IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
NEWNAN DIVISION

In re:	)	Chapter 11
	)	
DAN RIVER INC., *et al.*,	)	Case Nos. 04-10990 through 04-10993
	)	Jointly Administered
	)	
Debtors.	)	Judge Drake
	)	
	)	Re: Docket Nos. 30 and 60
	)	
	)	

SUPPLEMENTAL OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO DEBTORS' MOTION FOR ENTRY OF FINAL ORDER (I) AUTHORIZING (A) SECURED POST-PETITION FINANCING ON A SUPER PRIORITY BASIS PURSUANT TO 11 U.S.C. § 364, (B) USE OF CASH COLLATERAL PURSUANT TO 11 U.S.C. § 363, AND (C) GRANT OF ADEQUATE PROTECTION PURSUANT TO 11 U.S.C. §§ 363 AND 364

The Official Committee of Unsecured Creditors (the "Committee")[1] of Dan River Inc., et al., the debtors and debtors-in-possession herein (collectively, the "Debtors"), by and through its proposed undersigned counsel, hereby submits this Supplemental Objection (the "Supplemental Objection") to the Debtors' Motion For Entry Of Final Order (I) Authorizing (A) Secured Post-Petition Financing On A Super Priority Basis Pursuant To 11 U.S.C. § 364, (B) Use Of Cash Collateral Pursuant To 11 U.S.C. § 363, And (C) Grant Of Adequate Protection Pursuant To 11 U.S.C. §§ 363 And 364 [Docket No. 30] (the "DIP Financing Motion"). In support of this Supplemental Objection, the Committee respectfully submits as follows:

[1] All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Interim Order (defined below).

PRELIMINARY STATEMENT

Since the Final Hearing, the Debtors, the Committee and the Lenders have successfully resolved many of the Committee's objections to the DIP Financing Motion. The parties have been unable, however, to reach agreement on certain issues of critical importance to the Committee. The unresolved objections are as follows:

(i) The fees paid and/or payable to the Agent and Lenders are excessive and should not be approved and, to the extent already paid, should be returned to the Debtors' estates.

(ii) The Final Order should not authorize the rollup of Pre-Petition Indebtedness because it is unjustified and contrary to controlling Eleventh Circuit precedent.

(iii) The Final Order should provide that Avoidance Action proceeds cannot be applied in satisfaction of any super-priority administrative claim that the Lenders may be entitled to assert.

(iv) The Final Order should eliminate restrictions on the Committee's ability to raise issues and object in the event that the Lenders attempt to exercise default remedies.

(v) The Final Order should eliminate the granting of any possible release to entities other than the Agent and the Lenders, and for acts or omissions unrelated to the pre-petition lending relationship.

During the same time period, the Committee, has made substantial progress with respect to alternative DIP financing and has obtained a fully executed, binding commitment letter from an affiliate of Cerberus Capital Management to provide a $30 million priming DIP to the Debtors. The Debtors, nevertheless, have chosen to go forward with a revised agreement with the Lenders. While the Committee acknowledges the possibility of some disruption may ensue if a priming DIP is pursued, the Committee believes that the risk is justified in light of the still onerous and overreaching borrowing terms required by the Lenders, and in light of the approximately $67 million equity cushion enjoyed by the Lenders.

In the event the Court sustains the Committee's objections, but the Lenders are unwilling to modify the DIP Financing as requested herein, the Committee respectfully requests that the Court immediately: (i) terminate the Lenders ability to sweep the Debtors' cash receipts; (ii) compel the Lenders to turnover all (a) cash collateral collected since the Commencement Date and used to reduce the indebtedness owed to the Lenders, or currently in their control and possession, and (b) fees paid in connection with the DIP Financing; (iii) authorize the Debtors to use the Lenders' alleged cash collateral; and (iv) schedule an emergency hearing to approve interim borrowing under the Cerberus Priming DIP (defined below).

The Lenders' potential objections concerning the nonconsensual use of its cash collateral and the imposition of priming liens do not preclude the Debtors from consummating the priming DIP alternative. Applicable Eleventh Circuit precedent and the interim nature of the Interim Order provide the Court with ample authority to authorize the Cerberus Priming DIP. In addition, the evidentiary record established at the Final Hearing demonstrates that the Lenders' interests in their collateral are adequately protected notwithstanding the Debtors' use of cash collateral based on the more than $67 million equity cushion currently enjoyed by the Lenders. Furthermore, the Committee would not object to granting the Lenders other reasonable and customary lender protections in connection with the use of cash collateral and the Cerberus Priming DIP.

The Committee, therefore, respectfully requests that the Court sustain the remaining objections by the Committee and enter the Committee's proposed Final Order or, alternatively, grant such other relief as is necessary to consummate the Cerberus Priming DIP.

BACKGROUND

1. Pursuant to the DIP Financing Motion, the Debtors seek, among other things, authority to enter into a certain Post-Petition Credit Agreement, dated as of March 31, 2004, with the Pre-Petition Lenders (the "DIP Credit Agreement"). Pursuant to the DIP Credit Agreement, the Debtors would be entitled to obtain post-petition financing in the form of (a) a term loan in the amount of $35 million, to be fully drawn upon entry of the Final Order (the "Post-Petition Term Loan"), and (b) a revolving credit facility up to a maximum amount of $110 million (the "Post-Petition Revolving Credit Facility", collectively, the "DIP Financing"). On April 1, 2004, the Court entered an interim order authorizing the Debtors to borrow up to $40 million under the Post-Petition Credit Facility (the "Interim Order"). On April 27, 2004, a final hearing was held in connection with the DIP Financing Motion (the "Final Hearing"). The Committee objected to various aspects of the DIP Financing Motion.[2]

2. On May 21, 2004, the Debtors submitted a proposed financing order which, if entered, would overrule the remaining objections of the Committee to the DIP Financing Motion (the "Debtors' Financing Order"). In response, the Committee submitted its proposed financing order to the Court which sustains the Committee's remaining objections (the "Committee Financing Order"). The Committee Financing Order illustrates the Committee's remaining objections and represents the terms and conditions under which the Committee believes the DIP Financing Motion should be approved.

[2] On April 23, 2004, the Committee filed its Objection to the Debtors' Motion For Entry Of Final Order (I) Authorizing (A) Secured Post-Petition Financing On A Super Priority Basis Pursuant To 11 U.S.C. § 364, (B) Use Of Cash Collateral Pursuant To 11 U.S.C. § 363, And (C) Grant Of Adequate Protection Pursuant To 11 U.S.C. §§ 363 And 364.

A. Analysis of the Evidentiary Record Established at the Final Hearing

3. Testimony elicited at the Final Hearing establishes several facts that support the Supplemental Objection. These facts, include, but are not limited to, the following:

a) The Lenders are oversecured by approximately $67.2 million or, stated otherwise, enjoy an equity cushion equivalent to 56.1% of the Pre-Petition Indebtedness. (T. 38:15 through 40:19)

b) The projected "borrowings" under the proposed DIP Financing will never exceed the amount of Pre-Petition Indebtedness. (T. 53:9 through 54:5)

c) The incremental liquidity available under the Post-Petition Revolving Credit Facility was not projected to exceed $13 million. (T. 67:20 through 67:23)

d) The Debtors would have been able, under then current projections, to meet outstanding obligations for the 30 day period commencing April 27, 2004 had they been authorized to use the Lenders' cash collateral. (T. 68:24 through 69:2)

e) The Debtors never seriously pursued a priming DIP because the Lenders would not consent and Citigroup exhibited no interest. (T. 66:25 through 67:19)

f) The Debtors can signal strength to the marketplace by closing on a priming DIP that provides the Debtors with as much if not more liquidity than that projected under the Post-Petition Revolving Credit Facility. (T. 69:20 through 70:1)

4. The Debtors' also failed to establish any justification or anticipated benefit to the estates flowing from refinancing the Pre-Petition Term Loan. The refinancing of the Pre-Petition Term Loan is particularly egregious in that it provides absolutely no new liquidity to the estates, but rather, gratuitously "converts" the obligations thereunder to post-petition obligations of the estates. The only justification advanced by the Debtors is that the Lenders insisted, and they had no other choice at the time. In addition, the Lenders' $2.2 million in commitment and structuring fees are not even based off of the Post-Petition Term Loan aspect of the proposed DIP Financing. (T. 71:7 through 71:10)

B. Extensions of the Interim Order

5. Since entry of the Interim Order, the Debtors have reduced the outstanding obligations under the Pre-Petition Revolving Credit Facility by applying all or substantially all pre-petition and post-petition collateral proceeds in satisfaction thereof. As the Debtors have no access to cash collateral, they have continued to borrow under the Post-Petition Credit Facility in order to meet post-petition operating expenses. Accordingly, reductions in the Pre-Petition Revolving Credit Facility have been met with corresponding increases in the outstanding balance of the Post-Petition Revolving Credit Facility. Pursuant to the Interim Order, the Debtors were authorized to borrow up to $40 million under the Post-Petition Credit Facility. On April 30, 2004, a stipulation and order was entered by this Court extending the effect of the Interim Order to May 7, 2004 and increasing the Debtors' borrowing authority to $45 million. On May 7, 2004, a second stipulation and order was entered by this Court extending the effect of the Interim Order to May 28, 2004 and increasing the Debtors' borrowing authority from $45 million to $75 million. Accordingly, pursuant to the Debtors' authority under the Interim Order and the extensions thereof, the recycling of Pre-Petition Indebtedness into Post-Petition Indebtedness will be complete or nearly complete by the end of this week.

C. Committee Efforts to Obtain Alternative DIP Financing

6. As set forth more fully in the affidavit of Tanya Aalto (the "Aalto Affidavit"), Senior Vice President at Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey"), attached hereto as "Exhibit A," Houlihan Lokey commenced discussions with numerous lenders concerning the provision of alternative post-petition financing to the Debtors shortly after its April 19, 2004 retention by the Committee.

7. After the hearing conducted before this Court on April 27, 2004 to consider approval of the DIP Financing, Houlihan Lokey continued to solicit interest in alternatives to the DIP Financing, with a focus on Ableco Finance LLC, an affiliate of Cerberus Capital Management, L.P. ("Cerberus").

8. On April 30, 2004, Cerberus supplied Houlihan Lokey with a draft loan commitment letter, proposing to (i) refinance the pre-petition indebtedness owed to the Lenders that was rolled into post-petition indebtedness under the Interim Order (the "Interim Rollover Amount"), and (ii) provide the necessary incremental liquidity to the Debtors, up to an aggregate of $50 million (the "April 30th Proposal").

9. On May 4, 2004, after being informed by Houlihan Lokey that the Debtors believed that the terms of the April 30th Proposal would be insufficient to refinance the Interim Rollover Amount, while also providing sufficient incremental liquidity to the Debtors, Cerberus provided Houlihan Lokey with a second draft loan commitment letter, proposing to refinance the Interim Rollover Amount, and provide incremental liquidity to the Debtors, up to an aggregate of $65 million (the "May 4th Proposal").

10. On May 5, 2004, Cerberus provided Houlihan Lokey with a third draft loan commitment letter, proposing to refinance the Interim Rollover Amount and provide incremental liquidity to the Debtors, up to an aggregate of $65 million (the "May 5th Proposal"). The May 5th Proposal provided certain improved economic terms, including interest rates more favorable to the Debtors than those proposed under the May 4th Proposal.

11. On May 6, 2004, Houlihan Lokey provided the May 5th Proposal to the Debtors, who informed Houlihan Lokey on the same day, May 6, 2004, that the May 5th Proposal would not be sufficient to refinance the Interim Rollover Amount, while providing sufficient

incremental liquidity to the Debtors. Instead, the Debtors suggested that Houlihan Lokey solicit interest in a financing proposal that would either (i) refinance the entire amount of the Pre-Petition Revolving Credit Facility or (ii) provide the necessary incremental liquidity through a priming loan that would take priority over or prime the claims of the Lenders, including the Interim Rollover Amount.

12. Upon the Debtors' rejection of the May 5th Proposal, Houlihan Lokey contacted Cerberus and requested that Cerberus consider offering the Debtors either (i) a full refinancing of the Pre-Petition Revolving Credit Facility or (ii) a $20 million priming loan, which would, upon this Court's approval, be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount.

13. After concluding that the due diligence required to offer the Debtors a full refinancing of the Pre-Petition Revolving Credit Facility would be too time consuming, on May 10, 2004, Cerberus provided Houlihan Lokey with a draft loan commitment letter, proposing to provide the Debtors with a priming loan of up to $30 million, to be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount (the "May 10th Proposal"). On May 10, 2004, Houlihan Lokey provided the Debtors with a copy of the May 10th Proposal.

14. On May 12th, the Debtors and Houlihan Lokey, among other professionals, participated in a conference call with representatives from Cerberus during which the Debtors asked Cerberus several questions, seeking to clarify the terms of the May 10th Proposal, including the timing required to close on the proposed loan. Although it appeared that the Debtors received satisfactory responses to the questions they posed, the Debtors indicated that

they needed more time to review and discuss the May 10th Proposal among the Debtors' management team.

15. Following the foregoing May 12th conference call, during the course of several telephone and email conversations with representatives of Conway, Del Genio, Gries & Co., LLC, the Debtors' proposed restructuring advisors, Houlihan Lokey was informed that the Debtors were considering their options and negotiating with the Lenders to improve upon the terms of the DIP Financing, in order to, among other things, provide the Debtors with sufficient incremental liquidity to operate their businesses and the ability to comply with their obligations and covenants under the DIP Financing.

16. Ultimately, on May 21, 2004, Houlihan Lokey was apprised by the Debtors that they had reached a revised agreement with the Lenders and would not pursue the April 30th, May 5th or May 10th Proposals.

17. On May 25, 2004, Houlihan Lokey received a signed commitment letter from Cerberus, proposing to provide the Debtors with a priming loan of up to $30 million, to be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount (referred to herein as the "May 25th Proposal" or the "Cerberus Priming DIP"). A copy of the May 25th Proposal is attached to the Aalto Affidavit.

UNRESOLVED OBJECTIONS

18. As indicated above, the Committee, the Debtors and the Lenders have been able to resolve many of the Committee's objections to the DIP Financing Motion. The parties have been unable, however, to reach agreement on certain issues of critical importance to the Committee. The unresolved objections are as follows:

19. **Unjustified Fees**. The Committee and the Debtors have been unable to reach agreement with respect to the approximately $2.2 million in fees paid or payable to the Lenders under the DIP Financing Motion. The testimony elicited at the Final Hearing demonstrated that the new incremental liquidity under the Post-Petition Revolving Credit Facility is approximately $13 million. To the extent any fee is allowed, the fee should be calculated by reference to the new financing being provided by the Lenders, not the portion of the DIP Financing used to refinance the Pre-Petition Indebtedness. The unreasonableness of the Lenders' required fees become even more apparent when compared with the $600,000 (2% of the $30 million commitment) in closing fees required under the Cerberus Priming DIP, a DIP facility that provides the Debtors with greater incremental liquidity. Furthermore, in the event that the Lenders refuse to lend under the Committee's conditions, disgorgement of the fees would, as Mr. Del Genio testified, enhance the estates' flexibility to operate their businesses and satisfy their ongoing obligations. (T. 60:10 through 60:17) The Committee maintains its position that the fees are unjustified under the circumstances of these cases and therefore should not be approved and should be returned by the Lenders to the Debtors' estates.

20. **Rollup of Pre-Petition Indebtedness**. The Committee has been unable to reach agreement with the Debtors concerning the rollup of the Pre-Petition Indebtedness. At the Final Hearing, the Debtors attempted to distinguish the applicability of Shapiro v. Saybrook Mfg. Co., Inc. (In re Saybrook Mfg. Co., Inc.), 963 F.2d 1490 (11th Cir. 1992) on the basis that the Lenders are oversecured. The Committee believes that the Debtors' argument is flawed because it combines two separate and distinct Bankruptcy Code concepts – (i) the extent to which a claim will be allowed, and (ii) the manner in which a debtor may treat an allowed claim under a plan of reorganization. While it is axiomatic that an oversecured creditor is entitled to payment in full

on account of its allowed secured claim, **no provision of the Bankruptcy Code provides that an oversecured creditor is entitled to payment in full, in cash, on the effective date of a plan of reorganization**. The rollup provisions of the DIP Financing eviscerate the Debtors' rights with respect to the manner in which the Lenders' claims can be treated under a plan irrespective of the value of their underlying collateral. Pursuant to the rollup, the Pre-Petition Indebtedness will be converted into senior secured, super-priority administrative claims that must be paid in full, in cash, on the effective date of a plan of reorganization absent the Lenders' consent. See 11 U.S.C. § 1129(a)(9).

21. The rollup will severely limit the flexibility of the Debtors or the Committee with respect to treatment of the Pre-Petition Indebtedness under a plan of reorganization. Specifically, allowing the roll-up of the Pre-Petition Term Loan will increase by approximately $35 million, the amount of financing the Debtors will need to obtain in order to emerge from chapter 11. This provision is particularly burdensome and should, therefore, not be approved. This unjustified enhancement of the Lenders' Pre-Petition Indebtedness, which will clearly burden the Debtors and their efforts to successfully reorganize to the detriment of all creditors, is exactly the scenario Saybrook sought to prevent. See e.g. In re Bland v. Farmworker Creditors, 2003 WL 23358320 at *9 (S.D. Ga.) (explaining that a post-petition financing order which violates the fundamental priority scheme of Bankruptcy Code to the prejudice of creditors violates Saybrook); In re Equalnet Communications Corp., 258 B.R. 368, 369 (Bankr. S.D. Tex. 2000) (noting that under Saybrook, a pre-petition loan balance can not be paid off or rolled into a post-petition line of credit with resultant enhancement of collateral position and administrative priority).

22. The Debtors also argue that the rollup benefits the estates through avoiding the disruption and destabilizing effect of a contested priming fight. Several reasons exist which demonstrate that the Debtors' concerns about a contested priming fight are unfounded. First, the priming fight is only necessary if the Lenders refuse to close on the DIP Financing. It is unclear whether the Lenders would force a priming fight, if for example, they were prohibited only from rolling over the Pre-Petition Term Loan. If the Lenders refuse to close on the DIP Financing, thereby forcing the Debtors to pursue the Cerberus Priming DIP and use of the Lenders' cash collateral, the Committee believes the Lenders' objections would be overruled based upon applicable law and the evidentiary record established at the Final Hearing. The Court has heard uncontroverted testimony from the Debtors' own financial advisor that the Lenders are oversecured by approximately $67.2 million. Layering a $30 million priming DIP on top of the Lenders' pre-petition liens, the Lenders will still be secured by an equity cushion in excess of 25% of the Pre-Petition Indebtedness. See e.g. Pistole v. Mellor (In re Mellor), 734 F.2d 1396 (9th Cir. 1984) ("[A] 20 percent equity cushion has been held to be an adequate protection for a secured creditor."); In re McKillips, 81 B.R. 454 (Bankr. N.D.Ill. 1987) ("Case law has almost uniformly held that an equity cushion of 20% or more constitutes adequate protection."). Second, under the Debtors' own projections, the necessary borrowing, if any, under the Cerberus Priming DIP will be insignificant and would likely be repaid prior to confirmation thereby negating any potential prejudice. Third, the Lenders will be entitled to other reasonable and customary protections granted to Lenders that consent to use of cash collateral. Fourth, to the extent that the Court concludes that Saybrook prohibits the rollup of the Pre-Petition Indebtedness, the safe harbor provisions of section 364(e) will not apply to post-petition borrowings incurred in order to reduce the Pre-Petition Revolving Credit Facility. Finally, the

interim nature of the Interim Order provides the Court with sufficient flexibility to authorize the Cerberus Priming DIP, if necessary.

23. The Committee, therefore, requests that the Court not authorize the rollup the Pre-Petition Indebtedness, or at a minimum, not authorize the Lenders to rollup the Pre-Petition Term Loan.

24. **Super-Priority Claims In Avoidance Action Proceeds**. The Committee has been unable to reach agreement with the Debtors and Lenders regarding the Lenders' super-priority claim in avoidance action proceeds. The Lenders should be required to waive any right to satisfaction of their potential super-priority administrative claim under sections 364(c)(1) and 507(b) of the Bankruptcy Code through proceeds derived from Avoidance Actions because it has the same effect as approving liens on Avoidance Actions. The Court has already advised the parties that it is inclined to agree with the Committee's position. (T. 33:23 through 34:5 and 95:10 through 95:16) Accordingly, for the reasons previously stated, the Committee requests that the Final Order be modified to prevent the Lenders' potential super-priority claim from attaching to Avoidance Action proceeds.

25. **Stay Relief Provisions**. The Committee has been unable to reach agreement with the Lenders on provisions which limit the Committee's ability to object and raise issues at any hearing convened by this Court following the occurrence of an Event of Default under the DIP Credit Agreement or the Final Order. The Lenders insist that the Committee, like the Debtors, should only be limited to contesting whether an Event of Default has occurred. This provision is particularly inappropriate and unfair where the Lenders enjoy a $67.2 million equity cushion based upon the net orderly liquidation value of their collateral. If an Event of Default occurs, the Committee should be empowered to propose appropriate relief, and the Court should be entitled

to consider any relief which balances the interests of all stakeholders. In fact, the Court seemed inclined to agree with the Committee at the Final Hearing concluding, after argument on this point of objection, that it "has no problem with drafting an order to take care of such a problem" to "make sure the rights of all parties are protected." (T. 14:25 through 15:4)

26. **Lender Releases**. The Committee has been unable to reach agreement with the Lenders on the breadth of the release provisions contained in paragraph 19 of the Final Order. The Committee has advised the Court on several occasions that an affiliate of the Agent was the underwriter for the Debtors' 12 3/4% Senior Notes Due 2009 (the "Senior Notes"). The Senior Notes were issued contemporaneously with the execution of the Pre-Petition Revolving Credit Facility and Pre-Petition Term Loan, and formed part of an integrated capital restructuring accomplished by the Debtors in April 2003. The integrated nature of the transaction gives rise to the concern that the underwriting of the Senior Notes may be construed to fall within the "pre-petition lending relationship" prong of the release provisions. While the Committee does not object to the estates' release of claims against the Agent and Lenders to the extent such claims arise out of the pre-petition lending relationship, attempting to delineate what is, and what is not, part of the pre-petition lending relationship will likely prove difficult should litigation arise.

27. While counsel to the Agent has agreed on the record that the release provisions should not extend to the estates' potential claims with respect to the underwriting of the Senior Notes, the Lenders refuse to expressly carve out such claims from the release provisions, preferring instead, to tinker with the existing language. The Committee believes that the more appropriate course of action is to expressly carve out the underwriting claims from the scope of released claims.

CONCLUSION

WHEREFORE, for all of the foregoing reasons, the Committee respectfully requests that this Court sustain this Supplemental Objection and deny approval of the DIP Financing Motion unless modified in a manner consistent with the objections raised herein and in the Committee Financing Order. In the event that the Lenders are unwilling to close on the DIP Financing, the Committee respectfully requests that an order be entered: (i) suspending the Lenders' ability to sweep the Debtors' cash receipts; (ii) compelling the Lenders to turnover all (a) cash collateral collected since the Commencement Date and used to reduce the indebtedness owed to the Lenders, or currently in their control and possession, and (b) fees paid in connection with the DIP Financing; (iii) authorizing the Debtors to use the Lenders' alleged cash collateral; (iv) scheduling an emergency hearing to consider interim approval of the Cerberus Priming DIP and (v) granting the Committee such other and further relief as this Court deems just and proper.

Dated: May 25, 2004
Atlanta, Georgia

Respectfully submitted,

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EXHIBIT A

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
NEWNAN DIVISION

In re:	)	Chapter 11
	)	
DAN RIVER INC., *et al.*,	)	Case Nos. 04-10990 through 04-10993
	)	Jointly Administered
	)	
Debtors.	)	Judge Drake
	)	
	)	Re: Docket Nos. 30 and 60
	)	
	)	

AFFIDAVIT OF TANJA AALTO IN SUPPORT OF SUPPLEMENTAL OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF DAN RIVER INC. ET AL., TO DEBTORS' MOTION FOR ENTRY OF FINAL ORDER (I) AUTHORIZING (A) SECURED POST-PETITION FINANCING ON A SUPERPRIORITY BASIS PURSUANT TO 11 U.S.C. §364, (B) USE OF CASH COLLATERAL PURSUANT TO 11 U.S.C. §363, AND (C) GRANT OF ADEQUATE PROTECTION PURSUANT TO 11 U.S.C. §363

STATE OF NEW YORK	§
	§
NEW YORK COUNTY	§

I, Tanja Aalto, being first duly sworn, on oath, state:

1. I am a Senior Vice President of Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey"), located at 685 Third Avenue – 15th Floor, New York, New York 10017.

2. I am familiar with the matters set forth herein and make this affidavit in support of the Supplemental Objection (the "Supplemental Objection") of the Official Committee of Unsecured Creditors (the "Committee") of Dan River Inc., et al., the debtors and debtors-in-possession herein (collectively, the "Debtors") to Debtors' Motion for Entry of Final Order (I) Authorizing (A) Secured Post-Petition Financing on a Superpriority Basis Pursuant to 11 U.S.C. §364, (B)

Use of Cash Collateral Pursuant to 11 U.S.C. §363, and (C) Grant of Adequate Protection Pursuant to 11 U.S.C. §363, dated April 23, 2004 (the "DIP Financing Motion"). Any capitalized terms used in this affidavit, but not otherwise defined herein, shall have the meaning ascribed to such terms in the Supplemental Objection.

3. The Committee selected Houlihan Lokey as its proposed financial advisor on April 19, 2004. On May 18, 2004, the Committee filed its Application Pursuant to Bankruptcy Rule 2014(a) for an Order Under Sections 328(a) and 1103(a) of the Bankruptcy Code Authorizing the Employment and Retention of Houlihan Lokey Howard & Zukin Capital as Financial Advisor for the Official Committee of Unsecured Creditors Nunc Pro Tunc to April 19, 2004. On May 20, 2004, this Court entered an order approving the retention of Houlihan Lokey, subject to any objections interposed within 20 days of May 20, 2004.

4. Shortly after its retention on April 19, 2004, Houlihan Lokey commenced discussions with numerous lenders concerning the provision of alternative post-petition financing to the Debtors.

5. After the hearing conducted before this Court on April 27, 2004 to consider approval of the DIP Financing, Houlihan Lokey continued to solicit interest in alternatives to the DIP Financing, with a focus on Ableco Finance LLC, an affiliate of Cerberus Capital Management, L.P. ("Cerberus").

6. On April 30, 2004, Cerberus supplied Houlihan Lokey with a draft loan commitment letter, proposing to (i) refinance the pre-petition indebtedness owed to the Lenders that was rolled into post-petition indebtedness under the Interim Order (the "Interim Rollover Amount"),

and (ii) provide the necessary incremental liquidity to the Debtors, up to an aggregate of $50 million (the "April 30th Proposal").

7. On May 4, 2004, after being informed by Houlihan Lokey that the Debtors believed that the terms of the April 30th Proposal would be insufficient to refinance the Interim Rollover Amount, while also providing sufficient incremental liquidity to the Debtors, Cerberus provided Houlihan Lokey with a second draft loan commitment letter, proposing to refinance the Interim Rollover Amount, and provide incremental liquidity to the Debtors, up to an aggregate of $65 million (the "May 4th Proposal").

8. On May 5, 2004, Cerberus provided Houlihan Lokey with a third draft loan commitment letter, proposing to refinance the Interim Rollover Amount and provide incremental liquidity to the Debtors, up to an aggregate of $65 million (the "May 5th Proposal"). The May 5th Proposal provided certain improved economic terms, including interest rates more favorable to the Debtors than those proposed under the May 4th Proposal.

9. On May 6, 2004, Houlihan Lokey provided the May 5th Proposal to the Debtors, who informed Houlihan Lokey on the same day, May 6, 2004, that the May 5th Proposal would not be sufficient to refinance the Interim Rollover Amount, while providing sufficient incremental liquidity to the Debtors. Instead, the Debtors suggested that Houlihan Lokey solicit interest in a financing proposal that would either (i) refinance the entire amount of the Pre-Petition Revolving Credit Facility or (ii) provide the necessary incremental liquidity through a priming loan that would take priority over or prime the claims of the Lenders, including the Interim Rollover Amount.

10. Upon the Debtors' rejection of the May 5th Proposal, Houlihan Lokey contacted Cerberus and requested that Cerberus consider offering the Debtors either (i) a full refinancing of the Pre-Petition Revolving Credit Facility or (ii) a $20 million priming loan, which would, upon this Court's approval, be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount.

11. After concluding that the due diligence required to offer the Debtors a full refinancing of the Pre-Petition Revolving Credit Facility would be too time consuming, on May 10, 2004, Cerberus provided Houlihan Lokey with a draft loan commitment letter, proposing to provide the Debtors with a priming loan of up to $30 million, to be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount (the "May 10th Proposal"). On May 10, 2004, Houlihan Lokey provided the Debtors with a copy of the May 10th Proposal.

12. On May 12th, the Debtors and Houlihan Lokey, among other professionals, participated in a conference call with representatives from Cerberus during which the Debtors asked Cerberus several questions, seeking to clarify the terms of the May 10th Proposal, including the timing required to close on the proposed loan. Although it appeared that the Debtors received satisfactory responses to the questions they posed, the Debtors indicated that they needed more time to review and discuss the May 10th Proposal among the Debtors' management team.

13. Following the foregoing May 12th conference call, during the course of several telephone and email conversations with representatives of Conway, Del Genio, Gries & Co., LLC, the Debtors' proposed restructuring advisors, Houlihan Lokey was informed that the

Debtors were considering their options and negotiating with the Lenders to improve upon the terms of the DIP Financing, in order to, among other things, provide the Debtors with sufficient incremental liquidity to operate their businesses and the ability to comply with their obligations and covenants under the DIP Financing.

14. Ultimately, on May 21, 2004, Houlihan Lokey was apprised by the Debtors that they had reached a revised agreement with the Lenders and would not pursue the April 30th, May 5th or May 10th Proposals.

15. On May 25, 2004, Houlihan Lokey received the attached, signed commitment letter from Cerberus, proposing to provide the Debtors with a priming loan of up to $30 million, to be secured by liens on the Debtors' assets, senior to those securing the Pre-Petition Credit Agreement and the Interim Rollover Amount (the "May 25th Proposal").

To the best of my knowledge, the information contained herein is true and accurate.

Dated this 25th day of May 2004.

/s/ Tanja Aalto
Tanja Aalto

SUBSCRIBED TO AND SWORN BEFORE ME this 25th day of May 2004.

/s/ Anita C. Morell
Anita C. Morell
Notary Public in and for the
State of New York

Anita C. Morell
Notary Public, State of New York
No. O1MO5023590
Qualified in Nassau County
Commission Expires 2-7-06
[Official Seal]

ABLECO FINANCE LLC
299 Park Avenue
New York, New York 10171

May 25, 2004

Dan River Inc.
2291 Memorial Drive
Danville, Virginia 24541

Re: DIP Financing Commitment

Ladies and Gentlemen:

Dan River Inc., a Georgia corporation, as debtor and debtor-in-possession (the "Parent"), and its subsidiaries, each as debtor and debtor-in-possession (together with the Parent, each a "Company" and collectively the "Companies") (i) have advised Ableco Finance LLC (a special situations lending company, hereinafter referred to as the "Lender") that the Companies have filed petitions in the United States Bankruptcy Court for the Northwestern District of Georgia (the "Bankruptcy Court") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") and will require debtor-in-possession financing (a) for general working capital purposes, and (b) to pay fees and expenses related to the Financing Facility, and (ii) have requested the Lender to provide such financing. The Lender is pleased to advise you that the Lender is willing to provide the Companies with a revolving credit facility of up to $30 million (the "Financing Facility") substantially on the terms and conditions set forth in the Outline of Terms and Conditions attached hereto as Exhibit A (the "Term Sheet"). The obligations of the Companies under the Financing Facility will be secured by first priority liens on, and security interests in, all assets of the Companies, including, without limitation, all accounts receivable, inventory, equipment, general intangibles, real property and all other assets of the Companies (other than avoidance actions). The Lender's commitment to provide the Financing Facility is subject in all respects to satisfaction of the terms and conditions contained in this commitment letter and in the Term Sheet. In addition, the Lender understands that the Bankruptcy Code and the applicable Bankruptcy Rules require the approval of, and entry of an order by, the Bankruptcy Court and at least 15 days' notice for approval of such financing pursuant to a final order by the Bankruptcy Court (the "Final Order") in form and substance satisfactory to the Lender. Upon the Bankruptcy Court's entry of the Final Order, the Lender will commence in good faith drafting definitive loan documentation with the goal of closing the Financing Facility as soon as reasonably possible.

The Parent, on behalf of itself and the other Companies, acknowledges that the Term Sheet is intended as an outline only and does not purport to summarize all the conditions, covenants, representations, warranties and other provisions which would be contained in definitive legal documentation for the Financing Facility. The loan documentation for the Financing Facility will include, in addition to the provisions that are summarized in this

commitment letter and the Term Sheet, provisions that, in the opinion of the Lender, are customary or typical for this type of financing transaction and other provisions that the Lender determines to be appropriate in the context of the proposed transaction. Borrowings under the Financing Facility will be subject to the Parent's "Revised DIP Budget", dated May 19, 2004. The Financing Facility shall not contain covenants related to the Parent's cash collections, cash disbursements or minimum required cash flow generation.

By its execution hereof and its acceptance of this commitment letter and the commitment contained herein, subject to the approval of the Bankruptcy Court (to the extent required), the Parent, on behalf of itself and the other Companies, agrees to indemnify and hold harmless the Lender and each of its assignees, their affiliates and their members, directors, officers, employees and agents (each an "Indemnified Party") from and against any and all losses, claims, damages, liabilities or other expenses to which such Indemnified Party may become subject, insofar as such losses, claims, damages, liabilities (or actions or other proceedings commenced or threatened in respect thereof) or other expenses arise out of or in any way relate to or result from, this letter or the commitment made herein or the extension of the Financing Facility contemplated by this letter or in any way arise from any use or intended use of this letter, or the proceeds of the Financing Facility contemplated by this letter and the Parent, on behalf of itself and the other Companies, agrees to reimburse each Indemnified Party for any legal or other expenses incurred in connection with investigating, defending or participating in any such loss, claim, damage, liability or action or other proceeding (whether or not such Indemnified Party is a party to any action or proceeding out of which indemnified expenses arise), but excluding therefrom all expenses, losses, claims, damages and liabilities which are finally determined in a non-appealable decision of a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of the Indemnified Party. In the event of any litigation or dispute involving this commitment letter or the Financing Facility, the Lender shall not be responsible or liable to any Company or any other person for any special, indirect, consequential, incidental or punitive damages. In addition, subject to the approval of the Bankruptcy Court (to the extent required), the Parent, on behalf of itself and the other Companies, agrees to reimburse the Lender for all reasonable fees and expenses (the "Expenses") incurred by or on behalf of the Lender in connection with the negotiation, preparation, execution and delivery of this commitment letter, the Term Sheet and any and all definitive documentation relating hereto and thereto, including, but not limited to, the reasonable fees and expenses of counsel to the Lender and the fees and expenses incurred by the Lender in connection with any due diligence, collateral reviews and field examinations. The obligations of the Parent under this paragraph shall remain effective whether or not definitive documentation is executed and notwithstanding any termination of this commitment letter.

On the date on which the Parent accepts this commitment letter and the Term Sheet, the Parent shall pay to the Lender in immediately available funds, subject to the approval of the Bankruptcy Court (to the extent required) (i) a non-refundable commitment fee equal to $300,000 (the "Commitment Fee"), which fee shall be earned in full on the date the Parent accepts this commitment letter and the Term Sheet and (ii) $50,000, which represents a deposit (the "Deposit") to fund Expenses incurred by the Lender. If less than $50,000 of Expenses are incurred by or on behalf of the Lender, the unused portion of the Deposit will be returned to the

Parent. The Lender may request an additional expense deposit if the amount of Expenses incurred or to be incurred by the Lender in connection with the Financing Facility exceeds or will exceed the amount of the Deposit.

The Parent agrees to use its best efforts to obtain the approval of the Bankruptcy Court, to the extent necessary, to authorize the actions contemplated by the immediately preceding two paragraphs by the date set forth below.

The Lender's commitment to provide the Financing Facility is subject to (i) the negotiation, execution and delivery of definitive loan documentation in form and substance satisfactory to Lender and its counsel (including, but not limited to, the form and substance of the order of the Bankruptcy Court approving the Financing Facility), (ii) the satisfaction of the Lender that since the date hereof there has not occurred or become known, or could not reasonably be expected to occur or become known, to the Lender any material adverse change with respect to the condition, financial or otherwise, business, operations, assets, liabilities or prospects of any Company, other than the filing of the respective chapter 11 cases of each Company (the "Cases") and the events typically resulting from the filing of the Cases, as determined by the Lender in its sole discretion (a "Material Adverse Change"), (iii) the absence of any material disruption or general adverse developments in the financial markets, as determined by the Lender in its sole discretion, and (iv) such other customary conditions as set forth in the Term Sheet. If at any time the Lender shall determine (in its sole and absolute discretion) that either (A) any Company will be unable to fulfill any condition set forth in this commitment letter or in the Term Sheet, or (B) any Material Adverse Change has occurred, the Lender may terminate this letter by giving notice thereof to the Parent (subject to the obligation of the Companies to pay all fees, costs, expenses and other payment obligations expressly assumed by the Companies hereunder, which shall survive the termination of this letter).

The Parent, on behalf of itself and the other Companies, represents and warrants that (i) all written information and other materials concerning the Companies (collectively, the "Information") which has been, or is hereafter, made available by, or on behalf of any Company is, or when delivered will be, when considered as a whole, complete and correct in all material respects and does not, or will not when delivered, contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statement has been made and (ii) to the extent that any such Information contains projections, such projections were prepared in good faith on the basis of (A) assumptions, methods and tests stated therein which are believed by the Companies to be reasonable and (B) information believed by the Companies to have been accurate based upon the information available to the Companies at the time such projections were furnished to the Lender.

This commitment letter is delivered to the Parent upon the condition that, prior to its acceptance of this offer, neither the existence of this commitment letter or the Term Sheet, nor any of their contents, shall be disclosed by any Company, except as may be compelled to be disclosed in a judicial or administrative proceeding or as otherwise required by law (including as may be required by the Bankruptcy Court) or, on a confidential and "need to know" basis, solely

to the directors, officers, employees, advisors and agents of the Parent and the official committee of unsecured creditors in the Cases. The Parent, on behalf of itself and the other Companies, agrees that (other than as required by the Bankruptcy Court) it will (i) consult with the Lender prior to the making of any filing in which reference is made to the Lender or the commitment contained herein, and (ii) obtain the prior approval of the Lender before releasing any public announcement in which reference is made to the Lender or to the commitment contained herein. The Parent, on behalf of itself and the other Companies, acknowledges that the Lender and its affiliates may now or hereafter provide financing or obtain other interests in other companies in respect of which the Companies or their affiliates may be business competitors, and that the Lender and its affiliates will have no obligation to provide to the Companies or any of their affiliates any confidential information obtained from such other companies.

The offer made by the Lender in this commitment letter shall expire, unless otherwise agreed by the Lender in writing, at 5:00 p.m. (New York City time) on June 1, 2004, unless prior thereto the Lender has received (i) a copy of this commitment letter, signed by the Parent accepting the terms and conditions of this commitment letter and the Term Sheet, (ii) the Deposit, in immediately available funds, (iii) the Commitment Fee, in immediately available funds, and (iv) the approval of the Bankruptcy Court if required for the Parent to deliver a signed copy of this commitment letter to the Lender, to pay the Commitment Fee or to pay the Deposit.

The commitment by the Lender to provide the Financing Facility shall expire at 5:00 p.m. (New York City time) on June 4, 2004, unless, at or prior to such date, definitive loan documentation shall have been agreed to in writing by all parties on or prior thereto, such documentation to be subject to Bankruptcy Court approval, and the conditions set forth therein shall have been satisfied (it being understood that the Companies' obligation to pay all amounts in respect of indemnification and Expenses shall survive termination of this commitment letter).

Should the terms and conditions of the offer contained herein meet with your approval, please indicate your acceptance by signing this letter and, except as provided above, returning a copy of this letter to the Lender and wiring the Commitment Fee and the Deposit, in immediately available funds, to an account designated by the Lender.

This commitment letter, including the attached Term Sheet (i) supersedes all prior discussions, agreements, commitments, arrangements, negotiations or understandings, whether oral or written, of the parties with respect thereto, (ii) shall be governed by the law of the State of New York, without giving effect to the conflict of laws provisions thereof, (iii) shall be binding upon the parties and their respective successors and assigns, (iv) may not be relied upon or enforced by any other person or entity, and (v) may be signed in multiple counterparts and may be delivered by facsimile or other electronic transmission, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. If this commitment letter becomes the subject of a dispute, each of the parties hereto hereby waives trial by jury. This commitment letter may be amended, modified or waived only in a writing signed by the parties hereto.

Very truly yours,

ABLECO FINANCE LLC

By: _____
Name:
Title:

Agreed and accepted on this
___ day of _____ __, 2004:

DAN RIVER INC.

By: _____
Name:
Title:

9638880.7

Exhibit A

Dan River Inc.

Outline of Terms and Conditions for Financing Facility

This Outline of Terms and Conditions is part of the Commitment Letter, dated May 25, 2004 (the "Commitment Letter"), addressed to Dan River Inc., a Georgia corporation, as debtor and debtor-in-possession (the "Parent"), by Ableco Finance LLC (a special situations lending company, hereinafter referred to as the "Lender") and is subject to the terms and conditions of the Commitment Letter. Capitalized terms used herein shall have the meanings set forth in the Commitment Letter unless otherwise defined herein.

BORROWER:	The Parent, as debtor and debtor-in-possession under chapter 11 of the Bankruptcy Code.
GUARANTORS:	Dan River Factory Stores, Inc., a Georgia corporation, Dan River International Ltd., a Virginia corporation and The Bibb Company LLC, a Delaware limited liability company, each as debtor and debtor-in-possession (together with the Parent, each a "Company" and collectively, the "Companies").
LENDER:	The Lender or affiliates thereof, and such other lenders designated by the Lender.
FINANCING FACILITY:	A revolving credit facility of up to $30,000,000 (the "Maximum Facility Amount"). Aggregate revolving credit loans under the Financing Facility will be subject to the Parent's "Revised DIP Budget", dated May 19, 2004 (the "Budget"), which Budget shall show cash sources and uses on a weekly basis and shall be in form and substance satisfactory to the Lender.
TERM:	All revolving credit loans are to be repaid in full at the earlier of (i) the date which is twenty-four months following the date of entry of the Final Order and (ii) the substantial consummation (as defined in 11 U.S.C. § 1101(2)) of a plan of reorganization (a "Plan") in the Cases, which has been confirmed by an order of the Bankruptcy Court (such earlier date, the "Maturity Date"). Any confirmation order entered in the Cases shall not discharge or otherwise affect in any way any of the joint and several obligations of the Companies to the Lender under the Financing Facility, other than after the payment in full and in cash to the Lender of all obligations under the Financing Facility on or before the effective date of the Plan.

MANDATORY AND OPTIONAL PREPAYMENT: Mandatory prepayment from net asset sale proceeds realized by the Companies from the sale or other disposition of any assets (subject to exceptions to be agreed upon), and other customary prepayments (including casualty events, tax refunds, extraordinary receipts, etc.) to be agreed upon. The Borrower shall be permitted to prepay the Financing Facility in whole or in part at any time without penalty or premium.

CLOSING DATE: The first date on which all definitive loan documentation satisfactory to the Lender (the "Loan Documents") is executed by the Companies and the Lender, which date shall not be later than June 4, 2004, on or after the date the Bankruptcy Court shall have entered the Final Order in form and substance satisfactory to the Lender. Borrowings under the Financing Facility are subject to entry of the Final Order, in form and substance satisfactory to the Lender.

COLLATERAL:

All obligations of the Companies to the Lender shall be: (i) entitled to super-priority administrative expense claim status pursuant to 11 U.S.C. § 364(c)(1) in each Case, subject only to (a) the payment of allowed professional fees and disbursements incurred by the Companies and any official committees appointed in the Cases, in an aggregate amount at any time outstanding to be agreed upon by the Lender and the Parent and (b) the payment of fees pursuant to 28 U.S.C. § 1930 (collectively, the "Carve-Out Expenses") and (ii) secured pursuant to 11 U.S.C. §§ 364(c)(2) and (c)(3) and § 364(d) by a security interest in and lien on all now owned or hereafter acquired assets and property of the estate (as defined in the Bankruptcy Code), real and personal, of the Companies and the proceeds thereof, including all of the stock or other equity interest of each subsidiary of each Company that is incorporated or organized under the laws of the District of Columbia or any state or territory of the United States of America and 65% of all of the voting stock or other equity interest of, and all of the non-voting stock or other equity interest of, each other subsidiary of each Company, but excluding all avoidance actions. The § 364(d) priming lien shall only prime the liens in favor of the agents and lenders under the pre-petition Credit Agreement, dated as of April 15, 2003 (as amended). The security interests in and liens on all assets and property of the estate of the Companies shall be first priority, not subject to subordination, on all assets of the Companies, subject to the Carve-Out Expenses. No liens will be released until all amounts due under the Financing Facility are paid.

All borrowings by the Borrower, all costs, fees and expenses of the Lender, and all other obligations owed to the Lender shall be charged to the loan account to be established under the Financing Facility.

INTEREST:

At the Borrowers' option, all revolving credit loans shall bear interest at a rate per annum equal to either (i) the LIBOR Rate (as defined below) plus 4.0%, or (ii) the Reference Rate (as defined below) plus 2.0%.

LIBOR shall be available only for one, two or three month periods, as selected by the Borrower.

The Lender's obligation to provide LIBOR Rate loans shall be subject to the following: (i) in the event of an Event of Default, all LIBOR Rate loans shall, at the Lender's option, be converted to Reference Rate loans and no further LIBOR Rate loans shall be available while such Event of Default exists, (ii) the minimum amount of each LIBOR Rate loan shall be in an amount not less than $1,000,000 and in integral multiples of $500,000 in excess thereof, and (iii) the Borrower shall be responsible for any breakage fees, yield maintenance, or other associated costs, as determined by the Lender. The maximum number of interest periods will be limited in the definitive loan documentation.

As used herein, (x) "LIBOR Rate" means, with respect to each day during any interest period, the rate of interest at which JPMorgan Chase Bank in New York, New York, is offered deposits of U.S. dollars in the London Inter-bank market adjusted by the reserve percentage prescribed by governmental authorities as determined by the Lender, provided that at no time shall the LIBOR Rate be less than 2.0% and (y) "Reference Rate" means the rate of interest publicly announced from time to time by JPMorgan Chase Bank in New York, New York, as its reference rate, base rate or prime rate, provided that at no time shall the Reference Rate be less than 4.0%. All interest and fees shall be computed on the basis of a year of 360 days for the actual days elapsed.

All interest shall accrue from the Closing Date and shall be payable in cash monthly in arrears.

CASH MANAGEMENT: All proceeds of accounts receivable and inventory of the Companies and other Collateral shall be deposited in lockbox accounts under the sole dominion and control of the Lender. All funds deposited in such lockbox accounts will be transferred to the Lender on each business day and applied to repay the outstanding obligations of the Companies. Collections will be credited to the obligations on the day received in the lockbox accounts conditional on final payment to the Lender and the Lender shall charge two (2) collection days for interest calculation purposes with respect to all collections. No funds of any subsidiary or affiliate of the Companies that are not the Borrower or a Guarantor shall be deposited in such lockbox accounts or commingled with the funds contained therein.

FEES:	Commitment Fee:	$300,000, earned in full, non-refundable and due and payable upon the Borrower's acceptance of the Commitment Letter (subject to the approval of the Bankruptcy Court, to the extent required).
	Closing Fee:	$300,000 earned in full, non-refundable and due and payable on the Closing Date.
	Anniversary Fee	$300,000 earned in full, non-refundable and due and payable on each anniversary of the Closing Date.
	Unused Line Fee:	Three-quarters of one percent (0.75%) on the unused portion of the Financing Facility, due and payable monthly in arrears.
	Servicing Fee:	$15,000 per month, due and payable monthly in advance.
	Field Examination Fee:	$1,500 per day per examiner plus reasonable out of pocket expenses, plus costs and charges of third party appraisers and third party professionals employed by Lender to review, audit and monitor the Companies' assets.
USE OF PROCEEDS:	The proceeds of the revolving credit loans under the Financing Facility shall be used to (i) fund working capital in the ordinary course of business of the Companies, and (ii) pay fees and expenses related to the Financing Facility. The proceeds of the revolving credit loans under the Financing Facility shall not be used to repay any existing indebtedness.	
CONDITIONS PRECEDENT:	The obligation of Lender to make any revolving credit loans under the Financing Facility will be subject to customary conditions precedent including, without limitation, the following special conditions precedent:	

(a) Lender's completion of its legal due diligence, including without limitation, with respect to ERISA, regulatory, environmental, tax, labor, licensing and permit matters, with results satisfactory the Lender.

(b) Execution and delivery of appropriate legal documentation in form and substance satisfactory to Lender and the satisfaction of the conditions precedent contained therein.

(c) No Material Adverse Change shall have occurred other than the filing of the Cases and the events typically resulting from the filing of the Cases.

(d) The Lender shall have been granted a perfected, first priority lien on all Collateral, and shall have received UCC, tax and judgment lien searches and other appropriate evidence, evidencing the absence of any other liens on the Collateral, except existing liens acceptable to Lender.

(e) Opinions from the Companies' counsel as to such matters as the Lender and its counsel may reasonably request.

(f) The Lender shall be satisfied in its sole discretion with the cash management systems of the Companies.

(g) Insurance satisfactory to Lender; such insurance to include liability insurance for which the Lender will be named as an additional insured and property insurance with respect to the Collateral for which the Lender will be named as loss payee.

(h) Entry by the Bankruptcy Court of the Final Order, in form and substance satisfactory to Lender, which Final Order shall approve the transactions contemplated herein, grant the superpriority administrative expense claim status and liens referred to above and which Final Order shall not have been reversed, modified, amended, stayed or vacated.

(i) Lender shall be satisfied in its sole discretion with (i) review of the material contracts of the Companies, (ii) the results of a reference check on each member of key management, and (iii) the Companies' having required licenses and permits to conduct their business.

(j) The Lender shall have received and shall be satisfied in its sole discretion with the Budget.

(l) No default or event of default shall exist under the loan documentation, and no pending. claim, investigation or litigation by any governmental entity shall exist with respect to the Companies or the transactions contemplated hereby.

(m) The Companies shall have paid to Lender all fees and expenses then owing to Lender.

(n) The Lender shall have received such financial and other information regarding the Companies as the Lender may request.

(o) Such other conditions as may be required by the Lender in its reasonable discretion and which are customary in transactions of this nature.

REPRESENTATIONS AND WARRANTIES: Usual representations and warranties, including, but not limited to, corporate existence and good standing, permits and licenses, authority to enter into loan documentation, occurrence of the Closing Date, validity of the Final Order, governmental approvals, non-violation of other agreements, financial statements, litigation, compliance with environmental, pension, labor and other laws, taxes, insurance, absence of Material Adverse Change, absence of default or unmatured default and priority of the Lender's liens.

COVENANTS: Usual covenants, including, but not limited to, provision of financial statements, notices of litigation, defaults and unmatured defaults and other information (including pleadings, motions, applications and other documents filed with the Bankruptcy Court or distributed to any official committee appointed in the Cases), compliance with laws, permits, licenses and regulatory approvals, inspection of properties, books and records, maintenance of insurance, limitations with respect to liens and encumbrances, dividends and retirement of capital stock, guarantees, sale and lease back transactions, consolidations and mergers, investments, capital expenditures, loans and advances, indebtedness, compliance with pension, environmental and other laws, operating leases, transactions with affiliates and prepayment of other indebtedness.

Financial reporting to include: (i) weekly, internally prepared, 13-week cash flow forecast, (ii) updates to the Budget on a monthly basis satisfactory to the Lender, and (iii) other reporting as reasonably required by the Lender.

EVENTS OF DEFAULT: Usual events of default, including, but not limited to, payment, cross-default, violation of covenants, breach of representations or warranties, judgment, material adverse deviation from the Budget, Material Adverse Change, ERISA, environmental, change of control and other events of default which are customary in facilities of this nature.

In addition, an Event of Default shall occur if: (i) (A) any of the Cases shall be dismissed or converted to a chapter 7 case; a chapter 11 trustee or an examiner with enlarged powers shall be appointed; any other superpriority administrative expense claim which is senior to or pari passu with the Lender's claims shall be granted; the Final Order shall be stayed, amended, modified, reversed or vacated; (B) a Plan shall be confirmed in any of the Cases which does not provide for termination of the commitment under the Financing Facility and payment in full in cash of the Companies' obligations thereunder on the effective date of the Plan; or an order shall be entered which dismisses any of the Companies' chapter 11 cases and which order does not provide for termination of the Financing Facility and payment in full in cash of all obligations thereunder; or (C) the Companies shall take any action, including the filing of an application, in support of any of the foregoing or any person other than the Companies shall do so and such application is not contested in good faith by the Companies and the relief requested is granted in an order that is not stayed pending appeal; or (ii) the Bankruptcy Court shall enter an order granting relief from the automatic stay to the holder of any security interest in any asset of the Companies having a book value in an amount to be agreed upon.

GOVERNING LAW: All documentation in connection with the Financing Facility shall be governed by the laws of the State of New York applicable to agreements made and performed in such State except as governed by the Bankruptcy Code.

ASSIGNMENTS, PARTICIPATIONS: The Lender may sell or assign to one or more other persons a portion of its loans or commitments under the Financing Facility without the consent of the Companies. The Lender may also sell participations in its loans and commitments under the Financing Facility without the consent of the Companies.

OUT-OF-POCKET EXPENSES: The Borrower shall pay on demand all fees and expenses of the Lender (including legal fees, audit fees, search fees, filing fees, and documentation fees, and expenses in excess of the Deposit), incurred in connection with the Commitment Letter and this Term Sheet and the transactions contemplated by the Commitment Letter and this Term Sheet, whether or not the transaction closes.