

WAYZATA INVESTMENT PARTNERS

January 13, 2009

Via E-mail

Mr. Woody McGee
Chief Executive Officer
Propex Fabrics, Inc.
6025 Lee Highway, Suite 425, PO Box 22788
Chattanooga, TN 37422

Re: Proposed Delayed Draw Term DIP Loan to Propex Inc.

Dear Mr. McGee:

We are Wayzata Investment Partners LLC, an SEC-registered investment adviser and manager of private investment funds ("Wayzata") that exceed \$5.0 billion of assets. Since 1992, Wayzata has invested in excess of \$12 billion in over 600 investments.

Based on our previous discussions, we understand that Propex Inc. (the "Borrower") and certain of its subsidiaries, parents and affiliates (collectively, along with Borrower, the "Debtors") have, pursuant to chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code"), commenced a chapter 11 proceeding in the United States Bankruptcy Court for the Eastern District of Tennessee (the "Bankruptcy Court"), captioned as *In Re Propex Inc., Debtor*, Case No 08-10249, (the "Case"). In connection with the Case, the Debtors have requested and desire to establish and make use of a \$65 million delayed draw term debtor-in-possession financing facility (the "DIP Facility"). Subject to the entry of appropriate court orders, due diligence and the execution of definitive documents, each satisfactory to Wayzata in its sole discretion, Wayzata, on behalf of itself and its managed funds, is willing to provide the DIP Facility on the terms and conditions set forth herein.

1. **Borrower.** The Borrower shall be Propex Inc.
2. **Guarantor and Parent Guarantor.** Propex Holdings Inc. shall be the Parent Guarantor. Each direct and indirect subsidiary of Borrower shall be a Guarantor. Borrower shall also provide a pledge of 100% of all equity interest in all Guarantors, including non-domestic subsidiaries. Notwithstanding the foregoing, Wayzata, in its sole discretion, will consider the material tax implications of designating any non-domestic subsidiaries as Guarantors
3. **Lenders.** Lenders shall be certain funds managed by Wayzata and such others, in Wayzata's sole discretion, as may take assignment of up to 49% of

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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. The "Required Lenders" shall be the holders of more than 50% of the Gross Commitment. Required Lenders shall have governing control over the DIP Facility.

4. **Requested Amount of Loan.** \$65,000,000 (the "Gross Commitment").
5. **Bankruptcy Court Approval.** No portion of the Gross Commitment shall be available prior to the Bankruptcy Court's entry of an interim order (the "Interim Order") approving the DIP Facility. The Interim Order shall be in a form and substance acceptable to Lenders. \$30,000,000 of the Gross Commitment shall be available upon the Bankruptcy Court's entry of the Interim Order. The remaining portion of the Gross Commitment, \$35,000,000 shall not be made available unless and until the Bankruptcy Court enters a final, non-appealable order (the "Final Order") approving the DIP Facility. The Final Order shall be in a form and substance acceptable to Lenders. Each draw shall be for not less than \$1,000,000 and not more than \$5,000,000. No more than two draws may be made in any calendar month and no more than \$10,000,000 in total draws, may be made in any thirty (30) day rolling period.
6. **Agent and Facility Fee.** Wayzata shall appoint an agent (in such capacity, the "Agent") under the DIP Facility. Borrower shall pay Agent, for the ratable account of each Lender, a fully earned, non-refundable facility fee equal to the following: (i) upon entry of the Interim Order, 1.5% of the Facility Threshold (as defined herein) and (ii) upon entry of the Final Order, an additional 1.5% of the Facility Threshold (collectively, the "Facility Fee"). To the extent that Borrower is allowed to make any draws upon the Gross Commitment in excess of the Facility Threshold, Borrower shall immediately pay Agent, for the ratable account of each Lender, a fully earned, non-refundable fee (the "Threshold Facility Fee") equal to 3% of the difference between the Gross Commitment and the Facility Threshold. The foregoing fees shall be paid from draws on the facility.
7. **Documentation.** In order to document the DIP Facility, Borrower shall execute and deliver a credit agreement and any other documentation that Lenders deem necessary and appropriate (collectively, the "Loan Documents"), in each case in form and substance acceptable to the parties. The Loan Documents shall also include the Interim Order and the Final Order.
8. **Maturity Date.** The maturity date shall be the earliest to occur of: (i) April 15, 2009, (ii) the effective date of any plan of reorganization in the Case (a

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"Plan"), (iii) upon any sale pursuant to Section 363 of the Bankruptcy Code; (iv) at the sole discretion of the Lenders, upon the occurrence and continuation of an Event of Default under the Loan Documents; and (v) the date of payment in full in cash of all obligations under the Loan Documents.

9. **Payment.** Borrower shall be obligated to repay all amounts due and owing as follows:
- a. **Principal.** In the absence of an Event of Default, all outstanding advances under the credit facility shall be due at the Maturity Date;
 - b. **Interest.** Interest shall accrue and, absent an Event of Default, be due and payable in full on the first business day of each month in arrears in respect of the interest accrued during the previous month. The default rate shall be 2% over and above the non-default rate.
 - c. **Fees, Costs, and Charges.** After entry of the Interim Order, from time to time, Wayzata will submit to the Company for payment 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 Wayzata and the Lenders in connection with preparation of the DIP Facility. The Company shall promptly pay such Expenses, and in any case no later than two (2) business days from submission.
 - d. **Exit Fee.** Upon termination, repayment or refinancing in full of the DIP Facility, other than pursuant to a Plan or a disposition pursuant to Section 363 of the Bankruptcy Code, each acceptable to the Required Lenders under the DIP Facility, the Borrower shall pay Agent, for the ratable benefit of each Lender, a fully earned, non-refundable exit fee equal to 3% of the Gross Commitment. If the DIP Facility is refinanced through an exit facility acceptable to Wayzata, it shall waive the Exit Fee.
 - e. **Payments after an Event of Default.** Upon the occurrence of an Event of Default beyond any applicable cure period, 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, upon written notice to the Debtors from the Agent acting at the direction of Lenders holding at least a majority of debt arising under the DIP Facility, become accelerated and immediately due and owing.
10. **Draw-Downs and Draws in Excess of \$40 Million.** Borrower may make a draw upon entry of the Interim Order and will be able to draw additional

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portions of the Gross Commitment at any time after thereafter. Each subsequent draw (each, a "Draw") shall be conditioned upon (i) Debtors maintaining a minimum cash balance of \$5 million (exclusive of any cash held at non-domestic subsidiaries), (ii) compliance with a 13 week cash flow budget in a manner satisfactory to Lenders; and (iii) the absence of a default or Event of Default continuing and the accuracy in all material respects of all representations and warranties set forth in the Loan Documents. To the extent that Borrower seeks to make any draw upon the Gross Commitment which results in a principal amount in excess of \$40 million (the "Facility Threshold") under the Facility, such draws shall only be allowed in the sole discretion of the Required Lenders. Without the express written authorization of the Required Lenders, Lenders shall not be required to fund any draws which result in the total principal balance of the Facility exceeding the Facility Threshold.

11. **Interest Rate.** The interest rate shall be the LIBOR Rate plus 1000 basis points, assessed on a 360/actual basis. For purposes of the DIP Facility, "**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) 5.00% per annum.
12. **Security.** As security for all of Borrower's obligations under the DIP Facility, Borrower, each Guarantor and Parent Guarantor will grant the Agent (for its benefit and the benefit of the Lenders) a valid and perfected super priority security interest in, and lien on, all Collateral (as defined below) of the Borrower and Guarantors pursuant to Section 364 the Bankruptcy Code (the "DIP Liens"), with such lien being senior and prior in all respects to any other lien of any kind, including, without limitation, the liens and security interest (the "Pre-Petition Senior Liens") securing the pre-petition indebtedness of the Borrower under that certain Credit Agreement dated as of January 31, 2006, and as amended from time to time (the "Pre-Petition Credit Agreement").

As used herein, the term "Collateral" shall include all of the Debtors' respective pre-petition and post-petition real and personal, tangible and intangible property and assets of any kind or nature whatsoever, whether now owned or hereafter acquired by any Debtor and all proceeds, rents or profits thereof. The Collateral shall not include avoidance actions but, subject to entry of the Final Order, shall include the proceeds of avoidance actions.

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Carve-Out

The liens and super-priority claims granted to the Lenders with respect to the DIP Facility shall be subject and subordinate to, following the occurrence and during the pendency of a Carve-Out Event (as defined below), (a) a carve-out of \$1,000,000 for the allowed fees and expenses of the respective retained professionals of the Debtors and the Creditors' Committee incurred after such Carve-Out Event, (b) quarterly fees required to be paid pursuant to 28 U.S.C. § 1930(a)(6), and (c) any fees payable to the Clerk of the Bankruptcy Court and any agent thereof, plus all fees and expenses of the kind described in the foregoing clauses (a), (b) and (c) of this paragraph incurred prior to a Carve-Out Event but not yet paid to the extent such fees and expenses are approved and allowed by the Bankruptcy Court (collectively, the "*Carve-Out*"), subject to the rights of the Agent, the Lenders, and any other party in interest to object to the award of any such fees and expenses.

Prior to a Carve-Out Event, the Debtors shall be permitted to pay compensation and reimbursement of expenses authorized to be paid under Bankruptcy Code sections 330 and 331 or otherwise pursuant to an order of this Court, as the same may be due and payable, and such payments shall not reduce the Carve-Out. Upon the first date on which the Agent is entitled to exercise remedies under the DIP Facility and provides notice thereof to the Debtors (the "*Carve-Out Event Notice*"), the right of the Debtors to pay professional fees outside the Carve-Out shall terminate (a "*Carve-Out Event*"), and, upon such occurrence, the Debtors, after receipt of the Carve-Out Event Notice from the Agent, shall provide immediate notice by facsimile to all professionals informing them that a Carve-Out Event has occurred and further advising them that the Debtors' ability to pay professionals is subject to the Carve-Out.

13. **Super-Priority Administrative Claims.** The claims arising under or in connection with the DIP Facility (the "DIP Claims") shall constitute allowed administrative expense claims senior in priority to any pre-petition or post-petition claim, and shall have priority over all other costs and expenses of administration of any kind, including those specified in, or ordered pursuant to, sections 105, 326, 328, 330, 331, 503(b), 506(c), 507(a), 507(b), 546(c), 726, 1114 or any other provision of the Bankruptcy Code or otherwise and be payable from and have recourse to all assets and property of the Debtors including, subject to entry of the Final Order, the avoidance actions and proceeds thereof. The DIP Claims shall be subject to the Carve-Out.

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14. **Adequate Protection.** As adequate protection for the use of cash collateral by the Debtors, the holders of the Pre-Petition Senior Liens shall receive the following:
- Replacement liens on all Collateral, which liens are junior to the DIP Liens;
 - To the extent such replacement liens are insufficient to provide adequate protection, adequate protection claims arising under section 507(b) of the Bankruptcy Code, which claims shall be junior to the DIP Claims, and be payable from and have recourse to all assets and property of the Debtors including, subject to entry of the Final Order, the avoidance actions and proceeds thereof;
 - Cash payment of interest due and payable at the non-default rate set forth in the Pre-Petition Credit Agreement; and
 - Payment of the reasonable fees and expenses of counsel to the Administrative Agent under the Pre-Petition Credit Agreement.

For the avoidance of doubt, the Pre-Petition Senior Liens shall remain in full force and effect, and shall be junior to the DIP Liens in all respects.

15. **Covenants, Representations and Warranties.** The Loan Documents shall contain usual and customary affirmative and negative covenants as deemed appropriate by Lenders, including, without limitation, cash management system, adherence to an approved budget, weekly budget and variance reports, and maximum capital expenditures, each acceptable to Agent and Lenders. The Loan Documents shall also contain usual and customary representations and warranties for facilities of this type, including, without limitation, corporate existence, corporate power and authority, taxes, ERISA, ownership of property, liens and entry and proper service of the Interim Order and Final Order.
16. **Conditions Precedent.** The Loan Documents will contain usual and customary conditions to each draw under the DIP Facility for facilities of this type.
17. **Attorneys' Fees and Costs.** Borrower shall promptly pay the Expenses incurred by Wayzata, Lenders and Agent in connection with the negotiation, drafting and execution of the Loan Documents, regardless of whether any transaction contemplated herein is ever actually consummated.
18. **Exclusivity.** Company agrees to work exclusively with Wayzata to consummate the transaction contemplated herein and agrees that it will not

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(a) engage in any discussions with any other lender or funding source regarding a financing alternative to the DIP Facility, (b) provide any deposit to any other lender or funding source in connection with a financing alternative to the DIP Facility, (c) solicit or accept a proposal or commitment from another lender or funding source in connection with a financing alternative to the DIP 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 DIP Facility until the later of the January 30, 2009 or the date on which the Bankruptcy Court enters the Final Order (the "Exclusivity Date"). The Exclusivity Date may be extended by agreement of the parties.

19. **506(c) Waiver.** Subject to entry of the Final DIP Order, the Debtors shall waive any and all rights to surcharge the Collateral pursuant to Section 506(c) of the Bankruptcy Code.
20. **No Adverse Actions.** No proceeds of any extensions of credit under the DIP Facility or any Collateral proceeds may be used to commence or prosecute or join in any action against or adverse to the interests of Agent or any Lender.

Any obligation to provide financing set forth herein is subject to entry of appropriate court orders authorizing such financing, due diligence, and execution of definitive documents, each acceptable to Wayzata and Lenders in their sole discretion. As consideration for Wayzata's substantial efforts to consummate the transaction contemplated herein, Borrower agrees to be bound by paragraphs 17 and 18 of this letter. If the foregoing is acceptable to you, please indicate your acceptance by executing this document in the space indicated below. We look forward to working with you.

Regards,

Wayzata Investment Partners LLC

Joseph Deignan
Partner

