

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TENNESSEE
SOUTHERN DIVISION**

In re	§	
	§	
PROPEX INC.,	§	Case No. 08-10249
PROPEX HOLDINGS INC.,	§	Case No. 08-10250
PROPEX CONCRETE SYSTEMS	§	
CORPORATION,	§	Case No. 08-10252
PROPEX FABRICS INTERNATIONAL	§	
HOLDINGS I INC.,	§	Case No. 08-10253
PROPEX FABRICS INTERNATIONAL	§	
HOLDINGS II INC.,	§	Case No. 08-10254
	§	
Debtors.	§	
	§	Chapter 11
	§	
	§	JOINTLY ADMINISTERED
	§	UNDER CASE NO. 08-10249

**STATEMENT OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF
PROPEX INC., ET AL. CONCERNING (I) DEBTORS' MOTION FOR APPROVAL OF
ASSUMPTION OF REAL PROPERTY LEASES AND (II) NOTICE OF FILING OF
AMENDED EXHIBIT A TO DEBTORS' MOTION FOR APPROVAL OF
ASSUMPTION OF REAL PROPERTY LEASES**

(this relates to Docket Nos. 484 and 492)

The Official Committee of Unsecured Creditors (the "Committee") of Propex Inc. ("Propex") and its affiliated debtors and debtors-in-possession (collectively with Propex, the "Debtors"), by and through its undersigned counsel, hereby submits this statement (the "Statement") concerning two pleadings recently filed by the Debtors: (I) Debtors' Motion for Approval of Assumption of Real Property Leases, filed with the Court on July 15, 2008 [Docket No. 484] (the "Motion") and (II) Notice of Filing of Amended Exhibit A to Debtors' Motion for Approval of Assumption of Real Property Leases, filed with the Court on July 18, 2008 [Docket No. 492] (the "Amended Exhibit"). In support of this Statement, the Committee respectfully submits the following:

BACKGROUND

1. On January 18, 2008 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of Tennessee, Southern Division (the "Court").

2. On January 25, 2008, the United States Trustee appointed the Committee. The Committee consists of the following five entities: Wilmington Trust Company; Pension Benefit Guaranty Corporation; Total Petrochemicals USA, Inc.; BP Corporation North America Inc.; and SMH Capital Advisors, Inc.

3. On July 15, 2008, the Debtors filed the Motion. By the Motion, the Debtors request authority to assume each of the unexpired leases of non-residential property (the "Leases") listed on Exhibit A attached to the Motion. According to the Motion, the Leases comprise "all presently effective real property leases under which the Debtors are lessees, excluding real property leases previously rejected or the subject of a pending motion to reject." See Motion at 2, n.1.

4. Upon reviewing the Motion and conducting its diligence, the Committee discovered that the following two Leases were entered into after the Petition Date: (a) the Warehouse Agreement with E&T Converters, dated July 1, 2008 (the "E&T Converters Agreement") and (b) the Land Lease with CSX Transportation, Inc., dated March 25, 2008 (the "CSX Agreement") and together with the E&T Converters Agreement, the "Post-Petition Agreements").

5. The Debtors entered into the Post-Petition Agreements without seeking authorization from the Court, as required by section 363(b)(1) of the Bankruptcy Code, or providing notice to the Committee or other parties in interest. While the amounts payable under

the CSX Agreement are nominal, the same cannot be said for the E&T Converters Agreement. Specifically, the aggregate amount of rent to be paid by the Debtors over the thirty-six month term¹ of the E&T Converters Agreement is approximately \$671,184.00, not including costs related to maintenance expenses, liability insurance and indemnification, and 20% of the monthly electric bill, all of which the Debtors are required to pay under the E&T Converters Agreement.

6. On July 17, 2008, the Committee's counsel contacted the Debtors' counsel to inquire into the facts and circumstances surrounding the Debtors' entry into the Post-Petition Agreements.

7. On July 18, 2008, the Debtors filed the Amended Exhibit. By the Amended Exhibit, the Debtors removed the Post-Petition Agreements from the list of Leases to be assumed pursuant to the Motion.

8. On July 23, 2008, the Committee's counsel formally requested copies of any and all documents or communications in the possession of either the Debtors or the Debtors' counsel regarding the circumstances surrounding the negotiations and drafting of the Post-Petition Agreements and any other agreements entered into by the Debtors subsequent to the Petition Date (other than (x) agreements to buy raw materials, (y) agreements to sell the Debtors' products and (z) agreements specifically authorized by an order of the Court).

9. On July 29, 2008, the Debtors filed a Motion for Approval of the Lease Agreement with Corporate Drive II, LLC aka E&T Converters, Inc. Dated July 1, 2008 [Docket No. 501] (the "E&T Converters Motion"). By the E&T Converters Motion, the Debtors request

¹ Section 2 of the E&T Converters Agreement provides that "from and after the eighteenth (18th) month following the Commencement Date, either party may terminate this Lease by giving not less than three (3) months prior written notice, and such termination shall be effective on the first (1st) day of the fourth (4th) month following the date of receipt of such written notice."

authorization to enter into the E&T Converters Agreement. A hearing to consider the E&T Converters Motion is scheduled for August 20, 2008.

STATEMENT

10. Since the Debtors have removed the Post-Petition Agreements from the list of Leases to be assumed, the Committee does not oppose the relief sought by the Motion. Instead, the Committee files this Statement because it is concerned that, notwithstanding the requirements of the Bankruptcy Code and applicable case law, the Debtors have entered into multiple agreements since the Petition Date that are outside the ordinary course of the Debtors' business without seeking authorization from the Court or even providing notice to parties in interest, including the Committee.² The Committee is also concerned that there may be other such agreements and, thus, the Committee has requested from the Debtors additional information concerning the Debtors' post-petition activities. The Committee hereby reserves all of its rights to undertake appropriate action if and when the Committee receives the requested information.

² These agreements include an undisclosed purported amendment to the DIP Security Agreement, which is the subject of the Committee's 2004 motion filed with the Court on July 21, 2008 [Docket No. 494].

Respectfully submitted this 1st day of August 2008

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