

**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-__ through 04-__
)	Jointly Administered
)	
Debtors.)	Judge Drake
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**APPLICATION OF THE DEBTORS FOR AN ORDER
AUTHORIZING THE EMPLOYMENT AND RETENTION OF
WOOLARD HARRIS AS CHIEF RESTRUCTURING OFFICER FOR OPERATIONS
PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE BANKRUPTCY CODE**

Dan River Inc. (“Dan River”), The Bibb Company LLC (“Bibb”), Dan River International Ltd. (“Dan River International”), and Dan River Factory Stores, Inc. (“Dan River Stores”) (collectively, the “Debtors” or the “Company”), file this Application, respectfully showing the Court as follows:

Jurisdiction

1. This Court has jurisdiction over this Application under 28 U.S.C. § 1334. Venue of this proceeding is proper pursuant to 28 U.S.C. § 1409. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).

Background

2. On the date hereof (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 Debtors are authorized to operate their businesses as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

A. Company Background.

3. Dan River was founded in 1882 and is a leading designer, manufacturer and marketer of products for the home fashions and apparel fabrics markets. Dan River operates three business segments: home fashions, apparel fabrics, and engineered products.

4. During fiscal 2003, Dan River's home fashions division produced approximately 72 percent of the Company's revenues, generating \$342 million in net sales. Dan River's home fashions products include bedroom furnishings such as comforters, sheets, pillowcases, shams, bed skirts, decorative pillows and draperies. Dan River is an innovator in merchandising home fashions products and introduced the "Bed-in-a-Bag" complete bed ensemble that consists of a comforter with matching sheets, pillowcases, shams, and a dust ruffle. The home fashions products are marketed under the "Dan River" name as well as under private labels of the Company's major retail customers and under licenses from, among others, "Colours by Alexander Julian" and "Lilly Pulitzer." Dan River also markets home fashions products for the juvenile market under a number of licensed names and trademarks, including "Barbie," "Looney Tunes," "Spiderman," and "Scooby Doo" among others.

5. During fiscal 2003, Dan River's apparel fabrics division produced approximately 21 percent of Dan River's total revenues, generating \$102 million in net sales. Dan River's apparel fabrics products include a broad range of high quality woven cotton and cotton-blend fabrics that are marketed primarily to clothing manufacturers.

6. During fiscal 2003, the engineered products division was Dan River's smallest division, and produced 7 percent of Dan River's gross revenue, generating \$34 million in net sales. Dan River's engineered products include coated yarns and woven fabrics that are

manufactured to customer specifications for use in such products as high pressure hoses for the automotive industry, conveyer belts and other industrial applications.

7. The remaining debtors, Bibb, Dan River International, and Dan River Stores are wholly-owned subsidiaries of Dan River. Bibb was acquired by Dan River in 1998, and substantially all of its assets were subsequently transferred to Dan River. In 2001, Bibb was converted to a single member Delaware limited liability company, wholly owned by Dan River. The only remaining assets of Bibb are its environmentally impaired Abbeville facility, and small parcels of raw land with nominal value. Dan River International is a holding company for the Company's international operations.¹ Dan River Stores was formed in 1992. In 2001, Dan River Stores transferred substantially all of its assets to Dan River. The only remaining material assets of Dan River Stores are intercompany receivables and inconsequential leases.

B. The Debtors' Long-Term Debt Structure.

8. On April 15, 2003, Dan River completed the refinancing of substantially all of its outstanding long-term debt. The refinancing included the sale, at 95.035 percent of par, of 12-3/4 percent senior notes due 2009 in the aggregate principal amount of \$157 million.

¹ The Company's international operations include the following Mexican entities: Dan River de Mexico, S. de R.L. de C.V. ("DRMEX"), Maquilas Pinnacle, S. de R.L. de C.V. and Adsercorp, S. de R.L. de C.V. (collectively, the "Mexico Companies"). The Mexico Companies are the equivalent of limited liability companies. However, Mexico does not allow single member limited liability companies. Therefore, Dan River owns a one peso interest in DRMEX. The remaining Mexico Companies own a one peso interest in each other. Dan River International owns all remaining interests in the Mexico Companies. Dan River B.V. is a Netherlands corporation that was formed in 2000 as a wholly-owned subsidiary of Dan River International to hold Dan River International's interests in the Mexico Companies. However, those interests were never transferred to Dan River B.V., and Dan River B.V. has nominal assets. Neither Dan River B.V. nor any of the Mexico Companies are debtors in these proceedings.

9. In addition, the Debtors entered into a new senior secured credit agreement (the “Credit Agreement”) dated April 15, 2003 with Deutsche Bank Trust Company Americas, as Agent, Fleet Capital Corporation, as Syndication Agent, Wachovia Bank, National Association, as Documentation Agent, and the several lenders from time to time party thereto (collectively, the “Lenders”).

10. The Credit Agreement provides for a five-year \$40 million term loan and \$160 million revolving credit facility. Availability under the revolving credit facility is based upon a borrowing base determine by reference to eligible accounts receivable and inventory. As of the Petition Date, the principal and interest outstanding under the term loan was \$35.85 million, and the principal and interest outstanding under the revolving credit facility was approximately \$75.8 million. In addition, letters of credit in the approximate amount of \$5.05 million were outstanding under the terms of the Credit Agreement, for a total current amount outstanding under the Credit Agreement of approximately \$116.7 million. The Debtors’ obligations under the Credit Agreement are secured by substantially all of the Debtors’ assets.

C. Events Leading to the Debtors’ Chapter 11 Cases.

11. In fiscal 2003, the Debtors experienced a significant drop in revenues beginning in the second quarter. Retail sales of the Debtors’ products began to weaken in the second quarter due to a lackluster retail environment in general and inventory adjustments by some of its customers, including its largest customer, Kmart. For fiscal 2003, total revenues were down 22.1 percent compared to the previous year.

12. During the second, third and fourth quarters of fiscal 2003, in response to the drop in sales, the Debtors initiated plans to eliminate approximately \$18 million in annual expenses through the closure and consolidation of manufacturing facilities and a reduction of workforce.

Four manufacturing facilities were closed, which eliminated over 850 positions for a total estimated annual savings of \$13.6 million. Approximately 80 managerial and administrative positions were eliminated which reduced annual expenses by over \$4 million. The benefits of these cost-cutting efforts were not expected to be realized until fiscal 2004, too late to mitigate a continued reduction in gross profit caused by the poor economic environment. The Debtors' gross profit for fiscal 2003 was approximately \$61 million less than their gross profit for the previous year.

13. The Debtors are not the only domestic textile company which has encountered financial problems. Numerous other domestic textile companies such as Burlington Industries, Cone Mills, WestPoint Stevens, Pillowtex, and others have already filed for bankruptcy protection.

14. As a result of the Debtors' financial performance, they failed to meet the maximum leverage ratio covenant contained in the Credit Agreement for the third quarter of 2003. The Debtors and the Lenders entered into an amendment of the Credit Agreement that waived the covenant violation and imposed new requirements for minimum levels of excess availability and monthly operating EBITDA. An additional amendment and waiver to the Credit Agreement was executed in December 2003, waiving certain anticipated defaults resulting from the Debtors' financial performance and imposing additional requirements on the Debtors. Another amendment was executed in January 2004 modifying certain terms of the Pre-Petition Credit Agreement. Among other things, the Credit Agreement, as amended, requires the Debtors to deliver to the Agent on March 31, 2004 satisfactory evidence that the Debtors will be in compliance with the financial covenants in the Credit Agreement for the fiscal quarter ending April 3, 2004.

15. The Debtors' sales and profitability have not sufficiently improved to be in compliance with all of the Credit Agreement's financial covenants. As a result, commencing April 1, 2004, the Debtors will be in default under the Credit Agreement. Accordingly, the Company will no longer have access to the funds necessary to meet its operating expenses and will be faced with a loss of enterprise value if it cannot restructure its debt and obtain additional financing. Therefore, the Debtors have concluded, after consultation with their advisors, that their interests and the interests of their creditors and employees will be best served by a reorganization under Chapter 11 of the Bankruptcy Code.

Relief Requested

16. By this Application, the Debtors respectfully request the entry of an order, pursuant to Sections 105(a), 327(a) and 328(a) of the Bankruptcy Code, authorizing them to retain Mr. Harris as their Chief Restructuring Officer for Operations for the purpose of providing operational management and advisory services to the Debtors.

Basis for Relief

17. By this Application, the Debtors seek entry of an order pursuant to Sections 327(a) and 328(a) of the Bankruptcy Code authorizing the Debtors to employ and retain Mr. Harris, who is a partner with Carl Marks Consulting Group LLC, as their Chief Restructuring Officer for Operations to provide operational advisory services to the Debtors.

18. The Debtors selected Mr. Harris as their Chief Restructuring Officer for Operations based on Mr. Harris' experience, knowledge and reputation in operating troubled textile companies, including in the context of Chapter 11 proceedings, and because the Debtors believe that Mr. Harris possesses the requisite expertise and is well qualified to provide the operational advisory services that will be required in these cases.

19. As compensation for its provision of consulting and operational services, Mr. Harris proposes to charge Debtors \$550.00 per hour. The Debtors believe that the compensation to be paid to Mr. Harris is reasonable in comparison to fees charged by comparably skilled professionals and are consistent with Mr. Harris' normal and customary billing practices for cases of this size and complexity. Mr. Harris' services to the Debtors will be appropriately directed by the Debtors to avoid unnecessary duplication of services with other professionals retained in these Chapter 11 cases.

20. All of Mr. Harris' fees and expenses in these Chapter 11 cases shall be subject to the approval of the Court. The Debtors are advised by Mr. Harris that it is not the general practice of Chief Restructuring Officers for Operations to keep detailed time records similar to those customarily kept by attorneys and that Mr. Harris requests that he not be required to maintain time records or submit such time records with his fee applications or monthly fee statements.

21. Mr. Harris has informed the Debtors that, he (i) does not hold or represent any interest adverse to the Debtors' estates in matters upon which Mr. Harris is to be engaged, and (ii) is a "disinterested person" as that term is defined in Section 101(14) of the Bankruptcy Code.

22. No prior request for the relief sought herein has been made by the Debtors to this or any other Court.

23. For the foregoing reasons, the Debtors believe that granting the relief requested herein is appropriate and in the best interests of their estates.

Notice

24. Notice of this Application has been provided to the Office of the United States Trustee, counsel for the Debtors' pre-petition secured lenders, the indenture trustee for Debtors'

senior note holders, counsel to the Agent for the Debtors' proposed debtor-in-possession lenders and the Debtors' thirty largest unsecured creditors on a consolidated basis. In light of the nature of the relief requested, the Debtors submit that no further notice is necessary.

Conclusion

WHEREFORE the Debtors respectfully request entry of an order granting the relief requested herein, and granting the Debtors such other and further relief as may be just.

Dated: Atlanta, Georgia
March 31, 2004

Respectfully submitted,

KING & SPALDING LLP

/s/ James A. Pardo, Jr.

James A. Pardo, Jr.

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PROPOSED ATTORNEYS FOR THE DEBTORS

**IN THE UNITED STATES BANKRUPTCY COURT
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In re:)	Chapter 11
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DAN RIVER INC., et al.)	Case Nos. 04-__ through 04-__
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**ORDER AUTHORIZING THE EMPLOYMENT AND RETENTION OF
WOOLARD HARRIS AS CHIEF RESTRUCTURING OFFICER FOR OPERATIONS
PURSUANT TO SECTIONS 327(a) AND 328(a) OF THE BANKRUPTCY CODE**

This matter is before the Court on the application of Dan River Inc., The Bibb Company LLC, Dan River International Ltd. and Dan River Factory Stores, Inc. (collectively, the “Debtors”) for authority to retain Woolard Harris as Chief Restructuring Officers for Operations for the Debtors (the “Application”).

The Court has considered the Application, the Declaration of Barry F. Shea in Support of First-Day Applications and Motions, the Affidavit filed by Woolard Harris in support of the Application and the matters reflected in the record of the hearing held on the Application. It appears that the Court has jurisdiction over this proceeding; that this is a core proceeding; that notice of the Application has been given to the Office of the United States Trustee, counsel for the Debtors’ pre-petition secured lenders, the indenture trustee for the Debtors’ senior note holders, the Debtors’ thirty largest unsecured creditors on a consolidated basis; that no further notice is necessary; that the relief sought in the motion is in the best interests of the Debtors, their estates, and their creditors; and that good and sufficient cause exists for such relief.

Accordingly, it is hereby ORDERED as follows:

1. The Application is GRANTED, subject to any objections filed within twenty (20) days after entry of this Order.

2. Subject to any such objections, the Debtors are authorized to retain Woolard Harris (“Mr. Harris”) as Chief Restructuring Officer for Operations to provide operational management and advisory services to the Debtors on the terms set forth in the Application.

3. If any supplemental declarations are filed and served after the entry of this Order, absent any objections filed within twenty (20) days after the filing and service of such supplemental declarations, Mr. Harris’ engagement shall continue as authorized pursuant to this Order.

4. Mr. Harris shall not be required to submit detailed time records with his fee applications or monthly fee statements.

5. Within five (5) days of the entry of this Order, the Debtors shall serve a copy of this Order on the Office of the United States Trustee, counsel for the Debtors’ pre-petition secured lenders, the indenture trustee for Debtors’ senior note holders, counsel to the Agent for the Debtors’ proposed debtor-in-possession lenders and the Debtors’ thirty largest unsecured creditors on a consolidated basis, and any counsel or party that has filed a notice of appearance or request for notice.

6. Any objection to the relief requested in the Application shall be filed with the Court, 18 Greenville Street, Post Office Box 1408, Newnan, Georgia 30263, within twenty (20) days of the date of this Order and shall be served upon (i) the Office of the United States Trustee, 75 Spring Street, S.W., Room 362, Atlanta, Georgia 30303; and (ii) James A. Pardo, Jr., King & Spalding LLP, 191 Peachtree Street, Atlanta, Georgia 30303, so as to be received by such filing

deadline. If no objection is timely filed and served, this Order shall be deemed a final order, and no further hearing on the Application shall be held.

7. The Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

SO ORDERED.

At Atlanta, Georgia this ___ day of _____, 2004.

W. HOMER DRAKE, JR.
UNITED STATES BANKRUPTCY JUDGE

Prepared and Presented by:

KING & SPALDING LLP

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