

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
SEC Accession No. **0000912057-96-030517**

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FILER

NUCLEAR METALS INC

CIK: **276331** | IRS No.: **042506761** | State of Incorpor.: **MA** | Fiscal Year End: **0928**
Type: **10-K** | Act: **34** | File No.: **000-08836** | Film No.: **96688390**
SIC: **3350** Rolling drawing & extruding of nonferrous metals

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934 (Fee Required)
for the fiscal year ended September 30, 1996
or
 Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934 (No Fee Required)
for the transition period from _____ to _____

Commission File No. 0-8836

NUCLEAR METALS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS 04-2506761
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER
INCORPORATION OR ORGANIZATION IDENTIFICATION NO.)

2229 Main Street, 01742
CONCORD, MASSACHUSETTS (ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(508) 369-5410
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

6,000,000 SHARES OF COMMON STOCK (\$.10 PAR VALUE)
(TITLE OF CLASS)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if the disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in a definitive proxy or information statement incorporated in Part III of this Form 10-K or any amendments to this Form 10-K. _____

The aggregate market value of the Common Stock of the Registrant held by non-affiliates was approximately \$14,070,618 as of December 13, 1996.

As of December 13, 1996, there were issued and outstanding 2,392,014 shares of the Registrant's Common Stock, \$.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Registrant's Annual Report to Stockholders for the fiscal year ended September 30, 1996 (Items 5,6,7,8 and 14)

NUCLEAR METALS, INC.
Securities and Exchange Commission

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Inasmuch as the calculation of shares of the registrant's voting stock held by non-affiliates requires a calculation of the number of shares held by affiliates, such figure, as shown on the cover page hereof, represents the registrant's best good faith estimate for purposes of this annual report on Form 10-K, and the registrant disclaims that such figure is binding for any other purpose. The closing price of the Company's Common Stock as reported by NASDAQ for trading on December 13, 1996 was \$18.00. All outstanding shares beneficially owned by executive officers and directors of the registrant or by any shareholder beneficially owning more than 5% of registrant's common stock, as disclosed herein, were considered solely for purposes of this disclosure to be held by affiliates.

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PART I

ITEM 1. BUSINESS

GENERAL

The Company is engaged in manufacturing a wide variety of specialty metal products using sophisticated metallurgical technology and metalworking processes. The Company operates in three industry segments: (1) uranium services and recycling of low-level contaminated steel; (2) fabrication of a large assortment of specialty metal products using foundry, extrusion, and machining capabilities; including the manufacture of high-purity, spherically shaped metal powders; and (3) manufacture of depleted uranium penetrators.

The Company participates in the uranium services and recycling industry segment primarily through its wholly-owned subsidiary, Carolina Metals, Inc. ("CMI") located in Barnwell, South Carolina. The uranium services and recycling segment of the Company's market segments include: (1) the manufacture of uranium tetrafluoride (UF₄) and depleted uranium metal through chemical conversion processes; and (2) the recycling of various

metals from decommissioned nuclear sites. (SEE "INDUSTRY SEGMENT INFORMATION," elsewhere herein)

As of September 30, 1996 the Company had 190 employees.

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INDUSTRY SEGMENT FINANCIAL INFORMATION

The following table sets forth certain information regarding the revenue, operating profit and identifiable assets attributable to the three industry segments in which the Company operates.

	YEAR ENDED		
	Sept. 30, 1996 ----	Sept. 30, 1995 ----	Sept. 30, 1994 ----
	(In Thousands)		
Net Sales and Contract Revenues:			
Uranium Services & Recycle	\$ 6,189	\$ 4,969	\$ 4,752
Specialty Products	13,730	12,102	7,284
Depleted Uranium Penetrators	8,775	1,714	6,968
Operating Profit(Loss):			
Uranium Services & Recycle	\$ (2,700)	\$ (996)	\$ (5,409)
Specialty Products	1,432	(341)	(162)
Depleted Uranium Penetrators	(942)	(237)	(5,033)
Identifiable Assets:			
Uranium Services & Recycle	\$ 13,749	\$ 16,609	\$ 16,772
Specialty Products	6,195	5,140	5,646
Depleted Uranium Penetrators	8,441	12,158	9,863

See Note 14 of Notes to Consolidated Financial Statements.

The Company does not have any foreign operations. The Company does have export sales which accounted for 28% of net sales for the most recent fiscal year ended September 30, 1996. In the prior two fiscal years, 1995 and 1994, export sales were 33% and 37%, respectively.

The following is a general description of the Company's three business segments. For additional information concerning developments in these business segments during fiscal 1996, reference is made to pages 4 through 11 of the Company's 1996 Annual Report, which is incorporated herein by reference and is included as Exhibit 13.

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URANIUM SERVICES & RECYCLE

The Company's Uranium Services and Recycle business segment includes the manufacture of depleted uranium and of uranium tetrafluoride, the recycle of various low level radioactive metals, the production of DUCRETE-TM-, and the supply of depleted uranium alloy material for use in United States Enrichment Company's (USEC) Atomic Vapor Laser Isotope Separation (AVLIS) program.

Manufacture of Depleted Uranium

A large-scale production contract from a foreign customer for depleted uranium metal, produced at the CMI facility, was completed in 1996.

Recycle of Low Level Radioactive Metals

The Company successfully completed a program in September, 1995 with Westinghouse Savannah River Company to demonstrate the beneficial reuse of contaminated stainless steel from the Department of Energy (DoE). The program demonstrated the technical feasibility and economic soundness of recycling radioactively contaminated steel into storage drums and boxes for containment of various radioactive wastes at DoE sites. This pilot program is significant due to the large number of facilities within the DoE that were

engaged in production of nuclear materials for our national defense that have substantial quantities of contaminated stainless steel that would benefit from the beneficial reuse program. These facilities contain millions of tons of carbon steel and stainless steel in the form of structural components and various types of processing equipment. Through beneficial reuse of contaminated steel scrap, the DoE will be able to reduce the volume of low-level radioactive waste in a cost-effective manner. In addition to the DoE facilities, it is estimated that an additional several million tons of low-level contaminated steel will be generated as a result of decommissioning the more than 100 currently operating commercial nuclear power plants over the next 30 years. The Company continues to pursue additional contracts in this product area.

During fiscal 1996, the Company teamed with ALARON Corporation in Cayce, SC to offer services to remelt slightly contaminated steel at the Company's CMI location. The resultant metal is used in shielding applications through an interlocking shield called the RAM-LOC-TM- shielding block. Radioactively contaminated steel remelt services are offered at only two other facilities in the United States.

Production of Ducrete-TM-

The Company has licensed the production rights for a new product known as DUCRETE-TM-. DUCRETE-TM- shielding was developed by the Idaho National Engineering Laboratory as a potential shielding for spent fuel and high level radioactive waste casks. DUCRETE-TM- is a uranium oxide aggregate that is combined

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with concrete to form a stable and economical shielding. The Company is actively pursuing the DoE to convert its 55,000 metric tons of Uranium Hexafluoride into Depleted Uranium aggregate for DUCRETE shielding production.

Supply of Depleted Uranium Alloy

The Company supplies Depleted Uranium (DU) alloy material to the USEC for use as Atomic Vapor Laser Isotope Separation (AVLIS) feedstock material. AVLIS is expected to replace the current gaseous diffusion process for separating the fissionable isotope, U235, from natural uranium within the next ten years. The Company has offered conversion services to the USEC for converting Depleted Uranium Hexafluoride (UF(6)) to Uranium Tetrafluoride (UF(4)). This work would be performed at the Company's CMI facility. The Company believes that USEC has a need for conversion of approximately 15-20 million pounds annually.

The Company continues to be the primary supplier of AVLIS feedstock material. However, other companies are attempting to compete for future business. The Company's South Carolina facility is the country's only active facility for converting UF6 to UF4.

SPECIALTY METAL PRODUCTS

The Company has several specialty metal products, including: beryllium products; specialty, medical, and aerospace powders; and a variety of advanced metal products and services for aerospace, energy, and commercial applications.

Beryllium Products

The Company completed major development activities to fully utilize its patented Beralcast-Registered Trademark- investment cast beryllium aluminum alloy for production applications. Beralcast-Registered Trademark-, a registered trademark, is a patented engineering material used in electronic and secondary structural applications for advanced missiles, helicopters, and a variety of other aerospace and avionics applications. Cost and weight pressures on today's design engineers demand a transition to lightweight, strong, and high stiffness materials such as NMI's patented Beralcast-Registered Trademark-. The alloy offers 3 1/2 times the stiffness of aluminum with 22% less weight and is investment castable to net and near net shape. Lockheed Martin Corporation continues to view NMI's Beralcast-Registered Trademark- hardware for the Electro Optic Sensor System (EOSS) as the highest priority for provision of Comanche program funding. The Company was awarded Lockheed Martin's Small Business of the Year Award for 1995 based on the Company's successes in the Beralcast product area.

High performance defense applications for Beralcast-Registered Trademark-

where cost premiums are permissible include: the Comanche (Advanced Attack Helicopter), the F-22 (Advanced Tactical Fighter), the PAC-3 (the updated Patriot missile), the French

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Rafael (Advanced Fighter Aircraft), and a number of other advanced design programs. In addition, design engineers at various aerospace, computer, and electronic firms, are designing this new engineering material into emerging systems. Commercial uses for Beralcast-Registered Trademark- are expected to be introduced as production costs, which include the current high cost of beryllium input metal, are reduced. The Company also continues to produce seamless beryllium tubes for satellite applications. Introduction of extruded Beralcast-Registered Trademark- tubing for satellites is a unique opportunity to supplant expensive graphite composites. The Company's extrusion technology has been successfully demonstrated in the recent manufacture of tubing struts for the Comanche EOSS.

Advanced Metal Products and Services

Highly-reliable bi-metallic tubes, manufactured by a proprietary NMI process, are used by aerospace and nuclear companies to join dissimilar metals. Extruded tubes, bars, castings, and shapes of a variety of metals and alloys are used as finished products or for further processing in a variety of industrial applications.

The Company uses its large capacity for fabrication of depleted uranium components to produce shielding for cancer therapy units, Industrial Radiography, and Commercial/Government Nuclear applications. The Company also recycles DU armor scrap for remelt into rolling slabs for the Army's M1A2 Main Battle Tank Program.

Metal Powders

The Company manufactures metal powders by proprietary processes called the Rotating Electrode Process-TM- (REP) and the Plasma Rotating Electrode Process-TM- (PREP), which produce spherical metal particles within a relatively controllable size range.

The metal powders produced by the Company include steel, titanium alloy and several nickel and cobalt-base alloys generally known in the industry as specialty powders.

The principal markets for the Company's metal powders are medical applications (titanium and cobalt-based alloy powders), which use the powder as a porous coating on medical prostheses, and original equipment manufacturers (steel, titanium alloy and specialty powders), which fabricate metal parts from the powder through various processes. In addition, the Company continues to produce steel powders for the photocopy industry, and as a carrier for toner in copy machines and high-performance laser printers.

Management believes that the metal powders produced by its manufacturing processes offer significant advantages for certain product applications compared with metal powders produced by other processes. In particular, the processes produces inherently "cleaner" powders, more uniformly spherical particles and a

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higher percentage of particles within the desired size range from a given amount of raw material.

Management believes that the markets for titanium alloy and specialty powders represent significant business opportunities for the Company's powder making capability, especially under the Government's Technology Reinvestment Program. This program is designed to assist defense contractors with transitioning their products for commercial use by funding fifty percent (50%) of the cost of transition.

Key competitive factors in the metal powders market are price and the ability to meet exact dimensional, metallurgical and other specifications. The steel powder marketed by the Company for photocopy applications competes with powders produced by larger manufacturers. The Company believes that the quality of its powder used in the photocopy processes helps to offset any price advantage that may exist for competing powders in this price sensitive market.

The principal raw material for the Company's steel powder is cold-rolled steel bars, which are readily available. Other metal powders are manufactured to customer specifications, and the metals for these powders are generally available for purchase in job lots from specialty metal suppliers.

The Company holds three U.S. patents relating to developments in Rotating Electrode Process production equipment, which provide patent rights through the year 2001. These patents also are filed and effective in the principal industrialized European countries, Canada, Israel and Japan. Management believes that, although the original patent on the Rotating Electrode Process machine expired in July 1980, the development patents continue to benefit the Company's competitive position in the Metal Powders market. It is also the opinion of management that the technical expertise which has evolved from the development and manufacture of metal powders is of equal importance in maintaining the Company's competitive position.

DEPLETED URANIUM PENETRATORS

The Company believes it is a technological leader in the manufacture of depleted uranium penetrators. Depleted uranium (DU) is a dense, heavy metal that is 68% heavier than lead. Because of its density and workability, DU is an effective low-cost material for anti-armor ammunition and is used in numerous United States Government and foreign government weapons systems. DU is a low-level radioactive material which is a by-product of the production of enriched uranium for nuclear fuel and weapons.

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The Company is one of two domestic DU penetrator manufacturers. Competition to supply penetrators is price sensitive. The principal DU products manufactured by the Company, referred to as penetrators, have application in various military gun systems. The Company generally sells penetrators directly to prime ammunition contractors. The U.S. Government has funded and owns a portion of the manufacturing machinery and equipment used by the Company for producing penetrators.

In fiscal 1995, the Company was awarded an M829A2 penetrator production contract with options extending production to the year 1999. This contract is subject to appropriations by the Government. The Company is currently in production on the second option of this contract. Management strongly believes the Government will exercise the remaining options on the contract. The Company will continue to pursue both domestic and foreign military depleted uranium penetrator production requirements.

The Company believes that foreign military sales of the U.S. ABRAMS tank could result in additional foreign military requirements for DU penetrators in future fiscal years. Additionally, the Company received a purchase order for DU products from a UK customer to support its UK based manufacture of tank ammunition containing DU penetrators during December, 1996.

SIGNIFICANT CUSTOMERS

Olin Corporation is a significant customer of the Company's Depleted Uranium Penetrator segment. In fiscal 1996, sales to Olin accounted for 20% of net sales. The Company currently is under contract to provide Olin with 120mm penetrators for the U.S. Army's ABRAMS Tank program with options extending another three years. If Olin were lost as a customer, this would have a material adverse effect on the Company.

Lockheed Martin Corporation (LMC) is a significant customer of the Company's Specialty Products segment. In fiscal 1996, sales to LMC accounted for 16% of sales. The Company is currently under several contracts with LMC to provide Beralcast-Registered Trademark- hardware for the Comanche Helicopter Program. The loss of LMC as a customer would have a material adverse effect on the Company.

Cogema, of France, is a significant customer of the Company's Uranium Services & Recycle segment. In fiscal 1996, sales to Cogema accounted for 14% of net sales. In March of 1996, the Company completed its multi-year contract to provide Cogema with depleted uranium. The loss of Cogema as a customer has had a

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material adverse effect of the Company's Uranium Services & Recycle segment.

(See "Management's Discussion and Analysis of Operations", pages 16-19, in the Registrant's 1996 Annual Report to Stockholders, which is included in this Report as Exhibit 13)

Royal Ordnance, U.K. defense contractor, is also a significant customer of the Company's Depleted Uranium Penetrator segment. In fiscal 1996, sales to Royal Ordnance accounted for 11% of net sales. The Company has a purchase order from Royal Ordnance for the purchase of \$8.5 million of penetrator blanks. If Royal Ordnance were lost as a customer, this would have a material adverse effect on the Company.

Lockheed Idaho Technology Company (LITCO) is another significant customer of the Company's Specialty Metals Products segment. In fiscal 1996, sales to LITCO accounted for 4% of net sales (See Note 2 of Notes to Consolidated Financial Statements). The Company currently is under contract with Lockheed Idaho Technology Company to produce, from furnished DU recycle metal, DU castings for the U.S. Army's heavy armor tank program. This contract continues to have options for several additional years. The loss of LITCO as a customer would have a material adverse effect on the Company.

MARKETING

The Company relies on a variety of marketing strategies including advertising and direct sales. Technical papers given at industry symposia, presented by both NMI and in conjunction with customers, are also used as marketing vehicles for the Company's advanced metal products and services. Strategic alliances are being developed with several key customers to strengthen the Company's customer and product base into the future and to reduce costs through joint research and development and marketing efforts.

Understanding the importance of Design-To-Cost principles, especially those of Lockheed Martin Corporation, is tantamount to strategic teaming with our Beralcast-Registered Trademark- customers. Concentrated efforts on cost reduction in the form of Concurrent Engineering, low cost Beryllium input metal production, facility expansion, and other efforts, add value for future sales volumes. NMI has introduced Nucast, our Beralcast-Registered Trademark-teammate, to these cost reduction ideas which will form the basis for improved cost competitiveness in the future. Direct marketing efforts are increasing.

The Company is committed to expanding its product and customer base for metal powders. Market demands for fine metal powders, for re-consolidation or incorporation into metal matrix composites, are on the rise and we are positioning

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ourselves to exploit these opportunities. Novel product requirements for our advanced metal products and services will continue to receive the utmost attention for expansion of our product base.

Uranium Services and Recycling activities are being directly marketed out of the Company's Oak Ridge, Tennessee and Idaho Falls, Idaho offices. Efforts to enhance the Company's reputation as a supplier with high value products are being strengthened through improved service, added advertising and increased presence in the marketplace.

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BACKLOG

The following table sets forth certain information with respect to the backlog of the Company's business segments at September 30, 1996 and September 30, 1995 including the portions thereof represented by orders from the Company's principal customers, COGEMA, Lockheed Martin, Lockheed Idaho and Olin Corporation. The backlog for the Company is affected by the timing of orders from these customers. The Company believes all orders in backlog are firm.

1996	1995
----	----

(In Thousands)

Uranium Services & Recycle

COGEMA	\$ --	\$ 4,262
Other	1,827	84
	-----	-----
Total	1,827	4,346
	-----	-----
Specialty Metal Product		
Lockheed Martin	\$ 4,664	\$ 5,951
Lockheed Idaho	1,970	1,053
Other	5,868	5,052
	-----	-----
Total	12,502	12,056
	-----	-----
Depleted Uranium Penetrators		
Olin Corp.	8,738	14,299
Other	181	8
	-----	-----
Total	8,919	14,307
	-----	-----
Company Total	\$23,248	\$30,709
	=====	=====

A significant portion of the Company's business is dependent on the award of contracts or subcontracts for the supply of products and materials to governmental departments and agencies. Payments to the Company of all or a portion of the amounts called for under such contracts or subcontracts, is often subject to legislative funding appropriations, government agency purchasing requirements and other conditions and factors beyond the Company's control. Accordingly, the Company's performance under such contracts may be delayed or may not commence at all, in which case the payments thereunder may be recognized later than anticipated at the time of the contract award or not at all in cases in which the Company is not called upon to perform. As a result, the timing and amount of revenues under such government contracts is uncertain and subject to change, which may result in fluctuations in the Company's operating results and cash flows.

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RESEARCH AND DEVELOPMENT ACTIVITIES

The Company engages in research and development activities for departments and agencies of the U.S. Government and commercial customers. During the last fiscal year, research has involved many product areas. The highlights of R&D activities in the uranium services & recycle product segment include recycling processes for radioactively contaminated steel scrap, uranium production technology for AVLIS feedstock, removal of uranium from MgF(2) slag, conversion of UF(4) to uranium oxide, and the manufacture of Ducrete as a means of incorporating depleted uranium oxide aggregate in a cement matrix to make shielded concrete structures. Activities in the Specialty Metal Products segment include extensive mechanical property characterization of the Company's patented Beralcast-TM- alloys to establish S basis allowable for inclusion in MIL Handbook 5, an alternate casting and forming process for manufacture of Beralcast-TM- alloys, and developing a method for producing fine metal powders. A portion of the research and product development efforts is performed through funded contracts.

The Company also funds certain research and development activities, and funds other work through cost partnership arrangements with selected customers where there is potential for utilizing proprietary technology or specialized resources not directly available to the Company. Internal research and development funding has the objective of improving manufacturing techniques and developing new products. The Company employs a staff of five Ph.D. technologists with backgrounds in chemistry, mechanical and metallurgical engineering to conduct research and new product development. In addition, the Company added to the R&D staff a former Government scientist who is the inventor and patent holder for its DucreteTM technology. The cost for Company-sponsored research and development activities was \$876,000 in fiscal 1996 and \$439,000 in fiscal 1995. Total revenues from customer-funded research and development were \$1,812,000 in fiscal 1996 and \$557,000 in fiscal 1995. These revenues are included in the revenues of the industry segment to which the research and development relates.

ENVIRONMENTAL, SAFETY AND REGULATORY MATTERS

IN GENERAL

Two of the materials regularly processed by the Company, depleted uranium and beryllium, have characteristics considered to be health or safety hazards by various federal, state or local regulatory agencies. Processing of these materials

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requires a high level of safety consciousness, personnel monitoring devices and special equipment. Depleted uranium is a low-level radioactive material, and the Company is subject to regulation by the United States Nuclear Regulatory Commission (NRC). Depleted uranium in the finely divided state, such as grinding dust or machine turnings, is combustible at room temperature and requires special handling for safe operations and disposal of process wastes. Beryllium is known to cause lung disease following significant exposure by inhalation of airborne particles. Processing this material requires use of extensive ventilation and dust collecting systems. Management believes that the experience gained in its many years of working with these metals has resulted in capabilities for dealing effectively with their special characteristics.

The presence and use in the Company's operations of materials with hazardous characteristics subjects the Company to regulation and scrutiny by various governmental agencies. Management believes that the Company is presently in compliance in all material respects with existing federal, state and local regulations and has no knowledge of any threatened actions against the Company for violations of any such laws, statutes or regulations, except as described below under "Concord Site Remediation and Decommissioning Planning requirements" and in Item 3 below. However, the potential effects of evolving legislation and regulations affecting the Company's business cannot be predicted.

In the process of manufacturing depleted uranium products, the Company generates small amounts of low-level radioactive waste materials that must be disposed of at sites licensed by federal, state, and local governments. With the closing of the Barnwell, South Carolina, low-level radioactive waste repository to out-of-region generators in July 1994, the Company began storing waste on site in Concord and Barnwell. Interim storage is permitted under the Company's NRC license. At present, the Barnwell repository remains available for use by the Company's Carolina Metals, Inc. facility. The Company has made provision to accommodate an extended period of interim storage of waste within existing buildings in Concord as the state government works toward a regional solution. At the same time, the Company has made significant progress in developing and instituting alternatives to disposal of its waste. The Company intends to continue the development of technologies and processes aimed at eliminating the generation of waste materials associated with its manufacturing process.

For a number of years, ending in 1985, the Company deposited spent acid and associated depleted uranium waste and other residual materials by neutralizing with lime and discharging the neutralized mixture to a holding basin on its premises in Concord, Massachusetts. In 1986 the holding basin was covered with Hypalon, an impervious material used to prevent rain and surface run-off water

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from leaching through the holding basin. The Company now uses a proprietary "closed loop" process that it developed to discontinue such discharges. The Company believes that both practices were and are in compliance with all applicable regulations. For a discussion of the status of remediation of the holding basin at the Company's Concord facility, see "Concord Site Remediation and Decommissioning Planning Requirements" elsewhere herein.

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CONCORD SITE REMEDIATION AND DECOMMISSIONING PLANNING REQUIREMENTS

The Company is required to maintain certain licenses issued by the United States Nuclear Regulatory Commission ("NRC") and the South Carolina Department of Health and Environmental Control ("DHEC") in order to possess and process depleted uranium materials at its facilities in Massachusetts and South Carolina, respectively. Under applicable licensing regulations pertaining to decommissioning and disposal of certain hazardous materials ("D&D") at licensed sites, the Company submitted to the NRC a Decommissioning Funding Plan ("DFP") to provide for possible future decommissioning of its Concord Facility, at an estimated cost of \$11.7 million. (This revised estimate is approximately \$2 million lower than the original estimate because of lower than expected costs of decontamination resulting from utilization of the Company's expanded capabilities for metal melt at its CMI facility.) The Company is also required to provide financial assurance for such decommissioning pursuant to applicable regulations. The Company has also recently submitted to DHEC a DFP for the possible future decommissioning of its CMI facility, at an estimated cost of \$2.8 million and is also required to provide financial assurances for decommissioning this facility.

Substantially all of the depleted uranium materials to which the DFP requirements apply were processed by the Company for the United States Government. Based on the terms of certain contracts that the Company entered into with the United States Government to process such depleted uranium materials, the Company believes that such materials continue to be owned by the United States Government and that the United States Government is obligated, under applicable law, to pay for its percentage of eventual D&D. The Company's

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DFP's reflect its position that it is obligated to provide financial assurance only with respect to the portion of the materials which are attributable to the Company's commercial production for parties other than the United States Government and that this obligation has been satisfied by a letter of credit which have been issued by the Company's bank and restricted cash held in trust by the Company's bank support the Company's D&D obligations for each of its two facilities.

The Company had requested partial exemption from the NRC for the regulatory D&D financial assurances requirements as they pertain to Government owned materials. By letter dated July 16, 1996, the NRC's Division of Nuclear Materials Safety (Region I) (the "Division") denied the Company's request for partial exemption from certain aspects of the D&D financial assurances and directed that, within 60 days of the Division's letter, the Company provide satisfactory financial assurances from either the Company or Government sources. In its letter, the Division indicated that it will accept, as a satisfactory assurance, a Statement of Intent ("SOI") in compliance with 10 CFR 40.36(e) (4) from the United States Army or another Government agency to the effect that such agency intends to fund any costs for which the Company has not directly provided financial assurances, subject to public appropriation of required funds. In its letter, the Division indicated that failure to meet the NRC's requirements by September 14, 1996, could result in enforcement action, possibly in the form of a civil penalty, or by license modification, suspension or revocation. Based on Memorandum of Decision (see next paragraph) such an action would have had the effect of preventing the Company from fulfilling its obligations to a substantial portion of its customer base and, accordingly, would have had a material and adverse impact on the Company's results of operations and financial position.

The United States Army, in a Memorandum of Decision dated September 13, 1996, determined pursuant to Public Law 85-804, that it should fund remediation of the Concord holding basin site as well as D&D related to the Concord facility, based in part on the Army's determination that the Company's activities are essential to the national defense. The Army's Memorandum of Decision contained certain limits on funding of the holding basin remediation based upon the Company's current estimates of future costs, which are subject to change based upon a number of factors, such as the timing of the actual remediation and actual costs at the time of completion of the remediation. The Company remains comfortable with its current estimates with respect to remediation of the Concord site assuming remediation as planned. In addition, the remediation of the holding basin is subject to the usual government appropriation process. As a result of the decision, the Company has reversed a previously established \$3.4 million reserve for the holding basin. D&D costs for the Concord facility are to be awarded to the Company as part of ongoing contracts, but the Army has provided written assurances (also subject to funding

appropriations) of its intention to provide funding for D&D costs at the Concord facility under future contracts or, in the event that no future contracts were awarded (which the Army has indicated is unlikely in view of its current plans), under an existing contract. The actual remediation will proceed pursuant to a modification of an existing government contract, the terms of which have not yet been determined but will presumably be consistent with the Memorandum of Decision.

The Company believes that the Memorandum of Decision, together with correspondence from the Army clarifying its intent with respect to the same, should satisfy the NRC with respect to the sufficiency of the Company's DFP for the D&D requirements, although the NRC has not responded or taken action to allow renewal of the Company's license. DHEC has not yet responded with respect to the DFP which the Company has submitted with respect to its South Carolina facility. The Company believes that, in the event that DHEC requires assurances from the Army with respect to what the Company believes is the Army's share of the estimated potential cost of D&D at the CMI facility, the United States Army will respond in a manner which is consistent with the Memorandum of Decision regarding the Concord site. The Company believes that its proportionate share of D&D costs for its CMI facility are adequately covered by the existing letter of credit which is currently in place to assure its D&D obligations.

The Company has no assurances that the Army will accept responsibility for its share of the estimated cost of D&D at CMI which are directly resulting from production work under U.S. government contracts on government supplied materials. Also, the Company is currently the sole source to the US Army of certain products which are investment cast with the Company's patented beryllium aluminum alloy and which are vital to certain Army programs. The Company also believes that its capabilities with respect to the conversion of UF(6) gas to depleted uranium metal stock make it strategically important to any future depleted uranium production which may be required for US Army DU penetrators and tank armor (although current inventories appear sufficient to supply announced procurement needs). The Company believes that its production capabilities may also be used to serve several Department of Energy needs for remediation of certain other environment hazards posed by the process of Nuclear power generation. For these reasons, the Company believes that the interests of the United States Government would be best served by the Company's continued operation under its current NRC and DHEC licenses, but there can be no assurance that the various Governmental agencies which regulate NMI will permit the Company's continued operation under its licenses.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company are:

NAME	AGE	POSITION WITH THE COMPANY
----	---	-----
George J. Matthews	66	Chairman of the Board of Directors, CEO and Treasurer
Robert E. Quinn	43	President
Wilson B. Tuffin	65	Vice Chairman of the Board of Directors
Douglas F. Grotheer	38	Vice President, Engineering & Programs
William T. Nachtrab	43	Vice President, Technology
James M. Spiezio	48	Vice President, Finance & Administration
Frank J. Vumbaco	43	Vice President, Health/Safety
Bruce E. Zukauskas	46	Vice President, Operations

The term of office for each executive officer of the Company is one year or until a successor is chosen and qualified. The executive officers are elected by the directors at their first meeting following the annual meeting of stockholders. There are no family relationships among the directors and executive officers.

GEORGE J. MATTHEWS has been Chairman of the Board of Directors since 1972. He is employed by Matthews Associates Limited, a Massachusetts corporation. Matthews Associates Limited is engaged in the business of investing in and providing management consultation and assistance to small and medium sized businesses. Mr. Matthews devotes approximately 75% of his time to the Company's affairs. Mr. Matthews was elected CEO and Treasurer on November 30, 1994.

ROBERT E. QUINN was elected President of the Company on November 30, 1994.

Prior to November 30, 1994 he held the position of Vice President, Sales with the Company for over five years.

WILSON B. TUFFIN has been Vice Chairman of the Board of Directors since November 1994. From 1972 to November 1994, he held the positions of President, Chief Executive Officer and Treasurer of the Company.

DOUGLAS F. GROTHEER has held the position of Vice President, Engineering and Programs since July 1994. Prior to July 1994, he was Manager, Engineering and Programs for two years, and Manager, Ordnance Programs for more than three years.

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WILLIAM T. NACHTRAB, PH.D. has held the position of Vice President, Technology with the Company since May 1993. Prior to May 1993 he was Manager, Research & Development for the prior five years.

JAMES M. SPIEZIO has been the Vice President, Finance & Administration since October 1993. Prior to October 1993, he was Controller, and prior to April 1989, he served as Manager of Business Planning.

FRANK J. VUMBACO has held the position of Vice President, Health/Safety with the Company since November 1993. Prior to November 1993, he was Manager of Health/Safety for over five years.

BRUCE E. ZUKAUSKAS has held the position of Vice President, Operations since October 1994. Prior to October 1994, he was Quality Manager for over five years.

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ITEM 2. PROPERTIES

The majority of the Company's activities are conducted at a Company-owned site in Concord, Massachusetts. The site comprises approximately 46.4 acres and is improved by a steel and masonry building originally constructed in 1958 and subsequently enlarged. The building contains approximately 180,000 square feet used for manufacturing activities, offices and warehousing.

During fiscal 1995 the Company sold its 15,000 square foot office building located in Acton, Massachusetts.

Carolina Metals, Inc., the Company's wholly-owned subsidiary, is located on 321 acres of land in Barnwell, South Carolina. This 109,000 square foot facility houses two manufacturing units. One unit provides the capability of converting chemical gas (UF(6)) to chemical salt (UF(4)). The second unit houses a reduction process to convert chemical salt (UF(4)) to metallic depleted uranium. In December 1991, the Company completed a 70,000 square foot DU Recycle Technology Center adjacent to the manufacturing facility in Barnwell, S.C. This facility provides available space for recovery and recycle of useful materials under CMI's license. In addition, Carolina Metals, Inc. maintains a full scale analytical laboratory. For a discussion of the current underutilization of the CMI facility, see "Management's Discussion and Analysis of Operations" contained on page 12 of the Company's 1996 Annual Report to Stockholders, which is incorporated herein by reference and included in this Report as Exhibit 13.

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ITEM 3. LEGAL PROCEEDINGS

The Company is named as a Potentially Responsible Party (PRP) in regard to the Maxey Flats, Kentucky, Superfund Site. This site was used until 1977 as a licensed and approved low level radioactive waste disposal site. A committee of PRP's including the Company has submitted a remedial investigation and feasibility study report to the Environmental Protection Agency. The agreement signed by the settling parties in July 1995, outlines the responsibilities of all parties and states that the PRP's will undertake the initial remedial phase (IRP) of the site remediation at an estimated cost of \$60 million. The Company's liability is not expected to exceed approximately \$80,000 over 10 years. For a discussion of proceedings related

to the renewal of the Company's nuclear regulatory licenses, see Part I, Item 1 "Business - Environmental, Safety and Regulatory Matters -- Concord Site Remediation and Decommissioning Planning Requirements," elsewhere herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the Section entitled "Common Stock Information" in the Registrant's 1996 Annual Report to Stockholders, which is included in this Report as Exhibit 13.

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ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference to the section entitled "Selected Financial Data", pages 10 and 11, in the Registrant's 1996 Annual Report to Stockholders, which is included in this Report as Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The information required by this item is incorporated by reference to the section entitled "Management's Discussion and Analysis of Operations", pages 12-15, in the Registrant's 1996 Annual Report to Stockholders, which is included in this Report as Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the Consolidated Financial Statements at September 30, 1996 and notes thereto in the Registrant's 1996 Annual Report to Stockholders, which is included in this Report as Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K and instruction 3 to Item 401(b), the information required by this item concerning executive officers is set forth in Part I, Item 1 under the heading "Executive Officers of the Registrant".

The following table sets forth certain information concerning directors of the Company.

<TABLE>
<CAPTION>

Name	Age	Present Principal Employment and Prior Business Experience	Director Since
<S>	<C>	<C>	<C>
George J. Matthews	66	Chairman of the Board of directors since 1972. Until July 1978 and since December 1, 1994, also Treasurer of the Company. Chairman of Matthews Associates Limited, which is engaged in the business of investing in and providing management consulting and	1972

assistance to small and medium sized businesses, including the Company.

Robert E. Quinn	43	President of the Company since December 1, 1994. Prior to becoming President, served as Vice President, Sales for over five years. Elected as a Director on November 17, 1994 to fill a vacancy created by the enlargement of the Board of Directors by vote of the Directors.	1994
Wilson B. Tuffin	65	Vice Chairman since November 1994, From 1972 to November 30, 1994, President, Chief Executive Officer, prior to 1978, also Treasurer of the Company.	1972

</TABLE>

<TABLE>
<CAPTION>

Name	Age	Present Principal Employment and Prior Business Experience	Director Since
----	---	-----	-----
<S>	<C>	<C>	<C>
Kenneth A. Smith	60	Professor of Chemical Engineering at Massachusetts Institute of Technology since 1971.	1985
Frank H. Brenton	71	Principal of Frank H. Brenton Associates, a business consulting firm. From 1984 to 1986, Chairman of the Board of Directors of Marshall's Incorporated, an off-price retailer and division of Melville, Inc.	1986

</TABLE>

INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors met six times during the fiscal year ended September 30, 1996. There was no director who during the fiscal year attended fewer than 75 percent of the aggregate of all board meetings and all meetings of committees on which he served.

The Board of Directors has an Audit Committee which is reconstituted at the first meeting of the Board following the annual meeting of stockholders. The Audit Committee, which met three times during fiscal 1996, meets with the Company's independent auditors and principal financial personnel to review the scope and results of the annual audit and the Company's financial reports. The Audit Committee also reviews the scope of audit and non-audit services performed by the independent public accountants, and reviews the adequacy and effectiveness of internal accounting controls. The present members of the Audit Committee are Messrs. Brenton and Smith.

The "disinterested" directors, for purposes for Rule 16b-3 under the Securities Exchange Act of 1934, Messrs. Brenton and Smith, acting as a Stock Option Committee, have the authority, subject to express provisions of the Company's Employee Stock Option Plan and Non-Qualified Stock Option Plan (the "Plans"): to determine the employees of the Company to receive options, the number of shares to be optioned, and the terms of the options granted; to construe and interpret the Plans and outstanding options; and to make all other determinations that they deem necessary and advisable for administering the Plans. The Board of

Directors as a whole has corresponding authority with respect to options issued under the Directors' Stock Option Plan.

The Board of Directors does not have standing committees on compensation or nominations.

Each outside director of the Company receives an annual fee of \$15,000.

On November 20, 1995, the Board of Directors adopted a Director's Stock Option Plan (the "Plan") in order to enhance the Company's ability to attract and retain skilled and competent members of its Board of Directors. Only outside (non-management) directors of the Company and its subsidiaries are eligible to receive options under the Plan, and the maximum number of shares as to which such directors' options may be granted is 35,000 shares (subject to adjustments for stock splits, stock dividends and the like). Pursuant to the Plan, each director eligible to participate in the Plan, upon first election to office at the annual meeting of stockholders and for each subsequent period of three years of service, receives an option to purchase 1,000 shares of Common Stock of the Company at an exercise price equal to fair market value on the date of grant. Options granted under the Plan are exercisable for a period of ten years and vest over a three-year period. No options were granted pursuant to the Plan during fiscal 1996.

During fiscal year 1996, Matthews Associates Limited, of which Mr. Matthews is sole owner, received compensation from the Company in connection with consulting services provided to the company pursuant to a management agreement between the Company and Matthews Associates Limited. See "Executive Compensation" and "Executive Agreements".

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ITEM 11. EXECUTIVE COMPENSATION

The following table and notes present the compensation provided by the Company during the last three fiscal years to its chief executive officer and the four most highly compensated executive officers of the Company (other than the chief executive officer) who were serving as executive officers at the Company's fiscal year end of September 30, 1996.

<TABLE>
<CAPTION>

Name and Principal Position	Year (1)	Salary (\$)	Bonus	Other Annual Compen- sation(\$)(2)	Restricted Stock Award (s) \$ -	Securities Underlying Options/ SARs (#)	LTIP Payouts \$ -	Comp sation
-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Robert E. Quinn	1996	180,768	--	--	--	--	--	--
President(3)	1995	151,673	200	35,000	--	30,000	--	--
	1994	131,000	--	--	--	--	--	--
George J. Matthews(4)	1996	350,000	--	--	--	--	--	--
Chairman of Board of	1995	350,000	--	--	--	--	--	--
Directors, CEO and	1994	350,000	--	--	--	--	--	--
Treasurer								
Wilson B. Tuffin(5)	1996	270,979	--	--	--	--	--	--
Vice Chairman of	1995	172,039	3,800	--	--	--	--	--
Board of Directors	1994	210,000	--	--	--	--	--	--
and Consultant								
James M. Spiezio	1996	130,096	--	--	--	--	--	--
Vice President, Finance	1995	113,270	10,830	--	--	6,000	--	--
& Administration	1994	105,987	--	--	--	2,500	--	--
William T. Nachtrab	1996	116,581	--	--	--	--	--	--
Vice President,	1995	108,703	10,830	--	--	6,000	--	--
Technology	1994	103,558	--	--	--	--	--	--

</TABLE>

(1) The Company's fiscal year ends on September 30th of each year.

(2) Excludes perquisites in amounts less than the threshold level required for reporting.

(3) Mr. Quinn's compensation for the fiscal year ended September 30, 1996 was determined pursuant to his Employment Agreement. See "Executive

(4) Mr. Matthews is assigned as a consultant to the Company pursuant to a management agreement between Matthews Associates Limited and the Company. All compensation under the agreement is paid by the Company to Matthews Associates Limited. See "Executive Agreements."

(5) Mr. Tuffin's compensation for the fiscal year ended September 30, 1996 was determined pursuant to his Employment and Consulting Agreement. See "Executive Agreements."

OPTION/SAR GRANTS IN LAST FISCAL YEAR

There were no options granted to any of the named executive officers of the Company during fiscal year ended September 30, 1996.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information with respect to the exercise of options by the executive officers named in the Summary Compensation Table during the last fiscal year and unexercised options held as of the end of the fiscal year.

<TABLE>
<CAPTION>

Name	Shares Acquired On Exercise (#)	Value Realized(\$)(1)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End (2) -	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Robert E. Quinn	0	0	9,999	20,001	0	0
George J. Matthews	0	0	5,333	6,667	0	0
Wilson B. Tuffin	0	0	1,666	3,334	0	0
James M. Spiezio	0	0	3,665	4,835	0	0
William T. Nachtrab	0	0	3,665	4,835	0	0

</TABLE>

(1) Value realized equals fair market value on the date of exercise, less the exercise price, times the number of shares acquired, without deducting taxes or commissions paid by employee.

(2) Value of unexercised options equals fair market value of the shares underlying in-the-money options at September 30, 1996 (\$16.00 per share), less the exercise price, times the number of options outstanding. All such options were "out of the money" as of September 30, 1996.

PENSION PLAN TABLE

The following table sets forth the aggregate annual benefit payable upon retirement at normal retirement age for each level of remuneration specified at the listed years of service.

Remuneration	Years of Service			
	15 -	20 -	25 -	30 or More
\$100,000	23,520	31,360	39,220	47,040

150,000	38,520	51,360	64,200	77,040
200,000	53,520	71,360	89,200	107,040
300,000	83,520	111,360	139,200	167,040
400,000	113,520	151,360	189,200	227,040
500,000	143,520	191,360	239,200	287,040

The Company has a defined benefit plan (the "Pension Plan") designed to provide retirement benefits for employees and ancillary benefits to their beneficiaries, joint annuitants and spouses. All employees of the Company become participants in the Pension Plan after attaining the later of age 21 or a year of service with the Company. The Pension Plan provides retirement benefits based on years of service and compensation. An employee's benefits under the Pension Plan generally become fully vested after five years of service. At normal retirement (the later of age 65 and five years of Plan participation), participants are entitled to a monthly benefit for the remainder of their life in an amount equal to one-twelfth of the sum of their "Annual Credits" for their last 30 years or lesser period of employment with the Company and its predecessors. An employee's "Annual Credit" is 1.25% of the portion of his annual compensation that is subject to Social Security tax and two percent (2%) of the balance of his annual compensation. Participants with five years of service are entitled to retirement at age 55, but the monthly benefit payable under the Pension Plan is reduced by 0.5% for each month that early retirement precedes normal retirement but not less than \$100 per month if the Participant has ten or more years of service. The surviving spouse of a retiree under the Plan is entitled to receive benefits equal to one-half the amount the retiree has been receiving. Alternative benefit payments that are equivalent to the benefit described above are also available to participants. Benefits payable under the plan are not reduced by Social Security payments to the retiree. Amounts shown assume benefits commence at age 65. Benefit amounts shown are straight-life annuities. The executive officers named in the Summary Compensation Table have the following years of credited service for pension plan purposes: Robert E.

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Quinn-21 years; Wilson B. Tuffin-22 years; James M. Spiezio-11 years; and William T. Nachtrab-7 years. On February 1, 1995, Mr. Tuffin began to receive benefit payments under the Plan. Mr. Matthews does not participate in the Pension Plan.

EXECUTIVE AGREEMENTS

EMPLOYMENT AGREEMENT WITH MR. TUFFIN

In November 1994, the Company entered into an employment and consulting agreement (the "Employment and Consulting Agreement") with Mr. Tuffin. Pursuant to the Employment and Consulting Agreement, Mr. Tuffin received initial compensation at the annual rate of \$210,000 through January 1995, for his service as an employee. Effective February 1, 1995, Mr. Tuffin's relationship as an employee of the Company ended and he continued with the Company as a consultant with an initial compensation at the annual rate of \$105,000, subject to such annual increases as the Board of Directors may from time to time determine. The Employment and Consulting Agreement shall continue in force until February 28, 1999. During the term of the Employment and Consulting Agreement and for a period of two (2) years after its expiration, or the termination of Mr. Tuffin's employment with the Company, whichever occurs later, Mr. Tuffin may not compete directly or indirectly with the Company within the continental United States. The Employment and Consulting Agreement amends and supersedes the employment agreement which Mr. Tuffin had previously entered into with the Company.

EMPLOYMENT AGREEMENT WITH MR. QUINN

In February 1995, the Company entered into an employment agreement (the "Employment Agreement") with Mr. Quinn. Pursuant to the Employment Agreement, Mr. Quinn received initial compensation at the annual rate of \$156,000, subject to such annual increases and bonuses as the Board of Directors may from time to time determine. The Employment Agreement shall continue in force for an initial period of three (3) years, unless terminated by either party in accordance with its terms. The Employment Agreement shall automatically continue for additional one-year periods thereafter unless either party gives written notice to the other on or before November 30th of any year of its or his intention to terminate the Employment Agreement as of the last day of November of the subsequent year. During the term of the Employment Agreement and for a period of two (2) years after its expiration, or after the termination of Mr. Quinn's employment with the Company, whichever occurs later, Mr. Quinn may not compete directly or indirectly with the Company within the continental United States.

MANAGEMENT AGREEMENT WITH MATTHEWS ASSOCIATES LIMITED

The company has entered into a management agreement with Matthews Associates Limited, a Massachusetts corporation ("MAL"), of which Mr. George J. Matthews, Director and Chairman of the Board of Directors of the Company, is sole owner. The agreement expires on February 28, 2002, subject to renewal thereafter from year to year unless either party by written notice prior to February 28th of any year elects to terminate the agreement upon the last day of February of the third subsequent year, but not prior to 2002. Pursuant to the agreement, MAL provides professional management services as a consultant to the Company through a senior executive whose duties include (i) financial management, (ii)

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servicing, subject to election, as a director, as Chairman of the Board of Directors and as an officer of the Company and (iii) marketing and other advice to the Company including placement and modification of financing and contact with major customers, suppliers and governmental agencies. Mr. Matthews is the senior executive assigned to the Company under the agreement. Under the management agreement, Mr. Matthews devotes approximately 30 hours per week to the Company.

MAL was paid \$350,000 by the Company in fiscal 1996 for services under the management agreement and is to be paid at the rate of \$350,000 per annum for all services under the agreement. The management agreement provides that the Company may terminate the agreement if a majority of the directors determines in good faith that the MAL representative has willfully refused to perform any services under the management agreement or has been convicted of a crime of moral turpitude, and in such event the right of MAL to all future payments under the agreement shall cease. In the event of termination by MAL for "good reason" or in the event of termination by the Company for reasons other than those described above, the Company is obligated to pay to MAL all of the amounts due under the agreement for the remaining term. In the event of termination by MAL without "good reason," the Company is obligated to continue to make payment to MAL for one year from the date of such termination. "Good reason" for termination by MAL consists of circumstances which, in the reasonable judgment of the MAL representative (Mr. Matthews), constitute a material reduction in job title, perquisites, duties, authority, amenities, benefits or responsibilities of the MAL representative or which require him to perform services more than 25 miles from the Company's Concord, Massachusetts facility without his consent. In the event of Mr. Matthews' death, the management agreement automatically terminates and the Company is obligated to continue to make payments to the estate of Mr. Matthews for the lesser of one year from such termination or the end of the scheduled term of the agreement.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended September 30, 1996, the Board of Directors of the Company was responsible for establishing executive compensation (other than stock option compensation). Messrs. Quinn and Matthews participated in deliberations of the Company's Board of Directors concerning executive officer compensation. No executive officer of the Company served as a director or member of a compensation committee, or its equivalent, of another entity, one of whose executive officers served as director of the Company.

NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN ANY OF THE COMPANY'S FILINGS UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS

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AMENDED, THAT MIGHT INCORPORATE FUTURE FILINGS, IN WHOLE OR IN PART, THE FOLLOWING REPORT ON COMPENSATION AND THE STOCK PERFORMANCE GRAPH CONTAINED ELSEWHERE HEREIN SHALL NOT BE INCORPORATED BY REFERENCE INTO ANY SUCH FILINGS NOR SHALL BE DEEMED TO BE SOLICITING MATERIAL OR DEEMED FILED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

REPORT OF THE BOARD OF DIRECTORS AND STOCK OPTION COMMITTEE ON EXECUTIVE COMPENSATION

During the fiscal year ended September 30, 1996, the Board of Directors of the Company was responsible for establishing and administering the policies which govern annual compensation (other than stock option compensation) for the Company's executive officers. The Stock Option Committee was responsible for considering stock option compensation for the Company's executive officers.

OVERVIEW

The Board of Directors has historically established levels of executive compensation that provide for a base salary intended to allow the Company to hire, motivate and retain qualified executive officers. From time to time, the Board has also, on occasion, approved annual cash incentive bonuses based on the Company's performance or on the performance of the executive in question. In fiscal 1996, the Board approved cash incentive bonuses to certain executive officers based on their performance. From time to time, the Stock Option Committee also grants stock options to executive officers and key employees in order to bring the stockholders' interests more sharply into the focus of such officers and employees.

The Board of Directors establishes the annual salary and bonus of each of the executive officers other than the Chief Executive Officer, based on the recommendations made by the Chief Executive Officer. In determining the recommendations for salary and bonus for each of the other executive officers, the Chief Executive Officer considers each officer's individual performance' attainment

of individual goals and the contribution to the overall attainment of the Company's goals.

STOCK OPTIONS AND OTHER COMPENSATION

Long-term incentive compensation for executive officers consists exclusively of stock options granted under the Company's Stock Option Plans (the "Plans"). Executive officers as well as other key employees of the Company participate in the Plans. The Company also believes that its Pension Plan is an attractive feature for all employees.

BASIS FOR THE COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

The compensation of Mr. Matthews, the Company's Chief Executive Officer during fiscal 1996, was determined pursuant to a management agreement between Matthews Associates Limited and the Company. All compensation under the agreement is paid by the Company to Matthews Associates Limited.

THE BOARD OF DIRECTORS

George J. Matthews
 Robert E. Quinn
 Wilson B. Tuffin
 Kenneth A. Smith
 Frank H. Brenton

STOCK OPTION COMMITTEE

Kenneth A. Smith
 Frank H. Brenton

COMPARISON OF FIVE YEAR CUMULATIVE RETURN

Set forth below is a line graph comparing the five-year cumulative total return of the Company's Common Stock against the cumulative total return of the NASDAQ Stock Market (U.S.) Index and the Dow Jones Aerospace and Defense Index. Cumulative total return is measured assuming an initial investment of \$100 and reinvestment of dividends.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN *
 AMONG NUCLEAR METALS, INC., THE NASDAQ STOCK MARKET-US INDEX
 AND THE DOW JONES AEROSPACE & DEFENSE INDEX

D O L L A R S

	Sep-91	Sep-92	Sep-93	Sep-94	Sep-95	Sep-96
"Nuclear Metals, Inc."	100	94	104	330	191	278
NASDAQ Stock Market-US	100	112	147	148	204	243
D J Aerospace & Defense	100	92	126	149	237	331

* \$100 invested on 09/30/91 in stock or index - including reinvestment of dividends. Fiscal year ending September 30.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of December 30, 1996 with respect to the Common Stock of the Company owned or deemed beneficially owned as determined under the rules of the Securities and Exchange Commission, directly or indirectly, by each stockholder known to the Company to own beneficially more than 5% of the Company's Common Stock, by each director, by the executive officers named in the Summary Compensation Table elsewhere herein, and by all directors and executive officers of the Company and its subsidiaries as a group. In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, a person is deemed to be beneficial owner, for purposes of this table, of any shares of Common Stock of the Company, if he or she has or shares voting power or investment power with respect to such security or has the right to acquire beneficial ownership at any time within 60 days of December 13, 1996. As used herein "voting power" is the power to dispose of or direct the disposition of shares. Except as indicated in the notes following the table below, each person named sole voting and investment power with respect to the shares listed as being beneficially owned by such person.

Name and address of Beneficial Owner -----	Beneficial Ownership (1)	Percent of Common Stock (1) -----
WIAF Investors Co. 466 Arbuckle Avenue Lawrence, NY 11516 and Melvin B. Chrein, M.D. Meryl J. Chrein Marshall J. Chrein Michael Chrein 21 Copper Beech Lane Lawrence, NY 11559 Charles Alpert Joseph Alpert	1,212,340(2)	49.52%
George J. Matthews Chairman of the Board of Directors, Director and Consultant c/o Matthews Associates Limited 100 Corporate Place Peabody, MA 01960	239,930(3)(4)	9.99%
Wilson B. Tuffin Vice Chairman and Director 23 Arlington Street Acton, MA 01720	205,474(5)	8.58%
Robert E. Quinn President and Director	17,739(6)	*
Kenneth A. Smith, Director	3,000	*
Frank H. Brenton, Director	3,000	*
James M. Spiezio Vice President, Finance and Administration	5,832(7)	*
William T. Nachtrab Vice President, Technology	5,832(7)	*
All directors and executive officers	480,807(8)	19.87%

* Less than one percent

(1) Does not reflect the effect on voting rights of the Massachusetts Control Share Acquisition Act.

(2) Derived from Schedules 13DA, dated October 3, 1994, submitted to the Company. The five persons named are described as a group in such

Schedules 13DA. The persons named reported ownership of the following shares: WIAF Investors Co. (862,428); Melvin B. Chrein (88,400); Meryl J. Chrein (128,100); Charles Alpert (25,000); and Marshall J. Chrein (18,200). Each person reported sole voting and dispositive power with respect to the shares owned by such person. Also includes 7,022 and 28,090 shares which Melvin B. Chrein and WIAF Investors Co., respectively, have the right to acquire upon conversion of outstanding 10% Convertible Subordinate Debentures and 13,500, 6,000 and 1,500 shares which Charles Alpert or nominee, Melvin B. Chrein and Marshall J. Chrein, respectively, have the right to acquire under outstanding Warrants.

- (3) Includes 25,445 shares owned by a trust established by his late wife of which Mr. Matthews is a permitted beneficiary.
- (4) Includes 3,333 shares which may be purchased upon the exercise of options and 6,980 shares which Mr. Matthews' wife has the right to acquire upon conversion of an outstanding 10% Convertible Subordinated Debenture, as to which Mr. Matthews disclaims beneficial ownership.
- (5) Includes 1,666 shares which may be purchased upon the exercise of options.
- (6) Includes 6,666 shares which may be purchased upon the exercise of options.
- (7) Includes 4,832 shares which may be purchased upon the exercise of options.
- (8) See notes (3), (4), (5), (6) and (7) above.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and stockholders who own more than 10% of the outstanding common stock of the Company to file with the Securities and Exchange Commission and NASDAQ reports of ownership and changes in ownership of voting securities of the Company and to furnish copies of such reports to the company. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, during the fiscal year ended September 30, 1996 or written representations in certain cases, all section 16(a) filing requirements were complied with except that the holders of the Company's Convertible Subordinated Debentures and its Warrants failed to report the acquisition thereof.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has entered into an agreement with each of Messrs. Tuffin and Quinn, and with Matthews Associates Limited ("MAL"), a Massachusetts Corporation of which Mr. Matthews is the sole owner, relative to the compensation of Messrs. Tuffin and MAL. For a detailed description of these agreements, see "Item 11. Executive Compensation -- Executive Agreements," which is incorporated herein by reference to pages 31-32 of this Form 10-K.

On January 10, 1996 the Company sold its 10% Convertible Subordinated Debentures to the following persons whose collective and/or individual ownership of the outstanding shares of the Company's Common Stock exceeds 5%:

Name	Principal Amount(\$)	Number of Conversion Shares(1)
WIAF Investors Co.	334,000	28,090
Melvin B. Chrein	83,500	7,022
Kathleen Matthews(2)	83,000	6,980

(1) Principal convertible into shares of Common Stock at \$11.89 per share.

(2) Kathleen Matthews is the wife of George J. Matthews.

On September 16, 1996 the Company sold its 10% Subordinated Debentures with detachable Warrants (exercisable at \$15.00 per share) to the following individuals whose collective and/or individual ownership of the outstanding shares of the Company's Common Stock exceeds 5%:

Name	Principal Amount(\$)	Number of Warrants(1)
Charles Alpert or nominee	\$225,000	13,500
Melvin B. Chrein	\$100,000	6,000
Marshall J. Chrein	\$ 25,000	1,500

For a description of the terms of these Debentures and Warrants, see Notes 6 and 8 to Notes to Consolidated Financial Statements, which are incorporated herein by reference. See also, "Item 12. Security Ownership of Certain Beneficial Owners and Management."

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)1. FINANCIAL STATEMENTS

The following consolidated financial statements of the Company, included in the Company's 1996 Annual Report are filed as part of this report:

Auditors' Report

Consolidated Balance Sheets - September 30, 1996 and September 30, 1995.

Consolidated Statements of Income for the years ended September 30, 1996, September 30, 1995 and September 30, 1994.

Consolidated Statements of Stockholders' Equity for the years ended September 30, 1996, September 30, 1995 and September 30, 1994.

Consolidated Statements of Cash Flows for the years ended September 30, 1996, September 30, 1995 and September 30, 1994.

Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULE FOR THE THREE YEARS ENDED SEPTEMBER 30, 1996

Auditors' Report on Schedule

II-Valuation and Qualifying Accounts

3. EXHIBITS:

Item No.*	Description
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3(a)	Articles of Organization, as amended, of the Registrant, incorporated by reference to File No. 2-62266, Part II, Exhibit 3(a).
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3(b)	By-laws, as amended, of the Registrant, incorporated by reference to File No. 2-62266, Part II, Exhibit 3(b).
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4(a)	Financing Agreement, dated May 11, 1982, among Barnwell County, South Carolina, the Registrant and Carolina Metals, Inc. (a
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Item No.	Description
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wholly-owned subsidiary) relating to Barnwell County, South Carolina Industrial Development Revenue Bond (Nuclear Metals, Inc. project)

- 4(b) Financing Agreement, dated September 27, 1984 among Barnwell County, South Carolina, the Registrant and Carolina Metals, Inc. (a wholly-owned subsidiary) relating to Barnwell County, South Carolina Industrial Development Revenue Bond (Nuclear Metals, Inc. project) 1984, incorporated by reference to File No. 0-8836, Part II, Exhibit 4(e).
- 4(c) Financing Agreement, dated June 1, 1985 among Massachusetts Industrial Finance Agency and the Registrant relating to Massachusetts Industrial Development Revenue Bond (NMI - 1985 Concord Issue) incorporated by reference to File No. 0-8836, Part II, Exhibit 4(f)
- 4(d) Nuclear Metals, Inc. Non-Qualified Stock Option Plan as amended. (1)
- 4(e) Nuclear Metals, Inc. Restated Employees' Stock Option Plan as amended. (1)
- 4(f) Nuclear Metals, Inc. Directors' Stock Option Plan as amended. (6)
- 4(h) Warrant to Purchase 25,000 shares of the Registrant's Common Stock issued to State Street Bank and Trust Company. (6)
- 4(i) Common Stock Purchase Warrant dated September 16, 1996 issued to Melvin B. Chrein and schedule of similar warrants. **
- 10(a) Agreement, effective March 1, 1993, between the Registrant and Matthews Associates Limited. (2)
- 10(b) Agreement, effective March 1, 1993, between the Registrant and Wilson B. Tuffin, as amended November 17, 1994. (2)
- 10(c) Employment Agreement, effective February 8, 1995, between the Registrant and Robert E. Quinn. **
- 10(d) Agreement with Olin Corporation regarding large caliber penetrators. (Confidential treatment has been granted for certain portions of this Exhibit). (3)
- 10(e) Credit Agreement dated March 31, 1995 among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. (4)
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- 10(f) First Amendment to Credit Agreement dated as of June 30, 1995 among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. (5)
- 10(g) Amended and Restated Revolving Credit Note dated March 31, 1995 (as amended December 24, 1996) of the Registrant and Carolina Metals, Inc. **
- 10(h) Second Amendment to Credit Agreement dated as of December 24, 1996 among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. **
- 10(i) 10% Convertible Subordinated Debenture dated January 10, 1996 payable to WIAF Investors Co. in the amount of \$334,000.00 and schedule of similar debentures. **
- 10(j) 10% Subordinated Debenture dated September 16, 1996 payable to Melvin B. Chrein in the amount of \$100,000.00 and schedule of similar debentures. **
- 10(k) Letter agreement dated as of September 16, 1996 with

Kathleen Matthews and schedule of similar letter agreements. **

- 10(l) Joint Security Agreement dated as of March 31, 1995 among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. (6)
- 10(m) First Amendment to Joint Security Agreement dated September 26, 1995 among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. (6)
- 10(n) Patent Assignment of Security dated September 26, 1995 between the Registrant and State Street Bank and Trust Company. (6)
- 10(o) Trademark Assignment of Security dated September 26, 1995 between the Registrant and State Street Bank and Trust Company. (6)
- 10(p) Purchase order dated August 23, 1995 between the Registrant and Olin Corporation. (Confidential treatment requested as to certain portions) (6)
- 10(q) Forbearance and Amendment Agreement dated as of January 11, 1996 between the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. (6)
- 10(r) Waiver of Breach of Covenant, by and among the Registrant, Carolina Metals, Inc. and State Street Bank and Trust Company. **
- 13 Nuclear Metals, Inc. 1996 Annual Report to Stockholders. **

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- 21 Subsidiaries of the Registrant. (7)
- 23(a) Consent of Independent Public Accountants. **
- 27 Financial Data Schedule.**
- (99) Memorandum of Decision dated September 13, 1996 from the United States Army Contract Adjustment Board. **

(b) REPORTS ON FORM 8-K
None

* Item numbers correspond to Exhibit Table, Item 601, Regulation S-K

** Indicates an exhibit filed herewith

- (1) Incorporated by reference to the similarly numbered Exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1992.
- (2) Incorporated by reference to the similarly numbered Exhibit filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.
- (3) Incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993.
- (4) Incorporated by reference to Exhibit 10A to the Registrant's Form 10-Q for the Quarter ended March 31, 1995.
- (5) Incorporated by reference to Exhibit 10(c) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995.
- (6) Incorporated by reference to the similarly numbered Exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Nuclear Metals, Inc.

By /s/ Robert E. Quinn

Robert E. Quinn, President

Date December 30, 1996

By /s/ James M. Spiezio

James M. Spiezio, Vice President Finance & Administration

Date December 30, 1996

By /s/ Rebecca L. Perry

Rebecca L. Perry, Controller

Date December 30, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ George J. Matthews

George J. Matthews, Chairman of the Board of Directors, CEO
and Treasurer

Date December 30, 1996

By /s/ Frank H. Brenton

Frank H. Brenton, Director

Date December 30, 1996

By /s/ Kenneth A. Smith

Kenneth A. Smith, Director

Date December 30, 1996

By /s/ Wilson B. Tuffin

Wilson B. Tuffin, Vice Chairman

Date December 30, 1996

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INDEX TO FINANCIAL STATEMENT SCHEDULES

Independent Auditors' Report

Schedule II - Valuation and Qualifying Accounts

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Nuclear Metals, Inc.:

We have audited the accompanying consolidated balance sheets of Nuclear Metals, Inc. (a Massachusetts Corporation) and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the

responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuclear Metals, Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of the financial statements is presented for purposes of complying with the Securities and Exchange Commissions rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements as a whole.

Boston, Massachusetts
November 20, 1996

Arthur Andersen LLP

(Except with respect to the matters discussed in Note 6 as to which the date is December 24, 1996)

NUCLEAR METALS, INC. AND SUBSIDIARIES
SCHEDULE II- VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED SEPTEMBER 30, 1996

CLASSIFICATION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	END OF YEAR
YEAR ENDED SEPTEMBER 30, 1996:				
Allowance for doubtful accounts	\$ 883,000	\$ 100,000	\$ 162,000	\$ 821,000
Inventory Reserves	\$1,522,000	\$3,340,000	\$ --	\$4,862,000
YEAR ENDED SEPTEMBER 30, 1995:				
Allowance for doubtful accounts	\$1,290,000	\$ 400,000	\$ 807,000	\$ 883,000
Inventory Reserves	\$2,000,000	\$ --	\$ --	\$1,522,000
YEAR ENDED SEPTEMBER 30, 1994:				
Allowance for doubtful accounts	\$1,670,000	\$ --	\$ 380,000	\$1,290,000

Inventory Reserves	\$2,000,000	\$ --	\$ 442,000	\$1,522,000
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THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, UNLESS THE COMPANY HAS RECEIVED THE WRITTEN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT SUCH SALE, ASSIGNMENT OR TRANSFER DOES NOT INVOLVE A TRANSACTION REQUIRING REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

Issue Date: September 16, 1996
Void After: September 16, 1999
Right to Purchase 6,000
Shares of Common Stock
(subject to adjustment)
of Nuclear Metals, Inc.

NUCLEAR METALS, INC.
COMMON STOCK PURCHASE WARRANT

THIS CERTIFIES that, in consideration of value received, Melvin B. Chrein (the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from Nuclear Metals, Inc., a Massachusetts corporation (the "Company"), Six Thousand (6,000) fully paid and nonassessable shares of the Company's Common Stock, \$0.10 par value per share (the "Common Stock"). The number and exercise price of the securities that may be purchased upon the exercise of this Common Stock Purchase Warrant (the "Warrant") are subject to adjustment as provided herein.

1. EXERCISE PERIOD AND PRICE - The purchase rights represented by this Warrant are exercisable by the Holder, in whole or in part, at any time from time to time during the Exercise Period at the Exercise Price. The Exercise Price shall initially be \$15.00 per share of Common Stock subject to adjustment as hereinafter provided.

The Exercise Period shall commence at 9:00 a.m. Boston, Massachusetts time on September 16, 1996 and shall end at 5:00 p.m. Boston, Massachusetts time on September 16, 1999.

2. EXERCISE OF WARRANT - During the Exercise Period and provided this Warrant has not been terminated, this Warrant shall be exercised, in whole or in part and from time to time, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly executed at the principal office of the Company, in Boston, Massachusetts (or such other office or agency of the Company as it may designate) and upon payment of the Exercise Price of the shares thereby

purchased (payment to be by check or bank draft payable to the order of the Company). If the amount of the payment received by the Company is less than

the Exercise Price, the Holder will be notified of the deficiency and shall make payment in that amount within three days. In the event the payment exceeds the Exercise Price, the Company will refund the excess to the holder within three days of receipt. Upon exercise, the Holder shall be entitled to receive, within a reasonable time after payment in full, one or more certificates, issued in the Holder's name or in such name or names as the Holder may direct, subject to the limitations on transfer contained herein, for the number of shares of Common Stock so purchased. The shares so purchased shall be deemed to be issued as of the close of business on the date on which this Warrant shall have been exercised.

The Company covenants that all shares of Common Stock that are issued upon the exercise of rights represented by this Warrant will be fully paid, nonassessable, and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

3. NO FRACTIONAL SHARES OR SCRIP - No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. In lieu thereof, a cash payment shall be made equal to such fraction multiplied by the Exercise Price per share as then in effect.

4. CHARGES, TAXES AND EXPENSES - Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company.

5. NO RIGHTS AS SHAREHOLDER - This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to exercise and payment of the Exercise Price in accordance with Section 2 hereof.

6. SALE OR TRANSFER OF THE WARRANT; LEGEND - This Warrant shall not be sold or transferred unless either (i) it first shall have registered under the 1933 Act and any applicable state securities laws, or (ii) the Company first shall have been furnished with an opinion of legal counsel reasonably satisfactory to the Company to the effect that such sale or transfer is exempt from the registration requirements of the 1933 Act and such state laws. Each certificate representing any Warrant that has not been registered and that has not been sold pursuant to an exemption that permits removal of the legend shall bear a legend substantially in the form of the legend affixed to this Warrant.

Upon the request of a holder of a certificate representing any Warrant, the Company shall remove the foregoing legend from the certificate or issue to such holder a new certificate therefor free of any transfer legend, if, with such

request, the Company shall have received either (i) an opinion of counsel reasonably satisfactory to the Company to the effect that such legend may be removed from such certificate or (ii) if the present Paragraph (k) of Rule 144 or a substantially similar successor rule remains in force and effect, representations from the holder that such holder is not then, and has not been during the preceding three months, an

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affiliate of the Company and that such holder has beneficially owned the security (within the meaning of Rule 144) for three years or more.

Such Warrant may be subject to additional restrictions on transfer imposed under applicable state and federal securities law.

7. ADJUSTMENTS

7.1 ADJUSTMENTS FOR STOCK SPLITS, REVERSE STOCK SPLITS AND STOCK DIVIDENDS - In the event that the outstanding shares of Common Stock shall be subdivided (split), combined (reverse split), by reclassification or otherwise, or in the event of any dividend payable on the Common Stock in shares of Common Stock, the number of shares of Common Stock available for purchase in effect immediately prior to such subdivision, combination, or dividend shall be proportionately adjusted.

7.2 ADJUSTMENT FOR CAPITAL REORGANIZATIONS - If at any time there shall be a capital reorganization of the Company or a merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as part of such reorganization, merger, consolidation, or sale, lawful provision shall be made so that the Holder of this Warrant shall thereafter be entitled to receive on exercise of this Warrant during the period specified in this Warrant and on payment of the Exercise Price then in effect, the number of shares of stock or other securities or property of the Company, or of the successor corporation resulting from such merger or consolidation, to which a holder of the Common Stock deliverable on exercise of this Warrant would have been entitled on such capital reorganization, merger, consolidation, or sale if this Warrant had been exercised immediately before that capital reorganization, merger, consolidation, or sale. In any such case, appropriate adjustment, as determined in good faith by the Board of Directors of the Company, shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder of this Warrant after the reorganization, merger, consolidation, or sale to the end that the provisions of this Warrant (including adjustment of the number of shares purchasable on exercise of this Warrant) shall be applicable after that event, as near as reasonably may be, in relation to any shares or other securities or property deliverable after that event on exercise of this Warrant.

7.3 CERTIFICATE AS TO ADJUSTMENTS - Upon the occurrence of each adjustment or readjustment pursuant to this Section 7, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any Holder, furnish or cause to be furnished to such Holder, a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price at the time in effect; and (iii) the number of shares of Common Stock and the

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amount, if any, of other property that at the time would be received upon the exercise of the Warrant.

7.4 NOTICES OF RECORD DATE - In the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend that is the same as cash dividends paid in previous quarters) or other distribution, the Company shall mail to each Holder at least ten days prior to the date specified for the taking of a record, a notice specifying the date on which any such record is to be taken for the purpose of such dividend or distribution.

8. RESERVATION OF STOCK, ETC., ISSUABLE ON EXERCISE OF WARRANT - The Company will at all times reserve and keep available, solely for issuance and delivery upon the exercise of this Warrant, all shares of Common Stock (or other securities) from time to time issuable upon the exercise of this Warrant and all shares of Common Stock issuable upon conversion of such shares of Common Stock.

9. LOSS, THEFT, DESTRUCTION OR MUTILATION OF WARRANT - Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction, or mutilation of this Warrant, and in case of loss, theft, or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation in lieu of this Warrant.

10. REMEDIES - The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not adequate and may be enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

11. NOTICES, ETC. - All notices and other communications from the Company to the holder of this Warrant shall be mailed, by first class mail, to such address as may have been furnished to the Company in writing by such holder, or, until an address is so furnished, to and at the address of the last holder of this Warrant who has so furnished an address to the Company. All communications from the holder of this Warrant to the Company shall be mailed by first class mail to the Company's principal office, or such other address as may have been furnished to the holder in writing by the Company.

12. MISCELLANEOUS - This Warrant shall be construed and enforced in accordance with and governed by the laws of The Commonwealth of Massachusetts. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed in its corporate name by its duly authorized officer and to be dated as of the issue date set forth on the first page of this Warrant.

NUCLEAR METALS, INC.

By: /s/ James M. Spiezio

Vice President, Finance

[CORPORATE SEAL]

Attest:

/s/ Thomas A. Wooters

Clerk

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NOTICE OF EXERCISE OF COMMON
STOCK PURCHASE WARRANT

TO: Nuclear Metals, Inc.

(1) Pursuant to the terms of the attached Warrant, the undersigned hereby elects to purchase _____ shares of Common Stock of Nuclear Metals, Inc. (the "Company"), and either (i) tenders herewith payment of the Exercise Price of

such shares in full or (ii) by indicating "cashless exercise" below, directs that payment of the Exercise Price be made by cancellation as of the date of exercise of a portion of this Warrant having a net fair market value equal to the Exercise Price.

(2) Please issue a certificate or certificates representing said shares of Common Stock, in the name of the undersigned or in such other name(s) as is/are specified immediately below or, if necessary, on an attachment hereto:

NAME	ADDRESS
----	-----

(3) In the event of partial exercise, please reissue an appropriate Warrant exercisable into the remaining shares.

DATE: _____

HOLDER: _____

Check here if cashless exercise: _____

SCHEDULE TO EXHIBIT 4(i)

Other Similar Common Stock Purchase Warrants of the Company dated September 16, 1996:

HOLDER	# OF SHARES
-----	-----
1. Charles Alpert or nominee	13,500
2. Marshall J. Chrein	1,500

EMPLOYMENT AGREEMENT

This Agreement is made effective as of the first day of February 8, 1995, by and between NUCLEAR METALS, INC., a Massachusetts corporation with its principal office in Concord, Massachusetts (the "Corporation"), and Robert E. Quinn (the "Employee") of Marlborough, Massachusetts.

WHEREAS, the Corporation is engaged in the business of developing and marketing metallurgical and other products; and

WHEREAS, the Employee is employed by the Corporation as its President; and

WHEREAS, the Employee serves as a Director of the Corporation; and

WHEREAS, the parties hereto wish to describe the terms under which the employment relationship presently existing between Corporation and Employee will continue in the future;

NOW, THEREFORE, in consideration of the foregoing promises and the mutual agreements herein contained, the parties hereto agree as follows:

1. EMPLOYMENT

The parties agree to continued employment of the Employee by the Corporation during the Term of this Agreement and according to the terms and conditions hereof.

2. SERVICE BY THE EMPLOYEE

Except as specifically provided herein, the Employee shall continue to devote his best efforts and his entire working time during the usual business hours of the Corporation, and at such other times as is necessary and appropriate to advancing the best interests of the Corporation. Without limiting the generality of the foregoing, such activities shall include

serving as President of the Corporation.

3. COMPENSATION

3.1 INITIAL COMPENSATION

The Employee's initial compensation shall be at the annual rate of \$156,000 for the Term of this Agreement.

3.2 PAYMENTS

Such compensation shall be paid to the Employee on a weekly, bi-weekly or monthly basis, consistent with the Corporation's normal practice in paying compensation to its other executive employees.

3.3 INCREASE BY THE BOARD OF DIRECTORS

The Board of Directors may, from time to time during the Term of this Agreement, review compensation and such compensation may be increased (but not decreased below the levels provided in this Agreement) from time to time on a basis consistent with the performance of Employee and of the Corporation and the salary levels prevailing generally for positions of comparable responsibility.

3.4 BONUSES

In addition to the foregoing initial compensation, the Corporation may pay the Employee a bonus in any year in such amount as may be determined by the Board of Directors of the Corporation.

4. EMPLOYEE BENEFITS

In addition to the other employee benefits which may be made available to the Employee from time to time, the Corporation shall provide the following to the Employee:

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4.1 BENEFIT PLANS

The Corporation shall include the Employee in all of its benefit plans, including pension benefits and major medical, accident and health insurance, while he remains an active employee of the Corporation during the Term of this Agreement, on the same basis as the coverage provided to other executive employees of the Corporation.

4.2 Vacations

The Employee shall be entitled to six (6) weeks of paid vacation each fiscal year, earned at the rate of one week for each two months of employment hereunder, which vacation shall be taken at such time or times as may be agreed upon between the Employee and the Corporation from time to time. The Corporation shall carry forward to succeeding fiscal years any accrued vacation unused during the preceding fiscal year.

4.3 AUTOMOBILE ALLOWANCE

The Corporation shall provide the Employee with an automobile for his use, including use on corporate business. Any such automobile shall be owned and fully maintained by the Corporation, which maintenance shall include the cost of gas, oil and automobile insurance. The Employee shall report estimated personal use as required by tax regulations in effect from time to time. In lieu of providing the Employee with an automobile, the Corporation may, instead, provide the Employee with an automobile allowance in an amount approximately equal to the cost to the Corporation of providing an automobile to him.

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5. TERMINATION

5.1 TERMINATION PAYMENTS

The Board of Directors of the Corporation acting on behalf of the Corporation and after notice and an opportunity to be heard, may terminate the Employee's employment hereunder if a majority of the whole number of Directors then in office determine, in good faith, that:

- (a) the Employee has willfully refused to perform substantially all of the services required of him hereunder; or
- (b) the Employee has been convicted of a crime of moral turpitude.

In such event, or in the event of voluntary termination by the Employee without "good reason", as herein defined, the Employee's right to all future payments set forth in subsection 3.1 hereof shall cease.

5.2 DEATH

In the event of the death of the Employee, payments set forth in subsection 3.1 shall be made to the executor or administrator or other personal representative of the decedent and shall be continued until the earliest of one year from the date of death of the Employee or the end of the Term of this Agreement.

5.3 OTHER TERMINATIONS

In the event of termination by the Corporation other than pursuant to subsection 5.1 or of termination by the Employee for good reason, the amounts payable pursuant to said subsection 3.1 for the balance of the Term of this Agreement shall be due and payable upon termination.

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In the event of termination by Employee without good reason, in recognition of past services and contributions the amounts payable pursuant to said subsection 3.1 shall be continued for a period of one year from the date of such termination.

5.4 DEFINITION

"Good reason", within the meaning of this Agreement, consists of (a) circumstances which, in the reasonable judgment of Employee, constitute a material reduction in the Employee's job title, perquisites, duties, authority, amenities, benefits or responsibilities; or (b) requiring the Employee regularly to perform services at a location more than twenty-five (25) miles distant from the present location of Corporation in Concord, Massachusetts, without his consent.

6. PAYMENTS AFTER DISABILITY

The Corporation shall pay to the Employee, or to his legal representative, the amounts payable pursuant to subsection 3.1 during any period of partial or total disability hereunder until the first to occur of (a) one year after the date of the Employee's death, or (b) the end of the term of this Agreement. In the event of partial disability, Employee shall exert reasonable effort to perform such services thereunder as his disability will permit. The payments made for such disability hereunder shall be reduced by the amount of any wage continuation insurance payments payable to the Employee or his representative during such period on the basis of any disability insurance coverage paid for by the Corporation. During a period of disability the Board of Directors, by written notice given not later than February 28 of any year, may terminate this Agreement as of February 28 of the third successive year.

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7. NON-COMPETITION

During the Term of this Agreement and for a period of two (2) years after its expiration, or after the termination of Employee's employment with the Corporation, whichever occurs later, the Employee shall not compete directly or indirectly with the Corporation within the continental United States.

8. TERM OF AGREEMENT

This Agreement shall continue in force for an initial period of three (3) years from the date hereof, unless terminated by either party in accordance herewith. It automatically shall continue for additional one-year periods thereafter unless either party gives written notice to the other on or before November 30th of any year of its or his intention to terminate this Agreement as of the last day of November of the subsequent year. Reference herein to the Term of this Agreement shall include the initial period and any period

thereafter for which this Agreement continues in effect pursuant to the provisions of this Article 8.

9. MISCELLANEOUS

9.1 BINDING NATURE OF AGREEMENT

This Agreement shall be binding upon the parties hereto, and their heirs, legal representatives, successors and assigns. The Corporation shall require any successor to a majority of its business activities to assume the obligations of the Corporation herein, however, the Corporation shall continue to be liable to Employee for all payments due pursuant to this Agreement.

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9.2 NO ASSIGNMENT

The parties agree that the nature of the Employee's services are personal, and that the Employee may not assign any of his rights and duties hereunder.

9.3 NOTICES

All notices required under this Agreement shall be sufficient if made by certified or registered mail, return receipt requested, delivered to the then residence of the Employee and to the Corporation at its then principal office.

9.4 AMENDMENTS AND WAIVERS

This Agreement represents the exclusive statement of the entire agreement between the parties concerning the subject matter hereof and supersedes all prior written agreements, but not including any stock purchase or stock option agreement between Corporation and Employee. This Agreement may not be amended, modified or revoked in whole or in part except by written agreement of the parties hereto. Any waiver of any provision of this Agreement, to be enforceable by the non-waiving party, must be in writing and signed by the party to be charged therewith; and a waiver of any such occasion shall not be construed as a bar to or waiver of any such right or remedy on any future occasion, unless the waiver specifically provides otherwise.

9.5 DISPUTES

Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of Boston in accordance with the rules then in effect of the American Arbitration Association, and judgment upon the award rendered by the

arbitrator may be entered in any court having jurisdiction thereof.

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In the event that Employee resorts to a suit for specific performance or any other form of litigation or court action to implement the provisions of this section or to enforce any award or order, substantive or procedural, rendered by the arbitrator or relating to arbitration pursuant to the provisions of this section, the Company shall pay the Employee's entire cost thereof, including legal fees, whether such litigation is settled or results in a determination by the court, and regardless of the nature of that determination, unless there is a determination by the court that the litigation or other court action brought by Employee was frivolous.

9.6 COUNTERPARTS

This Agreement may be executed in several counterparts, and all so executed shall constitute one agreement, binding upon each party, notwithstanding that either party did not sign the same counterpart as the other party.

9.7 CONSTRUCTION

The headings and subheadings of this Agreement have been inserted for convenience only and are to be ignored in any construction of the provisions hereof. The use of the singular shall be deemed to include the plural and VICE VERSA, and the use of the masculine and neuter gender shall be deemed to include the feminine, masculine and neuter gender unless the context otherwise requires. No conclusion may be drawn from any difference between this Agreement as finally signed and any prior agreement or draft of all or any part of any prior agreement.

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9.8 LAW GOVERNING

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the Employee has signed and sealed this Agreement and the Corporation has caused this Agreement to be executed and its corporate seal to be affixed hereto effective the day and year first written above.

NUCLEAR METALS, INC.

Attest: _____

By: /s/ George J. Matthews

George J. Matthews

Date: _____

{Corporate Seal}

Attest: _____

s/ Robert E. Quinn

Robert E. Quinn

Date: _____

AMENDED AND RESTATED
REVOLVING CREDIT NOTE

\$4,250,000

March 31, 1995
(as amended December 24, 1996)

FOR VALUE RECEIVED, the undersigned, NUCLEAR METALS, INC., a Massachusetts corporation and CAROLINA METALS, INC., a Delaware corporation (the "Borrowers"), hereby jointly and severally promise to pay to the order of STATE STREET BANK AND TRUST COMPANY, an FDIC insured Massachusetts chartered trust company ("Bank"), in lawful money of the United States of America in immediately available funds at its office at 225 Franklin Street, Boston, Massachusetts 02110 the principal sum of FOUR MILLION TWO HUNDRED AND FIFTY THOUSAND DOLLARS (\$4,250,000) or such lesser sum as may from time to time be outstanding under the terms of a Credit Agreement between the Borrowers and Bank of even date herewith, as amended, modified, supplemented and/or restated from time to time (the "Credit Agreement").

The Borrowers promise to pay interest on the unpaid principal balance at the rates and at the times provided in the Credit Agreement. This Note may be prepaid only in accordance with the terms of the Credit Agreement.

This Note will become due and payable at the Maturity Date (as defined in the Credit Agreement) and earlier upon the occurrence of an Event of Default (as defined in the Credit Agreement). The Borrowers agree to pay all reasonable legal fees and other costs of collection of this Note.

No delay or omission on the part of the holder in exercising any right hereunder shall operate as a waiver of such right, nor shall any waiver on one occasion be deemed to be an amendment or waiver of any such right with respect to any future occasion. The Borrowers hereby waive presentment, demand, protest and notice of every kind and assents to any one or more indulgences, to any substitution, exchange or release of collateral (if at any time there be available collateral to the holder of this Note) and to the addition or release of any other party or persons primarily or secondarily liable.

This Note shall be governed and construed under the laws of the Commonwealth of Massachusetts and shall be deemed to be under seal.

NUCLEAR METALS, INC.

WITNESS:

By: s/ James M. Speizio

Name:

Title:

CAROLINA METALS, INC.

WITNESS:

By: s/ James M. Speizio

Name:

Title:

SECOND AMENDMENT TO CREDIT AGREEMENT

This Amendment is made as of December , 1996 between NUCLEAR METALS, INC., a Massachusetts corporation ("Nuclear Metals"), CAROLINA METALS, INC., a Delaware corporation ("Carolina Metals") (together with Nuclear Metals, the "Borrowers") and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company (the "Bank").

WHEREAS, the Bank established a credit facility for the Borrowers pursuant to a Credit Agreement dated as of March 31, 1995 (as amended, the "Credit Agreement"); and

WHEREAS, the Credit Agreement was amended by a First Amendment dated as of June 30, 1995 ("First Amendment"); and

WHEREAS, the Bank created an additional credit facility for the Borrowers pursuant to a letter agreement dated September 26, 1995 ("Line of Credit"); and

WHEREAS, the Borrowers were in default of various provisions of the Credit Agreement and Line of Credit resulting in a Forbearance and Amendment Agreement dated as of January 11, 1996 which further amended the Credit Agreement (as amended, the "Forbearance Agreement"); and

WHEREAS, the Borrowers have cured or the Bank has waived all of the defaults under the Credit Agreement and Line of Credit and the Borrowers have complied with the terms of the Forbearance Agreement; and

WHEREAS, the Borrowers and the Bank intend to create a continuing relationship under the Credit Agreement.

NOW, THEREFORE, the parties hereby agree as follows:

1. All outstanding obligations under the Line of Credit have been repaid and the Line of Credit is terminated. All amounts advanced under the Term Credit (as defined in the Credit Agreement) have been repaid and the Term Credit is terminated.

2. SECTION 1.01 of the Credit Agreement is amended in its entirety to read as follows:

"Subject to the terms and conditions hereof, and in reliance on the representations and warranties contained herein, the Bank hereby establishes a credit facility in

favor of the Borrowers in the principal amount of \$4,250,000 (the "Credit").

The Credit consists of a revolving line of credit of \$4,250,000 (the "Revolving Credit").

3. SECTION 1.02 THE REVOLVING CREDIT, subsections (a), (b) and (c) are amended in their entirety to read as follows:

"(a) AMOUNT. Provided no Event of Default (as defined in Article V) or event which with the passage of time or notice, or both, would become an Event of Default has occurred and is continuing, each Borrower may from time to time from the date hereof up to February 28, 1998 (the "Maturity Date") borrow and reborrow from the Bank and the Bank shall advance funds under the Revolving Credit to such Borrower (an "Advance" or the "Advances"); provided that the aggregate of all Advances outstanding at any time shall not exceed \$ 4,250,000 less the maximum aggregate liability of the Borrowers under any outstanding letters of credit issued prior to the date hereof or pursuant to this Credit Agreement (the "Maximum Credit").

(b) BORROWING BASE. Intentionally deleted.

(c) REVOLVING CREDIT PAYMENT. The aggregate Advances outstanding at any time shall not exceed the Maximum Credit. If the aggregate Advances outstanding at any time exceed such limit, then the Borrowers shall immediately pay such excess. The Bank may, without prior notice to the Borrowers, charge any of their accounts under the control of the Bank to effect such payment."

4. SECTION 1.02(d) THE REVOLVING CREDIT NOTE is amended by substituting the form of note attached hereto for Exhibit 1.02(d).

5. SECTION 1.03 TERM CREDIT is amended in its entirety to read "intentionally deleted."

6. SECTION 6.05 is amended by replacing "Kenneth J. Mooney" with "William R. Dewey IV."

7. The Bank hereby waives compliance with Section 4.21 TANGIBLE CAPITAL BASE, Section 4.22 NET INCOME, Section 4.23 CAPITAL EXPENDITURES, and Section 4.31 WORKING CAPITAL for the fiscal quarter ending September 30, 1996.

8. The Borrowers represent and warrant that (i) all the representations set forth in the Credit Agreement dated as of March 31, 1995 including, without limitation, the Schedules,

are true and accurate as of the date hereof subject to any changes set forth on the Exhibits hereto and (ii) after granting the waivers set forth in paragraph 7, no Event of Default exists.

9. Except as set forth herein and in the First Amendment and in the Forbearance Agreement, the Credit Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have signed this Second Agreement as of the date first above written.

NUCLEAR METALS, INC.

By: _____

CAROLINA METALS, INC.

By: _____

STATE STREET BANK AND TRUST COMPANY

By: _____

THE SECURITIES REPRESENTED BY THIS DEBENTURE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT") AND MAY NOT BE OFFERED OR SOLD, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (ii) TO THE EXTENT APPLICABLE, RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) AN OPINION OF COUNSEL, IF SUCH OPINION SHALL BE REASONABLY SATISFACTORY TO COUNSEL TO THE ISSUER, THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE.

NUCLEAR METALS, INC.
10% CONVERTIBLE SUBORDINATED DEBENTURE
DUE JUNE 10, 1997

No. 1
(\$334,000)

January 10, 1996

Nuclear Metals, Inc., a Massachusetts corporation (the "Company"), for value received, hereby promises to pay to WIAF Investors Co. or registered assigns (the "Holder"), the principal sum of Three Hundred Thirty-Four Thousand Dollars (\$334,000) on June 10, 1997 (the "Maturity Date") with interest from the date hereof (computed on the basis of a 365-day year) at the rate per annum of ten percent (10%) until paid in full or converted. The Company will pay interest in arrears semi-annually on June 10, 1996, December 10, 1996 and June 10, 1997 (each an "Interest Payment Date") to the Holder of record. Interest will accrue from the most recent date to which interest has been paid or if no interest has been paid, from the date of issuance of this debenture. This debenture (the "Debenture") is one of a series of Debentures issued by the Company on January 10, 1996 (the "Issuance Date") (collectively, the "Debentures"). The Holder shall have the option, by written notice received by the Company prior to its Interest Payment Date, to elect to receive the Interest Payment in shares of stock of the Company, valued for that purpose of \$11.89 per share.

1. General. This Debenture is transferable only by surrender thereof at the principal office of the Company located at 2229 Main Street, Concord, Massachusetts 01742, duly endorsed by, or accompanied by a written instrument of transfer duly executed by, the registered Holder of this Debenture or his attorney duly authorized in writing and a completed "investor questionnaire" duly executed by the transferee reasonably satisfactory in form and substance to the Company.

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2. CONVERSION RIGHT. Subject to and upon compliance with the provisions of this Debenture, the Holder of this Debenture has the right at any time, at his option, to convert the principal of this Debenture into such number of fully paid and non-assessable shares (the "Debenture Shares") of common stock, \$.10 par value per share (the "Common Stock") of the Company as shall equal the principal amount of this Debenture divided by the Conversion Price (as hereinafter defined). A conversion shall only occur upon surrender of this Debenture to the Company at its principal place of business, duly endorsed by, or accompanied by instruments of transfer (in form reasonably satisfactory to the Company) duly executed by the Holder or his attorney duly authorized in writing, together with a conversion notice and transfer tax stamps or funds therefor, if required. If this Debenture is surrendered for conversion prior to an Interest Payment Date, the Holder shall be entitled to receive interest on this Debenture through the date of such surrender on the relevant Interest Payment Date. No fractional shares will be issued upon any conversion, but an adjustment in cash will be made, as provided herein, in respect of any fraction of a share which would otherwise be issuable upon the surrender of this Debenture for conversion.

3. MANNER OF EXERCISING CONVERSION RIGHTS. In order to exercise the conversion privilege, the Holder shall surrender this Debenture to the Company at any time during usual business hours at its offices in Concord, Massachusetts, and shall give written notice to the Company at such office that the Holder elects to convert this Debenture. Such notice shall also state the name or names (with address or addressees) in which the certificate or certificates for shares of Common Stock which shall be deliverable upon such conversion shall be registered. As promptly as practicable after the receipt of such notice and the surrender of this Debenture as aforesaid, the Company shall then cancel this Debenture and shall issue and deliver at such office to such Holder, or on his written order, a certificate or certificates for the number of full shares of Common Stock deliverable on such conversion of this Debenture in accordance with the provisions of this Debenture and cash as provided in the following Section, in respect of any fraction of a

share of Common Stock otherwise deliverable upon such conversion. Such conversion shall be deemed to have been effected immediately prior to the close of business on the date (herein called the "Date of Conversion") on which such notice shall have been received by the Company and this Debenture shall have been surrendered as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on the Date of Conversion the holder or holders of record of the shares represented thereby; provided, however, that any such surrender on any date when the stock transfer books of the Company shall be closed shall be deemed effected at the opening of business on the next succeeding day on which such stock transfer books are open, and the person or persons in whose name or names the certificate or certificates for such shares, are to be issued shall be deemed to have become the record holder or holders thereof for all purposes as of such date.

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4. NO FRACTIONAL SHARES. No fractions of shares of Common Stock or scrip representing fractions of shares of Common Stock shall be issued upon conversion of this Debenture. If more than one Debenture shall be surrendered for conversion at one time by the same Holder, the number of full shares of Common Stock which shall be deliverable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Debentures so surrendered. If any fraction of a share of Common Stock would, except for the provisions of this Section, be deliverable on the conversion of this Debenture or Debentures (or specified portions thereof), the Company shall make payment in lieu thereof in an amount of cash equal to the value of such fraction multiplied by the Conversion Price.

5. CONVERSION PRICE ADJUSTMENTS. (a) For purposes of this Debenture:

"ADDITIONAL SHARES OF COMMON STOCK" shall mean all shares of Common Stock issued (or, pursuant to this Debenture, deemed to be issued) by the Company, other than shares of Common Stock issued or issuable:

- (i) upon conversion of the Debentures;
- (ii) in lieu of interest on the Debentures; or
- (iii) shares of Common Stock issued or issuable to officers, employees or directors of, or consultants to, the Company pursuant to a stock purchase or option plan or other employee stock bonus arrangement approved by the Board of Directors.

"CONVERSION PRICE" shall mean the price at which shares of the Common Stock shall be deliverable upon conversion of this Debenture as adjusted from time to time as herein provided. The initial Conversion Price is \$11.89. The Conversion Price for this Debenture shall be subject to adjustment as herein provided.

"RECAPITALIZATION EVENTS" shall mean stock splits, stock dividends, recapitalizations, reclassifications and similar events.

A. ADJUSTMENT FOR STOCK SPLITS AND COMBINATIONS. If the Company at any time or from time to time after the Issuance Date effects a subdivision of the outstanding Common Stock, the Conversion Price then in effect immediately before that subdivision shall be proportionately decreased, and conversely, if the Company at any time or from time to time after the Issuance Date combines the outstanding shares of Common Stock, the Conversion Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this subsection shall become effective at the close of business on the date the subdivision or combination becomes effective.

B. ADJUSTMENT FOR CERTAIN DIVIDENDS AND DISTRIBUTIONS. In the event the Company at any time, or from time to time after the Issuance Date makes, or fixes a

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record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in Additional Shares of Common Stock, then and in each such event the Conversion Price then in effect shall be decreased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction (a) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (b) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; PROVIDED, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed thereof, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant

to this Section 5B as of the time of actual payment of such dividends or distributions.

C. ADJUSTMENTS FOR OTHER DIVIDENDS AND DISTRIBUTIONS. In the event the Company at any time or from time to time after the Issuance Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in securities of the Company other than shares of Common Stock, then in each such event provision shall be made so that the Holder shall receive upon conversion of this Debenture, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Company which they would have received had this Debenture been converted into Common Stock on the date of such event and had the Holder thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 5 with respect to the rights of the Holder of this Debenture.

D. ADJUSTMENTS FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. If the Common Stock issuable upon the conversion of this Debenture is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares of stock dividend or a reorganization, provided for elsewhere in this Section 5, then and in any such event the Holder of this Debenture shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common Stock into which such a Debenture might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustments provided herein.

E. RECLASSIFICATION, REORGANIZATION, ETC. If any of the following shall occur, namely: (a) any reclassification or change of outstanding shares of Common Stock

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issuable upon conversion of this Debenture (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of subdivision or combination), (b) any consolidation or merger to which the Company is a party other than a merger in which the Company is the continuing corporation

and which does not result in any reclassification of, or change (other than a change in name, or par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock or (c) any sale or conveyance of all or substantially all of the property or business of the Company as an entirety, then the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, sale or conveyance, execute and deliver a certificate providing that the Holder of this Debenture then outstanding shall have the right to convert such Debenture into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock deliverable upon conversion of this Debenture immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. If, in the case of any such consolidation, merger, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a holder of Common Stock includes shares of stock or other securities and property of a corporation other than the successor or purchasing corporation, as the case may be, in such consolidation, merger, sale or conveyance, then such certificate shall also be executed by such other corporation and shall contain such additional provision to protect the interests of the Holders of the Debentures as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing. The provisions of this Section shall similarly apply to successive consolidation, mergers, sales or conveyances.

F. NOTICES OF RECORD DATE. In the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, the Company shall mail to the Holder of this Debenture at least twenty (20) days prior to the date specified herein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend or distribution.

6. TAX. The issue of stock certificates on conversion of this Debenture shall be made without charge to the Holder for any stock issuance or transfer tax in respect of the issue thereof. The Company shall not, however, be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue and delivery of Common Stock or any new Debenture in any name other than that of the Holder of this Debenture converted, and the Company shall not be required to so issue or deliver any stock certificate or new Debenture unless and until the person or persons

requesting the registration to transfer shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

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7. EVENTS OF DEFAULT. An "Event of Default" occurs if:

(a) the Company defaults in the payment of interest on this Debenture when the same becomes due and payable and the default continues for ten (10) days after notice thereof is given to the Company;

(b) the Company defaults in the payment of the principal of this Debenture when the same becomes due and payable and the default continues for ten (10) days after notice thereof;

(c) the Company, pursuant to or within the meaning of any Bankruptcy Law (A) admits in writing its inability to pay its debts generally as they become due, (B) commences a voluntary case or proceeding under any Bankruptcy Law with respect to itself, (C) consents to the entry of a judgment, decree or order for relief against it in an involuntary case or proceeding under any Bankruptcy Law, (D) consents to the appointment of a bankruptcy trustee (a "Bankruptcy Trustee") of its or for any part of its property, (E) consents to or acquiesces in the institution of bankruptcy or insolvency proceedings against it, (F) applies for, consents to or acquiesces in the appointment of a Bankruptcy Trustee, (G) makes a general assignment for the benefit of its creditors, or (H) takes any corporate action for any of the foregoing purposes; or

(d) a court of competent jurisdiction enters a judgment, decree or order for relief in respect of the Company in an involuntary case or proceeding under any Bankruptcy Law which shall (A) approve as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Company, (B) appoint a Bankruptcy Trustee of the Company or for any part of its property, or (C) order the winding-up or liquidation of its affairs; and such judgment, decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (D) any bankruptcy or insolvency petition or application is filed, or any bankruptcy or insolvency proceeding is commenced against the Company and such petition, application or proceeding is not dismissed within 60 days.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

8. Remedies. If an Event of Default (other than an Event of Default specified in Section 7(d) or 7(e) in respect of the Company) occurs and is continuing, the Holder may, subject to Section 9 hereof, by notice of the Company, declare all unpaid principal and accrued interest to the date of acceleration on the Debenture then outstanding (if not then due and payable) to be due and payable and, upon any such declaration, the same shall become and be immediately due and payable. If an Event of Default specified in Section 7(d) or 7(e) in respect of the Company occurs, all unpaid principal and accrued interest on the Debentures then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of any Holder. The Holder by notice to the Company may rescind an

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acceleration and its consequences if (i) all existing Events of Default, other than the non-payment of the principal of the Debentures which has become due solely by such declaration of acceleration, have been cured or waived, (ii) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid, and (iii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

9. Subordination. The Company covenants and agrees, for itself and its successor and assigns, and each Holder hereof, for itself and for any subsequent holder of this Debenture, by its acceptance hereof, covenants and agrees that the indebtedness evidenced hereby is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment for satisfaction in full in cash of all Senior Indebtedness, as hereinafter defined.

Until all Senior Indebtedness shall have been performed or paid in full in cash, (a) the Company shall not, directly or indirectly, and the holder of this Debenture shall not be permitted to receive any payment on account of this Debenture and the holder of this Debenture shall not demand or accept from the Company or any person any such payment or otherwise discharge any part of the obligations of the Company hereunder and such holder shall not take any action prejudicial to, or inconsistent with, the priority position of the Senior Indebtedness over the holder hereof, including, without limitation, declaring all unpaid principal and accrued interest under this Debenture due and payable,

commencing any action or proceeding against the Company to enforce to collect this Debenture, or any portion hereof or commencing or joining any "Proceeding" (as defined below) against the Company, and (b) the holder of this Debenture shall have no right of subrogation to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. Notwithstanding the foregoing, so long as no default exists under any agreement or instrument evidencing any of the Senior Indebtedness, interest and principal may be paid on this Debenture in accordance with the terms hereof.

At any meeting of creditors of the Company or in the event of any proceeding ("Proceeding"), voluntary or involuntary, for the distribution, division or application of all or part of the assets of the Company, whether such proceeding be for the liquidation, dissolution or winding up of the Company or its business, or proceeding for relief under any bankruptcy, reorganization or insolvency law or any other law relating to relief of debtors, readjustment of indebtedness, reorganization, arrangement, composition or extension or otherwise, the holder of the Senior Indebtedness is hereby irrevocably authorized by the holder of this Debenture at any such meeting or in any such proceeding: (a) to prove any claim (by the filing of proof(s) of claim(s) or otherwise) on account of this Debenture either in its own name or in the name of the holder hereof; (b) to collect any assets of the Company distributed, divided or applied by way of dividend or payment, or any securities issued, on account of this Debenture and apply the same to the Senior Indebtedness; (c) to vote claims on account of this Debenture to accept or reject any plan for liquidation, reorganization, arrangement, composition or extension; and (d) to take generally any action in connection with any such meeting or proceeding which the holder of this Debenture might otherwise take.

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Upon the occurrence of any default under any agreement or instrument evidencing any of the Senior Indebtedness, should any payment be received by the holder of this Debenture, such payment shall be delivered forthwith to the holder of the Senior Indebtedness for application to the Senior Indebtedness. The holder of the Senior Indebtedness is irrevocably authorized to supply any required endorsement or assignment. Until so delivered, any such payment shall be held by the holder of this Debenture in trust for the holder of the Senior Indebtedness and shall not be commingled with other funds or property of the holder of this Debenture.

Without the necessity of any reservation of rights against or any notice to or further assent by the holder of this Debenture, any demand for payment of any Senior Indebtedness made by the holder of the Senior Indebtedness may be rescinded in whole or in part by such holder, the holder of the Senior Indebtedness may exercise or refrain from exercising any rights and remedies against the Company and others, the Senior Indebtedness or any collateral security or guaranty therefor or right of offset with respect thereto, may be executed, or released by the holder of Senior Indebtedness, and any agreement or instrument evidencing, securing or otherwise relating to Senior Indebtedness may

be amended or modified, all without impairing, abridging, releasing or affecting the subordination provided for herein. The holder of this Debenture waives any and all notice of the creation or modification of any Senior Indebtedness and notice of or proof of reliance by the holder of the Senior Indebtedness upon the subordination provided for herein.

For purposes of this Debenture, "Senior Indebtedness" shall include any and all indebtedness, liabilities, duties, undertakings, warranties, covenants and agreements (including those of payment or performance) of the Company or any of its wholly-owned subsidiaries to State Street Bank and Trust Company and its respective successors or assigns (the "Lender"), of every kind, nature and description and arising pursuant to the terms of the Forbearance and Amendment Agreement ("Amendment Agreement") dated as of January 11, 1996 between the Company, its wholly-owned subsidiary, Carolina Metals, Inc. ("CMI"), and the Lender, as may be amended, modified, supplemented and/or restated from time to time, the Loan Documents and Bond Documents, as defined in the Amendment Agreement, as such Documents may be amended, modified, supplemented and/or restated from time to time, or otherwise, whether or not the same are: now existing or hereafter arising; imposed by agreement or by operation of law; due or not due; absolute or contingent (including any reimbursement obligations relating to any letter of credit issued for the account of the Company or CMI); liquidated or unliquidated; voluntary or involuntary, evidenced by a writing; presently contemplated by the parties; direct or indirect; liabilities or undertakings of the Company or any of its subsidiaries as surety, guarantor or endorser with respect to obligations of one or more other parties specifically described as secured or unsecured, hereafter acquired by the Lender or any of them by assignment, other transfer or operation of law. Senior Indebtedness also shall include any refinancings thereof or replacement financing therefor.

10. Interest Limitation. If a law, which applies to this Debenture and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this Debenture exceed the permitted limits, then: (i) any

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such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from the Company which exceeded permitted limits will be refunded to the Company. The Holder may choose to make this refund by reducing the principal owed under this Debenture or by making a direct payment to the Company.

11. Consent to Jurisdiction. The Holder hereby irrevocably agrees that any legal action or proceedings with respect to this Debenture against the Company may be brought only in the courts of the United States of America or The

Commonwealth of Massachusetts. By acceptance of this Debenture, the Holder hereby (i) accepts the exclusive jurisdiction of the aforesaid courts; (ii) irrevocably agrees to be bound by any judgment of any such court with respect to this Debenture; and (iii) irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceedings with respect to this Debenture brought in any court of the United States of America or The Commonwealth of Massachusetts, and further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

12. Miscellaneous.

(a) THIS DEBENTURE SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REFERENCE TO CONFLICTS OF LAWS, RULES OR PRINCIPLES.

(b) The Company and all endorsers of this Debenture hereby waive presentment, demand, protest or notice of any kind in connection with the delivery, acceptance, performance or enforcement of this Debenture.

(c) No provision thereof shall alter or impair the obligation of the Company which is absolute and unconditional, to pay the principal and interest on this Debenture as herein prescribed.

NUCLEAR METALS, INC.

By:

James M. Spiezio
Vice President - Finance

Attest:

Clerk

[FORM OF CONVERSION NOTICE]

The undersigned holder of this Debenture hereby irrevocably exercises the option to convert this Debenture (or portion hereof below designated) into shares of Common Stock of Nuclear Metals, Inc. in accordance with the terms of the Debenture, and directs that the shares deliverable upon the conversion, be registered in the name of and delivered to the undersigned, together with any check in payment for any fractional share, unless a different name has been indicated below. If shares and any Debenture are to be registered in the name of any such other person, the undersigned will pay all transfer taxes payable with respect thereto.

Dated:

Signature

Tax I.D. Number

If share and any Debenture are to be registered in the name of a person or persons other than the above-signed holder, please print each such person's name and address (including zip code):

Portion to be converted (if less than all): \$

SCHEDULE TO EXHIBIT 10(i)

Other similar 10% Convertible Subordinated Debentures of the Company dated January 10, 1996:

Holder

Amount

1. Melvin B. Chrein	\$83,500.00
2. Kathleen Matthews	\$83,000.00

THE SECURITIES REPRESENTED BY THIS DEBENTURE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT") AND MAY NOT BE OFFERED OR SOLD, TRANSFERRED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO (I) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (II) TO THE EXTENT APPLICABLE, RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (III) AN OPINION OF COUNSEL, IF SUCH OPINION SHALL BE REASONABLY SATISFACTORY TO COUNSEL TO THE ISSUER, THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE.

NUCLEAR METALS, INC.
10% SUBORDINATED DEBENTURE
DUE DECEMBER 10, 1998

No. 5

September 16, 1996

(\$100,000.00)

Nuclear Metals, Inc., a Massachusetts corporation (the "Company"), for value received, hereby promises to pay to Melvin B. Chrein or registered assigns (the "Holder"), the principal sum of One Hundred Thousand (\$100,000.00) on December 10, 1998 (the "Maturity Date") with interest from the date hereof (computed on the basis of a 365-day year) at the rate per annum of ten percent (10%) until paid in full. The Company will pay interest in arrears semi-annually on March 10, 1997, September 10, 1997, March 10, 1998 and September 10, 1998 (each an "Interest Payment Date") to the Holder of record. Interest will accrue from the most recent date to which interest has been paid or if no interest has been paid, from the date of issuance of this debenture. This debenture (the "Debenture") is one of a series of Debentures issued by the Company on September 16, 1996 (the "Issuance Date") (collectively, the "Debentures").

1. GENERAL. This Debenture is transferable only by surrender thereof at the principal office of the Company located at 2229 Main Street, Concord, Massachusetts 01742, duly endorsed by, or accompanied by a written instrument of transfer duly executed by, the registered Holder of this Debenture or his attorney duly authorized in writing and a completed "investor questionnaire" duly executed by the transferee reasonably satisfactory in form and substance to the Company.

2. EVENTS OF DEFAULT. An "Event of Default" occurs if:

(a) the Company defaults in the payment of interest on this Debenture when the same becomes due and payable and the default continues for ten (10) days after notice thereof is given to the Company;

(b) the Company defaults in the payment of the principal of this Debenture when the same becomes due and payable and the default continues for ten (10) days after notice thereof;

(c) the Company, pursuant to or within the meaning of any Bankruptcy Law (A) admits in writing its inability to pay its debts generally as they become due, (B) commences a voluntary case or proceeding under any Bankruptcy Law with respect to itself, (C) consents to the entry of a judgment, decree or order for relief against it in an involuntary case or proceeding under any Bankruptcy Law, (D) consents to the appointment of a bankruptcy trustee (a "Bankruptcy Trustee") of its or for any part of its property, (E) consents to or acquiesces in the institution of bankruptcy or insolvency proceedings against it, (F) applies for, consents to or acquiesces in the appointment of a Bankruptcy Trustee, (G) makes a general assignment for the benefit of its creditors, or (H) takes any corporate action for any of the foregoing purposes; or

(d) a court of competent jurisdiction enters a judgment, decree or order for relief in respect of the Company in an involuntary case or proceeding under any Bankruptcy Law which shall (A) approve as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Company, (B) appoint a Bankruptcy Trustee of the Company or for any part of its property, or (C) order the winding-up or liquidation of its affairs; and such judgment, decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (D) any bankruptcy or insolvency petition or application is filed, or any bankruptcy or insolvency proceeding is commenced against the Company and such petition, application or proceeding is not dismissed within 60 days.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

3. REMEDIES. If an Event of Default (other than an Event of Default specified in Section 2(c) or 2(d) in respect of the Company) occurs and is continuing, the Holder may, subject to Section 4 hereof, by notice of the Company, declare all unpaid principal and accrued interest to the date of acceleration on the Debenture then outstanding (if not then due and payable) to be due and payable and, upon any such declaration, the same shall become and be immediately due and payable. If an Event of Default specified in Section 2(c) or 2(d) in respect of the Company occurs, all unpaid principal and accrued interest on the Debentures then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of any Holder. The Holder by notice to the Company may rescind an

acceleration and its consequences if (i) all existing Events of Default, other than the non-payment of the principal of the Debentures which has become due solely by such declaration of acceleration, have been cured or waived, (ii) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid, and (iii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

4. SUBORDINATION. The Company covenants and agrees, for itself and its successor and assigns, and each Holder hereof, for itself and for any subsequent holder of this Debenture, by its acceptance hereof, covenants and agrees that the indebtedness evidenced hereby is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment for satisfaction in full in cash of all Senior Indebtedness, as hereinafter defined.

Until all Senior Indebtedness shall have been performed or paid in full in cash, (a) the Company shall not, directly or indirectly, and the holder of this Debenture shall not be permitted to receive any payment on account of this Debenture and the holder of this Debenture shall not demand or accept from the Company or any person any such payment or otherwise discharge any part of the obligations of the Company hereunder and such holder shall not take any action prejudicial to, or inconsistent with, the priority position of the Senior Indebtedness over the holder hereof, including, without limitation, declaring all unpaid principal and accrued interest under this Debenture due and payable, commencing any action or proceeding against the Company to enforce to collect this Debenture, or any portion hereof or commencing or joining any "Proceeding" (as defined below) against the Company, and (b) the holder of this Debenture shall have no right of subrogation to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. Notwithstanding the foregoing, so long as no default exists under any agreement or instrument evidencing any of the Senior Indebtedness, interest and principal may be paid on this Debenture in accordance with the terms hereof.

At any meeting of creditors of the Company or in the event of any proceeding ("Proceeding"), voluntary or involuntary, for the distribution, division or application of all or part of the assets of the Company, whether such proceeding be for the liquidation, dissolution or winding up of the Company or its business, or proceeding for relief under any bankruptcy, reorganization or insolvency law or any other law relating to relief of debtors, readjustment of indebtedness, reorganization, arrangement, composition or extension or otherwise, the holder of the Senior Indebtedness is hereby irrevocably authorized by the holder of this Debenture at any such meeting or in any such proceeding: (a) to prove any claim (by the filing of

proof(s) of claim(s) or otherwise) on account of this Debenture either in its own name or in the name of the holder hereof; (b) to collect any assets of the Company distributed, divided or applied by way of dividend or payment, or any securities issued, on account of this Debenture and apply the same to the Senior Indebtedness; (c) to vote claims on account of this Debenture to accept or reject any plan for liquidation, reorganization, arrangement, composition or extension; and (d) to take generally any action in connection with any such meeting or proceeding which the holder of this Debenture might otherwise take.

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Upon the occurrence of any default under any agreement or instrument evidencing any of the Senior Indebtedness, should any payment be received by the holder of this Debenture, such payment shall be delivered forthwith to the holder of the Senior Indebtedness for application to the Senior Indebtedness. The holder of the Senior Indebtedness is irrevocably authorized to supply any required endorsement or assignment. Until so delivered, any such payment shall be held by the holder of this Debenture in trust for the holder of the Senior Indebtedness and shall not be commingled with other funds or property of the holder of this Debenture.

Without the necessity of any reservation of rights against or any notice to or further assent by the holder of this Debenture, any demand for payment of any Senior Indebtedness made by the holder of the Senior Indebtedness may be rescinded in whole or in part by such holder, the holder of the Senior Indebtedness may exercise or refrain from exercising any rights and remedies against the Company and others, the Senior Indebtedness or any collateral security or guaranty therefor or right of offset with respect thereto, may be executed, or released by the holder of Senior Indebtedness, and any agreement or instrument evidencing, securing or otherwise relating to Senior Indebtedness may be amended or modified, all without impairing, abridging, releasing or affecting the subordination provided for herein. The holder of this Debenture waives any and all notice of the creation or modification of any Senior Indebtedness and notice of or proof of reliance by the holder of the Senior Indebtedness upon the subordination provided for herein.

For purposes of this Debenture, "Senior Indebtedness" shall include any and all indebtedness, liabilities, duties, undertakings, warranties, covenants and agreements (including those of payment or performance) of the Company or any of its wholly-owned subsidiaries to State Street Bank and Trust Company and its respective successors or assigns (the "Lender"), of every kind, nature and description and arising pursuant to the terms of the Forbearance and Amendment Agreement ("Amendment Agreement") dated as of January 11, 1996 between the Company, its wholly-owned subsidiary, Carolina Metals, Inc. ("CMI"), and the Lender, as may be amended, modified, supplemented and/or restated from time to time, the Loan Documents and Bond Documents, as defined in the Amendment Agreement, as such Documents may be amended, modified, supplemented and/or restated from time to time, or

otherwise, whether or not the same are: now existing or hereafter arising; imposed by agreement or by operation of law; due or not due; absolute or contingent (including any reimbursement obligations relating to any letter of credit issued for the account of the Company or CMI); liquidated or unliquidated; voluntary or involuntary, evidenced by a writing; presently contemplated by the parties; direct or indirect; liabilities or undertakings of the Company or any of its subsidiaries as surety, guarantor or endorser with respect to obligations of one or more other parties specifically described as secured or unsecured, hereafter acquired by the Lender or any of them by assignment, other transfer or operation of law. Senior Indebtedness also shall include any refinancings thereof or replacement financing therefor.

5. INTEREST LIMITATION. If a law, which applies to this Debenture and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this Debenture exceed the permitted limits, then: (i) any

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such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from the Company which exceeded permitted limits will be refunded to the Company. The Holder may choose to make this refund by reducing the principal owed under this Debenture or by making a direct payment to the Company.

6. CONSENT TO JURISDICTION. The Holder hereby irrevocably agrees that any legal action or proceedings with respect to this Debenture against the Company may be brought only in the courts of the United States of America or The Commonwealth of Massachusetts. By acceptance of this Debenture, the Holder hereby (i) accepts the exclusive jurisdiction of the aforesaid courts; (ii) irrevocably agrees to be bound by any judgment of any such court with respect to this Debenture; and (iii) irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceedings with respect to this Debenture brought in any court of the United States of America or The Commonwealth of Massachusetts, and further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

7. MISCELLANEOUS.

(a) THIS DEBENTURE SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS WITHOUT REFERENCE TO CONFLICTS OF LAWS, RULES OR PRINCIPLES.

(b) The Company and all endorsers of this Debenture hereby waive presentment, demand, protest or notice of any kind in connection with the delivery, acceptance, performance or enforcement of this Debenture.

(c) No provision thereof shall alter or impair the obligation of the Company which is absolute and unconditional, to pay the principal and interest on this Debenture as herein prescribed.

NUCLEAR METALS, INC.

By: /s/ James M. Spiezio

James M. Spiezio
Vice President - Finance

Attest:

/s/ Thomas A. Wooters

Clerk

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SCHEDULE TO EXHIBIT 10(J)

Other similar 10% Subordinated Debentures of the Company dated September 16, 1996:

Holder	Amount
-----	-----
1. Charles Albert or nominee	\$225,000.00
2. Marshall J. Chrein	\$ 25,000.00

NUCLEAR METALS, INC.
2229 Main Street
Concord, MA 01742

As of September 16, 1996

Mrs. George J. Matthews
15 Hickory Hill
Manchester, MA 01944

Re: 10% Convertible Subordinated Debenture
Due June 10, 1997

Dear Mrs. Matthews:

This letter agreement will confirm that the 10% Convertible Subordinated Debenture dated January 10, 1996 and due June 10, 1997 issued to you by Nuclear Metals, Inc. is amended to become due on December 10, 1998, semi-annual payments under the Debenture will continue as now scheduled with the balance paid at maturity, as extended, or earlier upon acceleration.

Please sign below to acknowledge your agreement and acceptance of the terms of this letter agreement.

Very truly yours,

NUCLEAR METALS, INC.

By: /s/ James M. Spiezio

James M. Spiezio,
Vice President, Finance

AGREED AND ACCEPTED:

By: /s/ Kathleen W. Matthews (Mrs. George J.)

Name:

Date: 12-26-96

Schedule of Similar Letter Agreements

Similar letter agreements were addressed to, and accepted by:

Charles Alpert

Melvin B. Chrein, M.D.

WAIVER OF BREACH OF COVENANT

This Waiver relates to a credit facility pursuant to a Credit Agreement dated as of March 31, 1995 (as amended to date, the "Credit Agreement") between Nuclear Metals, Inc., a Massachusetts corporation ("Nuclear Metals"), Carolina Metals, Inc., a Delaware corporation ("Carolina Metals" and together with Nuclear Metals, the "Borrowers"), and State Street Bank and Trust Company, a Massachusetts company (the "Bank").

WHEREAS, lack of business at Carolina Metals's South Carolina facility is expected to result in losses for the current fiscal year, and

WHEREAS, the Borrower's auditors have advised that, under the circumstances, such losses should be recognized in the fiscal year ended September 30, 1996 (the "Write-off"), and

WHEREAS, certain reserves in the approximate amount of \$3.3 million have been reclassified from long term reserves to inventory reserves (the "Reclassification"), and

WHEREAS, the Write-off and the Reclassification will result in Borrowers being out of compliance with the covenants in the Credit Agreement; and

WHEREAS, the Bank is willing to waive such noncompliance to the extent that it is attributable to the Write-off and the Reclassification, and

WHEREAS, the Borrowers and the Bank intend to continue the relationship existing under the Credit Agreement,

NOW, THEREFORE, the parties agree as follows:

1. The Bank hereby waives any failure to comply with covenants which results from the Write-off and the Reclassification, as of September 30, 1996 and subsequently, and agrees, until the parties agree to new covenants as set forth herein, compliance will be measured assuming that the Write-off and the Reclassification had not occurred.

2. The Bank and the Borrowers will agree upon revised covenants consistent with the Company's business plans and such that the Company's anticipated performance will allow it to remain in compliance at such time as Borrowers have prepared and delivered a business plan to the Bank and the Bank has had the opportunity to review it.

3. Except as set forth herein, the Credit Agreement, as amended to date, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have signed below:

NUCLEAR METALS, INC.

By: /s/ James M. Spiezio

CAROLINA METALS, INC.

By: /s/ James M. Spiezio

STATE STREET BANK AND TRUST COMPANY

By: /s/ William R. Dewey, IV

William R. Dewey, IV

OUR BUSINESS

Nuclear Metals, Inc. develops and manufactures a variety of advanced metal products serving a diverse customer base which includes the aerospace, environmental, defense, medical and energy industries.

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Exhibit 13

PRESIDENT'S LETTER

DEAR STOCKHOLDER:

While we made great progress in fiscal 1996, with sales revenues increasing over 50%, sustained operating margins for work at our Concord facility and a written commitment from the Army to fund the remediation of the Concord holding basin, we were not able to report income for the year. We had expected significant orders from both the Department of Energy (DoE) and United States Enrichment Corp. (USEC) for production work at our Carolina Metals, Inc. (CMI) facility. Unfortunately, these orders have yet to be realized and as a result, the Company incurred a loss for the fourth quarter and fiscal year. The fourth quarter loss included a charge of \$2.1 million for the estimated loss on current production contracts at CMI.

FINANCIAL HIGHLIGHTS

Although the Company experienced a net loss in fiscal 1996, sales of \$28.7 million compared favorably with fiscal 1995 sales of \$18.8 million. Year-end backlog decreased to \$23.2 million from \$30.7 million the prior year reflecting timing differences on a few large orders. Capital expenditures for the year nearly doubled to \$1.4 million from \$0.8 million the prior year. Research and development spending also doubled to \$876 thousand from \$439 thousand the prior year.

NMI'S year-end balance sheet reflects the increase in reserves that occurred in the fourth quarter of fiscal 1996. Our current ratio (current assets/current liabilities) decreased to 1.99:1 from 3.0:1 the prior year. Our quick ratio (current assets less inventory/current liabilities) decreased to 0.7:1 from 0.8:1 the prior year. Year-end cash and marketable securities were \$1.3 million. Inventories decreased, including the effect of additional reserves, to \$12.0 million from \$17.5 million the prior year. Long-term debt was reduced by \$2.5 million during fiscal 1996. Debt at fiscal 1996 year-end was at an all time low of \$2.0 million or 8% of stockholder equity.

State Street Bank and Trust Company, our commercial bank, approved a new \$4.25 million line of credit in December, 1996 which allows management attention to shift its focus from intense cash management to growing revenues from new and expanding products in fiscal 1997.

HOLDING BASIN

From an environmental remediation and licensing standpoint, we have achieved substantial milestones. First, the United States Army determined, to a great extent due to the strategic importance of the Beralcast -Registered

Trademark- products, to fund the remediation of our Concord holding basin waste

site and to provide assurances with respect to the potential decommissioning of our Concord facility so that we can achieve compliance with the regulatory requirements which govern our NRC license for the Concord plant. While we have not yet received a formal contract for this remediation work, we are confident that the Army will assist with all required remediation of our Concord site and that our NRC license will be renewed.

BERALCAST -REGISTERED TRADEMARK- INVESTMENT CASTINGS

Our patented Beralcast -Registered Trademark- alloys received increased market acceptance from the aerospace community during fiscal 1996. Acceptance by Lockheed Martin on the Army's new Comanche helicopter has stimulated the evaluation of this new material on other military defense and electronic programs. We are now building prototype hardware for numerous emerging programs, including the new Patriot PAC 3 Missile, the F-22 Fighter, several electronic countermeasure systems and satellite power supply systems. NMI recently received government funding for work to qualify Beralcast -Registered Trademark- for non-rotating aircraft engine applications. NASA also initiated a qualification program for use of Beralcast -Registered Trademark- for NASA applications. In addition to these military applications, Beralcast -Registered Trademark- is now being tested in several commercial electronic applications where its high stiffness allows for a nearly ten-fold increase in electronic processing speed. A number of new commercial electronic devices are being redesigned with Beralcast -Registered Trademark- to achieve these major increases in processing speed.

CAROLINA METALS INC.

Carolina Metals Inc., (CMI) our wholly-owned subsidiary located in Barnwell, South Carolina is the world's only depleted uranium (DU) processing facility. DU is the by-product of the uranium enrichment process. The DOE maintains an inventory of over one billion pounds of DU that will be converted to oxide and/or metal. Additionally, when the newly created United States Enrichment Corporation (USEC) is privatized, it is expected that their DU will be used as a feed material for their new, more efficient, laser enrichment process. Both of these programs represent potential orders that are substantial, however, the timing of the receipt of these orders remains uncertain.

In the third quarter of fiscal 1996, the Company completed its three-year order for DU metal with COGEMA. The continued delays in orders from DoE and USEC have resulted in a substantial underutilization of the CMI facility. As a result, a substantial reduction in the CMI work force was made in the third quarter.

In the fourth quarter the Company announced its intent to install new processing equipment for DUCRETE TM shielding concrete under license to the DoE. By March 1997 CMI will have a prototype facility capable of

processing one ton per day.

RECYCLING CONTAMINATED METAL

Prototype steel melting and casting equipment at CMI have successfully demonstrated that radiologically contaminated steels can be safely reconfigured and reused for disposal containers and shielding blocks. CMI began production of recycled steel shielding blocks in the fourth quarter of fiscal 1996 and has orders for over one million pounds in fiscal 1997.

The Company's proposal to commercialize advanced steel-making technology in conjunction with ARMCO INC. and build a Micromill to support DoE's needs for recycling contaminated metals has received favorable support from DoE, Oak Ridge. We expect to know whether this opportunity will be funded in the first half of 1997.

CUSTOMER SATISFACTION

The Company voluntarily joined the US Army's Contractor Performance

Certification Program (CP2) in late 1995. During fiscal 1996 an Army/industry team conducted two preliminary certification audits. This independent team of quality experts recommended a final certification audit in early 1997. Employee teams have been formed throughout the Company to assess and continuously improve how we manufacture quality products on time and at ever decreasing cost to our customers. We were awarded Lockheed Martin's 1995 Small Business of the Year Award which is a good indicator of our strong commitment to achieving customer satisfaction.

OUR PEOPLE

During fiscal 1996 the Company added to its highly skilled workforce at NMI in Concord to support our rapidly growing Beralcast -Registered Trademark- business and at fiscal year-end we had twenty open positions in support of our growth. It was with deep regret that we were forced to reduce employment at CMI.

We have repeatedly been told by our customers that the Company has an outstanding group of talented, dedicated employees who provide exceptional customer service and are clearly committed to the Company's success. Our employees are our strength and future.

THE FUTURE

We are excited on the prospects of significant growth. The Beralcast investment casting business has started an explosive growth phase with applications in both military and, most recently, commercial applications. CMI has unique capabilities that we believe will be of value to USEC when it is privatized and to the DoE as they convert their huge inventory of DU. We remain encouraged that our pilot scale contaminated steel recycling operations will result in a production plant being built with our strategic ally ARMCO, Inc. to support DoE requirements.

We are committed to achieving results that will enhance shareholder value. Thank you for your continued support and confidence.

/s/ Robert E. Quinn
Robert E. Quinn
President

/s/ George J. Matthews
George J. Matthews
Chairman of the Board

[PHOTO]

BUILDING ON OUR TECHNICAL STRENGTH

NMI's rich heritage in the manufacture of advanced metal products dates back to the 1940's as part of the metallurgical lab supporting the Manhattan Project. When the company moved to Concord, Massachusetts in the 50's, we were staffed with strong technical leaders whose research into new materials and processing technologies form the basis for many of our current successes. In the 1960's and 70's, the Company transitioned from an R&D company to a production operation with high volume manufacture of steel powder for the photocopier industry, principally for Xerox Corp. During the late 1970's and 1980's, the demand for these powders waned as technology changes made obsolete conventional photocopier techniques. At the same time powder production was slowing, the U.S. Armed Services needed large quantities of Depleted Uranium

SOLVING CUSTOMER'S UNIQUE NEEDS WITH INNOVATIVE METALLURGICAL SOLUTIONS CREATES NEW OPPORTUNITIES TO OUR MUTUAL BUSINESS ADVANTAGE. PICTURED ABOVE, JOHN NICHOLSON (SALES MANAGER) AND DENNIS LEHAN (SALES MANAGER), LOOK OVER A CUSTOMER'S SPEC SHEET, WHILE DR. STEVE MILLER (R&D ENGINEER) AND HANK DEMITA TAKE READINGS FROM NMI'S PATENTED REP -REGISTERED TRADEMARK- MACHINE.

ammunition. The Company expanded its existing DU operations to include the construction of a state of the art DU metal facility in South Carolina known as Carolina Metals, Inc.

At the end of the Cold War, NMI found itself in a similar state as many

defense contractors which unfortunately meant the need to downsize and remake the Company. This reformation of the Company brought us from one dependent on defense spending within a narrow product range to one with broad and innovative product offerings. The Company continues to maintain an outstanding technical staff which is the foundation of our growth position and new product development. Combining these technical skills with dedicated manufacturing and support staff, who together earned Lockheed Martin's Small Business of the Year award for 1995, the Company is poised for growth and competitive excellence into the 21st century.

[PHOTO]

THE VARIETY OF NMI'S DEPLETED URANIUM, ULTRA CLEAN METAL POWDERS, AND SPECIALTY METAL PRODUCTS AND SERVICES BOUYED THE COMPANY IN DIFFICULT TIMES.

ASSURING OUR FUTURE

The development of Beralcast -Registered Trademark-, an investment cast Beryllium Aluminum alloy, was initiated in response to customer demand for a light weight, high stiffness material. Once successful in meeting this demand, the material has been slated for a variety of new and exiting applications from Aerospace to Consumer Products. NMI is responding to this new and broad marketplace by adding the technical and support resources to help customers manage their increasingly demanding weight and stiffness needs. Beralcast -Registered Trademark- is twenty-two

[PHOTO]

"AN EXCITING NEW ENGINEERING MATERIAL" IS WHAT OUR CUSTOMERS ARE CALLING BERALCAST -REGISTERED TRADEMARK-. THE COMPANY'S PERSISTENCE IN MEETING DEMANDING CUSTOMER WEIGHT AND STIFFNESS REQUIREMENTS IN A LIGHTWEIGHT METAL IS LEADING TO VAST NEW MARKETS.

PICTURED ABOVE, KEVIN RAFERTY (BUSINESS UNIT MANAGER), JOINS CUSTOMER REPRESENTATIVES FROM LOCKHEED MARTIN IN EXAMINING THE FINE PRECISION OF OUR BERALCAST INVESTMENT CASTING, WHILE KARIN KARG AND BILL KING (ENGINEERS) WORK ON A 3D MODEL. DWIGHT HENDERSON, JOE LASKOWSKI, AND HEATHER DEHIMER (ENGINEERS) INSPECT CASTING MOLDS USED TO CREATE VARIOUS CUSTOMER PARTS WHILE A BERALCAST -REGISTERED TRADEMARK- FOUNDRY CREW PREPARED FOR A MELT.

percent lighter than aluminum and three times as stiff. Using Design to Cost principles and Concurrent Engineering techniques, NMI is partnering with customers to implement low cost designs that will result in significantly lower production costs in the future. The addition of six new Sales offices throughout the United States, and reinvigoration of our foreign Sales efforts will aid customers in gaining faster access to NMI's Beralcast -Registered Trademark- technology.

With the reduction in the manufacture of the Depleted Uranium penetrator in support of the U.S. army's M1A2 main battle tank, we have expanded our uranium product and service offerings. As the Atomic Vapor Laser Isotope Separation (AVLIS) program transitions from development to production, NMI continues to supply the needed Depleted Uranium feed stock for the program's early needs. AVLIS will require significant quantities of DU alloy feed material in the future.

DUCRETE TM shielding was developed by the Idaho National Engineering Laboratory as a potential shielding for spent fuel and high level radioactive waste casks. DUCRETE TM is a uranium oxide aggregate that is combined with concrete to form a stable and economical shielding. NMI has teamed with the commercial company that purchased the DUCRETE TM patent rights and we are actively pursuing the Department of Energy to convert its 55,000 metric tons of Uranium Hexafluoride into Depleted Uranium aggregate for DUCRETE TM shielding production.

In expanding our expertise in the handling of radioactive metals, such as uranium and thorium, NMI has installed equipment and facilities to manufacture RAM-LOC TM shielding blocks from slightly radioactive steel from the Nuclear industry. These shielding blocks are used to shield workers from high radiation sources within nuclear facilities. The beneficial reuse of slightly contaminated steel is an

even larger need within the Department of Energy as facilities, rich with metal

[PHOTO]

resources, are being decommissioned. NMI and CMI have partnered with Armco Steel to convince the DOE to convert these resources into economical steel products using a proprietary strip casting technology. The important plus for the DOE is our ability to offer recycled steel strip at commercial prices.

NMI is working diligently to develop fine titanium powders for commercial applications where sphericity and consistency are important. We continue to produce beryllium tubing for satellite applications, Bi-metallic transition joints made from a proprietary extrusion process, and a variety of other advanced metal products for the aerospace, medical, and other commercial industries. NMI continues to build on our technical successes by accepting aggressive challenges and responding with timely and customer focused solutions.

NOVEL RECYCLING TECHNIQUES FOR OTHERWISE UNWANTED AND CONTAMINATED METALS HAVE MET WITH ENTHUSIASTIC RESPONSE IN BOTH THE GOVERNMENT AND COMMERCIAL NUCLEAR SECTORS. PICTURED ABOVE, CMI'S ROBIN UTSEY (LAB SUPERVISOR) WORKS ON LAB SAMPLES, WHILE JIM CORNWELL (MANAGER) AND MALCOLM RILEY (LAB TECHNICIAN) READ RESULTS FROM A METAL COMPOSITION TEST.

[PHOTO]

OUR VISION OF NEW MARKETS FOR NMI'S ADVANCED METAL PRODUCTS AND SERVICES IS ONE OF BOUNDLESS POSSIBILITIES, SOME OF WHICH ARE ALREADY STARTING TO BE REALIZED.

GROWING TODAY

The employees of NMI are our most valuable asset. We are strengthening these assets with the introduction of the U.S. Army's Quality system known as CP2. This quality system, which includes all of the elements of the International Standards Organization (ISO), has been embraced at NMI. Combining training, rewards, and a systematic approach to our work habits with high standards for continuous improvement, NMI is setting the tone for a solid and exiting future. Beralcast -Registered Trademark- products will replace today's heavier and less effective competitive materials in a wide variety of applications. Facility expansion will likely be the sole pacing item in the Company's ability to handle the expected business volumes of the near future. Recycled metals, AVLIS feedstock, and DUCRETE TM shielding, among other new products in development at NMI, provide the framework for continued growth and expansion. We see a future which will include a broad product offering, effective technical problem solving, and economical production techniques based on the specialized skills of a workforce dedicated to excellence.

[PHOTO]

AN AGILE SMALL BUSINESS WITH A BIG FUTURE WILL ONLY TRANSITION TO A MUCH LARGER AND MORE PROFITABLE ENTERPRISE IF WE LISTEN TO OUR CUSTOMERS AND TO EACH OTHER. PICTURED ABOVE, BRUCE ZUKAUSKAS (V.P. OF OPERATIONS), AND KEVIN RAYMOND (MACHINIST) ALIGN EQUIPMENT TO A SPECIFIC JOB IN THE MACHINE SHOP. THE OTHER SPECIALTY PRODUCTS TEAM (L TO R) ANDREW FUNK (BUYER), KEVIN RAYMOND (MACHINIST), ROBERT ARCAND (TECHNICIAN), WAYNE CORMIER (CHEIF INSPECTOR), CARRIE FLOOD (PRODUCTION CONTROL SUPERVISOR), WORK ON TRACKING QUALITY THROUGHOUT LOTS. DOUG GROTHEER (V.P. OF ENGINEERING,) JEFF ELLIOT, AND CHRIS ROSE, ANALYZE METRICS.

SELECTED FINANCIAL DATA

(NOT COVERED BY REPORT OF INDEPENDENT PULIC ACCOUNTANTS)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND NUMBER OF EMPLOYEES)

<TABLE>
<CAPTION>

OPERATING RESULTS FOR THE YEAR	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales and Contract Revenues	\$28,694	\$18,784	\$19,004	\$17,019	\$42,083
Costs and Expenses	31,254	20,708	29,958	27,515	39,791
Operating Income (Loss)	(2,560)	(1,924)	(10,954)	(10,496)	2,292
Other Income (Expense), Net	(476)	(118)	(430)	(557)	(745)
Income (Loss) Before Taxes	(3,036)	(2,042)	(11,384)	(11,053)	1,547
Provision (Benefit) for Income Taxes	1	(1,967)	(1,188)	(3,746)	626
Extraordinary Gain	--	585	--	--	--
Cumulative Change in Accounting Principle	--	--	--	1,100	--
Net Income (Loss)	(3,037)	510	(10,196)	(6,207)	921
Earnings (Loss) per Share	(1.27)	--	(4.43)	(2.70)	0.40
Capital Expenditures, Net	1,449	777	709	1,265	1,015
Research and Development	876	439	575	1,031	1,233

FINANCIAL POSITION AT YEAR-END

Stockholders' Equity	24,240	27,245	26,252	36,371	43,037
Shares Outstanding	2,391	2,388	2,307	2,295	2,295
Net Book Value per Common Share Outstanding	10.14	11.41	11.38	15.85	18.76
Dividends Paid	--	--	--	459	276
Dividends per Share	--	--	--	0.26	0.12
Total Assets	35,118	40,886	40,542	57,223	66,391
Working Capital	9,249	15,866	17,477	24,532	32,571
Long-term Debt (including current installments)	2,004	4,480	4,859	8,986	11,372

OTHER DATA

Weighted Average Number of Shares of Common Stock Outstanding	2,389	2,353	2,300	2,295	2,302
Backlog (at Year-end)	23,248	30,709	14,512	8,285	10,729
Number of Employees (at Year-end)	190	200	189	169	231

</TABLE>

<TABLE>
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OPERATING RESULTS FOR THE YEAR	1991	1990	1989	1988	1987
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales and Contract Revenues	\$48,250	\$47,662	\$49,760	\$45,714	\$42,395
Costs and Expenses	44,930	44,734	45,350	42,378	45,143
Operating Income (Loss)	3,320	2,928	4,410	3,336	(2,748)
Other Income (Expense), Net	(1,029)	(1,706)	(1,191)	(1,182)	(271)
Income (Loss) Before Taxes	2,291	1,222	3,219	2,154	(3,019)
Provision (Benefit) for Income Taxes	871	489	972	506	(1,452)
Extraordinary Gain	--	--	--	--	--
Cumulative Change in Accounting Principle	--	--	--	--	--
Net Income (Loss)	1,420	733	2,247	1,648	(1,567)
Earnings (Loss) per Share	0.60	0.30	0.86	0.62	(0.58)
Capital Expenditures, Net	1,349	2,270	3,306	2,812	3,040
Research and Development	1,357	685	1,007	1,186	679

[GRAPHIC]

FINANCIAL POSITION AT YEAR-END

Stockholders' Equity	42,614	41,756	43,135	41,592	40,632
Shares Outstanding	2,335	2,384	2,596	2,632	2,701
Net Book Value per Common Share Outstanding	18.25	17.52	16.62	15.80	15.04
Dividends Paid	238	251	263	--	--
Dividends per Share	0.10	0.10	0.10	--	--
Total Assets	70,810	73,603	76,520	75,461	66,189
Working Capital	33,034	32,772	35,578	36,231	27,095
Long-term Debt (including current installments)	13,759	16,040	18,405	19,756	11,163

[GRAPHIC]

OTHER DATA

Weighted Average Number of Shares of Common Stock Outstanding	2,369	2,447	2,622	2,677	2,701
Backlog (at Year-end)	10,398	14,758	19,352	16,016	31,947
Number of Employees (at Year-end)	456	455	574	585	569

[GRAPHIC]

[PHOTO]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

FISCAL 1996 COMPARED WITH FISCAL 1995

Net sales increased by \$9,910,000 or 53% in fiscal 1996. Sales in the Uranium Services and Recycle industry segment increased by \$1,220,000 or 25%; sales in the Specialty Metal Products industry segment increased by \$1,628,000 or 13% and sales in the Depleted Uranium Penetrator industry segment increased by \$7,062,000 or 412%. The increase in the Uranium Services and Recycle industry segment was mainly due to increases in AVLIS feedstock production for the United States Enrichment Corporation (USEC). The increase in the Specialty Metal Products industry segment was a result of higher sales of beryllium products and commercial depleted uranium. The increase in the Depleted Uranium Penetrator industry segment was the result of higher large caliber penetrator production sales.

During the third quarter of fiscal 1996, the Company reduced its workforce from 55 to 24 employees at the Carolina Metal's (CMI) facility due to reduced production requirements resulting from the completion of a multi-year contract for the manufacture of depleted uranium for a foreign customer and the lack of anticipated new orders. The Company had expected to obtain substantial orders from USEC and the Department of Energy (DoE) in the second half of fiscal 1996. These orders have yet to be materialized and as a result CMI is operating at approximately 40% capacity on a one shift basis and is expected to do so through most of fiscal 1997. In the fourth quarter of fiscal 1996 the Company established a \$2,100,000 reserve for estimated fiscal 1997 losses associated with CMI's current production contracts. The Company is obligated to complete these contracts, which are fixed price. The Company continues to pursue alternate production contracts and believes that significant orders eventually will be received for work at the CMI facility. In the event that the prospects for greater utilization of the CMI facility do not improve, the Company will reevaluate the carrying value of its CMI facility during fiscal

PICTURED ABOVE, CONTROLLER BECKY PERRY, V.P. OF FINANCE JIM SPIEZIO, AND V.P. OF TECHNOLOGY BILL NACHTRAB DISCUSS RESEARCH AND DEVELOPMENT COSTS. ERIC ANDERSON, AND V.P. OF HEALTH AND SAFETY FRANK VUMBACO.

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1997, which could result in a writedown of plant assets.

Gross profit (net sales and contract revenues less cost of sales) increased by \$309,000 to \$3,641,000 or 13% of sales as compared to \$3,332,000 or 18% of sales for fiscal 1995. This increase in gross profit is primarily due to increased sales volume during fiscal 1996. As a percentage of sales, the decrease in gross profit is primarily due to the establishment of a \$2,100,000 reserve for estimated losses associated with CMI's production contracts.

Selling, general and administrative expenses increased by \$507,000 to \$5,324,000. This increase was primarily due to additional employees required to support the growth in business. As a percentage of sales, these expenses decreased to 19% as compared to 26% for the prior year, as a result of sales increasing at a higher rate than expenses.

Company-sponsored research and development expenses increased by 100%, or \$437,000 to \$876,000 for fiscal 1996. As a percentage of sales, these expenses were 3% as compared to 2% in fiscal 1995.

Interest and other income, net, decreased to \$(89,000) for the fiscal year as compared to \$232,000 for the prior year. This decrease was mainly from a \$150,000 restructuring fee associated with amendments to the Company's credit facility during the third quarter of fiscal 1996 and a gain of \$175,000 recognized during the second quarter of fiscal 1995 on the sale of an office building.

Interest expense increased by \$37,000 to \$387,000 as compared to fiscal 1995. This increase was primarily the result of higher interest rates and

fees associated with outstanding debt during fiscal 1996.

During fiscal 1995, the Company realized a \$585,000 extraordinary gain, net of taxes of \$10,000, on the early extinguishment of debt.

INCOME TAXES

Income taxes benefited during 1996 and 1995 were at an effective rate of 0% and 96%, respectively. During fiscal 1995, the Company received \$978,000 in tax refunds from carryback losses and reduced tax reserves by \$989,000 as a result of successful completion of a federal tax audit.

INFLATION

Inflation has not had a material impact on the Company's cost of doing business. Management attempts to protect the Company by adjusting prices where market conditions permit and by reviewing and improving production processes where possible. Price escalation clauses also are negotiated into long-term contracts when possible.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1996, working capital decreased to \$9,249,000 from \$15,866,000 in fiscal 1995. This decrease is primarily due to increased reserves against inventory of \$3.3 million and a reserve established for CMI losses of \$2.1 million associated with current production

(NOT COVERED BY REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) 13

contracts both of which were recorded in the fourth quarter.

On December 24, 1996, the Company and its commercial bank increased the amount of the Company's credit facilities from \$3.25 to \$4.25 million (See Note 6 of the Notes to Consolidated Financial Statements for details of the credit facilities) pursuant to the terms of a certain Second Amendment to Credit Agreement, amending the terms of a certain Credit Agreement dated as of March 31, 1995 between the Company, its wholly owned subsidiary, Carolina Metals, Inc. and State Street Bank and Trust Company (as so amended, the "Credit Agreement"). The increase in the credit facility was to provide the Company with additional working capital to support the growth in business.

During the fourth quarter the Company also sold an additional \$350,000 of subordinated debt, with warrants to purchase Common Stock, to certain shareholders bringing the principal amount of such subordinated debt to \$850,000. This additional capital was provided to the Company in support of growth in new product areas. (See Note 6 of the Notes to Consolidated Financial Statements for details of the Credit Agreement and the subordinated debt issued to certain of the Company's shareholders.)

The Company also has outstanding approximately \$500,000 in principal amount on industrial revenue bond indebtedness.

The Company did not declare any dividends during its last three fiscal years. Given the Company's current cash flow situation, the Company does not expect to pay dividends in the next fiscal year. Future cash dividends if any, would be paid on an annual basis, the amount of which is subject to the determination and approval of the Company's Board of Directors. The Company's bank loan agreement also prohibits the declaration or payment of dividends without bank consent.

The Company believes, based on assumptions concerning backlog fulfillment and the expected timing of new orders, that its cash from operations together with currently available credit facilities, will be sufficient to sustain operations in 1997.

ENVIRONMENTAL REMEDIATION

The Company has been working with various regulatory bodies to formulate a plan for the removal of materials contained in a holding basin at its site in Concord, Massachusetts. The United States Army, in a Memorandum of Decision dated September 13, 1996, determined pursuant to Public Law 85-804, that it should fund remediation of the Concord holding basin site as well as costs related to decommissioning and disposal with respect to the Concord facility, based in part on the Army's determination that the Company's activities are essential to the national defense. Based on the decision of the Army to fund the remediation of the holding basin in the fourth quarter, the Company has reversed its \$3.4

million reserve previously established to cover the Company's potential obligation to remediate the basin. The Company believes that any cost of remediation not funded by the army will not have a material impact on its results of operations or financial position. (See Note 11 of the Notes to Consolidated Financial Statements for further discussion.)

FISCAL 1995 COMPARED WITH FISCAL 1994

Net sales decreased by \$220,000 or 1% in fiscal 1995. Sales in the Uranium Services and Recycle industry segment increased by \$217,000 or 5%. Sales in the Specialty Metal Products industry segment increased by \$4,818,000 or 66%. Sales in the Depleted Uranium Penetrator industry segment decreased by \$5,255,000 or 75%.

The increase in the Uranium Services and Recycle industry segment was mainly due to increases in remelt services. The increase in the Specialty Metal Products industry segment was a result of increased sales of beryllium products and commercial depleted uranium. The decrease in the Depleted Uranium Penetrator industry segment was primarily due to lower large caliber penetrator production sales.

Gross income (net sales and contract revenues less cost of sales) increased by \$5,918,000 to \$3,332,000 or 18% of sales as compared to \$(2,586,000) or (14)% of sales for fiscal 1994. This increase in gross income is primarily due to increased reserves taken in fiscal 1994 and the absence in fiscal 1995 of losses on certain contracts which occurred during fiscal 1994.

Selling, general and administrative expenses increased by \$608,000 to \$4,817,000. This increase was attributable to higher legal and audit costs which were primarily associated with debt restructuring and a property sale. As a percentage of sales, these expenses increased to 26% as compared to 22% for the prior year.

Company-sponsored research and development expenses decreased by \$136,000 to \$439,000 for fiscal 1995. As a percentage of sales, these expenses were 2% as compared to 3% in fiscal 1994.

Interest and other income, net, increased to \$232,000 for the fiscal year as compared to \$120,000 for the prior year. This increase was mainly due to a gain recognized during the second quarter of fiscal 1995 on the sale of an office building.

Interest expense decreased by \$200,000 to \$350,000 as compared to fiscal 1994. This decrease was primarily the result of reductions in debt during 1995.

The Company realized a \$585,000 extraordinary gain, net of taxes of \$10,000, on the early extinguishment of debt.

(NOT COVERED BY REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) 15

CONSOLIDATED BALANCE SHEET

<TABLE>

<CAPTION>

ASSETS	1996	1995
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,051,000	\$ 1,076,000
Restricted cash	250,000	-
Marketable securities	-	170,000
Accounts receivable, net of allowances for doubtful accounts of \$821,000 in 1996 and \$883,000 in 1995	4,931,000	4,730,000
Inventories	12,025,000	17,468,000
Other current assets	376,000	343,000
	-----	-----
Total Current Assets	18,633,000	23,787,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Land	2,178,000	2,178,000
Buildings	18,040,000	18,250,000

Machinery, equipment, and fixtures	26,179,000	25,296,000
Construction-in-progress	583,000	42,000
	-----	-----
Total Property, Plant and Equipment	46,980,000	45,766,000
Less: Accumulated depreciation	31,834,000	30,479,000
	-----	-----
Net property, plant, and equipment	15,146,000	15,287,000
Other Assets	1,339,000	1,812,000
	-----	-----
	\$35,118,000	\$40,886,000
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	\$ 510,000	\$ 2,405,000
Accounts payable	2,143,000	2,465,000
Accrued payroll and related costs	1,170,000	682,000
Other accrued expenses	5,561,000	2,369,000
	-----	-----
Total Current Liabilities	9,384,000	7,921,000
	-----	-----
NOTES PAYABLE TO SHAREHOLDERS	850,000	-
	-----	-----
LONG-TERM OBLIGATIONS	644,000	2,075,000
	-----	-----
OTHER LONG-TERM LIABILITIES	-	3,645,000
	-----	-----
COMMITMENTS & CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.10; authorized - 6,000,000 shares; issued and outstanding for 1996 and 1995; 2,390,964 shares and 2,387,964 shares, respectively	239,000	239,000
Additional paid-in capital	14,258,000	14,226,000
Retained earnings	9,743,000	12,780,000
	-----	-----
Total Stockholders' Equity	24,240,000	27,245,000
	-----	-----
	\$35,118,000	\$40,886,000
	-----	-----
	-----	-----

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>

<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
NET SALES AND CONTRACT REVENUES	\$28,694,000	\$18,784,000	\$ 19,004,000
	-----	-----	-----
COST AND EXPENSES:			
Cost of sales	25,053,000	15,452,000	21,590,000
Selling, general, and administrative expenses	5,324,000	4,817,000	4,209,000
Research and development expenses	876,000	439,000	575,000
Loss on fixed asset writedown	-	-	3,584,000
	-----	-----	-----
	31,253,000	20,708,000	29,958,000
	-----	-----	-----
OPERATING LOSS	(2,560,000)	(1,924,000)	(10,954,000)
INTEREST AND OTHER INCOME (EXPENSE), NET	(89,000)	232,000	120,000
INTEREST EXPENSE	(387,000)	(350,000)	(550,000)
	-----	-----	-----
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(3,036,000)	(2,042,000)	(11,384,000)
PROVISION (BENEFIT) FOR INCOME TAXES	1,000	(1,967,000)	(1,188,000)
	-----	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM	(3,037,000)	(75,000)	(10,196,000)
EXTRAORDINARY GAIN ON EXTINGUISHMENT OF DEBT NET OF TAXES OF \$10,000	-	585,000	-
	-----	-----	-----
NET INCOME (LOSS)	\$(3,037,000)	\$ 510,000	\$(10,196,000)
	-----	-----	-----
	-----	-----	-----

PER SHARE INFORMATION

INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(1.27)	(0.03)	(4.43)
EXTRAORDINARY GAIN ON EXTINGUISHMENT OF DEBT NET OF TAXES OF \$10,000	-	0.25	-
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE	\$ (1.27)	\$ 0.22	\$ (4.43)
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	2,389,464	2,352,756	2,300,131
DIVIDENDS PER SHARE	\$ -	\$ -	\$ -

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE
CONSOLIDATED FINANCIAL STATEMENTS.

17

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
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	Common Stock		Additional Paid-in Capital	Retained Earnings
	Number of Shares	Par Value		
<S>	<C>	<C>	<C>	<C>
Balance at September 30, 1993	2,294,664	\$ 229,000	\$ 13,676,000	\$ 22,466,000
Stock Options Exercised	12,800	1,000	76,000	--
Net Loss for the Year	--	--	--	(10,196,000)
Balance at September 30, 1994	2,307,464	\$ 230,000	\$ 13,752,000	\$ 12,270,000
Stock Options Exercised	80,500	9,000	474,000	--
Net Income for the Year	--	--	--	510,000
Balance at September 30, 1995	2,387,964	\$ 239,000	\$ 14,226,000	\$ 12,780,000
Stock Options Exercised	3,000	--	32,000	--
Net Loss for the Year	--	--	--	3,037,000
Balance at September 30, 1996	2,390,964	\$ 239,000	\$ 14,258,000	\$ 9,743,000

</TABLE>

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

18

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE> <S>	<C>	<C>	<C>
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (3,037,000)	\$ 510,000	\$ (10,196,000)
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	1,493,000	1,339,000	2,874,000
Loss on fixed asset writedown	--	--	3,584,000
Changes in assets and liabilities, net-			
Decrease (increase) in accounts receivable	(201,000)	725,000	(2,205,000)
Decrease (increase) in income tax receivables	--	--	2,394,000
Decrease (increase) in inventories	2,099,000	(2,982,000)	1,150,000
(Decrease) increase in accounts payable and accrued expenses	3,358,000	1,387,000	(993,000)

Gain on sale of building	(75,000)	(175,000)	
Changes in accrued and deferred taxes	--	(1,000)	(1,286,000)
Changes in other long-term liabilities	(301,000)	(981,000)	2,439,000
Other	440,000	(100,000)	253,000
	-----	-----	-----
Net cash provided (used) by operating activities	3,776,000	(278,000)	(1,986,000)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net	(1,449,000)	(777,000)	(709,000)
Sales of marketable securities, net	170,000	326,000	94,000
Proceeds from sale of Property, Plant & Equipment	172,000	487,000	--
	-----	-----	-----
Net cash (used) provided by investing activities	(1,107,000)	36,000	(615,000)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments under long-term obligations	(4,856,000)	(4,103,000)	(4,127,000)
Proceeds from bank debt	2,380,000	3,725,000	--
Proceeds from Shareholder Notes	850,000	--	--
Proceeds from Stock issuance	32,000	483,000	77,000
	-----	-----	-----
Net cash (used) provided by financing activities	(2,444,000)	105,000	(4,050,000)
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:			
	225,000	(137,000)	(6,651,000)
Cash and cash equivalents at beginning of year	1,076,000	1,213,000	7,864,000
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 1,301,000	\$ 1,076,000	\$ 1,213,000
	-----	-----	-----
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest, net of amounts capitalized	\$ 345,000	\$ 280,000	\$ 680,000
Income tax refunds received	\$ 11,000	\$ 978,000	\$ --
NON-CASH INVESTING & FINANCING ACTIVITIES:			
Capital lease obligations	\$ 75,000	\$ --	\$ --

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE 19
CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS

The Company is a manufacturer of specialized metal products which are fabricated by a variety of metalworking processes. Export sales to foreign unaffiliated customers are 28% of total net sales and contract revenues in fiscal 1996, 33% in fiscal 1995, and 37% in fiscal 1994. A significant portion of the Company's sales revenue has been derived from major customers as follows:

	1996	1995	1994
Olin Corp	20%	8%	21%
Lockheed Martin	16	18	-
Cogema	14	19	20
Royal Ordnance	11	-	12
Lockheed Idaho Falls	4	9	6

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Nuclear Metals, Inc. and its wholly owned subsidiaries: NMI Foreign Sales Corporation, NMI Holdings, Inc., a Massachusetts securities corporation, and Carolina Metals, Inc. All material intercompany transactions and balances have been eliminated in consolidation.

FISCAL YEARS

References in these financial statements to 1996, 1995, and 1994 are for the fiscal years ended September 30, 1996, September 30, 1995, and September

30, 1994, respectively.

REVENUE RECOGNITION

Revenues are recorded when products are shipped, except for revenues on long-term contracts which are recorded on the percentage-of-completion method. The percentage-of-completion method is used for research and development contracts and for production contracts which require significant amounts of initial engineering and development costs. The percentage-of-completion is determined by relating the actual number of contract units completed or costs incurred to date to the total units to be completed or total cost to be incurred under the respective contract. When the estimated total cost on a contract indicates a loss, the Company's policy is to record the entire loss currently. Performance incentives incorporated in certain government contracts are recognized when incentives are earned or awarded or when penalties are incurred or assessed. Contract revenues include fees resulting from facilitization contracts with the U. S. Army (contracts to establish production capacity through the purchase and installation of equipment to be owned by the U.S. Army). Costs associated with these contracts, exclusive of the costs to purchase the equipment (\$0 in 1996, \$0 in 1995 and \$380,000 in 1994) are included in cost of sales. The consolidated balance sheets do not include the cost of this U.S. Army-owned equipment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are recorded at cost which approximates market value. Cash equivalents include certificates of deposit with a maturity of three months or less.

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MARKETABLE SECURITIES

Marketable securities are recorded at cost which approximates market value. Marketable securities include certificates of deposit purchased with a maturity greater than three months.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market and include materials, labor, and manufacturing and engineering overhead.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are recorded at the lower of cost or net realizable value. For financial reporting purposes, the Company provides depreciation on the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings	20 - 30 years
Machinery, equipment, and fixtures	3 - 10 years

Maintenance and repairs are charged to operations as incurred; renewals and betterment's are capitalized. When property, plant, and equipment are sold, retired or entirely written down, the asset cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

During the fourth quarter of 1994, the Company recorded a loss on fixed asset writedown in the Depleted Uranium Segment of \$3,584,000 consisting principally of a provision to adjust the carrying values of idle and underperforming fixed assets to estimated net realizable values. The provision was based on a periodic review of fixed assets and a determination that there has been a permanent decline in the value of assets due to declines in defense spending and the pricing necessary to compete effectively for such contracts.

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement requires a review for impairment for long-lived assets and certain identifiable intangibles to be held and used by an entity whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized if the sum of the expected future cash flows to result from the use and eventual disposition of the asset is less than the carrying amount of the asset. The amount by which the carrying amount of the asset exceeds the fair value less costs to sell, is an

impairment loss to be recognized. This statement applies to fiscal years beginning after December 15, 1995. The effects of adopting this statement on the Company's financial position and results of operations are not known at this time.

In the fourth quarter of fiscal 1996 the Company established a \$2,100,000 reserve for estimated fiscal 1997 losses associated with CMI's current production contracts. The Company is obligated to complete these contracts, which are fixed price. The Company continues to pursue alternate production contracts and believes that significant orders eventually will be received for work at the CMI facility. In the event that the prospects for greater utilization of the CMI facility do not improve, the Company will reevaluate the carrying value of its CMI facility during fiscal 1997, which could result in a writedown of plant assets.

INCOME TAXES

The Company provides for income taxes in each year's consolidated statements of operations regardless of the year in which the transactions are reported for tax purposes to recognize the tax effects of all events.

The deferred federal and state income taxes result primarily from using accelerated depreciation on property, plant, and equipment for income tax

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reporting purposes and from establishing reserves which are not currently deductible for income tax purposes, respectively.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are related only to Company-sponsored research and development and include direct costs and an allocation of overhead.

RECLASSIFICATIONS

Certain amounts previously reported in the consolidated financial statements have been reclassified to conform with the 1996 presentation.

NEW ACCOUNTING STANDARDS

In October 1995, the FASB issued SFAS No.123, ACCOUNTING FOR STOCK-BASED COMPENSATION, which is effective for fiscal years beginning after December 15, 1995. The Company has determined that it will continue to account for employee stock-based compensation under Accounting Principals Board No. 25 and elect the disclosure-only alternative under SFAS No. 123. The Company will be required to disclose pro forma net income and loss per share amounts in the notes to the financial statements using the fair-value-based method beginning in the fiscal year ending September 30, 1997.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist mainly of cash and cash equivalents, restricted cash, marketable securities, accounts receivable, notes receivable from officers, accounts payable and notes payable. The carrying amounts of the Company's cash and equivalents, restricted cash, accounts receivable, notes receivable from officers and accounts payable approximate their fair value due to the short-term nature of these instruments. The carrying value of the notes payable also approximate the fair value, based on rates available to the Company for debt with similar terms and remaining maturities.

3. OTHER ACCRUED EXPENSES

Accrued expenses consist of the following at September 30, 1996 and 1995

	1996	1995
Waste burial cost	\$ 2,884,000	\$ 1,727,000
Estimated loss on contracts	2,100,000	
Other	577,000	642,000
	\$ 5,561,000	\$ 2,369,000

4. ACCOUNTS RECEIVABLE

The following is an analysis of accounts receivable (net of allowances for doubtful accounts):

	1996	1995
Accounts receivable	\$ 3,479,000	\$ 4,449,000
Unbilled Receivables and Retainages due upon completion of contracts	1,452,000	281,000
	\$ 4,931,000	\$ 4,730,000

5. INVENTORIES

Inventories (net of reserves) at September 30, 1996, and September 30, 1995, were as follows:

	1996	1995
Work-in-process	\$ 8,697,000	\$ 13,942,000
Raw materials	2,620,000	2,794,000
Spare parts	708,000	732,000
	\$ 12,025,000	\$ 17,468,000

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As of September 30, 1996, approximately \$8.0 million, net of reserves, of the Company's inventory consists of Depleted Uranium (DU) in various stages of production. This amount consists of both value-added costs to government owned material, (\$4.1 million), which is used for U.S. Military contracts and for material which the Company has acquired from other sources, (\$3.9 million). During fiscal 1995 the U.S. Army notified the Company that the Army would provide the DU for production for the most recent penetrator contract. Management strongly believes that the Army is responsible to compensate the Company for the value-added costs of this material and that at a minimum the Army would allow the Company to use this material for non U.S. military contracts at no additional cost to the Company. Management is pursuing several Department of Energy programs that would require more DU over the next several years than the Company currently has on hand. Management believes that the carrying cost of the inventory on hand will be fully realizable through these possible programs or from its ongoing usage for U.S. and foreign military procurements, however it is uncertain how much of the inventory balance will be utilized in fiscal 1997. During fiscal 1996, the Company provided additional reserves for inventory of approximately \$3.3 million.

6. LONG-TERM OBLIGATIONS AND NOTES PAYABLE

Long-term obligations and notes payable of the Company at September 30, 1996, and September 30, 1995, are as follows:

	1996	1995
Term Credit, interest rate of prime plus 0.5% due in monthly principal payments through 1996	\$ 133,000	\$ 1,733,000

Line of Credit, interest rate of prime plus 0.5%	-	1,000,000
Demand Line of Credit, interest rate of prime plus 1.5%	-	925,000
Industrial Development Revenue Bonds, variable interest rates (5.5% - 5.8% at September 30, 1996) due in quarterly principal payments through 2000	492,000	822,000
Debentures payable to shareholders, interest only payments of 10% until maturity	850,000	-
Note Payable, monthly interest and principal payments for 18 months, interest rate of 10.25%	457,000	-
Capital Leases	72,000	-
	-----	-----
	\$ 2,004,000	\$ 4,480,000
Less Current portion of long-term obligations	510,000	2,405,000
	-----	-----
	\$ 1,494,000	\$ 2,075,000
	-----	-----

On December 24, 1996 the Company and its commercial bank increased the amount of the Company's credit facilities from \$3.25 million to \$4.25 million, with a maturity date of February 28, 1998, pursuant to the terms of a certain Second Amendment to Credit Agreement, amending the terms of a certain Credit Agreement dated as of March 31, 1995 between the Company, its wholly owned subsidiary, Carolina Metals, Inc. and State Street Bank and Trust Company (as amended, the "Credit Agreement"). The \$4.25 million consists of \$2.25 million of letters of credit and \$2.0 million credit line for working capital. Borrowings under the Credit Agreement bear interest at the prime rate plus 1/2 of 1%. The Company also pays a fee of 1/2 of 1% on the unused portion of the credit facilities. As of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED. 23

September 30, 1996 no amounts were outstanding under the line of credit. The Company did have \$2.25 million of letters of credit outstanding. As of September 30, 1996, the Company was not in compliance with certain financial covenants contained in the Credit Agreement. The Company's lender has waived non-compliance with the Credit Agreement as of September 30, 1996 and modified certain covenants contained therein pending agreement upon revised covenants. The Company and the lender have agreed to revise the covenants in the Credit Agreement consistent with the Company's business plans such that the Company's anticipated performance will allow it to remain in compliance at such time as the Company has prepared the business plan and the lender has reviewed it.

The Company's Line of Credit Demand Note (the Note) (Balance of \$925,000 as of September 30, 1995) was due by January 15, 1996. This Note, which was negotiated in September 1995, was intended to provide the Company working capital until the receipt of proceeds from the sale of specific penetrator blanks to a certain customer. This Note was secured by a number of patents held by the Company. In consideration for providing this facility, the Company issued the lender a warrant to purchase 25,000 shares of the Company's common stock at \$11.89 per share which was the approximate market value of the Company's common stock at the time the warrants were issued. These warrants expire in 2005. The holder of the warrant has the option to exercise a portion of the warrant in a cashless transaction by surrendering the remaining portion of the warrant as defined.

On January 11, 1996, the Company reached an agreement with its lender to amend certain terms of its debt, including the waiver of past violations of debt covenants, extension of certain debt maturity dates and the revision of certain financial covenants. The agreement required the Company to make a payment of \$500,000 of the Demand Line of Credit Note on January 12, 1996,

the funds of which were received from certain shareholders in exchange for notes payable of \$500,000 due June 1997. The notes payable to the shareholders are payable interest only (in cash or common stock) semi-annually until their maturity date at a rate of 10% convertible into shares of the Company's common stock at \$11.89 per share and are subordinate to the debt of the Company. In consideration for providing this amendment, the Company paid a fee to the lender in the amount of \$150,000.

On July 2, 1996 the Company paid all amounts due under the Demand Line of Credit and that agreement was then terminated.

On January 10, 1996, the Company issued \$500,000 in principal amount of its 10% Convertible Subordinated Debentures, the principal amount of which is convertible at the option of the holder into shares of the Company's Common Stock at the rate of \$11.89 per share. The original maturity date of these Debentures, June 10, 1997, has been extended by the holders pursuant to certain letter agreements until December 10, 1998. These Debentures were issued to persons who are significant shareholders of the Company or related to such persons.

On September 16, 1996 the Company issued an additional \$350,000 in principal amount pursuant to its 10% Subordinated Debentures due December 10, 1998 which were issued to certain significant shareholders of the Company. In consideration for the Debentures, the holders were issued three-year warrants to purchase an aggregate of 21,000 shares of common stock at an exercise price of \$15.00 per share, subject to antidilution adjustments.

During fiscal 1995, the Company restructured its long-term debt, the principal balance of \$3,532,000 outstanding on the 10.05% Note was settled at a discount. Accordingly, the Company recorded an extraordinary gain on extinguishment of debt of \$585,000 net of taxes of \$10,000 in the accompanying statement of operations as a result of this transaction.

The Industrial Revenue Bonds, (the "IRBs") outstanding consists of two note issues. The interest rates on these notes range from 66.5% to 70% of the lenders bank's prime interest rate. These notes are secured by property, plant and equipment.

The IRBs contain restrictive

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covenants including, among others, a requirement to maintain minimum working capital, consolidated net worth and a minimum current ratio. As of September 30, 1996, the Company was not in compliance with certain of these financial covenants. The Company has received a letter from the trustee representing the IRB holders which indicates it has not accelerated, and has no intention to accelerate, payments pursuant to the IRBs.

Maturities of long term obligations subsequent to September 30, 1996 are: 1997 - \$510,000, 1998 - \$1,040,000; 1999 - \$199,000; 2000 - \$151,000; thereafter \$69,000.

7. INCOME TAXES

The provision (benefit) for income taxes differs from the amount computed by applying the statutory federal income tax rate due to the following:

	1996	1995	1994
Statutory rate	(34.0) %	(34.0) %	(34.0) %
Increase (reduction) in taxes resulting from:			
State taxes, net of federal effect	(6.0)	(6.0)	(6.3)
Valuation allowance	40.0	(2.0)	29.6
Tax reserves no longer required	-	(48.0)	-
Other	-	(6.0)	-
	-----	-----	-----
	- %	(96.0) %	(10.4) %
	-----	-----	-----

As of September 1996, the Company has a federal net operating loss

carryforward of approximately \$6 million of which \$3.2 million expires in 2009, \$1.7 million expires in 2010, \$1.1 million expires in 2011, and State net operating loss carryforwards of approximately \$15.1 million which expire between 1998 through 2008. These net operating loss carryforwards are fully reserved by valuation allowances due to the uncertainty regarding their realizability.

The components of the provision (benefit) for income taxes are as follows:

	1996	1995	1994
Current (Benefit) Provision:			
Federal	\$ (363,000)	\$ (766,000)	\$ (1,757,000)
State	(112,000)	(135,000)	(543,000)
Valuation allowance	475,000	901,000	2,300,000
	-----	-----	-----
Total current (Benefit) Provision	\$ -	\$ -	\$ -
	-----	-----	-----
Deferred (Benefit) Provision:			
Federal	\$ (592,000)	\$ (1,819,000)	\$ (1,738,000)
State	(183,000)	(148,000)	(537,000)
Valuation Allowance	776,000	-	1,087,000
	-----	-----	-----
Total deferred (Benefit) Provision:	1,000	(1,967,000)	(1,188,000)
	-----	-----	-----
Total (Benefit) Provision:	\$ 1,000	(1,967,000)	(1,188,000)
	-----	-----	-----

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED. 25

During 1995 the Company received \$978,000 of Federal income tax refunds. As of September 30, 1994, the Company had established a full valuation allowance for this amount. Accordingly, the Company reduced its valuation allowance by \$978,000 upon receipt of this amount.

The Company has provided a full valuation allowance on the net deferred tax assets as of September 30, 1996, and 1995. The Company's alternative minimum tax credit has an unlimited life. The tax effects of significant items making up the deferred tax liabilities and deferred tax assets, as of the end of the 1996 and 1995 fiscal years are as follows:

	1996	1995
Assets:		
Reserves not currently deductible for tax purpose	\$ 2,475,000	\$ 2,331,000
Accrued employee health benefits	38,000	382,000
Federal operating loss carryforward	1,850,000	1,843,000
State operating loss carryforwards and other assets	1,438,000	1,374,000
Other	1,867,000	345,000
Valuation allowance	(4,653,000)	(3,738,000)
	-----	-----
Total deferred tax assets	3,015,000	2,537,000
Alternative minimum tax credit	407,000	407,000
	-----	-----
	\$ 3,422,000	\$ 2,944,000
	-----	-----
Liabilities:		
Fixed asset basis difference	\$ 2,549,000	\$ 2,229,000
Employee benefits	715,000	715,000
Other	158,000	-
	-----	-----
	\$ 3,422,000	\$ 2,944,000
	-----	-----

8. STOCK OPTIONS AND WARRANTS

A total of 247,900 shares of common stock have been reserved for issuance upon exercise of options issued or issuable pursuant to the Company's stock option plans for employees and directors. The exercise price of options issued or issuable under such plans may not be less than 100% of the fair

market value of the shares purchasable on the date of grant of the options. Information concerning options which have been granted under the plans and the exercise prices thereof is set forth below. Those options with an indicated exercise price of \$6.63 expire in 2003, those with an exercise price of \$13.50, \$14.00, or \$16.00 expire in 2004, and those with an exercise price of 12.25 expire in 2005, in each case on the anniversary of the date of grant.

Common shares under option are presented:

	Number of Shares	Option Price per Share
Options outstanding as of September 30, 1994	98,900	6.00-16.00
Exercised	(80,500)	6.00
Granted	25,300	13.50-14.00
Canceled	(5,200)	6.00-6.50
	-----	-----
Options outstanding as of September 30, 1995	38,500	\$ 6.63-16.00
	-----	-----
Exercised	(3,000)	10.5
Granted	71,000	12.25
Canceled	(1,000)	6.63
	-----	-----
Options outstanding as of September 30, 1996	105,500	\$ 6.63-16.00
	-----	-----

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In consideration of entering into a credit agreement with its lender the Company issued the lender a warrant to purchase 25,000 shares of the Company's common stock for \$11.89 per share, which was the approximate market value of the Company's common stock at the date of the transaction. These warrants expire in 2005. The holder of the warrant has the option to exercise a portion of the warrant in a cashless transaction by surrendering the remaining portion of the warrant as defined.

In consideration of the purchase of its 10% Subordinated Debentures due December 10, 1998, the Company issued the holders of the Debentures three-year warrants to purchase 21,000 shares of common stock for \$15.00 per share, which was the approximate market value of the Company's common stock at the date of the transactions. The holder of the warrant has the option to exercise a portion of the warrant in a cashless transaction by surrendering the remaining portion of the warrant as defined.

9. PENSION PLAN

The Company has a defined benefit pension plan designed to provide retirement benefits to all employees. This plan provides pension benefits that are based on the employee's salary and years of service. The Company's policy is to fund the plan at a level within the range required by applicable regulations.

The Company's net pension cost for 1996, 1995, and 1994 was \$281,000, \$165,000, and \$269,000, respectively. During 1996, the Company used the weighted average discount rate of 8.0%. Net pension cost for the Company's defined benefit plan included the following components:

<TABLE>	1996	1995	1994
<S>	<S>	<S>	<S>
Service cost - benefits earned during the period	\$ 183,000	\$ 155,000	\$ 206,000
Interest cost on projected benefit obligation	1,022,000	954,000	936,000
Actual return on plan assets	(932,000)	(985,000)	(414,000)
Net amortization and deferral	8,000	41,000	(459,000)
	-----	-----	-----
Net pension cost	\$ 281,000	\$ 165,000	\$ 269,000
	-----	-----	-----

Assumptions used in determining the plan's funded status:

Discount rate	8.0%	8.0%	8.0%
Expected rate on increase in compensation levels	5.5%	5.5%	5.5%
Expected long-term rate of return on assets	8.5%	8.5%	8.5%

</TABLE>

The following table sets forth the plan's funded status as of September

30, 1996, September 30, 1995, and September 30, 1994

	1996	1995	1994
Vested benefit obligation	\$ (11,869,000)	\$ (11,245,000)	\$ (11,013,000)
Accumulated benefit obligation	\$ (11,884,000)	\$ (11,249,000)	\$ (11,061,000)
Projected benefit obligation	\$ (13,654,000)	\$ (12,661,000)	\$ (12,364,000)
Plan assets at fair value	12,517,000	12,274,000	11,981,000
Funded status	(1,137,000)	(387,000)	(383,000)
Unrecognized prior service costs	98,000	121,000	125,000
Unrecognized net loss	2,392,000	1,885,000	2,042,000
	-----	-----	-----
Prepaid pension cost	\$ 1,353,000	\$ 1,619,000	\$ 1,784,000
	-----	-----	-----

Plan assets are invested under the provision of a trust agreement with a bank in common trust funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED. 27

10. POSTRETIREMENT BENEFITS

The Company provides employees who retired from the Company prior to January 1, 1993, with at least ten years of service and are under the age of 65, with Group Health Insurance on a cost-sharing basis. Coverage for an employee's spouse or dependents will also continue under this plan until the employee has reached age 65 at which time, the coverage ceases. In addition, the Company provides the same employees who are at least 62 years of age with life insurance equal to their ending annual salary up to a maximum of \$50,000.

For employees who retire after January 1, 1993, the postretirement benefits do not include health insurance. In addition, the life insurance benefit, up to a maximum of \$50,000, is provided for one year after retirement.

The accumulated benefit obligation of these benefits as of October 1, 1996, is approximately \$758,000 (\$15,000 for medical insurance and \$743,000 for life insurance). Plan assets of \$401,000 in cash reserves are on hand with an insurance company to partially cover the cost of the life insurance benefits. The Company adopted the new standard prospectively as of October 1, 1993, and is amortizing the transition obligation of \$456,000, over three years for the medical insurance benefits and fifteen years for the life insurance benefits.

Postretirement benefit expense for fiscal 1996, 1995, and 1994 is \$71,000, \$96,000, and \$104,000 respectively. The components of the expense are as follows:

Service cost of benefits earned	\$	1,000
Interest cost on liability		58,000
Return on plan assets		(12,000)
Amortization of transition obligation		24,000

Net postretirement benefit cost	\$	71,000

THE FOLLOWING TABLE SETS FORTH THE BENEFIT PLAN'S FUNDED STATUS AS OF OCTOBER 1, 1996:

Accumulated Post Retirement Benefit obligation	\$	(758,000)
Plan Asset at Fair Value		401,000

Funded Status	\$	(357,000)
Transition obligation		266,000

Accrued Post-Retirement Benefit Cost	\$	(91,000)

THE FOLLOWING ACTUARIAL ASSUMPTIONS WERE USED:

Salary increase	5.5 %
Discount rate	8 %
Return on Assets	3 %
Medical Inflation	4-9 %

11. COMMITMENTS AND CONTINGENCIES

EXPANSION

The Company is expanding its facilities by adding new equipment. The Company anticipates that this will require capital expenditures totaling approximately \$1,000,000 during fiscal 1997.

WASTE DISPOSAL

In the process of manufacturing depleted uranium products, the Company generates low-level radioactive waste (LLRW) that must be disposed of at sites licensed by federal, state, and local governments. At present, there is one licensed commercial repository in the United States available for use by the Company. Management is of the opinion that an extended period of storage can be accommodated within existing buildings and in an environmentally safe manner acceptable to all regulatory agencies until such time as an acceptable site is identified.

HOLDING BASIN FACILITY

For a number of years, ending in 1985, the Company disposed of manufacturing-related depleted uranium waste and the associated spent acid and other residual materials by neutralizing with lime and discharging the neutralized mixture to a holding basin on its premises in Concord, Massachusetts. In 1986 the holding basin was covered with hypalon, an impervious material used to prevent rain and surface run-off water from leaching through the holding basin. The Company now uses a proprietary "closed loop" process that it developed to discontinue such discharges. The Company believes that both practices were and are in compliance with all applicable regulations.

The Commonwealth of Massachusetts, Department of Environmental Protection ("DEP"), has designated the Concord site, including the holding basin, as a "priority" remediation site. The Company in conjunction with its environmental consultants and the DEP has developed a comprehensive site evaluation and risk assessment plan. This plan originally scheduled to be completed during calendar year 1995, has been delayed from a modification to the plan to include public comment. This will require additional work during 1997. The Company believes that the results of these studies and any future remediation work required beyond the holding basin removal scheduled for 1997, should not have an adverse material effect on the Company's results of operations and financial position.

The Company is required to maintain certain licenses issued by the United States Nuclear Regulatory Commission ("NRC") and the South Carolina Department of Health and Environmental Control (DHEC) in order to possess and process depleted uranium materials at its facilities in Massachusetts and South Carolina, respectively. Under applicable licensing regulations pertaining to decommissioning and disposal of certain hazardous materials ("D&D") at licensed sites, the Company submitted to the NRC a Decommissioning Funding

Plan ("DFP") to provide for possible future decommissioning of its Concord Facility, at an estimated cost of \$11.7 million. (This revised estimate is approximately \$2 million lower than the original estimate because of lower than expected costs of decontamination resulting from utilization of the Company's expanded capabilities for metal melt at its CMI facility.) The Company is also required to provide financial assurance for such decommissioning pursuant to applicable regulations. The Company has also recently submitted to DHEC a DFP for the possible future decommissioning of its CMI facility, at an estimated cost of \$2.8 million and is also required to provide financial assurances for decommissioning this facility.

Substantially all of the depleted uranium materials to which the DFP requirements apply were processed by the Company for the United States Government. Based on the terms of certain contracts that the Company entered into with the United States Government to process such depleted uranium materials, the Company believes that such materials continue to be owned by the United States Government and that the United States Government is obligated, under applicable law, to pay for its percentage of eventual D&D. The Company's DFP's reflect its position that it is obligated to provide financial assurance only with respect to the portion of the materials which are attributable to the Company's commercial production for parties other than the United States Government and that this obligation has been satisfied by a letter of credit which have been issued by the Company's bank and restricted cash held in trust by the Company's bank support the Company's D&D obligations for each of its two facilities.

The Company had requested partial exemption from the NRC for the regulatory D&D financial assurances requirements as they pertain to Government owned materials. By letter dated July 16, 1996, the NRC's Division of Nuclear Materials Safety (Region I) (the "Division") denied the Company's request for partial exemption from certain aspects of the D&D financial assurances and directed that, within 60 days of the Division's letter, the Company provide satisfactory financial assurances from either the Company or Government sources. In its letter, the Division indicated that it will accept, as a satisfactory assurance, a Statement of Intent ("SOI") in compliance with 10 CFR 40.36(e)(4) from the United States Army or another Government agency to the effect that such agency intends to fund any costs for which the Company has not directly provided financial assurances, subject to public appropriation of required funds. In its letter, the Division indicated that failure to meet the NRC's requirements by September 14, 1996, could result in enforcement action, possibly in the form of a civil penalty, or by license modification, suspension or revocation. Such an action could have the practical effect of preventing the Company from fulfilling its obligations to a substantial portion of its customer base and, accordingly, could have a material and adverse impact on the Company's results of operations and financial position.

The United States Army, in a memorandum of Decision dated September 13, 1996, determined pursuant to Public Law 85-804, that it should fund remediation of the Concord holding basin site as well as D&D related to the Concord facility, based in part on the Army's determination that the Company's activities are essential to the national defense. The Army's Memorandum of Decision contained certain limits on funding of the holding basin remediation based upon the Company's current estimates of future costs, which are subject to change based upon a number of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED. 30

factors, such as the timing of the actual remediation and actual costs at the time of completion of the remediation. The Company remains comfortable with its current estimates with respect to remediation of the Concord site assuming remediation as planned. In addition, the remediation of the holding basin is subject to the usual government appropriation process. As a result of this decision the Company has determined that the \$3.4 million reserve for the holding basin that had previously been established to cover the Company's obligation to remediate the basin is no longer required and reversed the reserve in the fourth quarter of fiscal 1996. D&D costs for the Concord facility are to be awarded to the Company as part of ongoing contracts, but the Army has provided written assurances (also subject to funding appropriations) of its intention to provide funding for D&D costs at the Concord facility under future contracts or, in the event that no future contracts were awarded (which the Army has indicated is unlikely in view of its current plans), under an existing contract. The actual remediation will proceed pursuant to a modification of an existing government contract, the terms of which have not yet been determined but will presumably be consistent with the Memorandum of Decision.

The Company believes that the Memorandum of Decision, together with correspondence from the Army clarifying its intent with respect to the same, should satisfy the NRC with respect to the sufficiency of the Company's DFP for the D&D requirements, although the NRC has not responded or taken action to allow renewal of the Company's license. DHEC has not yet responded with respect to the DFP which the Company has submitted with respect to its South Carolina facility. The Company believes that, in the event that DHEC requires assurances from the Army with respect to what the Company believes is the Army's share of the estimated potential cost of D&D at the CMI facility, the United States Army will respond in a manner which is consistent with the Memorandum of Decision regarding the Concord site. The Company believes that its proportionate share of D&D costs for its CMI facility are adequately

covered by the existing letter of credit which is currently in place to assure it D&D obligations.

The Company has no assurances that the Army will accept responsibility for its share of the estimated cost of D&D at CMI but it is currently the sole source to the US Army of certain products which are investment cast with the Company's patented beryllium aluminum alloy and which are vital to certain Army programs. The Company also believes that its capabilities with respect to the conversion of UF6 gas to depleted uranium metal stock make it strategically important to any future depleted uranium production which may be required for US Army DU penetrators and tank armor (although current inventories appear sufficient to supply announced procurement needs). The Company believes that its production capabilities may also be used to serve several Department of Energy needs for remediation of certain other environment hazards posed by the process of Nuclear power generation. For these reasons, the Company believes that the interests of the United States Government would be best served by the Company's continued operation under its current NRC and DHEC licenses, but there can be no assurance that the various Governmental agencies which regulate NMI will permit the Company's continued operation under its licenses.

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LEGAL PROCEEDINGS

The Company is involved with various legal actions. Management believes that the final disposition of these actions will not have a material effect on the Company's results of operations or financial position.

12. TRANSACTIONS WITH RELATED PARTIES

Under the terms of a management agreement, Matthews Associates Limited is entitled to an annual management fee. George J. Matthews, Chairman of the Board of Directors, is sole owner of Matthews Associates Limited. These fees, as well as certain expenses of Matthews Associates Limited that were reimbursed by the Company, have been included in selling, general, and administrative expenses. Management fees were \$350,000 in 1996, 1995, and 1994. Mr. Matthews does not receive any other salary or fee for services as Chairman of the Board of Directors. (See other related party transactions in Note 6 and 8)

13. MAINTENANCE AND REPAIRS

Maintenance and repair expenditures, which are charged to cost and expense as incurred, amounted to \$1,092,000 in 1996, \$854,000 in 1995, and \$1,029,000 in 1994.

14. INDUSTRY SEGMENT INFORMATION

The Company is engaged in the manufacture and sale of various specialty metal products. The Company operates in three industry segments: Uranium Services and Recycle, Specialty Metal Products, and Depleted Uranium Penetrators. Information relating to the Company's operations for the industry segments described above for each of the three years in the period ended September 30 is as follows:

<TABLE>

<S>	<C> 1996	<C> 1995	<C> 1994
Net Sales and Contract Revenues:			
Uranium Services & Recycle	\$ 6,189,000	\$ 4,969,000	\$ 4,752,000
Specialty Metal Products	13,730,000	12,102,000	7,284,000
Depleted Uranium Penetrators	8,775,000	1,713,000	6,968,000
	-----	-----	-----
Total	\$ 28,694,000	\$ 18,784,000	\$ 19,004,000
	-----	-----	-----
Operating Income (Loss):			
Uranium Services & Recycle	\$ (2,700,000)	\$ (996,000)	\$ (5,409,000)
Specialty Metal Products	1,432,000	(341,000)	(162,000)
Depleted Uranium Penetrators	(942,000)	(237,000)	(5,033,000)
	-----	-----	-----
Subtotal	(2,210,000)	(1,574,000)	(10,604,000)

General Corporate Expenses	350,000	350,000	350,000
Net Operating Loss	(2,560,000)	(1,924,000)	(10,954,000)
Other Expense, Net	476,000	118,000	430,000
Loss Before Taxes	\$ (3,036,000)	\$ (2,042,000)	\$ (11,384,000)
Identifiable Assets:			
Uranium Services & Recycle	\$ 13,749,000	\$ 16,609,000	\$ 16,772,000
Specialty Metal Products	6,195,000	5,140,000	5,646,000
Depleted Uranium Penetrators	8,441,000	12,158,000	9,863,000
Corporate	6,733,000	6,979,000	8,261,000
Total	\$ 35,118,000	\$ 40,886,000	\$ 40,542,000
Depreciation and Amortization Expenses:			
Uranium Services & Recycle	\$ 430,000	\$ 404,000	\$ 843,000
Specialty Metal Products	291,000	251,000	421,000
Depleted Uranium Penetrators	519,000	443,000	1,252,000
Corporate	254,000	241,000	358,000
Total	\$ 1,494,000	\$ 1,339,000	\$ 2,874,000
Capital Expenditures:			
Uranium Services & Recycle	\$ 379,000	\$ 325,000	\$ 68,000
Specialty Metal Products	436,000	85,000	315,000
Depleted Uranium Penetrators	77,000	6,000	65,000
Corporate	557,000	361,000	261,000
Total	\$ 1,449,000	\$ 777,000	709,000

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED.

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The Uranium Services and Recycle segment includes the manufacture of depleted uranium products (non-penetrator) and the recycle of low level radioactive metal. The Specialty Metal Products segment includes a large assortment of metal products fabricated using foundry, extrusion, and machining capabilities and involves the production and sale of various metal powders manufactured by the Company's patented Rotating Electrode Process. Operations in the Depleted Uranium Penetrator industry segment include the production of various penetrators (a component of armor-piercing ammunition used in certain U.S. military gun systems) which are sold to a department of the U.S. Department of Defense (DOD), to prime contractors manufacturing such ammunition for the DOD or to foreign military operations. Revenues derived from contract research and development activities have been included in the above segments based on the nature of the product.

Net sales and contract revenues by industry segment include sales to unaffiliated customers (intersegment sales are not significant). A significant portion of the Company's revenues has been derived from five major customers (see Note 2) sales to Cogema are included in the Uranium Services & Recycle industry segment. Sales to Lockheed Martin and Lockheed Idaho Falls are included in the Specialty Metal Products industry segment. Sales to Olin Corporation and Royal Ordnance are included in the Penetrator industry segment.

Due to the utilization among segments of common production facilities and equipment and the involvement of a single management organization in all phases of the Company's operations, necessary allocations have been made based on estimates which management believes to be reasonable.

Operating loss and profit includes net sales and contract revenues less operating expenses allocated to the individual segments. General corporate expenses represent expenses which are not of an operating nature and,

therefore, are not allocable to industry segments.

Identifiable assets shown include accounts receivable, inventory, and plant and equipment that have been allocated to each of the Company's industry segments. Corporate assets consist primarily of cash, certificates of deposit, and other assets.

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15. QUARTERLY RESULTS (UNAUDITED)

Financial results (in thousands, except per share amounts) by quarter for 1996, 1995, and 1994 are summarized below:

<TABLE>	<C>	<C>	<C>	<C>
<S>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Net Sales	\$ 6,671	\$ 10,021	\$ 6,434	\$ 5,568
Operating Income (Loss)	198	287	523	(3,568)
Net Income (Loss)	109	238	249	(3,633)
Net Income (Loss) per share	0.05	0.10	0.10	(1.52)
1995				
Net Sales	\$ 5,626	\$ 4,213	\$ 3,753	\$ 5,191
Operating Income (Loss)	220	(1,355)	45	(834)
Income (Loss) before extraordinary item	121	(300)	39	65
Extraordinary gain on extinguishment of debt	-	585	-	-
Net Income	121	285	39	65
Per share amounts:				
Income (Loss) before extraordinary item	0.05	(0.13)	0.02	0.03
Extraordinary gain on extinguishment of debt	-	0.25	-	-
Net Income per share	0.05	0.12	0.02	0.03
1994				
Net Sales	\$ 4,300	\$ 4,506	\$ 5,527	\$ 4,671
Operating Income (Loss)	(1,118)	142	(2,183)	(7,795)
Net Income (Loss)	(808)	24	(2,031)	(7,381)
Net Income (Loss) per share	(0.35)	0.01	(0.88)	(3.21)

</TABLE>

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TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NUCLEAR METALS, INC.:

We have audited the accompanying consolidated balance sheets of NUCLEAR METALS, INC. (a Massachusetts corporation) and subsidiaries as of September 30, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nuclear Metals,

Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts
November 20, 1996

(EXCEPT WITH RESPECT TO THE MATTERS DISCUSSED IN NOTE 6 AS TO WHICH THE DATE IS DECEMBER 24, 1996)

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COMMON STOCK INFORMATION

The Company's common stock is traded on the NASDAQ Market under the symbol NUCM. As reported by a principal market maker for the stock, the high and low bid prices for the three years ended September 30 are reflected in the following table. This information reflects inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

As of September 30, 1996, there were approximately 298 holders of record of the Company's Common Stock. The Company believes the actual number of beneficial owners of the Company's Common Stock is greater because a large number of shares are held in custodial or nominee accounts.

The Company did not declare any dividends during its last two fiscal years. Given the Company's current cash flow situation, the Company does not expect to pay dividends in the next year. Future cash dividends, if any, would be paid on an annual basis, the amount of which is subject to the determination and approval of the Company's Board of Directors. The Company's loan agreement with a bank prohibits the declaration of dividends without the bank's consent.

HEADQUARTERS

2229 Main Street, Concord, Massachusetts 01742

CAROLINA METALS, INC.

Highway 80, Barnwell, South Carolina 29812

TRANSFER AGENT AND REGISTRAR

State Street Bank & Trust Co.
225 Franklin Street, Boston, Massachusetts 02110

AUDITORS

Arthur Andersen LLP
One International Place, Boston, Massachusetts 02110

ANNUAL MEETING

The annual meeting of stockholders will be held on March 26, 1997 at 10:00 A.M. at the offices of State Street Bank & Trust Company, 225 Franklin Street, Boston, Massachusetts 02101.

FORM 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission will be provided without charge to shareholders on written request. Requests should be directed to the Vice President, Finance, Nuclear Metals, Inc. 2229 Main Street, Concord, Massachusetts 01742.

1996	High	Low
1st Quarter	14	10 1/2
2nd Quarter	21	11
3rd Quarter	18 1/2	13 1/2
4th Quarter	18 3/4	12

1995	High	Low
1st Quarter	18	13 1/4
2nd Quarter	16 3/4	11 1/2
3rd Quarter	14 1/2	11 1/2
4th Quarter	14 1/4	11

1994	High	Low
1st Quarter	10 3/4	6 1/8
2nd Quarter	13	10 1/8
3rd Quarter	20	11 3/4

CORPORATE DIRECTORY

Board of Directors

George J. Matthews, Chairman, Wilson B. Tuffin, Vice Chairman Robert E. Quinn, President, Frank H. Brenton, Chairman Marshall's Incorporated, Retired, Kenneth A. Smith, Professor of Chemical Engineering Massachusetts Institute of Technology

EXECUTIVE OFFICERS AND CORPORATE STAFF

George J. Matthews, Chairman of the Board of Directors, Wilson B. Tuffin, Vice Chairman of the Board of Directors, Robert E. Quinn, President, Douglas F. Grotheer, Vice President, Engineering, William T. Nachtrab, Vice President, Technology, James M. Spiezio, Vice President, Finance and Administration, Frank J. Vumbaco, Vice President, Health/Safety and Corporate Communications, Bruce E. Zukauskas, Vice President, Operations, Thomas A. Wooters, Clerk, Rebecca L. Perry, Controller

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated November 20, 1996 (except with respect to the matters discussed in Note 6 as to which the date is December 24, 1996) included in this Form 10-K into the Company's previously filed Registration Statement File No. 33-36812 on Form S-8.

Boston, Massachusetts
December 27, 1996

Arthur Andersen LLP

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DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION

September 13, 1996

ARMY CONTRACT ADJUSTMENT BOARD

MEMORANDUM OF DECISION

Public Law 85-804 Application of
Nuclear Metals, Inc.

ACAB No. 1244

Nuclear Metals, Inc., 2229 Main Street, Concord, Massachusetts (NMI or company), requested extraordinary relief under Public Law 85-804, as implemented in Part 50 of the Federal Acquisition Regulation (FAR). NMI's request was processed through the U.S. Army Tank-Automotive and Armaments Command, Armament Research, Development and Engineering Center, Picatinny Arsenal, New Jersey, (Picatinny), and through the U.S. Army Material Command, Alexandria, Virginia (AMC), with both headquarters recommending that the Army Contract Adjustment Board (ACAB or Board) grant the requested relief.

After reviewing NMI's written request for extraordinary relief, additional matters submitted subsequent to NMI's initial application, and the recommendations of both Picatinny and AMC, the Board has determined that extraordinary contractual relief is warranted under the unique circumstances of this request.

STATEMENT OF FACTS

In 1958 NMI moved its low-level radioactive metal processing operations to Concord, Massachusetts, from the campus of the Massachusetts Institute of Technology, where NMI and predecessor entities had engaged for many years in a variety of nuclear research programs, to include work on the Manhattan Project. NMI established a licensed and permitted holding basin on its Concord site as a place where it could neutralize with lime the spent acid used in some of NMI's metal processing operations. This neutralization process precipitated uranium and copper into the holding basin in the form of hydrated oxides and hydroxides. Relatively small quantities of these deposits slowly accumulated in the basin

until 1974.

NMI, a small business, began producing significant quantities of depleted uranium (DU) penetrators to support defense ammunition programs in 1974. With this increased production, which supported Army, Navy, Air Force, and Marine Corps requirements, the volume of uranium precipitates in the holding basin also began to grow rapidly. Although NMI's holding basin remained in compliance with applicable laws, the large volume of

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precipitates accumulating in the basin, the adoption of increasingly restrictive environmental laws at both the federal and state levels, and advancements in uranium recovery technologies prompted NMI in 1965 to adopt a closed-loop DU recovery process, eliminating further need for the holding basin. In 1986 NMI covered the holding basin with an impervious material to prevent water infiltration and the escape of airborne particles.

By the mid-1980s, both NMI and the Army had become concerned about the need to clean up the holding basin to meet tightening federal and Massachusetts environmental standards. The Army paid for complete and proper disposal of new wastes produced under its ongoing contracts during the 1980s and into the 1990s, but NMI and the Army could not agree on how the cleanup of old waste produced under completed contracts should be handled, because most of these contracts already were closed out.(1) By 1993, only on contract under which waste in the basin had been produced remained open. However, the work under that cost-type contract, DAAK10-81-C-0323, had produced only about 2.7% of all holding basin deposits.(2) Consequently, because most of the waste in the basin was not produced under that single open contract, the cost of cleaning up the entire basin could not be allocated to contract DAAK10-81-C-0323.

During the early 1990s, the uncertain liability that the holding basin represented to NMI became a point of contention between NMI and the Nuclear Regulatory Commission (NRC). The NRC licenses NMI to handle the low-level radioactive materials used in NMI's industrial operations at its Concord site. One of the prerequisites for the issuance or renewal of an NRC license is the furnishing of financial assurances that the licensee will be able to bear the decontamination and decommissioning costs associated with eventual closure of its facilities. Specifically, 10 C.F.R. Section 40.36 requires a licensee to submit a decommissioning funding plan,(3) together with a cost estimate for the decommissioning effort and a description of the method the licensee will use to ensure that funds are available in an amount equal to that estimated cost.(4) Additionally, an NRC licensee must provide the required financial assurances through a means acceptable to the NRC, such as through prepayment, a surety,

(1)The Army suggested that NMI bill basin cleanup costs against an appropriate overhead pool or corporate general and administrative accounts, but NMI declined to do so to avoid making its prices less competitive for ongoing work.

(2)Of the total amount of waste in the holding basin, NMI estimates that 96% is attributable to work done under defense contracts. The remaining 4% is attributable to commercial work and independent NMI research efforts.

(3)10 C. F. R. Section 40.36(a).

(4)10 C. F. R. Section 40.36(d).

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insurance, or an external sinking fund coupled with a surety or insurance.(5) As environmental standards become more strict in the 1980s and early 1990s, the NRC began demanding more substantial financial assurances from NMI than it previously had required. NMI sought to meet these demands through commitments from various Army organizations that the Army would pay some or all of NMI's decontamination costs, but the Army refused to enter into such an open-ended commitment at a privately-owned site.

Concurrently, NMI's sales declined dramatically in the early 1990s due to decreased defense ammunition requirements and fewer Army contracts and subcontracts for DU penetrators. This decline in sales cut NMI's revenues by more than half in the early 1990s, leaving NMI with operating losses exceeding \$10 million per year in both 1993 and 1994. NMI's weakened financial condition forced it to request a partial exemption from the NRC's financial assurance requirement in 1995.

As its DU sales declined dramatically in the early 1990s, NMI sought to diversify its product line of specialty metals. One of the new products that NMI introduced was Beralcast-TM-, a patented beryllium-aluminum product that is both lighter and stronger than aluminum, and capable of being cast into complex shapes. One important new customer of this NMI product is the Lockheed Martin Electronics and Missiles Company (Lockhead Martin), which currently uses NMI Beralcast-TM- for fifty-two components in the electro-optics system that Lockheed Martin is developing for the Comanche helicopter program. According to the Army's Comanche Program Manager (PM Comanche), Beralcast -TM- is the only known material capable of meeting critical Comanche weight requirements without the Comanche program incurring additional costs in the range of \$300 million, and schedule delays of eighteen to twenty-four months. These additional costs and schedule delays would be needed for PM Comanche to accomplish the redesign of key components and/or research and develop alternate materials.

After a number of meetings and exchanges of correspondence between NMI, the Army, and the NRC in the early and mid-1990s, NMI received an official response

to its request for a partial exemption from the NRC's financial assurance requirement on July 16, 1996. The NRC denied NMI's request, and directed NMI to provide the financial assurances

(5)10 C. F. R. Section 40.36(e). NRC regulations also permit a federal, state, or municipal government licensee to meet the NRC's financial assurances requirement through a statement of intent to obtain funds for decontamination and decommissioning when necessary. 10 C. F. R. Section 40.36(e)(4). Although this provision is not strictly applicable to NMI's privately-owned site, the NRC has allowed private licensees in past cases to meet the financial assurance requirement through government commitments to clean up private sites when they are decommissioned. Because the responsibility for cleanup at NMI's site lies principally with NMI, however, and because the total cleanup liability at NMI's Concord site is uncertain, the Army has not provided NMI such an open-ended commitment.

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mandated by 10 C. F. R. Section 40.36 not later than September 16, 1996. After the date, NMI faces the potential shutdown of its Concord facility.

APPLICATION FOR RELIEF

NMI initially submitted its request for relief on September 22, 1995, and later certified its request on March 15, 1996. NMI requested \$4,549,785 to pay the costs of removing low-level radioactive wastes from its holding basin, and of restoring the site. NMI also requested the Army to furnish government-provided transportation and disposal of the extracted waste (estimated to cost \$2.1 million), for an estimated total cost to the Army of \$6.65 million.(6) NMI based its request on: NMI's essentiality to the national defense as a producer of DU products and beryllium-aluminum castings;(7) and, the interest of fairness,(8) because NMI did not include disposal costs for the waste in the holding basin in NMI's prices under past Army contracts, which benefited the Army through lower prices.

In conjunction with reviewing NMI's application for relief, Picatinny asked the Defense Contract Audit Agency (DCAA) to audit NMI's Public Law 85-804 request. Among its other findings, DCAA concluded that a denial of NMI's application for extraordinary relief would result in a high probability of NMI's financial insolvency. Based on this conclusion and the recommendation of PH Comanche, both Picatinny and AMC recommended that the ACAB grant NMI the requested relief.

DISCUSSION

NMI requests Public Law 85-804 relief under the provisions of FAR 50.302-1,

"Amendments Without Consideration." Paragraph (a) provides that:

When an actual or threatened loss under a defense contract, however caused, will impair the productive ability of a contractor whose continued performance on any defense contract or whose continued operation as a source of supply is found to be essential to the national defense, the contract may be amended without consideration, but only to the extent necessary to avoid such impairment to the contractor's productive ability.

(6) Transportation and disposal of the waste by the Army is anticipated to be considerably less expensive than the cost to NMI of procuring these services commercial rates and passing these costs on to the Army.

(7) FAR 50.302-1(a).

(8) FAR 50.302-1(b).

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The circumstances of NMI's request for relief do not meet precisely the situation contemplated in the provision at FAR 50.302-1(a), because NMI is not asking for relief based on an actual or threatened loss under a particular defense contract. Instead, NMI faces an environmental liability related to its research, development, and production efforts under many different defense contracts, nearly all of which are now the parties under those contracts no longer exist (except under a single contract relevant to only a small portion of the deposits in the holding basin), and NMI is not at risk of a loss under a single contract as described in FAR 50.302-1(a), NMI nevertheless faces a significant financial liability that threatens its ability to perform future defense contracts. It is the future viability of an essential defense contractor that FAR 50.302-1(a) seeks to protect, not merely the prevention of a loss to an essential contractor under a single contract.

The description in FAR 50.302-1(a) of when relief to a contractor deemed essential to the national defense may be appropriate is more narrowly drafted than required by Public Law 85-804. FAR 50.301 more broadly describes the circumstances under which an agency may grant relief to a contractor when it is essential to the national defense. FAR 50.301 states:

Whether appropriate action will facilitate the national defense is a judgment to be made on the basis of all of the facts of the case. Although it is impossible to predict or enumerate all the types of cases in which action may be appropriate, examples are included in 50.302 below. Even if all of the factors in any of the examples are

present, other considerations may warrant denying a contractor's request for contract adjustment. The examples are not intended to exclude other cases in which the approving authority determines that the circumstances warrant action.

Thus, the fact that NMI's holding basin liability does not represent a possible loss under an existing contract does not preclude the ACAB from granting relief to preserve NMI's continued viability as an essential Army contractor.

After reviewing the facts and circumstances surrounding NMI's request for extraordinary relief, the Board is satisfied that NMI is a contractor essential to the national defense. The Comanche helicopter is critically important to the Army in facing its future missions. PM Comanche unequivocally states that NMI's Beralcast-TM- products are vitally important to the Comanche program, and PM Comanche adequately describes the significant and adverse cost and schedule consequences that the program would suffer if NMI were no longer available as a supplier. With no other material or supplier reasonably available to the Army to substitute for NMI's Beralcast-TM- in its Comanche applications, NMI is clearly a contractor essential to the Army in performing its national defense missions.(9)

(9)NMI also claims in its application for extraordinary contractual relief that it produces other products that also make it essential to the national defense. These products include tank

The Board is also satisfied that granting the relief sought in NMI's Public Law 85-804 request is essential to preserving NMI as a viable defense contractor. As a small business that has borne significant losses in each of the last three years,(10) NMI lacks the financial capability to undertake the cleanup of its holding basin while still meeting its other financial and environmental obligations.(11) Without the relief requested, a chain of events may be initiated that likely would result in a loss or suspension of NMI's NRC license, a loss of its lines of credit from its lenders, and ultimately insolvency and/or bankruptcy for the company. Because DCAA concluded in its audit report that failure to grant NMI's request for relief would result in a high probability that NMI will become insolvent, thereby threatening NMI's continued availability as a supplier of essential defense products, the Board concludes that granting relief up to the amount NMI requested is appropriate under the circumstances of this application.

NMI also requests extraordinary contractual relief in the interest of fairness, based on its course of dealings with the Army over many years. NMI contends that the prices it charged the Army from 1958 to 1985 did not

reflect the full cost of NMI's performance, because basin cleanup costs were not included in those prices, even though basin cleanup costs could properly have been billed against the Army contracts during this period. NMI thus alleges that the Army benefited by this undercharging, and that the Army should accordingly now pay for the basin cleanup. NMI does not explain, however, how the Army induced NMI not to include basin clean up costs in its prices.(12) Instead, the Army actually encouraged NMI to begin cleaning up the basin and to charge cleanup costs as overhead

armor, tank ammunition, other ammunition employing DU penetrators, and Beralcast-TM- Patriot missile components. The ACAB does not reach the question of whether NMI is a contractor essential to the national defense in its production of these other items, because NMI's status as an essential supplier to PM Comanche makes resolution of the question of its essentiality to these other programs unnecessary.

(10)NMI reported operating losses in its corporate annual report of \$10.5 million in 1993, nearly \$11 million in 1994, and nearly \$2 million in 1995.

(11)In addition to the holding basin, NMI also must assess its responsibility for other contamination at its Concord site, and begin cleanup operations or reserve funds to clean up these areas at some future time as required by law. These obligations, which NMI will recognize as operating expenses as they are incurred, present NMI with significant financial challenges even with the assistance NMI seeks under Public Law 85-804.

(12)FAR 50.302-1(b) requires some government action to be associated with a contractor's loss for that loss to be the basis for extraordinary relief.

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against ongoing work. NMI also contends that various contract clauses have committed the Army to pay cleanup costs at its site, and that Army representatives have expressed some degree of responsibility for basin cleanup costs in the past. The Board is not convinced, however, that any contract ever committed the Army to pay more than the allocable share of site cleanup costs under any particular contract, and the Board cannot reconcile NMI's agreement to close out past contracts with its current assertion that the Army retains cleanup responsibility for work done under those contracts. Nevertheless, given the Board's determination that NMI is a contractor essential to the national defense, the Board does not need to resolve whether NMI also may be entitled to relief in the interest of fairness. The board considers this issue moot given its disposition of NMI's application for extraordinary relief.

The Board has been cognizant during its consideration of NMI's application for relief under Public Law 85-804 that NMI faces a September 16, 1996, deadline with the NRC for the submission of satisfactory financial assurances. But for this regulatory dilemma that NMI faces with the NRC, in addition to NMI's weakened financial condition after three consecutive years of losses, the Board would be inclined to allow resolution of the environmental problems at NMI's site through more traditional mechanisms. NMI could, for instance, bill cleanup costs against overhead or general and administrative accounts, or pursue contract or environmental litigation to definitively resolve the relative legal responsibilities of the parties under the terms of past contracts and applicable environmental laws. However, the Board finds that these means of resolving the current dilemma are inadequate(13) to ensure that NMI remains a reliable supplier of essential defense products. Therefore, it is appropriate for the Board to act on NMI's request without the delay associated with the normal pursuit of traditional relief mechanisms.

DECISION

By unanimous decision of the ACAB, an amendment without consideration is hereby authorized under FAR 50.301 and FAR 50.302-1. The Board concludes that NMI's continued performance under its existing defense contracts, and NMI's continued availability as a source of critical supplies, is essential to the national defense within the intent of FAR 50.302-1. This relief is subject to the following conditions.

a. Picatinny is authorized and directed to enter into negotiations for a supplemental agreement with NMI under an appropriate existing contract, agreeing that the Army will pay an amount not to exceed \$4,549,785, on a fixed-price, no-profit basis, for NMI to clean up the holding basin at its Concord facility. This amount is subject to

(13)The Board's ability to grant relief is limited by FAR 50.203(b)(2), which states that no Public Law 85-804 relief is available "[u]nless other legal authority within the agency concerned is deemed to be lacking or inadequate[.]"

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downward negotiation only, with negotiations addressing, in addition to the matters below, the questioned costs identified in DCAA's audit report and other relevant pricing matters. Picatinny may only conclude this agreement after proper finding is obtained in accordance with paragraph b. below. In performing this effort, if NMI's costs for cleaning up the holding basin exceed the negotiated price of this supplemental agreement, NMI will treat

the excess costs in accordance with paragraph d. below.

b. The funds committed to support this supplemental agreement will be appropriate defense ammunition funds. No funds will be obligated under this supplemental agreement until they are properly identified and certified as available. Picatinny will coordinate with higher headquarters to identify appropriate funds for this effort as expeditiously as possible.

c. The supplemental agreement also will obligate the Army to provide transportation and disposal of the waste removed from NMI's holding basin. The volume of waste that the Army is obligated to remove will be identified in the supplemental agreement, and the Army will have no further removal or disposal obligation after this volume is removed. Picatinny will coordinate with the Radioactive Waste Disposal Office at Rock Island to obtain the support needed to meet this commitment. Certified funds of the same type identified in paragraph b. above also will support this transportation and disposal effort.

d. As a condition of this supplemental agreement, NMI will agree to complete necessary environmental assessments at its site within a reasonable period, and to submit a site remediation plan approved by the NRC (or other governmental entity performing the NRC's current oversight role) to the contracting officer by a date to be designated in the supplemental agreement.

(1) Cleanup of areas not supporting current production at NMI's Concord site, in addition to the holding basin work addressed in paragraphs a., b., and c. above, and pursuant to the plan identified above, will proceed at a reasonable pace to ensure compliance with applicable environmental standards. These additional site assessment, planning, and cleanup costs will be billed by NMI against appropriate overhead and/or general and administrative pools as normal operating expenses, and not against the contract line item(s) established by this supplemental agreement for holding basin cleanup. Excess holding basin cleanup costs, if any which exceed the amount negotiated pursuant to paragraph a. above, also will be charged in a manner consistent with the costs discussed in this paragraph against appropriate NMI overhead and/or general and administrative cost pools.

(2) In addition, normal waste processing and cleanup efforts associated with future work at NMI's Concord site to be performed under current and future contracts will be billed as appropriate against those contracts; such efforts are not affected by this supplemental agreement.

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(3) NMI will provide for the long-term decontamination and decommissioning of facilities and equipment supporting current production in accordance with 10 C.F.R. Section 40.36.

e. As a further condition of this supplemental agreement, NMI will execute a release in conjunction with this supplemental agreement waiving and

holding the Army harmless from any contract or environmental claims related to existing contamination and waste at NMI's Concord site. This release may except from its coverage the Army's responsibility for eventual decontamination and disposal of government-furnished equipment that NMI maintains under its facilities contract with the U.S. Army Industrial Operations Command, Rock Island, Illinois. This release will not prohibit NMI's normal billing for its ongoing incurrence of assessment, cleanup, and decontamination costs in accordance with paragraph d.(2) above.

In addition to ensuring that the above conditions are met, Picatinny is authorized to incorporate into the implementing supplemental agreement with NMI such additional terms and conditions as Picatinny believes are reasonably necessary to protect the Army's interests.

The action authorized by this decision will facilitate the national defense consistent with the intent of Public Law 85-804.

Kenneth J. Oscar
Chairman
Army Contract Adjustment Board