IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

40-7580

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

Objection Deadline: November 10, 2003 at 4:00 p.m. E.T.
Hearing Date: To Be Determined (only if objections are filed)

NOTICE OF MOTION FOR ORDER AUTHORIZING AND APPROVING THE COMPROMISE AND SETTLEMENT BY AND BETWEEN THE DEBTORS AND LINCOLN PARTNERS, LLC PURSUANT TO 11 U.S.C. § 105(A) AND FED. R. BANKR. P. 9019

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

The captioned debtors and debtors in possession (collectively, the "Debtors") hereby submit this Motion for Order Authorizing and Approving the Compromise and Settlement By and Between the Debtors and Lincoln Partners, LLC Pursuant to 11 U.S.C. § 105(A) and Fed.R.Bankr.P. 9019.

Objections or responses, if any, to the Application, must be filed with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801, on or before November 10, 2003 at 4:00 p.m. Eastern Time. At the same time, you must also serve a copy of the response or objection upon co-counsel for the Debtors: (i) Pachulski, Stang, Ziehl, Young, Jones & Weintraub P.C., 919 North Market Street, Suite 1600, P.O. Box 8705, Wilmington, Delaware 19899-8705 (courier 19801) (Attn: Laura Davis Jones, Esq.); (ii)

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

BKRP01

Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022 (Attn: Jeffrey S. Sabin, Esq.); (iii) the Office of the United States Trustee, 844 King Street, Suite 2313, Lockbox 35, Wilmington, Delaware 19801 (Attn: David Buchbinder, Esq.); (iv) counsel for Lincoln Partners, LLC, Seyfarth Shaw LLP, 55 E. Monroe Street, Suite 4200, Chicago, Illinois 60603-5803 (Attn: Gus Paloian, Esq.); and (v) counsel for the Official Committee of Unsecured Creditors, Neal, Gerber & Eisenberg LLP., 2 North LaSalle Street, Chicago, Illinois 60602 (Attn: Frances Gecker, Esq.).

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

Dated: October 16, 2003

SCHULTE ROTH & ZABEL LLP
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New York, NY 10022
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and

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Co-Counsel for Debtors and
Debtors-in-Possession

IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

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

Objection Deadline: November 10, 2003 at 4:00 p.m. E.T.
Hearing Date: To Be Determined (only if objections are filed)

MOTION FOR ORDER AUTHORIZING AND APPROVING THE COMPROMISE AND SETTLEMENT BY AND BETWEEN THE DEBTORS AND LINCOLN PARTNERS, LLC PURSUANT TO 11 U.S.C. § 105(A) AND FED. R. BANKR. P. 9019

Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (collectively, the "Debtors"), move the Court (the "Motion") for entry of an order, under 11 U.S.C. §105(a) and Fed. R. Bankr. P. 9019, authorizing and approving the settlement and compromise of by and between the Debtors and Lincoln Partners, LLC ("Lincoln") as set forth in the letter agreement dated September 15, 2003 (the "Settlement") regarding the fees and expenses payable to Lincoln arising out of the retention agreement between the parties dated January 14, 2002 (the "Retention Agreement"). In support of this Motion, the Debtors respectfully represent as follows:

JURISDICTION

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). The statutory predicates for the relief sought herein are Section

[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.

Rule 9019(a) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Section 105 of the United States Bankruptcy Code (the "Bankruptcy Code").

BACKGROUND

A. The Bankruptcy Filing

1. 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 "Chapter 11 Cases") be procedurally consolidated and jointly administered by this Court.

2. 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.

3. 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 these Chapter 11 Cases. No trustee or examiner has been appointed in any of the Chapter 11 Cases.

4. The Joint Reorganization Plan of Fansteel Inc and Subsidiaries 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 Reorganization Plan of Fansteel Inc and Subsidiaries (the "Plan") was filed with this Court, together with the First Amended Disclosure Statement for the Joint Reorganization Plan (the "Disclosure Statement"). On September 30, 2003, the Court entered an order approving the Disclosure Statement and scheduled the hearing on confirmation of the Debtors' Plan for November 17, 2003.

B. **The Retention Agreement**

5. On January 15, 2002, the Debtors retained Lincoln as their investment banking firm, in connection with the proposed sale of one or more of the Debtors' divisions, including Fansteel's interest in the Schulz division.

6. Lincoln's services included (a) identifying prospective purchasers who might be interested in entering into a transaction with the Debtors for specific divisions; (b) compiling a compendium of data on the specific division's operations, management, results of operations and financial conditions; (c) formulating and recommending a strategy for the sale of specific divisions; (d) contacting and eliciting interest from prospective purchasers; (e) reviewing and evaluating prospective purchasers; (f) reviewing and analyzing all proposals received from prospective purchasers; and (g) negotiating with prospective purchasers to the extent requested by the Debtors.

7. After receiving expressions of interest from several parties, Lincoln and the Debtors then negotiated and entered into confidentiality agreements with those parties to provide the appropriate due diligence materials. Once those agreements were executed, Lincoln coordinated the Debtors' preparation and presentation of confidential due diligence materials. More generally, Lincoln facilitated the flow of information between the parties to promote a possible agreement.

8. From January through September 2002, Lincoln and the Debtors met with various proposed acquirers and their investment bankers, resulting in several offers, with several parties providing non-binding term sheets. Of these offers, Fansteel's board of directors determined that the offer presented by Hancock Park Associates ("Hancock") for Schulz was the highest and best offer.

9. As a result, Hancock entered into a stock purchase agreement dated October 25, 2002 with Fansteel to sell all of the issued and outstanding shares of capital stock of Schulz in exchange for $2.35 million in cash, subject to certain adjustments, and subject to higher and better offers. On November 27, 2002, following an open auction, the Court entered an order approving the stock purchase agreement and the sale of Schulz to Hancock.[2]

10. Upon the completion of the Schulz sale, and as a result of the lack of sufficient interest expressed for the remaining Fansteel assets offered for sale, Lincoln and the Debtors, by letter agreement dated December 9, 2002, (the "Suspension Notice"), mutually agreed to suspend any further payments for the monthly retainer to Lincoln effective as of October 25, 2002 and to suspend any and all work by Lincoln in connection with any effort to sell assets. The Suspension Notice did not, however, make clear the relative position of the parties with respect to any subsequent sale of assets by the Debtors to parties that may have previously been solicited or introduced to the Debtors by Lincoln.

11. Immediately following the Suspension Notice, the Debtors focused their efforts on developing a consensual joint plan of reorganization that initially contemplated the reorganization of the Debtors without any further sale of assets. Notwithstanding the suspension of marketing efforts toward the sale of assets, during this period, the Committee, as well as the Debtors, received several expressions of interest with respect to various assets of the Debtors. Among such parties were Stoutheart East Corporation and WPC III, Inc., related entities

[2] Contemporaneous with its filing of the motion approving the sale of Schulz, Fansteel filed a motion dismissing the Schulz bankruptcy case as a condition precedent to a closing of the stock purchase agreement. By order entered November 27, 2002, the Bankruptcy Court dismissed the Schulz bankruptcy case. On December 30, 2002, the sale of Schulz successfully closed. All liabilities associated with Schulz were assumed by Hancock.

(collectively, "Stoutheart")[3], which contacted the Committee in late April 2003 regarding a potential acquisition of certain assets.

12. Stoutheart conducted preliminary due diligence from information publicly available and in early May 2003, presented a proposed purchase offer to the Committee for consideration. The offer from Stoutheart resulted in a series of negotiations between the Debtors and the Committee regarding the overall structure of the Debtors' Plan. As a result of those negotiations, the Debtors and the Committee ultimately agreed that a consensual plan of reorganization that contemplates the pre-confirmation sale of the Purchased Assets, as defined below. In connection with the joint efforts of the Committee and the Debtors, the Debtors began discussions in earnest with Stoutheart regarding a sale by Fansteel and Phoenix Aerospace Corporation ("Phoenix") of substantially all of the assets, property and businesses of Phoenix and the divisions of Fansteel known as California Drop Forge, Hydro Carbide-Gulfport and Hydro Carbide-Latrobe ("Fansteel Cal Drop and Hydro Carbide Divisions"), the accounts receivable and inventory of the Fansteel division known as VR/Wesson-Plantsville ("Plantsville Division"), and the equipment and inventory located at Fansteel's facility in Lexington, Kentucky (collectively, the "Purchased Assets"). These discussions resulted in the execution of an asset purchase agreement with Stoutheart.

13. On July 24, 2003 the Debtors filed a motion seeking, among other things to establish bidding procedures with respect to the Stoutheart asset purchase agreement. Following the filing of the motion, which made public the terms of the asset purchase agreement with Stoutheart, the Debtors received several unsolicited expressions of interest from prospective

[3] An affiliate of Stoutheart and Richard Burkhart had been previously identified by Lincoln Partners as a prospective purchaser of the Fansteel Cal Drop Division, but after completion of the sale of the Schultz subsidiary any further effort by the Debtors to market the Cal Drop assets was suspended.

competitive bidders. Among these parties was HBD Industries, Inc. ("HBD"), which previously had signed a confidentiality agreement and thereafter on August 25, 2003, through two of its acquisition subsidiaries (collectively, the "HBD Affiliates"), delivered to the Debtors a signed version of an asset purchase agreement that substantially conforms with the agreement executed with Stoutheart. Consequently, the Debtors, upon review of the HBD asset purchase agreement, and in recognition of their fiduciary obligations to creditors, notified Stoutheart by letter dated August 26, 2003 of the higher and better offer received from HBD and the HBD Affiliates and the Debtors' intent to proceed with same as the "stalking horse" offer absent a further proposal from Stoutheart.

14. On October 7, 2003, following the conclusion of the open auction process whereby HBD was the successful bidder, the Court entered an order approving the sale of the Purchased assets to HBD under the HBD asset purchase agreement.

15. During the auction process, Lincoln advised the Debtors by invoice dated August 18, 2003, that it believed that it was entitled to success fees upon a closing of the sale of the Purchased Assets totaling $500,000. (A copy of the invoice is annexed hereto as Exhibit "B".) Further, Lincoln verbally advised the Debtors that it would assert an administrative expense claim for all such amounts due. The Debtors disputed the position asserted by Lincoln, as the Debtors believed, among other things, that any introduction of the likely potential purchasers was not in the context of a transaction involving the Purchased Assets. The Settlement Agreement represents the collaborative efforts of the Committee, the Debtors and Lincoln to resolve the dispute regarding any outstanding fees or expenses that may be due to or asserted by Lincoln in respect of the sale of the Purchased Assets, as well as, any subsequent transactions.

RELIEF REQUESTED

16. The Debtors hereby request approval of the Settlement Agreement pursuant to Bankruptcy Rule 9019 and Section 105 of the Bankruptcy Code. The Settlement Agreement provides a resolution of the claims of Lincoln against the Debtors arising from the Retention Agreement and Lincoln's efforts thereunder to market and sale certain of the Debtors' assets. Among other things the Settlement Agreement fixes the expenses incurred by the Debtors' with respect to a sale of assets to HBD such that the Debtors are able to further quantify the costs associated with the transaction and to avoid costly litigation with Lincoln regarding the scope of their claim.

17. The Settlement Agreement, attached hereto as Exhibit "A", provides that, subject to approval of this Court, that upon a closing of a sale of the "Purchased Assets" to HBD and the HBD Affiliates, Lincoln will earn a fee of $100,000 that shall constitute an allowed administrative expense claim in the Fansteel's chapter 11 case and shall be payable to Lincoln on the Effective Date. This fixed fee shall be payable only from Reorganized Fansteel's share of the net proceeds arising from the sale of the Purchased Assets.[4]

BASIS FOR RELIEF

18. The Settlement Agreement resolves the potential administrative claims to be asserted by Lincoln for an amount that the Debtors' believes to be reasonable and appropriate in light of the costs of litigating the claims and the risk that Lincoln could be awarded a claim in excess of the fee paid under the Settlement Agreement. The Committee has also been instrumental

[4] The Settlement Agreement further provided that Lincoln would immediately resume efforts to assist the Debtors in the marketing of the Purchased Assets pursuant to the auction and for certain additional fees payable to Lincoln in the event of a successful overbid. As the sale to HBD was subsequently approved, these further provisions are no longer applicable. Further, the Settlement Agreement provides that Lincoln is entitled to recovery reasonable expenses associated with additional marketing efforts not to exceed $15,000.

in negotiating the Settlement Agreement with Lincoln Partners and the Debtors, believe, therefore, that the terms of same represent the best interests of the estates.

A. The Standard of Review

19. Bankruptcy courts may, after the filing of a motion and a hearing with notice to the creditors, approve a compromise or settlement. Fed. R. Bankr. P. 9019(a). In reviewing a proposed settlement, the Court must determine that (a) it is "fair and equitable," Protective Comm. for Ind. Stockholders of TMT Trailer Ferry, Inc. v. Anderson, 390 U.S. 414, 424, 88 S.Ct. 1157, 1163 (1968), and (b) in the best interests of the estate, In re Best Prods. Co., 168 B.R. 35, 50 (Bankr. S.D.N.Y. 1994). Fed. R. Bankr. P. 9019(a) commits the approval or rejection of a settlement to the sound discretion of the bankruptcy court. In re Michael, 183 B.R. 230, 232 (Bankr. D. Mont. 1995).

20. In determining whether the proposed settlement is fair and equitable, two principles should guide this Court. First, "[c]ompromises are favored in bankruptcy," 10 Lawrence P. King, Collier on Bankruptcy, ¶ 9019.01, at 9019-2 (15th ed. rev. 1997) (citing Marandas v. Bishop (In re Sassales), 160 B.R. 646, 653 (D. Ore. 1993)), and are "a normal part of the reorganization process." Anderson, 390 U.S. at 424, 88 S.Ct. at 1163 (quoting Case v. Los Angeles Lumber Prods. Co., 308 U.S. 106, 130, 60 S.Ct. 1, 14 (1939)); In re A & C Properties, 784 F.2d 1377, 1381 (9th Cir. 1986) ("The law favors compromise and not litigation for its own sake...."); Michael, 183 B.R. at 232 (Bankr. D. Mont. 1995) ("[I]t is also well established that the law favors compromise."); Best Products, 16 B.R. at 50; Nellis v. Shugrue, 165 B.R. 115, 123 (S.D.N.Y. 1994) (Court recognizes "the general rule that settlements are favored....").

21. Second, settlements should be approved if they fall above the lowest point on the continuum of reasonableness. "[The] responsibility of the bankruptcy judge . . . is not to

decide the numerous questions of law and fact raised by the appellants but rather to canvass the issues and see whether the settlement fall[s] below the lowest point in the range of reasonableness." Cosoff v. Rodman (In re W.T. Grant Co.), 699 F.2d 599, 608 (2d Cir. 1983); In re Planned Protective Servs., Inc., 130 B.R. 94, 99 n.7 (Bankr. C.D. Cal. 1991); *see generally* In re Blair, 538 F.2d 849, 851 (9th Cir. 1976) (Court should not conduct a "mini-trial" on the merits of a proposed settlement.) Thus, the question is not whether a better settlement might have been achieved, or a better result if litigation pursued. Instead, the court should approve settlements that meet a minimal threshold of reasonableness. Nellis, 165 B.R. at 123; In re Tech. for Energy Corp., 56 B.R. 307, 311-312 (Bankr. E.D. Tenn. 1985); In re Mobile Air Drilling Co., Inc., 53 B.R. 605, 608 (Bankr. N.D. Ohio 1985); 10 Collier on Bankruptcy, *supra*, ¶ 9019.02, at 9019-4.

22. The Debtors submit that the Settlement Agreement should be approved because it is supported by sound business justification and is fair and reasonable.

B. The Settlement Agreement Satisfies The Standards For Approval Of Compromises

23. In determining the fairness, reasonableness, and adequacy of the Settlement Agreement, the Court must consider four factors:

a. The probability of success in litigation;

b. The difficulty if any to be encountered in the matter of collection;

c. The complexity of the litigation involved, and the expense, inconvenience, and delay necessarily attending it; and

d. The paramount interests of creditors and a proper deference to their reasonable reviews in the premises.

See, e.g., In re Woodson, 839 F.2d 610, 620 (9th Cir. 1988); A & C Properties, 784 F.2d at 1381; 10 Collier on Bankruptcy, *supra*, ¶ 9019.02, at 9019-4.

24. As discussed below, these factors all support the approval by this Court of the Settlement Agreement.

a. Probability of Success. As indicated above, while the Debtors do not believe that the claims asserted by Lincoln with respect to a sale of the Purchased Assets are warranted, the debtors acknowledge that the Suspension Agreement was unclear as to the rights of Lincoln in the event of a later sale transaction. Further, the Debtors acknowledge that Lincoln did introduce certain of the potential bidders to the Debtors although no such introductions were made in the context of the Purchase Assets. Consequently, the Debtors have determined that the claims to be asserted by Lincoln would not be entirely unsubstantiated such that the risk exists that the Court might ultimately determine that all or a portion of the claims asserted by Lincoln, absent the Settlement Agreement, would be allowed administrative expenses. The Debtors believe that the costs to litigate these matters, coupled with the risk that some or all of a portion of the claims might be allowed, far outweigh the costs associated with the settlement. The Settlement Agreement, therefore, represents a reasoned and fair resolution of Lincoln's claims.

b. Difficulty of Collection. This criterion is not applicable to the present situation as the Settlement Agreement reflects a settlement of claims against the Debtors.

c. Cost, Complexity and Delay. The third factor that must be considered in evaluating a settlement is the expense, complexity, inconvenience and delay that litigation of the parties' claims would occasion. This factor also weighs in favor of the Settlement Agreement as it provides for an immediate resolution of the claims to be asserted by Lincoln and provides that the payments thereunder shall only be from the proceeds of a sale closing. Litigation

of the matter would likely result in discovery and testimony of the parties with respect to the ongoing relationship between the parties, the intent of the Suspension Agreement, and the solicitation of prospective bidders.

d. The Interests of Creditors. This final factor also weighs heavily in favor of approval of the Settlement Agreement. The Committee was involved in the negotiation of the Settlement Agreement and this involvement resulted in the condition that any fees payable to Lincoln shall only be paid from the net sale proceeds from HBD to be retained by the Debtors and not paid as distributions to general unsecured creditors. The Settlement Agreement, therefore, has no adverse impact on creditors. The terms and conditions of the Settlement Agreement were set forth in the Debtors' Disclosure Statement and to the debtors' knowledge no party in interest has come forward to object to the provisions therein.

[Remainder of Page Intentionally Left Blank]

WHEREFORE, the Debtors respectfully request that the Court enter an order, substantially in the form annexed hereto as Exhibit "C" granting the relief requested, and granting the Debtors such other relief as may be appropriate.

Dated: New York, New York
October 16, 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 & WEINTRAUB P.C.

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

Exhibit "A"
Settlement Agreement

Gary L. Tessitore
Chairman, President and
Chief Executive Officer

Fansteel

September 15, 2003

Lincoln Partners LLC
200 West Madison Street
Suite 2100
Chicago, IL 60602
Attn: Patrick M. Goy, Managing Director

Re: Fansteel Inc., et al., Debtors

Dear Mr. Goy:

This letter, when accepted by you, shall serve to memorialize the material terms and conditions of the proposed settlement of any and all amounts now or hereafter claimed by Lincoln Partners to be due and/or payable by Fansteel Inc. ("Fansteel") and its affiliated debtors (collectively, the "Debtors") under its retention agreement dated as of January 14, 2002, in connection with the pending motion (the "Motion") by the Debtors for approval of the sale by Fansteel and Phoenix Aerospace Corporation ("Phoenix") of substantially all of the assets and businesses of Phoenix and the divisions of Fansteel known as California Drop Forge and Hydro Carbide, the accounts receivable and inventory of Fansteel's Planstville division and the equipment and inventory located at Fansteel's Lexington, Kentucky facility (collectively, the "Purchased Assets") or otherwise.

The Debtors have proposed and you have agreed that in full and final settlement of any and all fees that Lincoln Partners either is or could be entitled to for services that either have been or will be rendered, or which otherwise may be due to Lincoln Partners in connection with the proposed sale of the Purchased Assets, Lincoln Partners will earn upon the closing of the sale of the Purchased Assets a fee in the sum of $100,000 (the "Fixed Fee"). The Fixed Fee when earned shall constitute an allowed administrative expense claim in the Fansteel's chapter 11 case and shall be payable to Lincoln Partners on the Effective Date of the Joint Reorganization Plan of Fansteel Inc. and Subsidiaries, dated July 24, 2003, as same may be amended and modified (the "Plan"), but only from Reorganized Fansteel's share of the Fansteel Asset Sale Proceeds (as that term is defined in the Plan).

One Tantalum Place • North Chicago, IL 6064 • (847) 399-4800 Ext. 223 • Fax. 847-688-0307 • gtessitore@fansteel.com

Gary L. Tessitore
Chairman, President and
Chief Executive Officer

Fansteel

In addition, it is understood and agreed that Lincoln Partners will immediately commence activities designed to elicit "Qualified Bids" (as such term is defined in the Motion) that are higher and better than the existing offer for the Purchased Assets (the "HBD Offer") made by certain affiliates of HBD Industries, Inc. (the "HBD Affiliates"). In connection therewith, the Debtors will cooperate with Lincoln Partners and provide data and information necessary to market the Purchased Assets. Any reasonable out-of pocket expenses incurred by Lincoln Partners related to the solicitation of Qualified Bids for the Purchased Assets, including without limitation, transportation, lodging, meals, communications, copying, printing and document services, shall constitute an allowed administrative expense claim in Fansteel's chapter 11 case, provided that such out-of-pocket expenses do not exceed the sum of $15,000, and shall be reimbursed to Lincoln Partners up to the sum of $15,000 on the Effective Date of the Plan from Reorganized Fansteel's share of the Fansteel Asset Sale Proceeds.

It is further understood and agreed that, within two (2) business days of execution of this letter, Lincoln Partners will provide to the Debtors a list of persons or entities that it intends to solicit in connection with the sale of the Purchased Assets. Thereafter, if Lincoln Partners desires to update the list to include additional persons and entities, it must provide 24 hours advance notice to the Debtors so as to make sure that any such proposed additional person or entity has not as of the date of such notice executed a confidentiality agreement and/or submitted a bid to the Debtors without being solicited by Lincoln Partners.

If any party identified and listed by Lincoln Partners is a Successful Bidder or part of a group that is the Successful Bidder for the Purchased Assets, then Lincoln Partners shall, in addition to the $100,000 fee and expense reimbursement set forth above, be entitled to an additional fee (the "Additional Percentage Fee"). The Additional Percentage Fee shall be an amount equal to 5% of the purchase price of the Successful Bidder for the Purchased Assets less (i) the amount of the HBD Offer (valued as of the Closing Date) and (ii) any break-up fee payable to the HBD Affiliates in connection with the sale. No fees or expense reimbursements may be earned by, or will be payable to, Lincoln Partners in connection with Fansteel's efforts to obtain Qualified Bids for, or otherwise effect a sale of, the remaining assets of Fansteel's Plantsville division which are not included in the HBD Offer for the Purchased Assets (the "Other Plantsville Assets"). The Additional Percentage Fee shall be earned by Lincoln Partners only if the sale of the Purchased Assets to the Successful Bidder closes and shall be payable on the Effective Date of the Plan, or on the closing date if the closing occurs after the Effective Date. If an Additional Percentage Fee is earned by and payable to Lincoln Partners, fifty (50%) percent of the Additional Percentage Fee shall be paid from Reorganized Fansteel's share of the Fansteel Asset Sale Proceeds and the remaining fifty (50%) percent from the Available General Unsecured Cash (as that term is defined in the Plan).

Gary L. Tenitore
Chairman, President and
Chief Executive Officer

Fansteel

If the foregoing accurately reflects your understanding of the terms of the settlement, please indicate your agreement by signing and returning to us by fax a copy of this letter. Upon receipt thereof, the Debtors will promptly prepare and file the necessary motion seeking court approval of this settlement.

Very truly yours,

FANSTEEL INC.

By: Gary L. Tenitore
Chairman, President & CEO

AGREED TO AND ACCEPTED:

Lincoln Partners LLC

CONSENTED TO:

Official Committee of Unsecured Creditors of Fansteel Inc., et al., Debtors

Exhibit "B"
Lincoln Partners' Invoice

LincolnPartners
Investment Bankers

_____, 2003

DRAFT

Mr. G. L. Tessitore
Chairman, President and Chief Executive Officer
Fansteel, Inc.
Number One Tantalum Place
North Chicago, IL 60064

Account Name: Fansteel/Cal Drop and Fansteel/VR Wesson

Success fee due Lincoln Partners L.L.C. for acting as the exclusive investment banking representative for Fansteel, Inc. in connection with the sale of California Drop Forge and VR/Wesson-Hydro Carbide according to the Engagement Letter as of January 14, 2002 and amended and restated as of March 8, 2002 and December 9, 2002 and the Order of the Bankruptcy Court approving the engagement.

Success fee – California Drop Forge	$200,000.00
Success fee – VR/Wesson-Hydro Carbide	300,000.00
Total	$500,000.00

DUE AND PAYABLE

PLEASE MAKE CHECK PAYABLE TO LINCOLN PARTNERS L.L.C.

PLEASE RETURN YOUR REMITTANCE TO:

If payment by check:
Mr. Patrick M. Goy
Managing Director
Lincoln Partners L.L.C.
200 West Madison Street, Suite 2100
Chicago, Illinois 60606

If payment by wire transfer:
Bank One
Account #1115001937834
Account Name: Lincoln Partners
Routing #071000013

Exhibit "C"
Proposed Order

IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

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

ORDER AUTHORIZING AND APPROVING THE COMPROMISE AND SETTLEMENT BY AND BETWEEN THE DEBTORS AND LINCOLN PARTNERS, LLC PURSUANT TO 11 U.S.C. § 105(A) AND FED. R. BANKR. P. 9019

Upon consideration of the Motion for Order Authorizing and Approving the Compromise and Settlement by and between the Debtors and Lincoln Partners, LLC Pursuant to 11 U.S.C. § 105(A) and Fed. R. Bankr. P. 9019 (the "Motion"), filed by the debtors and debtors-in-possession herein (the "Debtors"); and it appearing that the relief requested in the Motion is in the best interests of the Debtors, their estates, creditors, other parties in interest, and may be authorized pursuant to 11 U.S.C. § 105(a) and Federal Rule of Bankruptcy Procedure 9019(a); and notice of the Motion having been provided to all those parties required to receive notice pursuant to Del.Bankr.LR 2002-1(b); and it appearing that no other or further notice need be given; and after due deliberation and sufficient cause appearing therefor, it is hereby

ORDERED that the Motion be, and it hereby is, granted; and it is further

ORDERED that the Settlement Agreement annexed to the Motion as Exhibit "A", and the provisions therein, are hereby approved; and it is further

[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.

ORDERED that this Court retains jurisdiction with respect to all matters arising from or related to the Settlement Agreement, any payments made by the Debtors to Lincoln Partners, LLC thereunder or this Order.

Dated: _____, 2003

_____

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