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M E M O R A N D U M

September 4, 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 Authority to Make Additional Payment to Pension Plan (the "Motion")

By the Motion, the Debtors request the entry of an order (the "Order") authorizing, but not obligating, the Debtors to make an additional payment of up to $1.7 million (the "Additional Payment") on or before September 15, 2008, in addition to the regularly scheduled and previously authorized minimum payments of $279,937 (due September 15) and $660,840 (due October 15), to avoid incurring significant liquidity shortfall payments that could come due in the future under their defined benefit pension plans. The Debtors contend that payment of the Additional Payment is important to the success of the Debtors' reorganization because the Debtors could face significant pension related liabilities if the Additional Payment is not made.

According to the Motion, the Debtors established the Propex Inc. Cash Value Retirement Plan (the "Cash Value Plan") and the Propex Inc. Balance Retirement Plan (the "Cash Balance Plan" and collectively the "Pension Plans") in 1993. The Pension Plans are funded solely through employer contributions, and benefits under the Pension Plans were frozen effective as of 9/01/2005 and 8/01/2006, respectively. The Debtors assert that as a result of the decline in the equity markets, the Pension Plans are significantly underfunded and ongoing obligations to the Pension Plans will place a significant financial burden on the Debtors over the next several years. The Debtors represent that they have considered all alternatives to alleviate this problem, including termination of the Pension Plans. The Motion states that the Debtors have not, at the present time, reached a decision regarding the future of the Pension Plans. The Debtors claim that they are performing within their post-petition budget and would like the option to continue the Pension Plans upon a successful reorganization. Further, the Debtors represent that terminating the Pension Plans could create a large claim against the estate in favor of the Pension Benefit Guaranty Corporation and possibly result in the imposition of large liabilities on the Debtors' overseas affiliates.

According to the Motion, the sponsor of a qualified defined benefit plan is required to make contributions to its plan in accordance with the minimum funding standards set by ERISA and the Internal Revenue Code. The Debtors are on a quarterly contribution schedule for underfunded plans. On June 11, 2008, the Court entered the Order Granting Motion for Authority to Pay Minimum Funding Contributions pursuant to which the Debtors are authorized but not directed to pay the minimum funding payments as they come due. The Motion also states that pursuant to 26 U.S.C. § 430, a pension plan that is obligated to make quarterly minimum funding contributions is also subject to an asset liquidity requirement. Under this requirement, the plan sponsor must pay the amount of any liquidity shortfall (the "Liquidity Shortfall") together with its quarterly minimum funding contributions.

According to the Debtors, the Pension Plans actuary estimates that there will be a Liquidity Shortfall in the Cash Value Plan of approximately $3.1 million as of September 30, 2008. The Debtors assert that this Liquidity Shortfall will have to be paid as part of the October 15, 2008 quarterly minimum funding contribution, but the Debtors can avoid having a Liquidity Shortfall altogether by making an additional plan contribution prior to September 15, 2008. The Debtors contend that an additional plan contribution of approximately $1.7 million will increase the Cash Value Plan's funded status enough to avoid having a Liquidity Shortfall.

According to the Motion, the failure to make the Additional Payment may have a detrimental impact on the Debtors' reorganization. If the Debtors do not make the Additional Payment on or before September 15, 2008, a Liquidity Shortfall may exist and the Debtors may be subject to a 10% excise tax that may increase to 100% if the liquidity shortfall exists at the end of the subsequent four quarters. If the Pension Plans are continued and remain underfunded upon the Debtors' emergence from bankruptcy, the Debtors may be liable for the Liquidity Shortfall payments and the Internal Revenue Service may seek to impose the excise tax on the Debtors.