

PROMISSORY NOTE
(Secondary FMRI Note)

\$4,200,000.00

North Chicago, Illinois
January 23, 2004

FOR VALUE RECEIVED and IN ACCORDANCE WITH the JOINT REORGANIZATION PLAN OF FANSTEEL, INC. AND SUBSIDIARIES, dated November 18, 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 Effective Date (as defined in the Reorganization Plan) 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 FMRI, Number Ten Tantalum Place, Muskogee, Oklahoma 74403, Attention: A. Fred Dohmann, Chief Executive Officer & President, 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 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 (d) 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: R. Michael McEntee

Title: Vice President & Chief Financial Officer

Address: One Tantalum Place

North Chicago IL 60035

Attention R. Michael McEntee

Telephone: 847-689-4900

Telex: None

Telecopier: 847-689-0307