Scott T. Collins, VP - Congress Financial Corp. (Chicago)