

Gary L. Tessitore
Chairman, President and
Chief Executive Officer



September 24, 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: Response to September 16, 2003 Request for
Additional Information Regarding Financial Assurance**

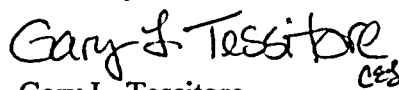
Dear Mr. Gillen:

Please find attached the response of Fansteel Inc. ("Fansteel") to the NRC Staff's Request for Additional Information regarding financial assurance for the Muskogee, Oklahoma facility, dated September 16, 2003. The response includes the following:

- A revised Table 15-12, "Projected Schedule of Consolidated Cash Flow by Year," which now reflects a "total spending recap" that clarifies the amount of estimated closure costs anticipated to come from payments on the notes and amounts borrowed from the Decommissioning Trust. The table is otherwise unchanged.
- A revised page 3 of the "Primary Note" which is consistent with the response to Question 7.

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
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**Response to NRC September 15, 2003 Request for
Additional Information Regarding Financial Assurance
For Muskogee, Oklahoma Facility**

1. On Table 15-12, Cash Flow by Year, for the line item labeled "Annual", does the figure represent the actual change in year-end cash balance of RF, including cash balances at RW?
 - a. If the line item labeled "Annual" does not represent the actual change in year-end cash balance of RF, including cash balances at RW, please revise Table 15-12 to include that value.

Response:

1. The line item labeled "Annual" does represent the cash flow, which is the change in the cash balance from the beginning of the year to the end of the year, for all Reorganized Fansteel (RF) operations and Reorganized Wellman (RW).
 - a. No need to revise Table 15-12 per above.
2. On Table 15-12, Cash Flow by Year, for the line item labeled "Cash Balance",
 - a. does that figure represent the year-end cash balance of RF, including cash balances at RW?
 - b. what assumptions, as to borrowings, cash proceeds of sales of RF assets outside the ordinary course of business, and capital contributions, were made to calculate the value?
 - b. If the line item labeled "Cash Balance" does not represent the year-end cash balance of RF, including cash balances at RW, please revise Table 15-12 to include that value, and the assumptions made to calculate it.

Response:

2. Table 15-12, Cash Flow By Year, for line item labeled "Cash Balance":
 - a. The year-end cash balance does include the cash balance for Reorganized Wellman (RW).
 - b. The cash flows presented on Table 15-12 assumed no net increase in borrowings, no sale of RF assets outside the ordinary course of business and no capital contributions.
 - c. The line item labeled "Cash Balance" does represent the year-end cash balance of RF, including cash balances of RW, therefore, no revision to Table 15-12 is needed.

3. Please provide an example to illustrate the calculation of 50% Excess Cash, as that term is defined in the footnote of Section 15.3.2 of the Decommissioning Plan. The example should include an illustration of all potential subtractions, and define the algorithm used to determine the amount of the subtractions.

Response:

The 50% of Available Excess Cash is determined as stated in footnote 3 to Section 15.3.2 with an example as follows:

Ending cash at December 31 2004 for RF (exclude RW)	\$3,036,000
Less	
Beginning cash at December 31, 2003 for RF (exclude RW)	<u>1,753,000</u>
Change in cash balance of RF	1,283,000
Less	
Net increase in borrowings of RF	0
Proceeds from sale of assets outside the ordinary course	0
Cash contributed to capital of RF	0
Plus	
Capital expenditures in excess of 5% of net sales of RF	<u>0</u>
Excess Available Cash	1,283,000
50% of Excess Available Cash	641,500

4. Please revise Table 15-12, Cash Flow by Year, to clearly show for each year the amount of estimated closure costs anticipated to come from (a) mandatory minimum payments, (b) 50% of Excess Available Cash as defined, (c) 50% of Prior Year End Cash Balance as defined and (d) borrowings from the standby trust.
 - a. Adjust the values in Table 15-12 to account for the use, if any, of Prior Year End Cash Balance to pay the amounts due under the Notes to MRI Inc.
 - b. Identify assumptions made in the calculations as to (i) the net increase in borrowings by RF under its credit lines, (ii) cash proceeds from the sale by RF of property plant, and equipment outside the ordinary course of business, and (iii) cash contributed to capital.

Response:

4. See attached Table 15-12 that clarifies the Muskogee spending from excess cash flow, prior year cash balance and the standby trust.
 - a. Prior year-end cash was already included in Table 15-12 for funding of FMRI notes.

- b. Added notes on bottom of schedule as stated in 2.b. above.
5. 10 CFR 40.36(d) requires that the funding plan must provide financial assurance “in the amount of the cost estimate for decommissioning”.
- a. Please provide a list identifying which line items of Table 15-11, Closure Cost Estimate, are assured to NRC and which are not.
 - i. where a line item includes both assured and non-assured costs, break the line item into two or more sub items and identify them as assured and non-assured.
 - b. For each line item in Table 15-11 whose cost is not assured to the NRC, please provide the following information:
 - i. a list of activities to be performed for the line item and either:
 - (1) a justification for the conclusion that the activities performed for the line item are unnecessary to complete the decommissioning of the facility, or
 - (2) revise the DP and financial instruments to verify that the cost of the line item is included in the financial assurance provided to NRC, and revise the list of assured and non-assured costs to show that the cost of the line item is assured to NRC.

Response:

Fansteel is providing financial assurance for all costs items listed on Table 15-11 for costs estimated to be incurred beginning in 2004 as identified on the schedule. The financial assurance is the Primary Note and the Secondary Note from RF to FMRI and the “Decommissioning Trust”. As such, all items are considered necessary to complete the decommissioning plan. The total costs on Table 15-11 is \$41.6 million including expenditures made and estimated for 2002 and 2003 of \$2,210,000. The costs on Table 15-11 beginning 2004 totals \$39,395,000 for estimated cost included in the Amended Decommissioning Plan. The Primary Note is for \$30.6 million, the Secondary Note is for \$4.2 million and the Decommissioning Trust has \$4.6 million. These 3 items total \$39.4 million. In addition, the financial assurance commitment includes a Contingent Note if costs are estimated to be greater after site characterization is completed after the materials in the WIP and CAF ponds are removed offsite.

6. Please explain the term, “Funded Cost”, as used in Table 15-11, Closure Cost Estimate.

Response:

Funded costs represent the line items that would normally require financial assurance. As stated above, all line items are being assured through the notes to FMRI and the decommissioning trust.

7. Please provide a schedule showing the dates on which payments will be received by MRI, Inc. for planned payments by Reorganized Fansteel, such as the semi-annual mandatory payments of \$700,000, and payments under the Notes.

Response:

The first payment for the Primary Note for \$250,000 will be made on the bankruptcy effective date. The semi-annual minimum payments will be made by June 30th and December 31st of each year. The first semi-annual payment of \$450,000 will be made by June 30, 2004. All subsequent semi-annual payments will be for \$700,000. The mandatory additional prepayments will be made by March 31st of each year (within 90 day of fiscal year-end and Fansteel's year-end is December 31st).

8. Please specify a time period, for example 30 days, within which insurance proceeds, if any, and Reorganized Debtor Asset Sale Proceeds, if any, received by Reorganized Fansteel, as noted in Section 15.3.2 of the DP, will be paid to MRI Inc.

Response:

As noted in Section 15.3.2, if any insurance proceeds or asset sale proceeds are payable, Reorganized Fansteel shall make such payments within 30 days after the receipt of such proceeds free and clear of any appeal of such settlements or disgorgement obligations.

9. Please submit a revision to Section 15 of the DP to include the information requested above.

A revised Table 15-12 to show the total spending recap is attached.

"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) a second payment of \$450,000.00 on or before June 30, 2004, (iii) consecutive installments of the Minimum Semi-Annual Payment commencing on December 31, 2004 and continuing thereafter on the last day of each second and fourth calendar quarter, (iv) an Annual Mandatory Prepayment, (v) Additional Mandatory Prepayments from time to time as required pursuant to the covenants set forth in this Note and (vi) 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);

Table 15-12

Fansteel Inc. and Subsidiaries
 Projected Schedule of Consolidated Cash flow By Year
 (000's)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative
Intercast	2,657	2,902	3,123	3,470	3,470	3,470	3,470	3,470	3,470	3,470	32,969
Washington	800	824	1,418	1,548	1,548	1,548	1,548	1,548	1,548	1,548	13,881
American Sintered Tech	809	1,132	1,118	1,242	1,237	1,237	1,373	1,462	1,462	1,462	12,534
Wellman	136	275	32	1,337	1,337	1,337	1,433	1,433	1,433	1,433	10,186
PBGC Note	(750)	(750)	(750)	(750)	(750)	(1,150)	(1,150)	(1,150)	(1,150)	(1,150)	(9,500)
Headquarters (Reorganized Fansteel)	(71)	374	64	271	680	774	713	785	(94)	(1,220)	2,274
Subtotal Operations	3,581	4,756	5,005	7,118	7,522	7,215	7,387	7,548	6,669	5,543	62,344
North Chicago	(734)	(356)	(114)	(29)	(30)	(32)	(33)	(34)	(36)	(37)	(1,435)
Waukegan	(10)	(24)	(175)	(554)	(34)	(34)	(35)	(36)	(36)	(16)	(953)
Lexington	(18)	(48)	(578)	(574)	(26)	(26)	(27)	(28)	(28)	(29)	(1,383)
Subtotal Environmental	(762)	(428)	(867)	(1,157)	(90)	(92)	(95)	(98)	(100)	(82)	(3,771)
Operating Cash Flow	2,819	4,329	4,138	5,961	7,432	7,123	7,292	7,450	6,569	5,461	58,573
Muskogee											
Total spending	(2,165)	(3,781)	(2,030)	(3,635)	(4,857)	(4,857)	(4,855)	(5,209)	(3,067)	(282)	(34,738)
Funds from (to) standby trust	765	153	(918)	-	-	-	-	-	-	-	-
Spending by RF	(1,400)	(3,628)	(2,948)	(3,635)	(4,857)	(4,857)	(4,855)	(5,209)	(3,067)	(282)	(34,738)
Annual	1,419	701	1,190	2,326	2,575	2,266	2,437	2,241	3,502	5,179	23,835
Cumulative	1,419	2,120	3,310	5,636	8,211	10,476	12,913	15,154	18,656	23,835	
Cash Balance (Beginning bal \$1,753)	3,172	3,873	5,063	7,389	9,964	12,229	14,666	16,907	20,409	25,588	

Muskogee Spending												Total Spending Rcap
Minimum	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	
50% cash flow		642	213	579	494	619	464	502	404	1,034		
Prior year cash flow used to fund		2,042	1,613	1,979	1,894	2,019	1,864	1,902	1,804	2,434		Note payments 2004 - 2013
Total Fansteel Spending		1,586	1,335	1,656	2,963	2,838	2,991	3,307	1,263	(2,152)		\$ 34.7
		3,628	2,948	3,635	4,857	4,857	4,855	5,209	3,067	282		Note and Trust Funding after 2013 (primarily groundwater treatment)
50% prior year cash available		1,586	1,937	2,531	3,694	4,982	6,115	7,333	8,454	10,204		4.7
												Total funded after 2003
Maximum cash available		3,628	3,550	4,511	5,589	7,001	7,979	9,235	10,258	12,639		2.2
												Spending 2002 - 03
Cumulative note payment		(5,028)	(7,976)	(11,611)	(16,468)	(21,325)	(26,180)	(31,389)	(34,456)	(34,738)		\$ 41.6
												Total Table 15-11

NOTE: Cash flows by year assume no net increase in borrowings under available lines of credit, no sales of RF assets outside ordinary course of business and no cash contributed to capital.