

MEMORANDUM

June 16, 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

Debtors’ Motion for Approval of Settlement Agreement with American Fibers & Yarns Company Pursuant to Bankruptcy Rule 9019 (the “Motion”)

By the Motion, the Debtors seek Bankruptcy Court approval of a settlement agreement (the “Settlement Agreement”) reached with American Fibers & Yarns Company (“AFY”). According to the Motion, the relevant facts underlying the Settlement Agreement are as follows:

Under that certain Form of Bainbridge Lease Agreement, dated November 1, 1999 (the “Lease Agreement”), the Debtors lease certain premises to AFY. In addition, the Debtors and AFY are parties to that certain Bainbridge Common Site Services Agreement, dated November 1, 1999, (the “Common Site Services Agreement”), pursuant to which the Debtors provide certain services to AFY. Prior to the Petition Date, the Debtors commenced a lawsuit against AFY in Georgia state court (the “Lawsuit”) relating to a dispute over amounts and payment terms under the Lease Agreement and Common Site Services Agreement. On May 8, 2008, Debtors and AFY entered into the Settlement Agreement, subject to the Bankruptcy Court’s approval.

The relevant terms of the Settlement Agreement are set forth below:

- a. *Payment to Propex:* AFY agrees to pay Propex the sum of \$554,707.26.
- b. *Release of Propex:* AFY agrees to release Propex from all claims that have accrued as of the date of the Settlement Agreement, including but not limited to all claims that were raised or could have been raised in the Lawsuit.
- c. *Release of AFY:* Except for AFY’s obligation to pay the sum of \$554,707.26 and AFY’s continuing obligations under the Settlement Agreement and Lease Agreement, Propex releases AFY from all claims that have accrued as of the date of the Settlement Agreement, including but not limited to all claims that were raised or that could have been raised in the Lawsuit.

- d. *Dismissal of Claims:* Both parties have agreed to cause to be filed a mutual dismissal with prejudice of all claims and counterclaims in the Lawsuit.
- e. *Common Site Services Agreement:* The Settlement Agreement will replace the Common Site Services Agreement, which shall no longer be in effect.

The hearing date on the Motion is scheduled for June 25, 2008 at 9:00 a.m. (ET). The deadline to object to the Motion is June 20, 2008 at 5:00 PM (ET).