

MEMORANDUM

December 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’ Expedited Motion for an Order Authorizing Entry Into a Proposed Exit Financing Agreement and to Pay (I) Work Fee and (II) Related Expenses (the “Motion”)

By the Motion, the Debtors seek an order (the “Order”) authorizing (i) the Debtors to enter into a non-binding letter agreement (the “Letter Agreement”) with Wayzata Investment Partners LLC (“Wayzata”) providing the Debtors with a delayed draw term exit facility in the amount of \$65,000,000 (the “Exit Facility”); (ii) pay a work fee (the “Work Fee”) of \$150,000 to Wayzata, and (iii) pay other related expenses under the terms of the Letter Agreement.

According to the Motion, on December 11, 2008, Wayzata sent the Debtors the Letter Agreement. The Debtors assert that Wayzata is a 19% holder of the Debtors’ prepetition secured term debt facility and that Wayzata has had ongoing access to the Debtors’ financial information. The Motion states that the Letter Agreement is subject to additional due diligence by Wayzata and certain other conditions.

The following is a summary of the proposed terms provided in the Letter Agreement:

- **Borrower**: Propex, Inc.
- **Guarantors**: Propex Holdings Inc. shall be the Parent Guarantor and each direct and indirect subsidiary of the Borrower shall be a Guarantor. Notwithstanding the foregoing, Wayzata, in its sole discretion, will consider the material tax implications of designating any non-domestic subsidiaries as Guarantors.
- **Lenders**: Certain funds managed by Wayzata, along with such others, in Wayzata’s sole discretion, as may take assignment of up to 49% of the Gross Commitment (as defined below). Certain funds managed by Wayzata will backstop the entire Gross Commitment, but reserve the right to assign up to 49% of the Gross Commitment to third parties in its sole discretion.
- **Requested Amount of Loan**: Lenders will provide 65,000,000 (the “Gross Commitment”) financing in the form of a delayed draw term exit facility.

- Agent and Agent Fee: Wayzata, in its sole discretion, shall select a bank or other institution to serve as agent (the “Agent”), and Borrower shall pay Agent a fee (the “Agent Fee”) in an amount acceptable to the parties.
- Commitment Letter: Prior to the execution of the Loan Documents (as defined in the Letter Agreement), Borrower and certain funds managed by Wayzata shall execute a commitment letter (the “Commitment Letter”). In the Commitment Letter, Lenders shall commit to funding the Gross Commitment, subject to normal and customary conditions precedent, remaining due diligence and execution of Loan Documents satisfactory to Wayzata in its sole discretion. The parties anticipate that they will be in a position to execute the Commitment Letter on or before January 30, 2009.
- Maturity Date: The maturity date shall be 4 years after the effective date (the “Effective Date”) of the Debtors’ plan of reorganization (the “Plan”).
- Payment: Borrower shall be obligated to repay all amounts due and owing as follows:
 - Principal. In the absence of an event of default, all outstanding advances under the Exit Facility shall be due on the Maturity Date.
 - Interest. Interest shall accrue and, absent an event of default, be due and payable in full on the first business day of each month.
 - Fees, Costs, and Charges. A refundable deposit of \$150,000 (the “Work Fee Deposit”) will be payable to Wayzata upon acceptance in writing of the Letter Agreement. The Work Fee Deposit will be used to cover all reasonable out-of-pocket fees, costs, and expenses (including, without limitation, reasonable fees and disbursements of counsel, reasonable consultant costs and expenses, filing and recording fees, and costs and expenses associated with due diligence, travel, appraisals, valuations, audits, and syndication) (the “Expenses”) incurred by or on-behalf of the Lenders in connection with this transaction. The unused portion of the Work Fee Deposit (if any) will be returned by Wayzata to the Debtors. The Work Fee Deposit is not a cap on Expenses.
 - Commitment Fee. The Commitment Fee will be 3% of the Gross Commitment, paid at closing.
 - Call Protection. Upon termination or refinancing of the Exit Facility, call protection of 3% in year 1, 3% in year 2, 2% in year 3 and 1% in year 4 shall be assessed.
 - Payments after an Event of Default. Upon the occurrence of an event of default, all unpaid principal, interest, default interest, fees, charges, costs, assessments,

reasonable attorneys' fees and costs, and any other sums provided for in the Loan Documents shall automatically become accelerated and immediately due and owing.

- Draws and Re-Payments: Borrower will make an initial draw of a portion of the Gross Commitment upon the Effective Date under the Plan and be able to draw additional portions of the Gross Commitment contingent upon certain business milestones and compliance with financial covenants. There shall be no ability to re-draw any portion of the Gross Commitment after repayment thereof.
- Interest Rate: The interest rate shall be (a) the LIBOR Rate plus 1,000 basis points, (b) assessed on a 360/actual basis and (c) the "LIBOR Rate" means the greater of (i) the rate per annum, determined by Agent in accordance with its customary procedures, and utilizing such electronic or other quotation sources as it considers appropriate, to be the rate at which Dollar deposits are offered to major banks in the London interbank market 2 Business Days prior to the commencement of the requested interest period adjusted by the reserve percentage prescribed by governmental authorities as determined by Agent and (ii) 4.50% per annum.
- Security: Borrower will grant Lenders and Agent a properly perfected first priority security interest in (a) all now owned or hereafter acquired tangible and intangible assets of the Borrower, each Guarantor and Parent Guarantor, (b) all stock of the Borrower and each Guarantor and (c) 65% of the voting stock (or other ownership interests) of Borrower's foreign subsidiaries that are not a loan party. Notwithstanding the foregoing, Wayzata will consider modifying the foregoing upon a demonstration of material tax consequences for any grant of security or pledge in or from a foreign subsidiary of Borrower.
- Intercreditor: Execution of an acceptable intercreditor agreement with other secured lenders is a condition precedent to closing.
- Due Diligence: Borrower will allow Wayzata to conduct due diligence that is deemed necessary, appropriate, and customary by Wayzata and in its sole discretion.
- Covenants: Standard commercial lending representations, warranties and covenants deemed appropriate by Wayzata and in its sole discretion.
- Financial Covenants: The Company shall be required to maintain minimum levels of Adjusted EBITDA, a minimum fixed charge coverage ratio, a minimum liquidity requirement and will be subject to a limitation on annual capital expenditures.
- Bankruptcy Conditions Precedent: Any commitment to provide the Gross Commitment shall be conditioned upon (a) Bankruptcy Court approval of a Plan acceptable in form

and substance to Wayzata in its sole discretion; (b) entry of a Bankruptcy Court order confirming the Plan (the “Confirmation Order”) in form and substance acceptable to Wayzata in its sole discretion; and (c) the absence of any appeal, review, rehearing or certiorari of the Confirmation Order and the expiration of the time in which any party could appeal, or otherwise seek review, rehearing, or certiorari of the Confirmation Order in any court of competent jurisdiction.

- Exclusivity: The Debtors agree to work exclusively with Wayzata to consummate the debt financing and agree that they will not (a) engage in any discussion with any other lender or funding source regarding a financing alternative to the Exit Facility, (b) provide any deposit to any other lender or funding source in connection with a financing alternative to the Exit Facility; (c) solicit or accept a proposal or commitment from another lender or funding source in connection with a financing alternative to the Exit Facility; or (d) otherwise permit or encourage another person to solicit a financing proposal or conduct due diligence in connection with a financing alternative to the Exit Facility until January 20, 2009 (the “Exclusivity Date”). The Exclusivity Date shall be extended upon Borrower’s execution of the Commitment Letter.
- Attorneys’ Fees and Costs: Borrower shall pay Expenses incurred by Wayzata and Agent in connection with the negotiation, drafting and execution of the Loan Documents, regardless of whether the transaction is actually consummated.

Pursuant to the terms of the Letter Agreement, the Letter Agreement does not, in any respect, bind or obligate Wayzata or any Lender, and nothing contained therein shall constitute Wayzata’s or any Lender’s agreement to extend credit, or an offer to or agreement to engage in transactions of any kind.