

MEMORANDUM

March 12, 2008

To: Official Committee of Unsecured Creditors (the “Committee”) of Propex Inc., *et al.* (“Propex” or the “Debtors”)
From: Akin Gump Strauss Hauer & Feld LLP (“Akin Gump”)
Re: Propex Inc., *et al.* – Recently Filed Pleading

Motion for Entry of Orders (A) Authorizing and Scheduling an Auction at Which Debtors Will Solicit the Highest or Best Bid for the Sale of Certain Real Property Located in Dalton, Georgia; (B) Authorizing the Assumption and Modification of Auction Listing Contract; (C) Approving Sale Procedures Governing the Proposed Sale; (D) Approving the Sale of the Real Property to the Party Submitting the Highest or Best Bid; and (E) Approving the Payment of Real Estate Commission to Auctioneer at Closing (the “Motion”)

By the Motion, the Debtors seek entry of (i) an order (the “Sale Procedures Order”) authorizing and approving, following an interim hearing (the “Sale Procedures Hearing”), (a) the modification of and assumption by the Debtors of the Auction Listing Contract (as defined below) with the Auctioneer (as defined below) and (b) an auction and sale process as described below to be used in connection with the proposed sale of certain real property owned by the Debtors and located in Dalton, Georgia (the “Dalton Property”), and (ii) an order (the “Sale Order” and together with the Sale Procedures Order, the “Orders”) authorizing and approving, following a final hearing (the “Sale Hearing”), (a) the sale by the Debtors of the Dalton Property to the bidder submitting the highest or best bid for the Dalton Property and (b) the payment of a real estate commission to the Auctioneer in connection with the sale of the Dalton Property.

A. Background on the Dalton Property

The Dalton Property is located in Whitfield County, Georgia and is comprised of approximately 12.5 acres of real property, which consists of three industrial buildings that were formerly used by Propex as a warehousing and distribution center. In early 2007, Propex determined that the Dalton Property was not necessary or beneficial to Propex’s business and operations. Accordingly, Propex ceased operations at the Dalton Property in early 2007, and the Dalton Property has been largely unused and vacant since that time. The Debtors do, however, currently store a small amount of inventory at the location. The Debtors contend that a sale of the Dalton Property will permit them to monetize the value of the Dalton Property for the benefit of the Debtors’ estates. Indeed, the Debtors had planned on auctioning the Dalton Property before they filed these chapter 11 cases.

B. Assumption of the Auction Listing Contract

In connection with the Debtors' prepetition efforts to sell the Dalton Property, Propex entered into an auction listing contract on September 28, 2007 (the "Auction Listing Contract") with Potts Brothers Land and Auction, LLC (the "Auctioneer"). The Auctioneer is located in Rock Spring, Georgia, and it specializes in marketing, advertising and conducting real property auctions in Georgia, Tennessee, and Alabama.

Pursuant to the Auction Listing Contract, the Auctioneer is obligated to pay \$40,000 in advertising costs to market the property for sale prior to conducting an auction. Additionally, the Auctioneer agreed to "provide necessary auction personnel, labor, sales information, plats, property packages, photos and signs" related to the auction of the Dalton Property. As compensation for its efforts, the parties agreed that the Auctioneer would receive eight percent (8%) "buyer's premium" from the proceeds of the auction sale. The parties further agreed that in the event of a "No Sale" (i.e., if the auction does not result in a bid acceptable to the Debtors), Propex would reimburse the Auctioneer for both advertising costs and any costs related to surveying the Dalton Property.

After entering into the Auction Listing Contract, but before the Debtors filed for chapter 11, the Auctioneer advertised and marketed the Dalton Property for a January 31, 2008 auction pursuant to an advertising and marketing plan agreed upon by the Auctioneer and Propex (the "Marketing Process"). As a result of the Auctioneer's marketing efforts, eleven (11) potential buyers expressed interest in the Dalton Property, with eight (8) of those potential buyers conducting some preliminary due diligence with respect to the property. However, prior to the scheduled auction, the Debtors filed their bankruptcy petitions and instructed the Auctioneer to cancel the January 31, 2008 auction and to temporarily cease advertising and marketing efforts pending further instructions from the Bankruptcy Court.

The Debtors argue that the assumption of the Auction Listing Contract and the extension of the same to June 30, 2008 is in the best interests of the Debtors' creditors and estates. The Debtors believe that the assumption and extension of the Auction Listing Contract will allow the Debtors to advertise, market, auction and sell the Dalton Property, so as to ensure that the Debtors' estates realize the maximum value for the Dalton Property.

C. Approval of the Proposed Sale Process

The Debtors, working with the Auctioneer, have developed the following proposed process for auctioning the Dalton Property (the "Proposed Sale Process"). The Proposed Sale Process, includes, among other things, the following:

(i) **Marketing Process.** The Auctioneer will implement the Marketing Process up to and until the date of the Auction (as defined below).

(ii) **Auction.** The Auctioneer, with the assistance of the Debtors, will conduct an auction with respect to the sale of the Dalton Property on May 16, 2008. The Dalton Property has been divided into three tracts (with each tract comprised of a separate building and parking

lot). At the Auction, the Auctioneer will first offer for bidding each of the three separate tracts on an individual basis. After the Auctioneer (in consultation with the Debtors) determines the highest or best bid for each of the three individual tracts, the Auctioneer will offer for bidding the three tracts together – i.e., the entire Dalton Property. After the bidding is complete for the three tracts together, the Auctioneer (in consultation with the Debtors) will determine, subject to Bankruptcy Court approval, the bid or combination of bids for the Dalton Property that represent the highest or best offer for the Dalton Property (as the case may be, the “Prevailing Bid or Bids”). All bidding for the Dalton Property will be concluded at the Auction and there will be no further bidding permitted at the Sale Hearing.

(iii) **Reserve.** The Auction will be conducted as a “reserve auction.” Thus, in the event that no bid or combination of bids are received at the Auction that are satisfactory to the Debtors in their sole and absolute discretion, the Auctioneer will announce that there is no successful bidder for the Dalton Property and no Prevailing Bid will be presented to the Bankruptcy Court.

(iv) **Prevailing Bid(s).** If the Debtors select a Prevailing Bid or Bids at the Auction, within one (1) day of completion of the Auction, the Debtors will (a) file a notice with the Bankruptcy Court setting forth the identity of each Prevailing Bidder and the amount of each Prevailing Bid (the “Bid Notice”), and (b) serve the Bid Notice on the parties on the Master Service List in the case. Prior to the Sale Hearing, the Debtors will provide the Committee with information made available to it at the Auction regarding the Prevailing Bidder(s), and will confer and consult with the Committee regarding the Prevailing Bid(s).

(v) **Sale Hearing.** The Sale Hearing will be conducted on May 21, 2008 at 9:00 a.m. in Chattanooga, Tennessee, at the United States Bankruptcy Court, at which time the Debtors will present the Prevailing Bid or Bids for approval by the Bankruptcy Court. The Debtors shall be deemed to have accepted a bid only when the bid has been approved by the Bankruptcy Court at the Sale Hearing.

(vi) **Highest and/or Best Bid.** At all times during the Proposed Sale Process, the Debtors will retain the right to determine, in their sole discretion, which bid or bids constitute the highest or otherwise best offer for the purchase of the Dalton Property, and which bid or bids, if any, should be selected as Prevailing Bid or Bids.

(vii) **Sale Implementation.** Following the approval of the Prevailing Bid or Bids at the Sale Hearing, the Debtors will be authorized to take all reasonable and necessary steps to complete and implement the transaction(s) contemplated by the Prevailing Bid or Bids.

(viii) **As Is, Where Is.** The Dalton Property will be transferred to the Prevailing Bidder or Bidders on an “as is” and “where is” basis.

(ix) **Closing.** All closings related to the sale of the Dalton Property shall take place not later than thirty (30) days following entry by the Bankruptcy Court of the Sale Order(s).

The Debtors believe that the Proposed Sale Process offers the best opportunity for the Debtors to maximize the value of the Dalton Property for the benefit of their estates and, therefore, argue that the Proposed Sale Process should be approved.

**The date of the Sale Procedures Hearing is scheduled for March 26, 2008 at 9:00 a.m. (ET).
The deadline to object to the Motion is Friday March 21 at 5:00 p.m. (ET).**