

The Official Committee of Unsecured Creditors (the “Committee”) of Propex Inc., and its affiliated debtors and debtors in possession, Propex Holdings Inc., Propex Concrete Systems Corporation, Propex Fabrics International Holdings I Inc., and Propex Fabrics International Holdings II Inc. (collectively, the “Debtors”), by and through its counsel, Akin Gump Strauss Hauer & Feld LLP, on behalf of and as the representative of the bankruptcy estates of the Debtors, based upon information and belief, hereby alleges as follows:

PRELIMINARY STATEMENT¹

1. In January 2007, at a time when the Debtors were in financial straits as a result of declining market conditions, the Lenders engaged in a scheme designed to deplete the Debtors’ resources and ultimately force a bankruptcy proceeding in which the Lenders could wrest control of the Debtors from each of the Debtors’ other constituencies. Specifically, the Lenders wrongly induced the Debtors to enter into an agreement labeled “Second Amendment to the Credit Agreement and Limited Waiver,” dated January 26, 2007 (the “Second Amendment”), which ostensibly provided relief in the form of a waiver and temporary relaxation of certain financial covenants. All of the parties to the Second Amendment knew, however, that the purported relief had no value because the Debtors would likely default on the relaxed covenants in the near term, and, in any event, would certainly breach the covenants once they were reset to the original levels in the Spring of 2008. Indeed, by September 2007, the Debtors had already triggered multiple covenant defaults.

2. In exchange for this “relief,” the Lenders demanded a \$20 million cash pre-payment of principal, fees and expenses, as well as a higher interest rate on payments going forward. These additional burdens not only made compliance with the reduced financial

¹ Unless otherwise defined, each capitalized term used in this Preliminary Statement is defined subsequently in this Complaint.

covenants more improbable, they also left the Debtors undercapitalized and further entrenched in insolvency.

3. The Lenders succeeded in luring the Debtors to accept these inequitable terms by creating the false expectation that they would agree to another amendment of the Credit Agreement or an outright refinancing whenever the inevitable covenant breach occurred. But when the Debtors approached the Lenders in October 2007 to commence negotiations, the Lenders were less than receptive, first putting up a wall of silence and then stringing the Debtors along with empty promises of a term sheet that never materialized.

4. With no prospects of alternative financing, the Debtors were forced to file for chapter 11 protection, just as the Lenders had intended when they negotiated the Second Amendment. Further, as a result of the undercapitalization caused by the Second Amendment, the Debtors were in a far weaker state and, as such, had no viable alternative but to accept the DIP Financing underwritten by the Lenders.

5. In short, the Lenders' constructively fraudulent and inequitable conduct advanced their own interests at the expense of the Debtors and all of their other constituencies. Accordingly, as set forth in detail below, the Lenders' ill-gotten gains should be avoided and their claims equitably subordinated.

6. In addition to the foregoing relief, this action seeks to (a) void and recover certain fraudulently conveyed liens on the Debtors' collateral – liens that the Lenders untimely perfected outside the Revised Uniform Commercial Code's (the "UCC") statutory four-month window, which was triggered by certain of the Debtors' name changes, (b) avoid a lien relating to Propex Inc.'s property in Berrien County, Georgia pursuant to 11 U.S.C. § 544 because the Lenders failed to perfect that lien after Propex Inc. had its name changed from Propex Fabrics, Inc., and

(c) avoid the Lenders' liens with respect to the Debtors' environmental permits pursuant to 11 U.S.C. § 544 because the regulations that govern the permits provide that the permits do not convey a property interest that can be pledged as collateral.

7. Lastly, this action seeks a declaratory judgment on three issues. First, the Committee seeks declaratory judgment that (a) the Lenders' pendency interest should be calculated at the non-default rate set forth in the Credit Agreement, (b) the Debtors are entitled to choose between the Adjusted LIBOR Rate or Base Rate (as defined in the Credit Agreement), and (c) the adequate protection payments made thus far in these chapter 11 cases, which have been calculated at the Base Rate on principal that is increasing at a compounded 2% Default Rate (as these terms are defined in the Credit Agreement), are improper and are recoverable.

8. Second, the Committee seeks declaratory judgment that the Lenders do not have any security interest in the capital stock of Propex's Hungarian subsidiaries because no registered or valid pledge agreements in connection with such purported security interests existed prior to the commencement of these chapter 11 cases.

9. Third, the Committee seeks declaratory judgment that (a) the Lenders' adequate protection liens and section 507(b) "superpriority" claim are limited exclusively to the extent that there has been a diminution in the value of the Lenders' collateral during these chapter 11 proceedings, and (b) there has been no such diminution in value demonstrated by the Lenders to date.

THE PARTIES

10. Plaintiff is the Official Committee of Unsecured Creditors duly appointed on January 25, 2008, by the United States Trustee for the Eastern District of Tennessee in these chapter 11 proceedings. The Committee brings this suit on behalf of and for the benefit of the Debtors' estates.

11. The Committee was given standing to pursue claims against the Defendants by this Court in its Final Order (I) Authorizing the Debtors (A) to Obtain Postpetition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1) and 364(e), and (B) to Utilize Cash Collateral Pursuant to 11 U.S.C. § 363; (II) Granting Liens, Security Interests and Superpriority Claims; and (III) Granting Adequate Protection to Prepetition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363, and 364, dated February 13, 2008 [Docket No. 160] (the "DIP Order").

12. Defendant BNP Paribas is an international bank licensed to conduct banking operations in France and maintains an office at 787 Seventh Avenue, New York, NY 10019. BNP Paribas is the administrative agent under the Credit Agreement (as defined below) and holder of the liens conveyed pursuant to the Credit Agreement's accompanying collateral documents.

JURISDICTION AND VENUE

13. The Debtors commenced this Bankruptcy case by filing a Petition for Relief (the "Petition") under chapter 11 of the United States Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code") on January 18, 2008 (the "Petition Date").

14. This Court has jurisdiction pursuant to 20 U.S.C. §§ 157, 1331, and 1334.

15. Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

FACTUAL BACKGROUND

General Background

16. Debtor Propex Inc. (“Propex”), together with its affiliated Debtors, are the world’s largest independent producers of primary and secondary carpet backing and are leading manufacturers and marketers of woven and nonwoven polypropylene fabrics and fibers used in a variety of geosynthetic and other industrial applications such as fabric containers, fabric protective coverings, and concrete fiber reinforcement.

17. In 2005, Propex’s two largest customers for carpet backing materials, Shaw Industries Inc. (“Shaw”) and Mowhawk Industries Inc. (“Mowhawk”), began to reverse–integrate the production of carpet-backing products. Specifically, Mowhawk began in-sourcing the manufacturing process sometime in the beginning of 2005, and Shaw began in-sourcing sometime in the Fall of 2005.

18. The reverse integration of these core products by Propex’s largest customers had an immediate and adverse impact on Propex’s financial condition, and drew into question its then current business model by significantly reducing its customer base. Therefore, as early as February 2005, Propex realized or should have realized that it would have to look for other strategic opportunities to survive and remain competitive.

The SI Acquisition and Credit Agreement

19. On or about January 31, 2006, Propex acquired all of the outstanding capital stock of its largest competitors, SI Concrete Systems Corporation (now known as Propex Concrete Systems Corporation) and SI Geosolutions Corporation (now known as Propex Geosolutions Corporation) (collectively, “SI”), for approximately \$232.6 million (the “SI Acquisition”), of which \$28.1 million was paid out of the Debtors’ cash on hand.

20. To raise additional funds for the transaction, Propex entered into a credit agreement, dated as of January 31, 2006, among Propex Inc. and the signatory lenders thereof with BNP Paribas as Administrative Agent and BNP Paribas Securities Group as Lead Arranger (the “Credit Agreement”) (the current holders of the syndicated debt under the Credit Agreement are hereinafter defined as the “Lenders”).²

21. The Credit Agreement provided for a \$360 million senior credit facility, comprised of a \$260 million term loan facility, a \$50 million revolving credit facility, and a \$50 million bridge loan facility.

22. The Credit Agreement also required Propex to satisfy certain financial covenants. Specifically, Propex was obligated to maintain, among other things, certain minimum leverage, interest, and fixed charge coverage ratios, as well as minimum consolidated EBITDA figures.

The Debtors’ Name Changes and the Lenders’ Failure to Re-Perfect Liens

23. On or about June 13, 2006, the Debtors changed their corporate names. The Debtors sent due and proper notice of these changes to all of their creditors.³ This event triggered a statutory requirement under section 9-507(c) of the UCC for the Lenders to re-perfect their liens on the Debtors’ pledged assets by filing amended UCC statements. Failure to do so would have left the liens unperfected as to future collateral and available for the Debtors to convey to another party.

24. The Lenders failed to re-perfect their liens on certain of the Debtors’ property by the statutory deadline and instead perfected these liens by filing amended UCC statements in December 2006.

² On or about February 20, 2006, the Debtors and the Lenders entered into the First Amendment to Credit Agreement. Among its other terms, this amendment effectively lowered the Credit Agreement’s interest rate to LIBOR plus 2.25% from LIBOR plus 2.5%.

25. Thus, the late UCC filings constituted a new transfer by the Debtors for which the Lenders provided no value to the Debtors.

26. The late filings occurred at a time when the Debtors were insolvent.

27. In addition to these untimely filings, the Lenders failed to file *any* amended UCC statement reflecting Propex's name change with respect to a lien on Propex's personal property located in Berrien County, Georgia.

Insolvency and Default by December 2006

28. The anticipated benefits from the SI Acquisition failed to materialize. Further, the Debtors suffered from the continued loss of business from Shaw and Mowhawk, and a liquidity squeeze due in part to the Debtors' \$28.1 million cash payment made in connection with the SI Acquisition, monthly payments on the Credit Agreement, and rising propylene prices.

29. Consequently, the Debtors struggled throughout 2006. In 2005, Propex's EBITDA was \$71 million, SI's EBITDA was \$24 million, and the projected, combined EBITDA for the two companies was \$81.2 million. By the fourth quarter of 2006, however, the Debtors' total EBITDA fell to \$61.1 million, and the Debtors' net income fell from \$14 million to \$1.8 million during the same timeframe.

30. By December 2006, the Debtors were insolvent.

The Second Amendment to the Credit Agreement

31. Indeed, by December 2006, it was or should have been clear to both the Debtors and the Lenders that the Debtors would soon default on the Credit Agreement's covenants, if they were not already in default.⁴ It also was or should have been clear to all parties that because

³ The Debtors whose names were changed are Propex Inc., Propex Holdings Inc., Propex Geosolutions Corporation, and Propex Concrete Systems Corporation.

⁴ In early January 26, 2007, the Debtors filed a Form 8-K with the SEC stating that it was "likely" not in compliance with one or more of the covenants in the Credit Agreement. The Lenders did not declare a covenant default.

of their business difficulties, the Debtors would remain in default well into the foreseeable future.

32. Given the Debtors' deteriorating financial condition and the bleak outlook for the housing, carpet-backing, and geosynthetic markets, it would have been in the best interest of the Debtors – and their creditors – for the Debtors to seek chapter 11 protection or more attractive long-term financing at this juncture.

33. The Lenders, however, engaged in a course of conduct designed to artificially prolong the Debtors' operations, deepen their insolvency, and further deplete their liquid assets, while the Lenders strengthened their own stake in the Debtors in anticipation of an eventual bankruptcy proceeding. Specifically, the Lenders induced the Debtors to enter into the Second Amendment when they knew or should have known that the Debtors would likely not satisfy its terms.

34. On its face, the Second Amendment was ostensibly intended to provide the Debtors with covenant relief. It waived the Debtors' obligations to comply with certain financial covenants for the fourth quarter of 2006, and relaxed the covenants for all of 2007, and the first quarter of 2008, after which time the covenants would be reset to the original levels under the Credit Agreement.

35. However, both the Lenders and the Debtors knew or should have known that the Debtors would not be able to satisfy the relaxed covenants and would likely default within the year.

36. Moreover, both the Lenders and the Debtors were fully aware that the Debtors would have no ability to meet the covenants once they reset in the Spring of 2008. Thus, the

Second Amendment would, at most, forestall a default by one year and provide the Debtors no meaningful value.

37. Yet, in exchange for the Second Amendments' limited waiver and relaxed covenants, the Lenders demanded that the Debtors pay down principal on the debt by \$20 million, and pay an increased interest rate of seventy-five basis points going forward. Notwithstanding their precarious financial situation, the Debtors agreed to such onerous and inequitable terms.

38. The Debtors accepted these terms because the Lenders deliberately made representations and conducted themselves in a manner that demonstrated to the Debtors that when the anticipated default occurred, the Lenders would readily negotiate further relief or an outright refinancing of the Credit Agreement.

39. The Debtors relied on the Lenders' representations and assurances in entering into the Second Amendment, and in choosing not to seek refinancing from third parties or to file for chapter 11 protection in January 2007.

The Second Amendment's Impact on the Debtors

40. The onerous payment obligations that the Lenders imposed on the Debtors pursuant to the Second Amendment left the Debtors undercapitalized and ensured that they would slip further into insolvency and financial distress.

41. Indeed, the Debtors lost over \$60 million in the first nine months of 2007 alone.

42. Moreover, the \$20 million pre-payment and higher interest rate requirements made it even more unlikely that the Debtors would satisfy the relaxed covenants set forth in the Second Amendment. Indeed, by September 2007, only about eight months after they executed the Second Amendment, the Debtors were in default of two of the leverage ratio covenants.

The Lenders Rebuff the Debtors' Attempts to Obtain Additional Relief

43. As the parties had contemplated in their January 2007 negotiations, the Debtors approached the Lenders in October 2007 about either negotiating another amendment and limited waiver to the Credit Agreement or refinancing the secured debt.

44. Specifically, the Debtors made a presentation to the Lenders to initiate discussions. However, the Debtors received little or no response from the Lenders. Although the Lenders later represented on two separate occasions that they would furnish the Debtors with a proposed term sheet to pursue negotiations, the Lenders never provided the term sheet.

45. By late November 2007, after weeks of stonewalling by the Lenders – during which time the Debtors' financial position worsened drastically – it became or should have become patently clear that the Lenders did not intend to negotiate, and that no relief was forthcoming.

46. The Debtors then turned their efforts primarily to obtaining third-party financing. These efforts ultimately proved futile because of the drastic downturn of the credit markets and the fact that the Lenders' misconduct left the Debtors with insufficient time to obtain third-party financing before they were forced to seek chapter 11 protection.

47. In addition to the financial hardships that the Debtors faced as a result of the Second Amendment's requirements, the Debtors' situation deteriorated in or about December 2007, as their vendors began demanding payment in advance of shipments. The vendors' demands for upfront cash payments was a reaction to the impasse between the Debtors and the Lenders, and placed further strain on the Debtors' already tightening liquidity.

Debtor-In-Possession Financing and Bankruptcy Filing

48. With no prospects for resolution with the Lenders, and all hopes for third-party refinancing dashed, the Debtors began seeking debtor-in-possession financing (“DIP Financing”) in early to mid-January 2008, in anticipation of filing for chapter 11 protection.

49. Without any other viable options, the Debtors had no choice but to accept an offer from the Lenders with the most significant holdings of secured debt (collectively, the “DIP Lenders”) – apparently designed to give the DIP Lenders control of the Debtor companies.

50. On January 18, 2008, the Debtors filed the Petition, and on the same date, sought on an emergency basis authorization from the Court to obtain the DIP Financing offered by the DIP Lenders.

51. On February 13, 2008, the Court entered the DIP Order. Under the terms of the DIP Order, the DIP Lenders committed up to \$60 million, including \$20 million of interim financing.

52. As of the Petition Date, the Debtors were indebted to the Lenders in the aggregate principal amount of \$230 million.

Pendency Interest and Overpayments of Adequate Protection

53. Among its other provisions, the DIP Order states that the “[Debtors] shall pay to the [Lenders], . . . monthly in arrears an amount equal to postpetition interest on the [secured debt] at the respective *non-default* contractual rates set forth in the [Credit Agreement] (with the rights of all parties with respect to claims for any payment of additional default interest fully preserved) . . .” DIP Order at ¶ 13(c) (emphasis added). As a result, the pendency interest owed to the Lenders should be calculated using the Credit Agreements’ non-default rate.

54. Further, the terms of the Credit Agreement provide the Debtors with the ability to elect either the Adjusted LIBOR Rate or the Base Rate (as these terms are defined in the Credit Agreement).

55. Notwithstanding the foregoing, at the insistence of the Lenders, the Debtors are currently making adequate protection payments to the Lenders at the higher Base Rate set forth in the Credit Agreement.

56. Additionally, the Debtors are improperly accruing an additional 2% of principal under the Credit Agreement as a result of the Lenders' further insistence that the Debtors pay the Default Rate of interest as that term is defined in the Credit Agreement. This monthly accrual compounds, resulting in increasing principal and higher Base Rate payments.

Purported Liens on the Capital Stock of Propex's Hungarian Subsidiaries

57. The Lenders purport to have prepetition liens on 66% of the capital stock of two of the Debtors' subsidiaries located in Hungary (the "Hungarian Subsidiaries").

58. However, prior to the Petition Date, the Lenders did not have any valid liens on the capital stock of the Hungarian Subsidiaries, as a valid pledge with respect to such stock was never registered.

59. Accordingly, the Lenders do not have any liens with respect to the capital stock of the Hungarian Subsidiaries.

Adequate Protection Liens and Claims

60. The DIP Order provides that the Lenders shall have adequate protection liens and a superpriority claim under section 507(b) of the Bankruptcy Code. DIP Order at ¶ 13; see also Bankruptcy Code § 507(b).

61. However, such adequate protection liens and superpriority claim are limited solely to the extent that there has been a diminution in the value of the Lenders' prepetition collateral securing Propex's obligations under the Credit Agreement during the pendency of these chapter 11 bankruptcy proceedings. See DIP Order at ¶ 13.

62. There has been no determination that the Lenders' prepetition collateral has diminished in value during the pendency of these Chapter 11 bankruptcy proceedings.

63. Indeed, no valuation of the Lenders' prepetition collateral has been conducted.

64. Accordingly, the Lenders have neither adequate protection liens nor a superpriority claim at this juncture in the bankruptcy proceedings.

COUNT I

(Claim for Fraudulent Conveyance Pursuant to 11 U.S.C. §§ 548, 544, 550 and Tenn. Code Ann. § 66-3-301-§ 66-3-313)

65. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 64, as set forth herein.

66. The Debtors' estates received less than fair consideration in exchange for the limited waivers and relaxed covenants set forth in the Second Amendment.

67. Because it was certain that the Debtors would default on either the relaxed covenants set forth in the Second Amendment or the covenants when they reset in the Spring of 2008 – a fact that the Lenders knew or should have known – the limited waivers and relaxed covenants effectively had no value and merely prolonged the lives of the Debtors another year to the detriment of both the Debtors and all of the Debtors' constituencies besides the Lenders.

68. The Second Amendment and the transfers made thereunder were executed within two years of the Petition Date.

69. Thus, the Debtors did not receive reasonably equivalent value for the (a) \$20 million cash payment, (b) increased interest rate obligation, and (c) the associated fees and expenses that the Lenders required from the Debtors in exchange for the relief set forth in the Second Amendment.

70. Moreover, in or about December 2006, the Lenders knew or should have known that the Debtors were either insolvent or on the brink of insolvency. By disregarding this fact and demanding that the Debtors pay down principal by \$20 million and pay an increased interest rate, the Lenders definitively rendered the Debtors insolvent and undercapitalized.

71. Accordingly, the payments of \$20 million toward principal, the increased interest, and the fees and expenses associated with the Second Amendment each constitutes a fraudulent conveyance under the Bankruptcy Code and Tennessee Code and the Committee is entitled to recover, for the benefit of the Debtors' estates, the monies fraudulently transferred.

COUNT II

(Claim for Equitable Subordination Pursuant to 11 U.S.C. § 510(c))

72. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 71, as if fully set forth herein.

73. As set forth above, the Lenders induced the Debtors to enter into the Second Amendment by leading the Debtors to believe that they would negotiate further relief or an outright refinancing in the event of a default, when in fact, the Lenders had no such intention.

74. Rather, by inequitably imposing the \$20 million pay-down and increased interest requirements in exchange for the Second Amendment's limited waivers and relaxed covenants, the Lenders rendered the Debtors insolvent and undercapitalized. The Lenders also sought to solidify their own position in the Debtors' bankruptcy proceedings.

75. The foregoing conduct by the Lenders was inequitable and unlawful. As a result of such conduct, the Debtors' creditors have suffered injury.

76. A claim for equitable subordination arising from such conduct would not be inconsistent with the provisions of the Bankruptcy Code.

77. Accordingly, the Lenders' claims should be equitably subordinated to the claims of the unsecured creditors represented by the Committee.

COUNT III
(Claim for Deepening Insolvency Under Tennessee Law)

78. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 77, as if fully set forth herein.

79. During the negotiations of the Second Amendment, the Lenders owed duties to the Debtors, including a fiduciary duty, as they were in a position to, and in fact did, exert influence over the Debtors' fate by capitalizing on the Debtors' vulnerability.

80. The Lenders knew that the Debtors were facing certain insolvency and default under the Credit Agreement, even under the relaxed covenants of the Second Amendment that the Lenders were offering. Yet, the Lenders induced the Debtors to accept the Second Amendment with the false assurances that they would negotiate a further amendment to the Credit Agreement or a refinancing of the debt upon default of either the Second Amendment's relaxed covenants or the reset covenants in the Spring of 2008.

81. The Lenders' conduct deepened the Debtors' insolvency by, among other things, artificially prolonging the Debtors' continued operations in a declining market, and requiring a \$20 million pre-payment of principal and a higher interest rate on future payments.

82. In so doing, the Lenders breached their duties to the Debtors, and cost the Debtors' estates substantial value and caused harm.

83. Accordingly, the Court should order recovery, for the benefit of the Debtors' estates, of all damages caused by the Debtors' deepening insolvency.

COUNT IV
(Claim for Fraudulent Conveyance Pursuant to
11 U.S.C. §§ 548, 544, 550 and Tenn. Code Ann. § 66-3-301-§ 66-3-313)

84. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 83, as if fully set forth herein.

85. On or about June 13, 2006, the Debtors changed their names. Due notice of these name changes was given to the Lenders. Under UCC § 9-507(c), the Lenders were therefore permitted a four-month grace period from the date of the name change to file amended UCC financing statements reflecting the new names. After this grace period, if amended UCCs were not filed, then the Lenders' security interest in the Debtors' property would be unperfected as to future collateral. Accordingly, the deadline for the Lenders to file amended UCC statements reflecting the name changes was on or about October 13, 2006.

86. The Lenders failed to timely file amended UCC statements for certain of the Debtors' assets as described in Exhibit A attached hereto. Specifically, the Lenders did not file amended UCCs on the Debtors' assets as described in Exhibit A until the relevant dates in December 2006 (as listed on Exhibit A) (the "Untimely Filed UCCs").

87. The Untimely Filed UCCs were filed within two years of the Petition Date.

88. The Untimely Filed UCCs constituted new transfers for which the Debtors received no consideration.

89. The Debtors were insolvent when the Untimely Filed UCCs were filed.

90. Accordingly, the Debtors' estates are entitled to avoid any purported lien claimed by the Lenders on the property described in Exhibit A as a fraudulent transfer.

COUNT V
**(Claim for Avoidance of Improperly Filed
Security Interest Pursuant to 11 U.S.C. §§ 544 and 550)**

91. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 90, as if fully set forth herein.

92. The Lenders failed to file amended UCCs reflecting Propex's name change on the fixtures at Propex's real property in Berrien County Georgia, as described in Exhibit B attached hereto (the "Berrien County Georgia Property"). As a result, the Berrien County Georgia Property is currently unencumbered by any lien alleged by the Lenders.

93. Accordingly, the Debtors' estates are entitled to avoid the purported lien on the Berrien County Georgia Property.

COUNT VI
**(Claim for Avoidance of Improper
Security Interest Pursuant to 11 U.S.C. §§ 544 and 550)**

94. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 93, as if fully set forth herein.

95. The Lenders purport that their security interest in all of the Debtors' personal property encompasses the Debtors' state and federal environmental permits, which are necessary for the operation of several of the Debtors' facilities (the "Environmental Permits"). A schedule of the Environmental Permits is attached hereto as Exhibit C.

96. The regulations governing the Environmental Permits, however, expressly provide that the Debtors do not have any property rights or interests in the Environmental Permits. Indeed, some of the Environmental Permits themselves provide that no property interests are conveyed with those particular Environmental Permits. Thus, the Environmental Permits do not constitute personal property and fall outside of the scope of the Lenders' security

interest in all of the Debtors' personal property. Moreover, under § 1-201(37) of the UCC, which defines a security interest as an interest in personal property, the Environmental Permits cannot serve as a security interest. *See* UCC § 1-201(37).

97. Accordingly, the Debtors' estates are entitled to avoid any purported liens on the Environmental Permits.

COUNT VII
(Claim for Declaratory Judgment Pursuant to 28 U.S.C.A. § 2201)

98. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 97, as if fully set forth herein.

99. The DIP Order states that the Lenders should be paid for their pendency interest on the non-default rate specified under the Credit Agreement: “[Debtors] shall pay to the [Prepetition Lenders], . . . monthly in arrears an amount equal to postpetition interest on the [secured debt] at the respective non-default contractual rates set forth in the [Credit Agreement] (with the rights of all parties with respect to claims for any payment of additional default interest fully preserved)” DIP Order at ¶ 13(c).

100. The Credit Agreement provides that, in the absence of a default, the Debtors may pay interest at whichever of the Adjusted LIBOR Rate or the Base Rate (as these terms are defined in the Credit Agreement) that the Debtors choose.

101. At the insistence of the Lenders, however, the Debtors are currently making adequate protection payments to the Lenders at the higher Base Rate set forth in the Credit Agreement. Further, the Debtors are improperly accruing an additional 2% of principal owed under the Credit Agreement due to the Lenders' further insistence that the Debtors pay the Default Rate of interest as that term is defined in the Credit Agreement. This monthly accrual compounds, resulting in increasing principal and higher Base Rate payments.

102. As a result, the Committee, on behalf of Debtors' estates, is entitled to a declaratory judgment that (a) the Lenders' pendency interest in the secured debt be set at the non-default rate under the Credit Agreement, (b) the Debtors may elect as the contractual non-default rate either the Adjusted LIBOR Rate or the Base Rate at their discretion, and (c) the Committee is entitled to recover for all overpayments of adequate protection, which are currently calculated at the Base Rate on principal that is increasing at a compounded 2% Default Rate (as these terms are defined in the Credit Agreement).

COUNT VIII
(Claim for Declaratory Judgment Pursuant to 28 U.S.C.A. § 2201)

103. The Committee repeats and realleges the allegations contained in Paragraphs 1 through 102 as if fully set forth herein.

104. Prior to the Petition Date, the Lenders did not have a valid security interest in the capital stock of the Hungarian Subsidiaries, as no valid pledge was ever made or registered with respect to such stock in the Hungarian Subsidiaries.

105. Accordingly, the Committee, on behalf of the Debtors' estates, is entitled to a declaratory judgment that the Lenders do not have any security interests in the capital stock of the Hungarian Subsidiaries.

COUNT IX
(Claim for Declaratory Judgment Pursuant to 28 U.S.C.A. § 2201)

106. The Committee repeats and realleges the allegations set forth in Paragraphs 1 through 105, as though fully set forth herein.

107. The DIP Order provides that the Lenders are granted adequate protection liens and a superpriority claim under section 507(b) of the Bankruptcy Code.

108. Such adequate protection liens and the section 507(b) superpriority claim are intended to protect the Lenders' interest in their prepetition collateral, in an amount equal to the aggregate diminution in value of such prepetition collateral during the pendency of the Debtors' chapter 11 bankruptcy proceedings.

109. There has been no valuation of the prepetition collateral securing the obligations under the Credit Agreement, and therefore no determination that the value of the prepetition collateral has diminished.

110. Accordingly, the Committee, on behalf of the Debtors' estates, is entitled to a declaratory judgment that (a) the Lenders have adequate protection liens and/or a section 507(b) superpriority claim only to the extent that the Lenders demonstrate that there has been a diminution in value of their prepetition collateral during the pendency of the Debtors' chapter 11 bankruptcy proceedings and (b) because there has been no determination that the value of the prepetition collateral has diminished, the Lenders have neither adequate protection liens nor a superpriority claim at this juncture in the bankruptcy proceedings.

RELIEF REQUESTED

WHEREFORE Plaintiff requests entry of judgment against the Defendants as follows:

A. As to the First Count, an avoidance of fraudulent transfers and an award in the amount of the fraudulent transfers, plus costs and attorneys' fees, and other such further and different relief as this Court may deem just and proper under the circumstances.

B. As to the Second Count, equitable subordination of all or some of the Lenders' claims, plus costs and attorneys' fees, and other such further and different relief as this Court may deem just and proper under the circumstances.

C. As to the Third Count, a judgment for all damages caused by acts of the Lenders that deepened the Debtors' insolvency, plus costs and attorneys' fees, and other such further and different relief as this Court may deem just and proper under the circumstances.

D. As to the Fourth Count, an avoidance of fraudulent transfers and an award in the amount of the fraudulent transfers, plus costs and attorneys' fees, and other such further and different relief as this Court may deem just and proper under the circumstances.

E. As to the Fifth Count, an avoidance of the Lenders' liens on Propex's property in Berrien County, Georgia.

F. As to the Sixth Count, an avoidance of the Lenders' liens on the Environmental Permits.

G. As to the Seventh Count, a declaratory judgment that (a) the Lenders' pendency interest should be calculated at the non-default rate under the Credit Agreement, (b) the Debtors are entitled to elect as the non-default rate either the Adjusted LIBOR Rate or Base Rate at their discretion, and (c) the Debtors are entitled to recovery of all over-payments of adequate protection payments calculated at the Base Rate on principal that is increasing at a compounded 2% Default Rate (as these terms are defined in the Credit Agreement).

H. As to the Eighth Count, a declaratory judgment that the Lenders do not have any security interests in the capital stock of the Hungarian Subsidiaries, as no valid pledge with respect to such capital stock has been registered.

I. As to the Ninth Count, a declaratory judgment that (a) the Lenders have adequate protection liens and a section 507(b) superpriority claim only to the extent that the Lenders demonstrate that there has been a diminution in value of their prepetition collateral during the pendency of the Debtors' chapter 11 bankruptcy proceedings, and (b) because there has been no

determination that the value of the prepetition collateral has diminished, the Lenders have neither adequate protection liens nor a superpriority claim at this juncture in the these bankruptcy proceedings.

Dated: September 23, 2008
New York, New York

/s/ Ira S. Dizengoff
Ira S. Dizengoff (ID-9980) (admitted pro hac vice)
Stephen M. Baldini (SB-2070) (admitted pro hac vice)
James R. Savin (JS-9220) (admitted pro hac vice)
Abid Qureshi (AQ-4882) (admitted pro hac vice)
AKIN GUMP STRAUSS HAUER & FELD, LLP
590 Madison Avenue
New York, New York 10022
(212) 872-1000

Counsel for the Plaintiff

Copies of these exhibits are being served as required by the local rules.

By: /s/ Ira S. Dizengoff

Ira S. Dizengoff (ID-9980) (admitted *pro hac vice*)
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590 Madison Avenue
New York, New York 10022-2524
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Attorneys for the Official Committee of
Unsecured Creditors of Propex Inc., et al.

Exhibit A

PROPEX: SUMMARY OF TEMPORARILY UNPERFECTED LIENS

DEBTOR	SECURED PARTY	JURISDICTION	ORIGINAL FILE DATE	DAYS UNPERFECTED	AMENDMENT FILE DATE	COLLATERAL
Propex Holdings Inc.	BNP Paribas	Delaware	1/31/06	67	12/20/06	All right, title and interest with respect to the common stock of Propex Fabrics Inc. (Certificate Number 1 representing 100 shares) described on Schedule 1 of Exhibit A attached thereto.
Propex Holdings Inc.	BNP Paribas	Delaware	1/31/06	67	12/20/06	All right, title and interest with respect to the common stock of Propex Fabrics Inc. (Certificate Number 1 representing 100 shares) described on Schedule 1 of Exhibit A attached thereto.
Propex Inc.	BNP Paribas	Delaware	1/31/06	67	12/20/06	All assets.
Propex Inc.	BNP Paribas	Cobb County, Georgia	2/13/06	74	12/27/06	All right, title and interest relating to real property described on Exhibit B thereto.
Propex Inc.	BNP Paribas	Jeff Davis County, Georgia	2/10/06	75	12/28/06	All right, title and interest relating to real property described on Exhibit B thereto.

DEBTOR	SECURED PARTY	JURISDICTION	ORIGINAL FILE DATE	DAYS UNPERFECTED	AMENDMENT FILE DATE	COLLATERAL
Propex Inc.	BNP Paribas	Whitfield County, Georgia	2/10/06	75	12/28/06	All right, title and interest relating to real property described on Exhibit B thereto.
Propex Inc.	BNP Paribas	Oconee County, South Carolina	2/9/06	74	12/27/06	All right, title and interest relating to real property described on Exhibit B thereto.
Propex Geosolutions Corporation	BNP Paribas	Delaware	1/31/06	67	12/20/06	All assets.
Propex Geosolutions Corporation	BNP Paribas	Delaware	1/31/06	67	12/20/06	All assets.
Propex Concrete Systems Corporation	BNP Paribas	Delaware	1/31/06	67	12/20/06	All assets.
Propex Concrete Systems Corporation	BNP Paribas	Delaware	1/31/06	67	12/20/06	All assets.
Propex Fabrics Inc.	BNP Paribas	Berrien County, Georgia	2/8/06		None	All right, title and interest relating to real property described therein.

DEBTOR	SECURED PARTY	JURISDICTION	ORIGINAL FILE DATE	DAYS UNPERFECTED	AMENDMENT FILE DATE	COLLATERAL
Propex Fabrics Inc.	BNP Paribas	Decatur County, Georgia	2/8/06	75	12/28/06	All right, title and interest relating to real property described therein.

Exhibit B

UCC FINANCING STATEMENT
 FOLLOW INSTRUCTIONS (front and back) carefully

Office of Clerk of Court 66349
 Berrien County Superior Court
 Filed for review at 12:20 o'clock P.M.
 This 8 day of Feb 20 06
 Recorded in Book 548 Page 165-169
 This 8 day of Feb 20 06
 Carol Blair

A. NAME & PHONE OF CONTACT AT FILER (optional)

Please return copy to:
 CT CORPORATION SYSTEMS/UCC
 Attn: Joanne Fung 55324-
 1350 Truxt Blvd, Suite 100
 Walnut Creek CA 94597-2152
 800-874-8820 R.d.W.

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only (see debtor name (1a or 1b) - do not abbreviate or combine names)

1a. ORGANIZATION'S NAME
PROPEX FABRICS, INC.

OR

1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
280 The Bluffs Austell GA 30168 USA

1d. TAX ID #: SSN OR EIN ADDL. INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any
 corporation Delaware 0781313 NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only (see debtor name (2a or 2b) - do not abbreviate or combine names)

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. TAX ID #: SSN OR EIN ADDL. INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any
 NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR, S.P.) - insert only (see secured party name (3a or 3b))

3a. ORGANIZATION'S NAME
BNP Paribas, as Administrative Agent

OR

3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
787 Seventh Avenue New York NY 10018 USA

4. THIS FINANCING STATEMENT covers the following collateral:

This Financing Statement is a fixture filing for the Collateral described in Exhibit A, attached hereto and incorporated herein, which is or is to become a fixture or fixtures on, at, or in connection with the real property more particularly described in Exhibit B.

5. ALTERNATIVE DESIGNATION of security LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR BELLEVOUE AG, LIEN NON-UCC FILING

6. THIS FINANCING STATEMENT is to be filed (or record) in the REAL ESTATE RECORDS. Attach Addendum if applicable. 7. Check to REQUEST SEARCH REPORTS (S) on (Debtors) All Debtors Debtor 1 Debtor 2 (ADDITIONAL FEE)

8. OPTIONAL FILER REFERENCE DATA
 File No. 088,188-080 Berrien County (fixture) 1 Nashville Mills Road, Nashville, GA

FILING OFFICE COPY - NATIONAL UCC FINANCING STATEMENT (FORM UCC1) (REV. 07/2004)

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UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

6. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

1a. ORGANIZATION'S NAME PROPEX FABRICS, INC.		
1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

7. MARCELLANEOUS

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME			
OR	11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME SUFFIX
11c. MAILING ADDRESS		CITY	STATE (POSTAL CODE) COUNTRY
11d. TAXID'S NUMBER OR INDIVIDUAL'S OR ORGANIZATION DEBTOR	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION	11g. ORGANIZATIONAL ID #, if any <input type="checkbox"/> NONE

12. ADDITIONAL SECURED PARTY'S OR ASSIGNOR'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME			
OR	12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME SUFFIX
12c. MAILING ADDRESS		CITY	STATE (POSTAL CODE) COUNTRY

13. This FINANCING STATEMENT covers interest in real or unperfected personal, or is filed in a State filing.

14. Description of real assets:

See Exhibit B, attached hereto and incorporated herein for a description of the real property.

15. Name and address of a RECORD OWNER of above-described real estate if Debtor does not have a record interest:

16. Additional comments/declarations:

17. Check 9 applicable and check one box.
Debtor is a Trust or Trustee acting with respect to property held in trust or Decedent's Estate
18. Check 9 applicable and check one box.
 Debtor is a TRANSMITTED UTILITY
 Filed in connection with a Manufactured-Home Transaction - effective 30 years
 Filed in connection with a Public-Accommodation Transaction - effective 30 years

FILING OFFICE COPY - NATIONAL UCC FINANCING STATEMENT ADDENDUM (FORM UCC1Ad) (REV. 07/29/99)

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EXHIBIT A
TO
UCCI FINANCING STATEMENT

Description of Collateral

All of Debtor's right, title and interest, in and to the following, in each case whether now or hereafter existing or in which Debtor now has or hereafter acquires an interest or any rights and wherever the same may be located (the "Collateral"):

(1) the fee interest in the real property described in Exhibit A attached hereto and incorporated herein by this reference together with any greater estate therein as hereafter may be acquired by Debtor (the "Land") together with all rights, privileges, tenements, hereditaments, rights-of-way, easements, appendages and appurtenances appertaining to the foregoing and all interests now or in the future arising in respect of, benefiting or otherwise relating to the Land, including, without limitation, easements, rights-of-way and development rights, including all right, title and interest now owned or hereafter acquired by Debtor in and to any land lying within the right of way of any street, open or proposed, adjoining the Land, and any and all sidewalks, alleys, driveways, and strips and gores of land adjacent to or used in connection with the Land (which, together with the Land, are collectively referred to as the "Real Property"); (2) all improvements now owned or hereafter acquired by Debtor, now or at any time situated, placed or constructed upon the Land (the "Improvements"); (3) all fixtures, machinery, appliances, goods, building or other materials, equipment, including all machinery, equipment, engines, appliances and fixtures for generating or distributing air, water, heat, electricity, light, sewage, fuel or refrigeration, or for ventilating or sanitary purposes, the exclusion of vermin or insects, or the removal of dust, refuse or garbage, and all extensions, additions, accessions, improvements, betterments, renewals, substitutions, and replacements to any of the foregoing, which, to the fullest extent permitted by law, shall be conclusively deemed fixtures and improvements and a part of the real property hereby encumbered (the "Fixtures") (the Real Property, Improvements and Fixtures are collectively referred to as the "Premises"); (4) all leases, licenses, concessions, occupancy agreements or other agreements (written or oral, now or at any time in effect) which grant to any Person a possessory interest in, or the right to use, all or any part of the Mortgaged Property, together with all related security and other deposits (the "Leases"); (5) all of the rents, revenues, royalties, income, proceeds, profits, security and other types of deposits, and other benefits paid or payable by parties to the Leases for using, leasing, licensing, possessing, operating from, residing in, selling or otherwise enjoying the Mortgaged Property (the "Rents"); (6) all accessions, replacements and substitutions for any of the foregoing and all proceeds thereof (the "Proceeds"); (7) all insurance policies, unearned premiums therefor and proceeds from such policies covering any of the above property now or hereafter acquired by Debtor (the "Insurance"); and (8) all awards, damages, remunerations, reimbursements, settlements or compensation heretofore made or hereafter to be made by any governmental authority pertaining to the Premises (the "Condemnation Awards"). As used herein, the term "Mortgaged Property" means all or, where the context permits or requires, any portion of the above or any interest therein.

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For purposes of this Exhibit A, the following terms shall have the following meanings:

"Credit Agreement" means that certain Credit Agreement (as amended, supplemented, consolidated, extended, restated, substituted or otherwise modified from time to time) dated as of February __, 2006, by and among Propex Fabrics Inc., a Delaware corporation, as borrower, the Financial Institutions listed on the signature pages thereof ("Lenders"), and BNP Paribas, as administrative agent for Lenders, including all participants, successors and assigns.

"Person": means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, limited liability partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments (whether federal, state or local, domestic or foreign, and including political subdivisions thereof) and agencies or other administrative or regulatory bodies thereof.

EXHIBIT B
TO
UCCI FINANCING STATEMENT

Property Description

Legal description of property located at:

Street Address	City	County	State	ZIP
1 Nashville Mills Road	Nashville	Berrien	GA	31639

TRACT ONE: All that tract or parcel of land lying and being one and forty-one hundredths (1.41) acres, more or less, in lot of land number 226 in the 10th Land District of Berrien County, Georgia, same bounded as follows: on the North by lands of W. D. Perry; on the East by lands of Avisun Corporation; on the West by right of way of Georgia and Florida Railroad.

Said tract is in the shape of a triangle and more particularly described according to a plat of survey made by Marvin H. Dickey, registered engineer, dated May 13, 1968, which plat, recorded in Plat Book 3 at page 138 in the Office of the Clerk of the Superior Court of Berrien County, Georgia, is by reference incorporated herein as a part of this description.

Being the same property conveyed by warranty deed from Mrs. Carrie Perry to Avisun Corporation, dated May 29, 1968, filed for record May 29, 1968, recorded in Deed Book 98, at page 124, in the Office of the Clerk of the Superior Court of Berrien County, Georgia.

TRACT TWO: All that tract or parcel of land situated, lying and being one hundred sixty-two and eighty-eight hundredths (162.88) acres in lot of land number 225 and 236 in the 10th Land district of Berrien County, Georgia, and bounded on the North by lands of Nashville Land Company, on the northeast by a public dirt road, on the east by lands of Pauline Gillis Lang, Trustee of the Strozier Lang Trust, on the south by lands of Pauline Gillis Lang, Trustee of the Strozier Lang Trust, on the west by the right of way of the Georgia and Florida Railroad part of way, and part of way by lands of W. D. Perry and part of way by lands of W. E. Sutton.

Said tract of land, being more particularly described according to a plat of survey made by William H. Branch, Registered Land Surveyor, on January 18, 1968, which plat, recorded in Plat Book 3, at page 137, in the Office of the Clerk of Superior Court of Berrien County, Georgia, is by reference incorporated herein as a part of this description.

Being the same property conveyed by deed from Pauline Gillis Lang in her capacity as Trustee of the Strozier Lang Trust to Avisun Corporation, dated May 14, 1968, filed for record May 14, 1968, recorded in Deed Book 98, page 83, in the Office of the Clerk of the Superior Court of Berrien County, Georgia.

Exhibit C

List of Debtors' Environmental Permits

Bainbridge, GA

	<u>Permit Number</u>
Air Quality Permit	2221-087-009-B-01-0-1998
Industrial Wastewater Pretreatment Permit	WQ-IP-090-2003
Groundwater Use Permit	042-0002
Drinking Water Permit	GA0870006

Hazlehurst, GA

	<u>Permit Number</u>
Air Quality Permit	3069-080-11023
NPDES Permit	GAG200000
Groundwater Use Permit	080-0001

Nashville, GA

	<u>Permit Number</u>
Air Quality Permit	2221-010-4521-0
NPDES Permit	GA0000132

Ringgold, GA

	<u>Permit Number</u>
Storm Water Discharge Permit	GAR000000

Chattanooga, TN

	<u>Permit Number</u>
Storm Water Discharge Permit	TNR050363