

INTERGOVERNMENTAL AGREEMENT

THIS AGREEMENT, dated as of January 23, 2004, between the UNITED STATES NUCLEAR REGULATORY COMMISSION (the "NRC"), as a third-party beneficiary to the FMRI Secondary Note, dated the date hereof and in substantially the same form as annexed to the Plan as Exhibit C-4 (the "FMRI Secondary Note"), by FANSTEEL, INC., a Delaware corporation ("Fansteel"), in favor of FMRI, Inc., a Delaware corporation ("FMRI"), pursuant to the Pledge Agreement, dated the date hereof and in substantially the same form as annexed to the Plan as Exhibit C-6 (the "NRC Pledge Agreement"), by FMRI in favor of the NRC, and the OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY (the "ODEQ", and collectively with the NRC, the "Creditors"), as a third-party beneficiary to the FMRI Secondary Note, pursuant to the Pledge Agreement, dated the date hereof and in substantially the same form as annexed to the Plan as Exhibit C-11 (the "ODEQ Pledge Agreement"), by FMRI in favor of the ODEQ.

RECITALS:

WHEREAS, pursuant to NRC Pledge Agreement and the ODEQ Pledge Agreement, each of the NRC and the ODEQ, respectively, have been granted a security interest in the FMRI Secondary Note and its proceeds;

WHEREAS, FMRI has delivered on the date hereof the FMRI Secondary Note to the NRC in order that the NRC might perfect its security interest in the FMRI Secondary Note;

WHEREAS, it is the intention of FMRI, the NRC and the ODEQ that the security interest of the ODEQ rank *pari passu* with the security interest of the NRC;

WHEREAS, pursuant to certain Indemnification Letters, dated the date hereof (the "Indemnification Letters") by Fansteel and FMRI in favor of the NRC and the ODEQ, respectively, Fansteel and FMRI have indemnified and granted third-party beneficiary status to the NRC and the ODEQ with respect to enforcing FMRI's rights, upon default, under the FMRI Secondary Note;

WHEREAS, the proceeds of any action by the NRC and/or the ODEQ as a third party beneficiary and/or secured creditor with respect to the FMRI Secondary Note are to be placed into a trust and are to be distributed by such trust to cover the applicable obligations of FMRI on such terms as may be agreed to by the NRC and the ODEQ;

WHEREAS, each of the NRC and the ODEQ is willing to enter into this Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the forgoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Creditor does hereby agree as follows:

SECTION 1. Definitions. Capitalized terms that are used but not defined herein have the respective meanings specified in the FMRI Secondary Note, the NRC Pledge Agreement and the ODEQ Pledge Agreement. The following terms, for all purposes of this Agreement, including the recitals hereof, shall have the respective meanings specified in this Section. All terms defined in the Uniform Commercial Code as in effect in the State of Illinois (the "UCC") on the date hereof, unless otherwise defined herein, shall have the meanings set forth therein. All references to any term in the plural shall include the singular and all references to any term in the singular shall include the plural. All references to Sections, clauses or paragraphs shall be references to sections, clauses and paragraphs in this Agreement unless otherwise stated. All references to any agreement "as in effect on the date hereof" shall not be construed to affect the rights of any party to amend, modify or supplement such agreement, but shall be construed to mean that for purposes of this Agreement the applicable provisions of the agreement referred to shall be as such provisions are in effect on the date hereof, without giving effect to any subsequent amendments, modifications or supplements.

(a) "Collateral" shall mean the FMRI Secondary Note and the proceeds thereof.

(b) "Credit Documents" shall mean the FMRI Secondary Note, the NRC Pledge Agreement, the ODEQ Pledge Agreement, the Indemnification Letters and this Agreement

(c) "Payment" shall mean any amount received by any Creditor under any Credit Document (whether by voluntary payment, prepayment, redemption, by realization upon security, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise) in respect of the FMRI Secondary Note.

(d) "Plan" shall mean the Second Amended Joint Reorganization Plan of Fansteel Inc., et al. dated as of December 23, 2003 and as confirmed by order of the District Court for the District Delaware entered on December [23], 2003.

SECTION 2. Security Interests. Each Creditor acknowledges and agrees that the other Creditor has been granted a first priority security interest in the Pledged Interests (as defined in the ODEQ Pledge Agreement) and has been granted a lien in and to the Collateral. Each Creditor shall be responsible for perfecting and maintaining the perfection of its lien; provided, however, the NRC shall be responsible for maintaining possession of the FMRI Secondary Note to maintain the perfection of its lien for the benefit of itself and in trust for the benefit of the ODEQ until such time as the obligations under the FMRI Secondary Note shall have been paid in full and it shall have been terminated.

SECTION 3. Allocation of Payments. Notwithstanding the order or time of attachment, or the order or manner of perfection, or the order or time of filing or recordation of any document or instrument or other method of perfecting a security interest in favor of each Creditor in any Collateral, and notwithstanding any conflicting

terms or conditions which may be contained in any of the Credit Documents, the liens upon the Collateral are in favor of each Creditor equally. Each Creditor acknowledges and agrees that the other Creditor, as a third party beneficiary of the FMRI Secondary Note, has rights pari passu with its own and shall be entitled to fifty percent (50%), or such other percentage as may be agreed to in writing between the NRC and the ODEQ, of any and all (a) proceeds of the Collateral (net of costs and expenses, if any, expended in the enforcement of the Creditors' rights to and the collection of such proceeds of the Collateral) and (b) any and all Payments (net of costs and expenses, if any) received on account of the enforcement of rights under the Indemnification Letters.

SECTION 4. Distribution of Payments. Without limiting the provisions of Section 3, each Creditor agrees that any Payments made by FMRI and/or proceeds of any action by the NRC and/or ODEQ as a third party beneficiary and/or secured creditor with respect to the FMRI Secondary Note shall be placed into a trust and shall be distributed by such trust to be used for the costs of groundwater treatment and monitoring at the Muskogee Facility in accordance with the applicable obligations of FMRI and on such terms as may be agreed to by the NRC and ODEQ, and if no agreement then on such terms as directed by the Bankruptcy Court, as such term is defined in the Plan. Each Creditor hereby further agrees that, in any bankruptcy proceeding against or involving FMRI and/or Fansteel, it shall not assert (and is hereby estopped from asserting) any claim or other position challenging (i) the validity, enforceability or priority of the security interests of the other Creditor or (ii) the rights of the other Creditor under this Agreement.

SECTION 5. Remedies. The Creditors agree that each Creditor has the right, independently of the other, to exercise its rights under and enforce the terms of the Credit Documents; provided, however, at all times prior to the payment in full of the obligations under the FMRI Secondary Note, a Creditor, prior to taking an enforcement action (including, but not limited to, delivering a notice of breach or a notice of acceleration to FMRI and/or Fansteel), shall provide the other Creditor not less than five Business Days prior notice of its intent to take such action. The Creditors agree to cooperate with each other in the exercise of their remedies.

SECTION 6. Notices, Etc. All notices and other communications provided for hereunder shall be in writing and shall be mailed (by certified mail, postage prepaid and return receipt requested), telecopied or delivered, to a Creditor at its address specified below their signature hereto; or as to either Creditor at such other address as shall be designated by such Creditor in a written notice to the other Creditor complying as to delivery with the terms of this Section 6. All such notices and other communications shall be effective (i) if sent by certified mail, return receipt requested, when received or three Business Days after mailing, whichever first occurs, (ii) if telecopied, when transmitted and confirmation is received, if transmitted on a Business Day and, if not, on the next Business Day or (iii) if delivered, upon delivery, if delivered on a Business Day and, if not, on the next Business Day.

SECTION 7. Term. This Agreement is a continuing agreement and shall remain in full force and effect until the indefeasible satisfaction in full of the FMRI Secondary Note.

SECTION 8. Applicable Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE UNITED STATES.

SECTION 9. Submission to Jurisdiction. Each Creditor hereby irrevocably and unconditionally submits for itself in any action, suit or proceeding relating to this Agreement or any Credit Document, or for recognition and enforcement of any judgment in respect thereof, to the jurisdiction of the United States Bankruptcy Court for the District of Delaware.

SECTION 10. JURY TRIAL WAIVER. EACH CREDITOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM CONCERNING THIS AGREEMENT AND THE CREDIT DOCUMENTS OR ANY AMENDMENT, MODIFICATION OR OTHER DOCUMENT NOW OR HEREAFTER DELIVERED IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREE THAT ANY SUCH ACTION, PROCEEDING OR COUNTERCLAIM SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

SECTION 11. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 12. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 13. Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

UNITED STATES NUCLEAR
REGULATORY COMMISSION

by Claudia McCraig
Name: Claudia M. Crash
Title: Section Chief, DCB/DWM/NMSS/NRC

OKLAHOMA DEPARTMENT OF
ENVIRONMENTAL QUALITY

by _____
Name:
Title: