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

In re:	)	**Chapter 11**
	)	
DAN RIVER INC.,	)	**Case No. 04-__**
	)	
Debtor.	)	
	)	
In re:	)	**Chapter 11**
	)	
THE BIBB COMPANY LLC,	)	**Case No. 04-__**
	)	
Debtor.	)	
	)	
In re:	)	**Chapter 11**
	)	
DAN RIVER INTERNATIONAL LTD.,	)	**Case No. 04-__**
	)	
Debtor.	)	
	)	
In re:	)	**Chapter 11**
	)	
DAN RIVER FACTORY STORES, INC.,	)	**Case No. 04-__**
	)	
Debtor.	)	
	)	

DECLARATION OF BARRY F. SHEA IN SUPPORT OF
FIRST DAY APPLICATIONS AND MOTIONS

BARRY F. SHEA, being duly sworn, deposes and says:

1. "I am the Executive Vice President and Chief Financial Officer of Dan River Inc., ("Dan River") a corporation duly organized under and existing pursuant to the laws of the State of Georgia. I have served as Chief Financial Officer of Dan River since 1989. In this capacity, I have obtained detailed knowledge of and experience with the business and financial affairs of 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").

2. I am authorized to submit this declaration in support of the Debtors' First Day Motions (as hereinafter defined). Except as otherwise indicated, all facts set forth in this declaration are based upon my personal knowledge, my review of relevant documents, or my opinion based upon my experience, knowledge, and information concerning the Debtor's operations and financial affairs. If I were called upon to testify, I would testify competently to the facts set forth herein.

Background

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

[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.

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, the Debtors completed the refinancing of substantially all of their 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.

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 a $160 million revolving credit facility. Availability under the revolving credit facility is based upon a borrowing base determined 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 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.

The First Day Motions

16. Contemporaneously with the filing of their bankruptcy petitions, the Debtors filed the motions and applications listed on Exhibit A (collectively, the "First Day Motions"). I submit this declaration in support of the First Day Motions. I have reviewed each of the First Day Motions (including the exhibits and schedules attached thereto) and, to the best of my knowledge, believe that the facts set forth therein are true and correct. Such representation is based upon information and belief, through my review of various materials and other information, and my experience and knowledge of the Debtors' operations and financial

condition. If called upon to testify, I could and would, based on the foregoing, testify competently to the facts set forth in each of the First Day Motions.

17. As a result of my first-hand experience, and through my review of various materials and other information, discussions with other of the Debtors' executives, and discussions with outside advisors, I have formed opinions as to (a) the necessity of obtaining the relief sought in the First Day Motions; (b) the importance of the relief sought in the First Day Motions for the Debtors to continue to operate effectively; and, (c) the negative impact upon the Debtors of not obtaining the relief sought in the First Day Motions.

18. As described more fully below, the relief sought in the First Day Motions will minimize the adverse effects of the Chapter 11 cases on the Debtors and ensure that the Debtors' reorganization efforts proceed as efficiently as possible and result in maximum recovery for creditors, and I believe that the relief sought in each of the First Day Motions is necessary to enable the Debtors to operate as debtors in possession.

Motion for Joint Administration

19. In this case, three debtors -- The Bibb Company LLC, Dan River Factory Stores, Inc., and Dan River International Ltd. -- are all wholly owned subsidiaries of debtor Dan River Inc.

20. The Debtors believe that it would be more efficient for the administration of these cases if their joint administration were authorized. The Debtors anticipate significant activity during these cases and believe that most hearings and contested matters will apply to all of the Debtors' cases equally. Consequently, joint administration of these cases will promote the economical and efficient administration of the Debtors' estates, unencumbered by the procedural problems otherwise attendant to the administration of separate, albeit related, cases.

21. Moreover, no prejudice will befall any party by virtue of the relief requested in the Motion, inasmuch as such relief is purely procedural and is not intended to affect any party's substantive rights.

Motion of the Debtors for Order Approving Notice Procedures (the "Notice Procedures Motion")

22. Currently, literally thousands of creditors and parties in interest may be technically entitled to receive notice in these cases. To require the Debtors to provide notice of all pleadings and other papers filed in these cases to these parties in interest would be extremely burdensome and costly to the Debtors' estates, as a result of photocopying and postage expenses as well as other expenses associated with such large mailings. Accordingly, the Debtors believe that the notice procedures requested in the Notice Procedures Motion are in the best interest of their estates and creditors, and will not prejudice the rights of any party in interest in these cases.

Motion for Additional Time to File Schedules and Statements of Financial Affairs

23. Due to the substantial size of the Debtors and the complexity of their operations, the Debtors will be unable to compile all the information necessary for the preparation and filing of schedules and statements of financial affairs within 15 days after the Petition Date.

24. To prepare the schedules and statements, the Debtors must gather information from books, records, and documents housed at various locations and relating to a multitude of transactions. Consequently, collection of the necessary information requires the expenditure of substantial time and effort on the part of the Debtors' already overburdened employees. The Debtors submit that employee efforts during the initial stages of this case are critical and should be focused on attending to the Debtors' businesses and operations to maximize the value of the Debtors' estates. The Debtors currently have several employees working diligently to assemble and collate the necessary information. The Debtors anticipate that they will need a minimum of

45 days within which to prepare and file their schedules and statements of financial affairs in the appropriate format.

Motion for Order Shortening Notice and Expediting Hearing on First-Day Motions (the "Expedited Hearing Motion")

25. The relief requested in the Expedited Hearing Motion is necessary to ensure that there is no interruption in the services being provided by the Debtors or damage to the Debtors' businesses or the value of their assets. To require the Debtors to comply with otherwise applicable notice requirements would cause immeasurable harm to the Debtors' ability to efficiently and effectively manage their operations, would create disruptions in the timely payment of obligations, and would threaten the Debtors' existence in light of their current liquidity crisis. Accordingly, the Debtors believe that the relief requested in the Expedited Hearing Motion is warranted.

Motion for Authority to Retain King & Spalding LLP as Counsel to the Debtor (the "K&S Retention Motion")

26. King & Spalding LLP has been the Debtors' principal outside counsel for more than fourteen years and has been providing restructuring advice to the Debtors for several months.

27. The Debtors have selected King & Spalding LLP as their attorneys because of the firm's extensive knowledge of the Debtors' businesses and financial affairs, its general experience and knowledge, and its recognized expertise in the field of debtors' protections, creditors' rights, and business reorganizations under Chapter 11 of the Bankruptcy Code, as well as in other areas of law related directly or indirectly to these bankruptcy cases. King & Spalding LLP has the necessary background to deal effectively with many of the potential legal issues and problems that may arise in the context of the Debtors' bankruptcy cases as well as with those matters that exist independently of the bankruptcy cases. The Debtors believe that King &

Spalding LLP is both well qualified and uniquely able to represent them in these cases and in other matters in a most efficient and timely manner.

28. The employment of King & Spalding LLP under a general retainer is appropriate and necessary to enable the Debtors to execute faithfully their duties as debtors and debtors-in-possession, and to implement the reorganization of the Debtors' financial affairs. Subject to further order of this Court, it is proposed that King & Spalding LLP be employed for the following purposes:

(a) to advise the Debtors with respect to their powers and duties as debtors-in-possession in the continued management and operation of their businesses;

(b) to take all necessary action to protect and preserve the estates of the Debtors, including the prosecution of actions on the Debtors' behalf, the defense of any actions commenced against the Debtors, the negotiation of disputes in which the Debtors are involved, and the preparation of objections to claims filed against the Debtors' estates;

(c) to prepare on behalf of the Debtors all necessary motions, applications, answers, orders, reports, and other papers in connection with the administration of the Debtors' estates;

(d) to negotiate and prepare on behalf of the Debtors a plan of reorganization, a disclosure statement, and all related documents;

(e) to negotiate and prepare documents relating to the disposition of assets, as requested by the Debtors;

(f) to advise the Debtors, where appropriate, with respect to federal, state, and foreign regulatory matters;

(g) to advise and represent the Debtors on litigation matters, specifically including (but not limited to) representation of the company in the pursuit of claims arising from alleged price fixing and customer allocation in the polyester staple fiber market;

(h) to advise the Debtors on antitrust matters, specifically including advice on distribution arrangements, pricing structures, and acquisitions by the company and others;

(i) to advise the Debtors on environmental matters, general corporate matters, ERISA and other employee benefits matters, securities law and SEC-related matters, finance and finance-related matters and transactions; and

(j) to perform such other legal services for the Debtors as may be necessary and appropriate.

29. It is necessary for the Debtors to employ attorneys under a general retainer to render the foregoing services.

30. King & Spalding LLP has stated its desire and willingness to act in these cases and to render the necessary professional services as attorneys for the Debtors.

31. To the best of the Debtors' knowledge: (a) King & Spalding LLP neither holds nor represents any interest adverse to the Debtors' estates; and (b) King & Spalding LLP has had no connection with the Debtors, their creditors or any party in interest, or their respective attorneys and accountants, the United States Trustee, or any person employed in the office of the United States Trustee, except as specifically disclosed more fully in the Declaration of James A. Pardo, Jr., a partner of King & Spalding LLP (the "Pardo Declaration"), attached to the K&S Retention Motion as Exhibit A. The Debtors believe that King & Spalding LLP is a "disinterested person" within the meaning of Sections 101(14) and 327(a) of the Bankruptcy Code.

32. The Debtors and King & Spalding LLP have agreed that King & Spalding LLP will be compensated for services at hourly rates and reimbursed for reasonable and necessary expenses, subject to approval of the Court under Section 330 of the Bankruptcy Code. King & Spalding LLP has stated present fee rates of $170 to $700 per hour for attorneys and $80 to $195 per hour for document clerks and legal assistants. Rates may be adjusted from time to time. King & Spalding LLP has agreed to file fee applications with the Court in accordance with applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules, and orders of this Court.

33. Prior to the Petition Date, King & Spalding LLP received from the Debtors a retainer in the amount of $125,000, which continues to be held by King & Spalding LLP as a "last bill" or "security" retainer subject to the future direction and orders of the Court.

34. Prior to the Petition Date, King & Spalding LLP received certain amounts (as set forth in the Pardo Declaration) from the Debtors as compensation for professional services performed, and additional amounts (as set forth in the Pardo Declaration) for the reimbursement of reasonable and necessary expenses incurred in connection therewith.

Motion For Authority to Continue Engagement of Conway, Del Genio, Gries & Co., LLC to Provide Restructuring Advisory Services (the "CDG Retention Motion")

35. In recognition of their need for sound restructuring advice, the Debtors, among other things, sought to retain a firm with substantial experience in the reorganization and restructuring of companies in financial distress. As a result of CDG's expertise and successful history of providing restructuring advisory services to other companies in financially complex, troubled situations similar to the Debtors' situation, the Debtors selected CDG to provide restructuring services to them.

36. CDG is currently staffing the engagement with Robert A. Del Genio, a member of CDG, Gregory Boyer, a Managing Director, and several CDG staff members, all of whom acted in an advisory capacity to the Debtors prior to the Petition Date.

37. The Debtors have agreed to compensate CDG at the rate of $150,000 per month. The Debtors have further agreed to a specified restructuring fee if a restructuring is successfully consummated. Additionally, Debtors have agreed to reimburse CDG for out-of-pocket expenses. These engagement terms are reflected in an engagement letter dated March 26, 2004, a copy of which is attached as Exhibit A to the CDG Retention Motion.

38. CDG has invested hundreds of hours reviewing and analyzing the Debtors' documents, capital structure, and financial projections, and it is well-qualified and able to continue to provide services to the Debtor in a cost-effective, efficient, and timely manner.

39. The Debtors require the continued services of CDG for the following purposes, among others:

(a) to advise the Debtors with respect to their reorganization prospects and necessary adjustments to their operations and capital structure;

(b) to develop alternative strategies for improving liquidity (including the development and execution of overhead and expense reduction initiatives, divestitures, and cash conservation programs) and assist in the implementation thereof;

(c) to assist the Debtors in improving their cash flow and in managing and conserving cash during their bankruptcy cases;

(d) to assist the Debtors in the development and preparation of an operating plan, cash flow forecasts, and business plan and presentation of such plans and forecasts to the Board and to senior secured lenders;

(e) to evaluate and revise the Debtors' financial projections, including projections submitted with any plan of reorganization filed in these cases;

(f) to assist the Debtors in evaluating their businesses, including identifying and assisting the Debtors in the disposition of any non-core assets or operations;

(g) to assist with the preparation of reports and communications with the Debtors' senior secured lenders and other constituencies;

(h) to assist in the development, evaluation, negotiation, and execution of any restructuring transaction or plan of reorganization;

(i) to assist in negotiations with the senior secured lenders, other lenders, creditors, and other parties in interest in the implementation of a restructured transaction; and

(j) to perform such other services for the Debtors as may be necessary and appropriate.

40. Mr. Del Genio has already taken an active role in spearheading the Debtors' efforts to prepare for their Chapter 11 filings, obtain post-petition financing, and communicate

with their various constituencies. Gregory Boyer and the other members of the CDG staff have also developed significant relevant experience and expertise regarding the Debtors that will provide the Debtors with effective and efficient services. They have also developed a strong working relationship with the Debtors as well as the Debtors' professionals and creditor representatives.

41. To the best of the Debtors' knowledge: (a) CDG neither holds nor represents any interest adverse to the Debtors' estates; and (b) CDG has had no connection with the Debtors, their creditors or any party in interest, or their respective attorneys and accountants, the United States Trustee, or any person employed in the office of the United States Trustee, except as specifically disclosed more fully in the Declaration of Robert A. Del Genio (the "Del Genio Declaration"), attached to the CDG Retention Motion as Exhibit B. The Debtors believe that CDG is a "disinterested person" within the meaning of Sections 101(14) and 327(a) of the Bankruptcy Code.

42. Pursuant to Section 328(a) of the Bankruptcy Code, the Debtors may engage CDG on any reasonable terms and conditions. The principal terms of CDG's engagement are as follows:

> Compensation: \$150,000 per month, payable in advance.
>
> Reimbursement of Expenses: CDG will be reimbursed for reasonable out-of-pocket expenses, such as travel, telephone and facsimile, courier, and copy expenses. CDG will be reimbursed for legal fees incurred in responding to discovery or testifying as a witness in any matter relating to its services, excluding testimony provided during the term of the engagement.
>
> Restructuring Fee: One percent (1%) of the Company's debt securities and financial and trade indebtedness (measured as of October 17, 2003) that is the subject of Restructuring, subject to a credit of \$75,000 per month of the engagement.
>
> Indemnification: The Debtors will indemnify CDG, its principals, employees, and affiliates in the event of certain losses.

Mediation and Arbitration: Any dispute relating to the engagement is subject to voluntary mediation and binding arbitration.

43. CDG has agreed to file fee applications with the Court in accordance with applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules, and orders of the Court.

44. Prior to the Petition Date, CDG received a retainer of $150,000 from the Debtors, a portion of which has been applied toward expenses incurred by CDG prior to the Petition Date. Upon the termination of CDG's engagement, CDG has agreed to return the unused portion of this retainer to the Debtors.

Motion For Authority to Retain Ernst & Young LLP as Audit and Tax Advisors for the Debtors (the "EY Retention Motion")

45. The Debtors understand that Ernst & Young LLP is an international accounting and financial advisory services firm with offices located at 202 CentrePort Drive, Suite 200, Greensboro, North Carolina 27409. Ernst & Young LLP's professionals have extensive experience in providing audit and tax services in reorganization proceedings.

46. Before filing their bankruptcy petitions, Debtors employed Ernst & Young LLP to provide audit, tax, and benefit plan audit services. Ernst & Young LLP has provided services to Debtors for several years, and as a result it has developed a great deal of institutional knowledge regarding Debtors' operations, practices, data systems, and procedures. That knowledge and experience will be valuable to the Debtors as they pursue reorganization. Accordingly, Debtors seek to continue their engagement of Ernst & Young LLP. The proposed engagement would be in accordance with the letter agreements dated March 22, 2004 between Debtors and Ernst & Young LLP, copies of which are attached to the EY Retention Motion as Exhibit A.

47. Subject to further order of this Court, the Debtors have requested that Ernst & Young LLP continue to provide such audit, tax and benefit plan audit services as Ernst & Young

LLP and the Debtors deem appropriate and feasible in order to advise the Debtors in the course of these Chapter 11 cases, including, but not limited to, the following:

I. Accounting and Auditing

(a) Audits of the financial statements of the Debtors as may be required from time to time and assistance in the preparation of the Debtors' financial statements and disclosures;

(b) Assistance in the preparation and review of all reports or filings as required by the Bankruptcy Court or the Office of the United States Trustee, including any monthly operating reports;

(c) Analysis and advice regarding the preparation of financial information for distribution to creditors and other parties-in-interest, including cash receipts and disbursements analysis, legal entity financial statements, analysis of various asset and liability accounts, and analysis of proposed transactions for which Bankruptcy Court approval is sought;

(d) Performance of audits of employee benefit plans as necessary and to comply with the applicable rules, laws, and regulations of various governmental and regulatory bodies;

(e) Performance of quarterly review procedures on Debtors' consolidated financial statements;

(f) Consultations on accounting and reporting issues and matters as requested by the Debtors; and

(g) Provide additional follow-up on procedures relative to the audit of the January 3, 2004 financial statements of the Debtors.

II. Tax Advisory

(a) Review and assistance in the preparation and filing of Federal Forms 5471 Information Return of U.S. Persons With Respect to Certain Foreign Corporations;

(b) Advice and assistance to the Debtors regarding tax planning issues, including assistance in estimating net operating loss carry-forwards, and federal, state and local taxes;

(c) Any assistance required regarding existing and future IRS, state and/or local tax examinations;

(d) Any assistance regarding state and local tax planning opportunities resulting from bankruptcy filings; and

(e) Any and all other tax advise and assistance as may be requested from time to time.

48. The Debtors will not require services of Ernst & Young LLP that coincide or overlap with services performed by its financial advisors, Conway, Del Genio, Gries & Co., LLC, or its restructuring advisors, Ernst & Young Corporate Finance, LLC.

49. The Debtors' engagement of Ernst & Young LLP as their audit and tax advisors will save significant cost and time that otherwise would be required to be expended were the Debtors required to retain new professionals to become familiar with and educated about the variety of complex matters, some of which remain outstanding, that Ernst & Young LLP has handled for the Debtors in the past. Ernst & Young LLP is both well qualified and uniquely able to represent Debtors as audit and tax advisors during these Chapter 11 cases in an efficient and timely manner.

50. Ernst & Young LLP has stated its desire and willingness to continue to act as the Debtors' audit and tax advisors and render the necessary professional services required by the Debtors.

51. To the best of the Debtors' knowledge, and except as disclosed in the Affidavit and Disclosure Statement of Richard B. Wimmer in support of the EY Retention Motion, the partners and professionals employed by Ernst & Young LLP do not have any connection with the Debtors, their creditors, or any other party in interest, or their respective attorneys and

accountants, the United States Trustee, or any person employed in the office of the United States Trustee. Ernst & Young LLP does not hold or represent any interest adverse to the Debtors or their estates with respect to the matters on which it is being employed. The Debtors believe that Ernst & Young LLP is a "disinterested person" as that term is defined in Section 101(14) of the Bankruptcy Code, as modified by Section 1107(b) of the Bankruptcy Code.

52. The Debtors and Ernst & Young LLP have agreed that Ernst & Young LLP will be compensated for services at hourly rates and reimbursed for reasonable and necessary expenses, subject to approval of the Court under Section 330 of the Bankruptcy Code. Ernst & Young LLP has stated present fee rates of $135 to $600 per hour. Rates may be adjusted from time to time. Ernst & Young LLP has agreed to file fee applications with the Court in accordance with applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules, and orders of this Court.

53. During the ninety days immediately preceding the Petition Date, the Debtors made payments to Ernst & Young LLP totaling $175,000 on account of services rendered prior thereto.

54. The Debtors' employment of Ernst & Young LLP is necessary and in the best interests of the administration of these Chapter 11 cases. The Debtors believe that Ernst & Young LLP is uniquely qualified to represent the Debtors as their audit and tax advisors to perform the services described above.

55. Ernst and Young LLP requires that it be retained on a final basis in order for it to issue the audit opinion for the Debtors' 2003 financial statements. To complete filings in compliance with SEC regulations, the Debtors must have access to that audit opinion by April

17, 2004. Therefore, the Debtors seek an order approving Ernst and Young LLP's retention on a final basis by that date.

Motion for Authority to Retain Ernst & Young Corporate Finance LLC to Provide Restructuring Advisory Services to the Debtors (the "EYCF Retention Motion")

56. The Debtors understand that Ernst & Young Corporate Finance LLC ("EYCF") is a boutique investment banking firm with offices located at 600 Peachtree Street, Atlanta, Georgia. EYCF and its professionals provide restructuring advisory services to companies, lenders, creditors, and other parties-in-interest in troubled or potentially troubled credit situations, specifically including those in bankruptcy proceedings.

57. The Debtors seek to engage EYCF in accordance with the letter agreement dated March 25, 2004 between the Debtors and EYCF (the "EYCF Engagement Letter"), a copy of which is attached to the EYCF Retention Motion as Exhibit A.

58. Subject to further order of this Court, the Debtors have requested that EYCF provide such restructuring advisory services as EYCF and the Debtors deem appropriate and feasible in order to advise the Debtors in the course of these Chapter 11 cases, including, but not limited to, advising and assisting the Debtors' management in assembling various reports required under the Bankruptcy Code, the Federal Rules of Bankruptcy Procedures, local rules of the Bankruptcy Court, the United States Trustee Guidelines and other applicable rules and orders, including certain of the required Schedules of Assets and Liabilities, Statements of Financial Affairs and the Monthly Operating Reports, as requested by the Debtors.

59. The Debtors will not require services of EYCF that coincide or overlap with services performed by Debtors' financial advisors, Conway, Del Genio, Gries & Co., LLC, their accountants, Ernst & Young LLP, or any other professionals retained by the Debtors in these Chapter 11 cases.

60. The Debtors' employment of EYCF is necessary and in the best interests of the administration of these Chapter 11 cases. The Debtors believe that EYCF is uniquely qualified to represent the Debtors as restructuring advisors to perform the services described above.

61. EYCF has stated its desire and willingness to act as the Debtors' restructuring advisors and render the necessary professional services required by the Debtors.

62. To the best of the Debtors' knowledge, and except as disclosed in the Affidavit and Disclosure Statement of Anna M. Phillips in support of the EYCF Retention Motion, the partners and professionals of EYCF do not have any connection with the Debtors, their creditors, or any other party in interest, or their respective attorneys and accountants, the United States Trustee, or any person employed in the office of the United States Trustee. EYCF does not hold or represent any interest adverse to the Debtors or their estates with respect to the matters on which it is being employed. The Debtors believe that EYCF is a "disinterested person" as that term is defined in Section 101(14) of the Bankruptcy Code.

63. The Debtors and EYCF have agreed that EYCF will be compensated for services at hourly rates and reimbursed for reasonable and necessary expenses, subject to approval of the Court under Section 330 of the Bankruptcy Code. EYCF has stated present professional fee rates of $140 - $650 per hour. Rates may be adjusted from time to time. EYCF has agreed to file fee applications with the Court in accordance with applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules, and orders of this Court. EYCF has not previously performed services for the Debtors and has received no prepetition payments from the Debtors.

Motion For Authority to Retain Bankruptcy Management Corp. as Claim, Noticing, and Balloting Agent (the "BMC Retention Motion")

64. The Debtors believe it is necessary and in the best interest of their creditors and estates to engage Bankruptcy Management Corp. ("BMC") to act as outside agent to the Clerk of the Bankruptcy Court to assume full responsibility for the distribution of notices and proof of claim forms and the maintenance, secondary processing, and docketing of all proofs of claim filed in the Debtors' bankruptcy cases. In addition, in connection with any plan of reorganization proposed by the Debtors, the Debtors have determined that they will require the services of BMC with respect to the mailing of the Debtors' disclosure statement, plan, and ballots and in maintaining and tallying ballots in connection with the voting on such plan.

65. Although the Debtors have not yet filed their schedules of assets and liabilities, they anticipate that there will be hundreds of entities that the Debtors will be required to serve with various notices, pleadings, and other documents filed in these cases. In consideration of the number of anticipated claimants and parties in interest and the nature of the Debtors' businesses, the Debtors respectfully submit that the appointment of BMC will expedite the distribution of notices and relieve the Clerk's office of the administrative burden of processing such notices.

66. BMC has stated that it provides comprehensive bankruptcy management services including data processing, noticing, claims processing, and other administrative tasks in Chapter 11 cases. The Debtors wish to engage BMC to send out certain designated notices, maintain claims files and a claims register, assist with schedule preparation and act as voting agent with respect to certain creditors in this case. The Debtors believe that such assistance will expedite service of Rule 2002 notices, streamline the claims administration process, and permit the Debtors to focus on their reorganization efforts. Accordingly, the Debtors' estates, and especially their creditors, will benefit as a result of BMC's experience and cost-effective methods.

67. BMC will, as directed by the Debtors, undertake the actions and procedures provided in the agreement attached to the BMC Retention Motion as Exhibit A, including, but not limited to, the following:

(a) Prepare and serve required notices in these Chapter 11 cases, including:

(i) a notice of the commencement of these Chapter 11 cases and the initial meeting of creditors under Section 341(a) of the Bankruptcy Code;

(ii) a notice of the claims bar date;

(iii) notices of objections to claims;

(iv) notices of any hearings on a disclosure statement and confirmation of a plan or plans of reorganization; and

(v) such other miscellaneous notices as the Debtors or the Court may deem necessary or appropriate for an orderly administration of these Chapter 11 cases.

(b) Within five business days after the service of a particular notice, file with the Clerk's office a certificate or affidavit of service that includes (i) a copy of the notice served, (ii) an alphabetical list of persons on whom the notice was served, along with their address, and (iii) the date and manner of service;

(c) Maintain copies of all proofs of claim and proofs of interest filed in these cases;

(d) Maintain official claims registers in this case by docketing all proofs of claim and proofs of interest in a claims database that includes the following information for each such claim or interest asserted:

(i) the name and address of the claimant or interest holder and any agent thereof, if the proof of claim or proof of interest was filed by an agent;

(ii) the date the proof of claim or proof of interest was received by BMC and/or the Court;

(iii) the claim number assigned to the proof of claim or proof of interest; and

(iv) the asserted amount and classification of the claim.

(e) Implement necessary security measures to ensure the completeness and integrity of the claims registers;

(f) Transmit to the Clerk's Office a copy of the claims registers on a weekly basis, unless requested by the Clerk's Office on a more or less frequent basis;

(g) Maintain a current mailing list for all entities that have filed proofs of claim or proofs of interest and make such list available upon request to the Clerk's Office or any party in interest;

(h) Provide access to the public for examination of the proofs of claim or proofs of interest filed in this case without charge during regular business hours;

(i) Record all transfers of claims pursuant to Federal Rule of Bankruptcy Procedure 3001(e) and provide notice of such transfers as required by Rule 3001(e), if directed to do so by the Court;

(j) Comply with applicable federal, state, municipal and local statutes, ordinances, rules, regulations, orders and other requirements;

(k) Provide temporary employees to process claims, as necessary;

(l) Promptly comply with such further conditions and requirements as the Clerk's Office or the Court may at any time prescribe;

(m) Provide such other claims processing, noticing, balloting, and related administrative services as may be requested from time to time by the Debtors; and

(n) Assist, if needed, in the preparation of the Debtors' schedules.

68. In addition to the foregoing, the Debtors seek to employ BMC to assist them with the preparation, mailing and tabulation of ballots of certain creditors for the purpose of voting to accept or reject a plan or plans of reorganization.

69. BMC has substantial experience in the matters upon which it is to be engaged. BMC has provided identical or substantially similar services in other Chapter 11 cases in a variety of jurisdictions, such as Exide Technologies, American Commercial Barge Line LLC,

Conseco, Inc., eToys, Inc., Payless Cashways, Teligent, Inc., and Piccadilly Cafeterias. Thus, the Debtors believe that BMC is well-suited to serve as claims, noticing, and balloting agent in these Chapter 11 cases.

70. Prior to the Petition Date, the Debtors paid to BMC an approximate total of $2,450 on account of prepetition services and expenses.

71. BMC's compensation is set forth in the agreement attached to the BMC Retention Motion. The Debtors respectfully submit that such compensation is reasonable in light of the services to be performed. BMC has agreed to submit monthly invoices summarizing, in reasonable detail, the services for which compensation is sought.

Motion for Authority to Retain Lamberth, Cifelli, Stokes & Stout, P.A. as Counsel (the Lamberth Retention Motion")

72. Pursuant to Section 327(a) of the Bankruptcy Code, the Debtors request that the Court approve their retention of Lamberth as co-counsel to the Debtors during their Chapter 11 cases, in accordance with Lamberth's normal hourly rates and disbursement policies. This will enable Lamberth to handle issues on which King & Spalding LLP may have a conflict as well as other specific issues Lamberth can efficiently handle. The services to be provided by Lamberth will not be duplicative of the services to be provided by King & Spalding LLP or other counsel retained by the Debtors.

73. The Debtors have selected Lamberth to serve as co-counsel because it has considerable experience in bankruptcy and insolvency matters and is well qualified to represent the Debtors. James C. Cifelli, the partner of Lamberth in charge of this representation, has been practicing bankruptcy and insolvency law for over twenty years. As set forth in the Declaration of James C. Cifelli, attached to the Lamberth Retention Motion as Exhibit A, Mr. Cifelli has significant experience in complex insolvency matters and related litigation, and transactions

related thereto. Mr. Cifelli is qualified and has been admitted to practice in the Northern District of Georgia since 1977 and is familiar with the Local Bankruptcy Rules for this District. In preparing for its representation of the Debtors in these cases, Lamberth has become familiar with the Debtors' business and affairs and many of the potential legal issues that may arise in the context of these Chapter 11 cases. The Debtors believe that Lamberth is well qualified and uniquely able to represent them in their Chapter 11 cases in a most efficient and timely manner.

74. The employment of Lamberth as co-counsel is appropriate and necessary to enable the Debtors to execute faithfully their duties as debtors and debtors-in-possession and to implement the reorganization of the Debtors. Subject to further order of this Court, it is proposed that Lamberth be employed to:

a. Advise and represent the Debtors in matters arising out of and relating to the Debtors' bankruptcy cases;

b. Advise and represent the Debtors in specified and discreet legal matters, including litigation, in which the Debtors' general counsel, King & Spalding LLP, may have a conflict or is otherwise unable to represent the Debtors; and

c. Advise and represent the Debtors in the performance of such other legal services, including litigation, as may be requested by the Debtors and that is appropriate and necessary.

75. It is necessary for the Debtors to employ attorneys to render the foregoing services.

76. Lamberth has stated its desire and willingness to act in this case and render the necessary professional services as attorney for the Debtors on the terms set forth herein.

77. To the best of the Debtors' knowledge, (a) Lamberth neither holds nor represents any interest adverse to the Debtors' estates; and (b) Lamberth has had no connection with the United States Trustee, or any person employed in the office of the United States Trustee.

78. The Debtors and Lamberth have agreed that Lamberth will be compensated for services at hourly rates and reimbursed for reasonable and necessary expenses, subject to approval of the Court under Section 330 of the Bankruptcy Code. Lamberth has stated present fee rates of $150 - $335 per hour for attorneys and $60 - $110 per hour for document clerks and legal assistants. Rates may be adjusted from time-to-time. Lamberth has agreed to file fee applications with the Court under 11 U.S.C. §§ 330 and 331, and will follow the compensation and expense reimbursement guidelines and policies set by the Court.

79. Prior to the Petition Date, Lamberth received a retainer from the Debtors in the amount of $25,000, which continues to be held by Lamberth as a "last bill" or "security" retainer subject to future direction and orders of the Court.

Motion for Authority to Retain Sitrick and Company, Inc. as Corporate Communications Consultants (the "Sitrick Retention Motion")

80. As explained previously, the Debtors are suffering from financial distress. During this critical time, the perceptions of customers, suppliers, employees, lenders, and others on whom the Debtors regularly rely are of great importance. In order to ensure a successful reorganization, the Debtors must manage their corporate relations in such a way as to minimize the negative perceptions that are often associated with a Chapter 11 reorganization. Accordingly, the Debtors seek to employ Sitrick to manage their corporate communications.

81. Sitrick has been the Debtors' corporate communications consultant since March 2, 2004, and has since that time provided communications services to the Debtors. Sitrick has substantial experience in the area in which it is to be retained. Its practice focuses on corporate, financial, transactional and crisis communications. The Debtors have been informed that Sitrick has the largest restructuring practice in the public relations industry, having been

involved in approximately 150 Chapter 11 filings and out-of-court restructurings since the firm's founding in 1989.

82. Sitrick's compensation is set forth in the agreement attached to the Sitrick Retention Motion as Exhibit B. Prior to the Petition Date, Sitrick received retainer payments totaling $170,000 from the Debtors, a portion of which has been applied toward fees and expenses incurred by Sitrick prior to the Petition Date. The Debtors respectfully submit that such compensation and retainer arrangement is reasonable in light of the services to be performed. Sitrick has agreed to file fee applications with the Court under 11 U.S.C. §§ 330 and 331, and will follow the compensation and expense reimbursement guidelines and policies set by the Court.

Motion for Establishment of Procedures for Monthly Compensation and Reimbursement of Expenses of Professionals (the "Compensation Procedures Motion")

83. The Debtors believe that the relief requested in the Compensation Procedures Motion will streamline the professional compensation process and enable the Court and all other parties to monitor the professional fees incurred in these cases more effectively.

84. Briefly stated, the requested procedures would permit each Professional to serve on counsel for the Debtors, the Office of the United States Trustee, counsel for the post-petition secured lenders, and counsel for any official committee appointed in these cases, a statement of fees and expenses incurred by the Professional during the immediately preceding month (a "Monthly Statement"). The Debtors would be authorized to pay each Professional eighty percent of fees and one hundred percent of expenses requested in the Monthly Statement in the absence of an objection received within twenty days after service of the Monthly Statement. All fees and expenses of each Professional, whether or not paid or objected to in connection with a Monthly

Statement, would remain subject to review and approval by the Court in connection with interim and final fee applications under Sections 330 and 331 of the Bankruptcy Code.

85. In addition to minimizing the financial hardship on the Professionals, who must invest significant resources in these cases, monthly compensation procedures will enable the Debtors to monitor the costs of administration of their estates, forecast level cash flows, and implement efficient cash management procedures. Moreover, these procedures will allow the Court and parties in interest, including the United States Trustee, to ensure the reasonableness and necessity of compensation sought in these cases.

Motion for Authority to Retain and Compensate Professionals Used in the Ordinary Course of Business (the "Ordinary Course Professionals Motion")

86. The Debtors maintain substantial operations in various locations within the United States. As a result, prior to the Petition Date, the Debtors used the Ordinary Course Professionals (as defined in the Ordinary Course Professionals Motion) to provide professional services required on a day-to-day basis to manage the Debtors' affairs. The Debtors submit that, in light of the costs associated with the preparation of employment applications for professionals who will receive relatively small fees, it would be impractical, inefficient, and unnecessarily costly for the Debtors to submit individual applications and proposed retention orders for each professional. Similarly, given the broad geographic reach of the Debtors' operations, it would not be practical for the Debtors' general bankruptcy counsel to handle legal matters in all of the various jurisdictions in which legal services will be required.

87. Although certain of the Ordinary Course Professionals may hold unsecured claims against the Debtors with respect to pre-petition services rendered to the Debtors, the Debtors do not believe that any of the Ordinary Course Professionals has an interest materially adverse to the Debtors, their creditors, or other parties in interest as to the matters for which they are to be

engaged, and thus none would be retained who do not meet, if applicable, the retention requirement of Section 327(e) of the Bankruptcy Code.

88. In addition to the Ordinary Course Professionals, the Debtors rely on the services of numerous other specialized service providers in the ordinary course of their businesses. The Debtors will continue to employ such other service providers as their needs demand.

89. The Debtors desire to continue to employ the Ordinary Course Professionals to render services to their estates similar to those services rendered prior to the Petition Date. It is essential that the employment of the Ordinary Course Professionals, who are already familiar with the Debtors' affairs, be continued on an ongoing basis to enable the Debtors to conduct, without disruption, their ordinary business affairs. The relief requested will save the Debtors the expense of separately applying for the employment of each professional.

90. Furthermore, relieving the Ordinary Course Professionals of the requirement of preparing and prosecuting fee applications will save the estate additional professional fees and expenses and encourage the Ordinary Course Professionals to continue their relationships with the Debtors. Likewise, the Debtors believe that the procedure outlined in the Ordinary Course Professionals Motion will spare the Court and the United States Trustee from having to consider numerous fee applications involving relatively modest amounts of fees and expenses.

Motion for Order (A) Deeming Utilities Adequately Assured of Payment, (B) Prohibiting Utilities from Altering, Refusing, or Discontinuing Services, and (C) Establishing Procedures for Resolving Requests for Additional Assurance (the "Utilities Motion")

91. Utility services are essential to the Debtors' ability to sustain their operations while these Chapter 11 cases are pending. In the normal conduct of their businesses, the Debtors have relationships with approximately 75 utility companies (collectively, the "Utility Companies") for the provision of telephone, electric, gas, water, sewer, waste management, and other services. A list of the Utility Companies is attached as Exhibit A to the Utilities Motion.

92. Any interruption of utility service to the Debtors' businesses would be severely disruptive and diminish the Debtors' chances for a successful reorganization. Because the Debtors' operations include manufacturing and plant operations, it is essential that their utility services continue uninterrupted. If utility providers are permitted to terminate or disrupt service to the Debtors, the Debtors' primary revenue source, their manufacturing operations, would immediately come to a halt, effectively ending the Debtors' opportunity for a successful reorganization.

93. The Debtors have a satisfactory payment history of prepetition utility invoices. To the best of Debtors' knowledge, there are no defaults or arrearages with respect to undisputed utility services invoices, other than payment interruptions that may have been inadvertently caused by the commencement of the Debtors' Chapter 11 cases. The Debtors have posted deposits and/or letters of credit with several of the Utility Companies to ensure the Debtors' payment obligations as set forth on Exhibit A to the Utilities Motion.

94. The Debtors submit that they will be able to continue paying for all post-petition utility services from the proceeds of their operations, available cash on hand, and funds generated under the Debtors' proposed debtor-in-possession credit facility.

Motion of Debtors for Order Pursuant to 11 U.S.C. §§ 105(a) and 363(b) Authorizing Payment of Prepetition Claims or Certain Critical Vendors and Service Providers (the "Critical Vendor Motion")

95. In connection with the operation of their businesses, the Debtors utilize certain specialty vendors to supply essential goods and services for the operation of their businesses (collectively, the "Critical Vendors"). The Debtors' ability to continue their operations is dependent upon the continued business of these Critical Vendors. Thus, support from their Critical Vendors on an ongoing basis is vital to the Debtors' reorganization process. At this precarious stage in the Debtors' business operations, an interruption in the goods and services

provided by the Critical Vendors will have a severe effect upon the Debtors' efforts to rehabilitate and reorganize. The goods and services provided by the Critical Vendors must flow to the Debtors unabated during the Debtors' Chapter 11 cases if substantial harm and loss of enterprise value is to be avoided.

96. Specifically, many of the Critical Vendors provide certain essential raw materials and supplies required to manufacture the Debtors' products. Because (a) the Debtors do not have any viable alternatives to obtain substitute goods from other suppliers, and (b) the Debtors believe the Critical Vendors may either go out of business or refuse to do business with the Debtors if their claims are not paid, the Debtors have determined that they must have the authority, in their discretion, to satisfy the prepetition claims of these Critical Vendors (collectively, the "Critical Vendor Claims") to ensure that these essential goods will continue to be available without interruption.

97. In most instances, no other manufacturer or supplier can timely supply the required goods in any form. In those instances where substitute goods or services may exist, these alternate suppliers cannot provide goods that meet the Debtors' requirements for quality and quantity, or cannot ensure availability on a cost-efficient and timely basis in the appropriate geographic areas. Because the Debtors' competitive advantage over low-cost foreign competitors depends in large part upon their reliability in supplying retailers with the Debtors' products, interruptions in distribution will have a disproportionate impact upon the Debtors' ability to survive and reorganize. For these reasons, the Debtors cannot rely on these alternate sources.

98. The use of materials of inferior or inconsistent quality would also undermine the Debtors' ability to maintain the high quality standards of their products necessary to meet their

customers' longstanding expectations and preserve the value of the Debtors' products and trademarks in the marketplace. Likewise, the use of high quality goods from alternate suppliers that lack the capability to produce the necessary products in sufficient quantities or to distribute those products in a timely fashion to the Debtors' various facilities would not permit the Debtors to operate and maintain their manufacturing operations and production schedule without significant interruption.

99. Moreover, many of these Critical Vendors rely heavily on the Debtors' business for their own financial success. The Debtors fear that if they are unable to pay their outstanding prepetition amounts, certain Critical Vendors will have to cease operations, thereby leaving the Debtors with no other source of supply for those products.

100. The process of identifying Critical Vendors was undertaken by the Debtors' senior management in conjunction with the Debtors' legal and financial advisors using very strict criteria to screen which vendor payments would be deemed critical to avoid business interruption, in which the following criteria were developed and used:

(a) The Debtors first identified vendors that supply goods or services critical to the Debtors' business operations without a long-term contract.

(b) The Debtors then considered other known suppliers that may have similar goods and services.

(c) Where an alternative source of supply was identified at reasonably similar prices and terms, the Debtors considered the start-up and delayed delivery time associated with using replacement vendors to determine the extent of supply chain and service interruption that would likely occur.

(d) Next, the Debtors considered instances where Critical Vendors were so heavily dependent upon the Debtors' business that nonpayment of the vendor's debts could result in the disruption or loss of the Critical Vendor's business.

(e) Where there was no problem of discontinued service with a specific vendor, or where there was an alternative source of supply identified, those vendors were not considered to be Critical Vendors.

101. The Debtors estimate that, as of the Petition Date, certain Critical Vendors held claims in the approximate aggregate amount of $7 million. The total amount requested for payment to critical vendors is *de minimis* when compared to the net sales generated by the Debtors, which were over $475 million last year.

102. Authority to pay the Critical Vendor Claims will not create an imbalance of the Debtors' cash flows because the majority of these obligations have customary payment terms and will not be payable immediately. Cash maintained by the Debtors, together with the cash generated in the ordinary course of the Debtors' businesses, will provide more than sufficient liquidity for payment of the Critical Vendor Claims in the ordinary course of business. Furthermore, contemporaneously herewith, the Debtors have filed a motion seeking approval of a debtor-in-possession credit facility which would provide for the use of proceeds to satisfy certain Critical Vendor Claims.

103. The Debtors believe they must continue to receive the goods and services provided by the Critical Vendors to achieve a successful reorganization. In some cases, the Debtors believe that some Critical Vendors may, among other things: (i) refuse to provide services; (ii) refuse to provide services on reasonable credit terms absent payment of prepetition claims; or (iii) suffer significant financial hardship if their prepetition claims are not paid in whole or in part, resulting in the loss of their products and services. Within the last two quarters preceding the Petition Date, numerous Critical Vendors have altered their credit terms as a condition to doing business with the Debtors, substantially increasing the Debtors' cost of credit and reducing the Debtors' borrowing base. There is no reason to believe that the Critical Vendors are so heavily reliant upon the Debtors that they will continue to do business absent payment of prepetition debts. (Moreover, a number of the Critical Vendors that are heavily

dependent upon the Debtors' patronage are on such tight cash flows that they may not survive the Debtors' refusal to pay their prepetition claims, resulting in the loss of certain critical goods and services.)

Motion of Debtors for Order Pursuant to 11 U.S.C. §§ 105(a) and 363 Authorizing the Debtors to Honor Certain Prepetition Customer Obligations

104. In the ordinary course of their businesses, and as is customary with most home fashions and apparel manufacturers, the Debtors maintain a number of customer-service policies, discount or rebate programs, and co-op practices, all of which are designed to ensure optimum cooperation and satisfaction from the retail stores that stock and sell the Debtors' products (collectively, the "Customer Programs"). The Debtors negotiate varying combinations of Customer Programs with each of their customers, and many, but not all, are paid in credits against future purchase from the Debtors rather than cash outlays. In general, the Customer Programs can be grouped into the following categories:

(a) <u>Markdowns, Advertising and New Store Allowances.</u> In the ordinary course of their businesses, the Debtors commit to pay allowances to customers to entice and support their stocking and placement of the Debtors' products. These commitments are in the form of allowances that permit the customer to mark down existing floor merchandise to make room for new patterns or new product placement. These commitments also take the form of financial assistance to the customer in paying for advertisements to promote the Debtors' products. Furthermore, the industry practice is to allow for a price reduction on merchandise to stock a customer's new store opening. The Debtors estimate that, as of the Petition Date, the aggregate pre-petition amount owed to customers for these programs is approximately $3,000,000.

(b) <u>Rebates.</u> In the ordinary course of their businesses, the Debtors offer and negotiate rebate programs with customers to provide financial incentives to support the sale of the Debtors' products. These programs often take the form of volume incentives in which rebates are paid to customers based on increased customer purchases or new pattern purchases. The programs are negotiated individually and can take many forms to suit the situation. The Debtors estimate that, as of the Petition Date, the aggregate pre-petition amount owed to customers for these programs is approximately $2,000,000.

(c) Defective Allowances. The Debtors have determined that it is more cost-efficient to pay customers a "Defective Allowance" based on a percentage of that customer's previous sale of the Debtors' goods than to pay the transportation cost of returning defective merchandise to the Debtors' distribution centers and refunding the price of the merchandise. As of the Petition Date, the Debtors have unperformed obligations to their customers under these Defective Allowances. The Debtors estimate that, as of the Petition Date, the aggregate prepetition amount owed to customers for Defective Allowances is approximately $725,000.

(d) Returned Goods and Other Customer Obligations. In the ordinary course of their businesses, the Debtors accept defective products as returns and provide allowances to customers when products do not meet specifications, or are shipped incorrectly, untimely or in methods not complying with customer instructions. Many of these obligations are unknown to the Debtors until a customer deducts amounts from payments, requiring the Debtors to investigate the deduction to see if it is proper under the circumstances. The Debtors estimate that, as of the Petition Date, the aggregate prepetition amount owed to customers for these programs is approximately $2,100,000.

105. The success of the Debtors' business, both short-term and long-term, depends upon the loyalty and confidence of their customers and distributors. Continued customer loyalty and confidence is essential to the Debtors' ability to reorganize. Any delay in honoring the Customer Obligations will severely and irreparably impair the Debtors' customer base at a time when customer loyalty and patronage are critical.

106. It is a common practice in the textiles industry to offer various sales incentives, including allowances to defray customer costs and promotions to bolster sales. The Debtors rely heavily on the goodwill that they have built over many years between themselves and their wholesale and retail customers. Indeed, the Dan River name is synonymous with quality, service, and dependability. If the Debtors are unable to honor their Customer Obligations, the goodwill and loyalty they have worked so hard to build and protect will be jeopardized. Moreover, an inability to honor the Customer Obligations may lead business customers to

discontinue carrying the Debtors' product line in favor of a competitors' product line. Payments of the various incentives and credits will therefore preserve and enhance the value of the estate.

107. The Debtors will have sufficient funds available through their ordinary business practices and their access to postpetition financing commitments to pay all amounts or provide all goods and services on account of the Customer Obligations, as well as to pay any dishonored checks and related fees, in the ordinary course of their businesses. Much of the liability associated with the Customer Obligations is taken against future receivables and not as an immediate cash outlay. Moreover, the Debtors will not honor or make any payments on account of Customer Obligations that, in their discretion, they believe will not assist the Debtors' reorganization.

Motion for Order Authorizing Payment of Pre-Petition Wages, Payroll Taxes, Certain Employee Benefits and Related Expenses (the "Wage and Benefits Motion")

108. The Debtors have approximately 5,000 employees in the United States of which approximately 4,100 are hourly employees. Of the hourly employees, approximately 65 percent are represented by a collective bargaining agreement with the United Food and Commercial Workers Union that expires in June 2005.

109. As described more fully below, the Debtors have incurred certain prepetition employee obligations that remain unpaid as of the Petition Date because they accrued, either in whole or in part, prior to the Petition Date. Even though arising prior to the Petition Date, these obligations (collectively, the "Employee Obligations") will become due and payable in the ordinary course of the Debtors' businesses on and after the Petition Date. These obligations can generally be categorized as follows: (i) wages, salaries and compensation; (ii) payroll taxes; (iii) vacation, sick and holiday pay; (iv) qualified 401(k) plan obligations; (v) health and welfare benefits; (vi) flexible spending account programs; (vii) severance benefits; (viii) qualified

pension plans; (ix) independent contractor obligations; and (x) other benefits. These obligations are described generally as follows:

- *Wages, salaries and compensation* consist of prepetition wages, salaries and commissions owed to employees (the "Payroll Obligations"). The average monthly gross amount of the Payroll Obligations is approximately $12,700,000. This gross amount includes certain deductions described separately below such as payroll taxes owed by the employees and 401(k) contributions. As of the Petition Date, some Payroll Obligations were unpaid because (a) they constitute salary, wages and commissions earned but unpaid as of the Petition Date, or (b) certain paychecks remained uncashed on the Petition Date. The Debtors estimate that the gross amount of the Payroll Obligations owed as of the Petition Date is approximately $5,250,000.

- *Payroll taxes* consist of federal, state and local income taxes, social security and Medicare taxes. The payroll taxes include both the amounts owed by the employees that the Debtors withhold from the gross amount of the employees' wages or salary as well as the amounts separately owed by the Debtors. The Debtors' average monthly payroll tax liability is approximately $3,500,000. As of the Petition Date, the Debtors estimate that they owe approximately $3,500,000 in prepetition Payroll Taxes.

- *Vacation, sick, and holiday pay* consists of paid time off for vacation, illness and company holidays. The number of days for which a salaried employee is eligible for vacation is generally tied to the employee's years of service; however, there is no carry-forward or buy-back provision from year to year. Hourly employees receive vacation pay that is a percentage of the wages received during the previous year, and this amount is typically paid on the last payroll in June prior to the vacation shutdown of the Debtors' manufacturing facilities. The Debtors request authority to maintain and honor the aforementioned policies in the ordinary course of business, regardless of when such benefits accrued or vested, without prejudice to the Debtors' ability to amend such policies in accordance with the applicable law.

- *Qualified 401(k) plan obligations*. The Debtors maintain The Dan River Inc. 401(k) Plan and The Dan River Inc. 401(k) Plan for Certain Hourly Employees (collectively, the "401(k) Plans"), under which participating employees may defer a portion of their wages or salary. In addition, the Debtors make a matching cash contribution to the 401(k) Plans based on employee deferrals. The average aggregate monthly amount of employee deferrals and matching contributions made by the Debtors is approximately $300,000 and $80,000, respectively. The Debtors believe that the amount of the deferrals and matching contributions owed on the Petition Date does not exceed $145,000.

- *Health and welfare benefits.* The Debtors sponsor several health and welfare benefit plans for their Employees, including insurance plans relating to medical, health, life, dental, prescription drugs, and long-term disability plans (collectively, the "Health and Welfare Plans"). The insurance plans for medical and dental benefits are self-insured plans maintained by the Debtors with claims administered by a third party. The Debtors estimate that they pay approximately $2 million per month in self-insured medical claims and that their aggregate annual expenditures (exclusive of employee contributions) under the Health and Welfare Plans for employees are approximately $17,400,000. Because of the manner in which expenses are incurred and claims are processed under the Health and Welfare Plans, it is difficult for the Debtors to determine the outstanding accrued obligations under the Health and Welfare Plans at any particular time. The Debtors estimate that, as of the Petition Date, the obligations that have accrued but have not been paid to or on behalf of employees under the Health and Welfare Plans aggregate approximately $4 to 5 million.

- *Severance amounts.* During the ordinary course of operating their businesses, the Debtors maintain an ERISA-qualified severance pay plan for salaried employees (the "Severance Program"). The Severance Program generally provides for severance payments for two to four weeks for non-exempt employees and for severance payments for two weeks plus one additional week for each year of employment up to a maximum of 26 weeks for exempt employees. Currently, there are approximately 35 former employees (the "Former Employees") who are receiving benefits under the Severance Program. The Debtors seek authority to continue paying severance benefits to the Former Employees to the extent that such payments, plus any other benefit paid to each Former Employee pursuant to any order granting this Motion, does not exceed the amount of such Former Employee's priority claim pursuant to Section 507(a)(3) of the Bankruptcy Code. In addition, in order to maintain employee morale, the Debtors seek authority to continue the Severance Program for their non-executive employees and make severance payments to any non-executive employee whose termination begins after the Petition Date pursuant to the terms of the Severance Program as the program was in effect prior to the Petition Date.

- *Flexible Spending Accounts.* The Debtors offer certain of their employees the option of contributing a portion of their pre-tax wages into tax-exempt flexible spending accounts. The amounts contributed may be used for certain qualified expenses such as medical expenses and dependant care expenses not otherwise covered by insurance. As employees incur eligible expenses, they submit a claim to be reimbursed from their flexible spending account. As of the Petition Date, the Debtors' employees have contributed approximately $40,000 to their flexible spending accounts for the current calendar year and have sought reimbursement of approximately $25,000 for qualified expenses. The Debtors believe that their employees have incurred additional qualified expenses for which no reimbursement request has been submitted. The Debtors request authority to maintain the flexible spending account program and to continue to make reimbursements from the flexible spending accounts in the ordinary course of business regardless of whether the qualified expenses were incurred before or after the Petition Date.

- *Qualified pension plans.* The Debtors sponsor and maintain three defined benefit pension plans: (i) the Dan River Inc. Hourly Retirement Plan; (ii) the Dan River Inc. Salary Retirement Plan; and, (iii) The Bibb Company Pension Plan (collectively, the "Pension Plans"). The Debtors contribute to the Pension Plans the amount required under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Internal Revenue Code of 1986, as amended (the "Tax Code"). The Debtors request authority to continue funding, in their sole discretion, the minimum contributions to the Pension Plans required by the Pension Benefit Guaranty Corporation when such contributions are required to be made by the Debtors after the Petition Date regardless of whether such contributions relate to benefits that accrued prior to or after the Petition Date. The Debtors currently estimate that for the current calendar year the minimum contributions to the Pension Plans that will be required after the Petition Date will not exceed $7.5 million. The minimum required contributions for the current calendar year will likely be less than this amount after the amount of the minimum required contributions are recalculated in July, 2004.

- *Independent Contractor Obligations.* In the ordinary course of business, the Debtors also utilize the services of approximately 75 to 100 independent contractors who provide services necessary for the operation of the Debtors' business (such individuals and corporate entities collectively, the "Independent Contractors"). Included among the Independent Contractors are individuals who design products, fabrics and packaging, and sales agencies and those acting as freelance consultants providing sales, design and medical services. Because the services provided by the Independent Contractors are necessary for the Debtors' operations, the Debtors request authority to pay accrued and unpaid pre-petition obligations to the Independent Contractors. Because payment to each of the Independent Contractors may vary from month to month, the Debtors are not able to determine the amount owed to these individuals on the Petition Date. However, on an average monthly basis, the Debtors pay approximately $300,000 to the Independent Contractors.

- *Other benefits.* The Debtors customarily offer various other employee benefit policies and programs, including reimbursing eligible employees who incur business expenses in the ordinary course of performing their duties on behalf of the Debtors. Such reimbursement obligations include travel and entertainment expenses incurred by the employees through the use of their own funds or credit cards. During the past twelve months, the Debtors averaged approximately $100,000 per month for payments of these reimbursement expenses. Because the employees do not always submit claims for reimbursement promptly, it is difficult for the Debtors to determine the exact amount of reimbursement expense obligations outstanding at any particular time. Nevertheless, the Debtors estimate that, as of the Petition Date, the reimbursement expense obligations to be paid to employees aggregate approximately $45,000. The Debtors also provide programs for tuition reimbursement, and reimbursement of relocation expenses. The Debtors estimate that as of the Petition Date, the amount of unpaid tuition reimbursement expenses is approximately $10,000, and the amount of unpaid relocation expenses is $100,000.

110. Any delay in paying Employee Obligations will adversely impact the Debtors' relationship with their employees and will irreparably impair the employees' morale, dedication, confidence, and cooperation. As a labor-intensive manufacturing company, the employees' support for the Debtors' reorganization efforts is critical to the Debtors' success. At this early stage, the Debtors simply cannot risk the substantial damage to their businesses that would inevitably result from a decline in their employees' morale attributable to the Debtors' failure to pay previously earned wages, salaries, benefits and other similar items.

111. Absent an order granting the relief requested in this motion, the employees will suffer undue hardship and, in many instances, serious financial difficulties, as the amounts in question are needed to enable certain of the employees to meet their own personal financial obligations. The stability of the Debtors will thus be undermined, perhaps irreparably, by the possibility that otherwise loyal employees will seek other employment alternatives.

112. If the Court grants the relief sought in this motion, the Debtors request that all applicable banks and other financial institutions be authorized when requested by the Debtors and in the Debtors' sole discretion, to receive, process, honor and pay any and all checks drawn on the Debtors' accounts to pay the Employee Obligations, whether those checks were presented prior to or after the Petition Date, and make other transfers provided that sufficient funds are available in the applicable accounts to make the payments. Each of these checks can be readily identified as relating directly to the authorized payments of Employee Obligations. Accordingly, the Debtors believe that checks and transfers other than those relating to such authorized payments will not be honored inadvertently.

113. The Debtors similarly request that they be authorized to pay any cost or penalty incurred by their employees in the event that a check issued by the Debtors for payment of the Employee Obligations is inadvertently not honored because of the filing of the Debtors' bankruptcy cases. If the Debtors are not authorized to pay such costs or penalties, then their employees will suffer the exact type of harm that the Wage and Benefits Motion seeks to prevent.

Motion of the Debtors for Order Pursuant to 11 U.S.C. §105(a) and 363(b) Authorizing Payment of Prepetition Customs Duties and Claims or Common Carriers and Warehousemen, and Authorizing Financial Institutions to Honor and Process Checks and Transfers Related to Such Claims (the "Customs Motion")

114. In connection with the normal operation of their businesses, the Debtors import into the United States raw materials and finished goods from overseas suppliers and manufacturers for use by the Debtors in their manufacturing operations, such as griege sheeting, yarns, sheet sets, comforters and quilts. All such merchandise (the "Surcharged Goods") is subject to certain customs import duties (the "Customs Duties") imposed by the laws of the United States.

115. In the ordinary course of their businesses, the Debtors purchase imported goods with Customs Duties prepaid, or from brokers or freight forwarders on credit terms or with a certain portion of the amount owed paid in advance. The Debtors estimate that on average they incur approximately $110,000 per month on average in Customs Duties from the importation of Surcharged Goods.

116. These payment procedures generally enable Surcharged Goods to be released to the Debtors shortly after their arrival into the United States, thereby promoting an uninterrupted flow of merchandise, which is critical to the Debtors' manufacturing operations. The Debtors

estimate that the amount of prepetition Customs Duties that are accrued and unpaid as of the Petition Date (the "Prepetition Customs Duties") aggregate approximately $35,000.

117. In the ordinary course of their businesses, the Debtors also rely on certain shippers, including trucking companies, railroads, and air freight operators (collectively, the "Common Carriers"), to transport materials and work-in-process among the Debtors' manufacturing facilities and to complete the delivery of finished goods to the Debtors' customers and sales locations. The Debtors estimate that the amount of prepetition claims of the Common Carriers (the "Prepetition Common Carrier Claims") that are accrued and unpaid as of the Petition Date aggregate approximately $251,000.

118. The Debtors also rely on certain vendors that store unfinished products and materials, supplies and work-in-process owned by the Debtors. Such vendors may provide outside finishing work, such as embroidery, on certain of the Debtors' unfinished products, and may hold the Debtors' products after completion until such time as the Debtors are able to accept delivery. In addition, the Debtors rely on third party warehouse vendors to store raw materials, finished goods and supplies owned by the Debtors. (All such vendors are referred to collectively as the "Warehousemen"). The Debtors estimate that the amount of prepetition Warehousemen claims that are accrued and unpaid as of the Petition Date (the "Prepetition Warehousemen Claims") aggregate approximately $520,000.

119. As a result, the Common Carriers and Warehousemen have possession of the Debtors' materials or products in the ordinary course of their businesses. The Debtors believe that, as of the Petition Date, the aggregate value of goods in the possession of the Common Carriers and Warehousemen substantially exceeds the aggregate value of the Prepetition

Common Carrier Claims and the Prepetition Warehousemen Claims (collectively, the "Prepetition Transit Claims").

120. As noted above, a significant portion of the Debtors' merchandise and materials for production are produced in foreign countries and imported into the United States. Any failure to pay the Prepetition Customs Duties is likely to result in a refusal by the importing parties (common carriers or freight forwarders) to clear such goods as well as any additional goods that are imported, or will result in the supplier drawing down letters of credit guaranteeing the Customs Duties. At this critical point in the Debtors' business operations, any interruption in this supply would wreak havoc on the Debtors' efforts to reorganize. Since it is essential to the Debtors' businesses that the flow of Surcharged Goods into the United States continues uninterrupted during the pendency of the Chapter 11 cases, the interests of the Debtors, their estates and their creditors will best be served by an order of this Court authorizing the payment of the Customs Duties.

121. If the Debtors fail to pay the Transit Claims, the Debtors believe that many Common Carriers and Warehousemen may stop providing their essential services to the Debtors. Given the importance of moving goods quickly through the Debtors' manufacturing and distribution systems, even the slightest delay in receiving services from the Common Carriers and Warehousemen could cause a substantial disruption to the Debtors' operations, potentially delaying shipments to customers, damaging the Debtors' business reputation, and undermining the Debtors' ability to generate ongoing operating revenue. Accordingly, it is imperative that the Debtors be authorized to pay the Transit Claims to ensure that the essential services provided by the Common Carriers and Warehousemen are available to the Debtors without interruption and,

thus, preserve to the fullest extent possible, the value of the Debtors' businesses for the benefit of all parties in interest.

122. Moreover, the Debtors' failure to pay the Transit Claims may result in the assertion of materialman's or similar liens (collectively, the "Liens") by many of the Common Carriers and Warehousemen against the raw materials, work-in-process, finished goods and supplies in their possession as of the Petition Date. Absent payment of prepetition Customs Duties and Transit Claims, common carrier or freight forwarders are unlikely to release the Surcharged Goods and the Common Carriers and Warehousemen are likely to retain the Debtors' goods in their possession, which goods have a value, the Debtors believe, greatly exceeding these outstanding claims. Indeed, the Debtors submit that the prepetition Customs Duties and Transit Claims, estimated not to exceed the aggregate amount of $806,000, are *de minimis* in comparison to the value that the Debtors' estates will receive from an uninterrupted supply of imported goods.

123. If the Court grants the relief sought in the Customs Motion, the Debtors request that all applicable banks and other financial institutions be authorized when requested by the Debtors and in the Debtors' sole discretion, to receive, process, honor and pay any and all checks drawn on the Debtors' accounts to pay the prepetition Customs Duties and Transit Claims, whether those checks were presented prior to or after the Petition Date, and make other transfers provided that sufficient funds are available in the applicable accounts to make the payments. Each of these checks can be readily identified as relating directly to the authorized payments of prepetition Customs Duties and Transit Claims. Accordingly, the Debtors believe that checks and transfers other than those relating to such authorized payments will not be honored inadvertently.

Motion of the Debtors for Order, Pursuant to 11 U.S.C. §§ 105(a) and 363, Authorizing the Debtors to Pay Prepetition Sales and Use Taxes and Authorizing Financial Institutions to Honor and Process Checks and Transfers Related to Such Relief

124. In connection with the normal operation of their businesses in the ordinary course, the Debtors collect sales and use taxes (collectively, the "Sales and Use Taxes") from their customers (and pay such taxes on behalf of certain vendors through direct pay certificates) on behalf of various state and local taxing authorities (the "Taxing Authorities") for payment to such Taxing Authorities.

125. On a periodic basis, typically monthly, the Debtors pay to the Taxing Authorities all previously collected Sales and Use Taxes via funds drawn by checks or by means of electronic fund transfers.

126. The Debtors estimate that Sales and Use Taxes collected but not paid to the Tax Authorities as of the Petition Date aggregate less than $60,000 based on the average monthly sales tax liability. In addition, prior to the Petition Date, certain Taxing Authorities were sent checks (the "Checks") in respect of such obligations that may not have cleared the Debtors' banks or other financial institutions (together, the "Banks") as of the Petition Date.

127. To the extent that the Debtors have collected Sales and Use Taxes from their customers, it is the Debtors' understanding that such funds are held in trust by the Debtors for the benefit of the Taxing Authorities and do not constitute property of the Debtors' estates. Moreover, many state statutes hold responsible officers and directors of collecting entities personally liable for sales and use taxes owed by those entities. To the extent that any Sales and Use Taxes remain unpaid by the Debtors, the Debtors' officers and directors may be subject to lawsuits or criminal prosecution during these Chapter 11 cases. Any such lawsuit or criminal prosecution (and the ensuing potential liability) would distract the Debtors and their officers and

directors from formulating and confirming a Chapter 11 plan, to the detriment of all parties in interest in these Chapter 11 cases.

128. The Debtors further request that all applicable banks be authorized, when requested by the Debtors in their sole discretion, to receive, process, honor, and pay any and all checks drawn on the Debtors' accounts to pay the prepetition Sales and Use Taxes, whether those checks were presented prior to or after the Petition Date, and to make other transfers provided that sufficient funds are available in the applicable accounts to make such payments. Each of these checks or transfers can be readily identified as relating directly to the authorized payment of prepetition Sales and Use Taxes. Accordingly, the Debtors believe that checks and transfers other than those relating to authorized payments will not be honored inadvertently.

Motion of Debtors for Order Pursuant to 11 U.S.C. §§ 105(a) and 363(b) Authorizing Continued Maintenance of and Payment of Obligations with Respect to Debtors' Insurance Programs and Bond Programs (the "Insurance and Bond Motion")

129. In connection with the operation of their businesses, the Debtors maintain various workers' compensation insurance policies and programs and general liability and property insurance policies (collectively, the "Insurance Programs") through several different insurance carriers (the "Insurance Carriers"). Annexed as Exhibit A to the Insurance and Bond Motion is a summary of the Debtors' various insurance coverage (other than Workers' Compensation insurance), including a list of the Insurance Carriers, policy numbers, policy terms, and the aggregate annual premiums due thereunder.

130. Prior to the Petition Date, the Debtors entered into insurance brokerage agreements (the "Brokerage Agreements") with the insurance brokerage firm of Marsh & McLennan (the "Insurance Broker") to coordinate the Debtors' Insurance Program with the various Insurance Carriers. With respect to most of the Debtors' insurance policies, the Insurance Carriers charge the Insurance Broker directly for all premiums and other amounts due

under such policies. The Insurance Broker then sends the Debtors a statement for payment of such premiums, and, once paid by the Debtors, the Insurance Broker submits the payments to the Insurance Carriers. The Insurance Broker is paid a fee by the Debtors for administering certain of the insurance policies, including, but not limited to, workers' compensation, directors' and officers' liability, fiduciary liability, commercial general and professional liability, and property policies.

131. Under the laws of the various states in which they operate, the Debtors are required to maintain workers' compensation policies and programs to provide their employees with workers' compensation coverage for claims arising from or related to their employment with the Debtors. The Debtors maintain workers' compensation policies in each of the states in which they operate to cover their statutory obligations either through third party insurance or through self-insured programs (the "Workers' Compensation Programs"). A summary of the Debtors' Workers' Compensation Programs is attached to the Insurance and Bond Motion as Exhibit B.

132. For employees in the states of Georgia and Virginia, the workers' compensation coverage consists of self-insured programs, with the Debtors maintaining excess self- insurance that carries a self-insured retention ("SIR") of $325,000 per occurrence. New York and Tennessee have statutory state sponsored - and run workers' compensation programs (the "State Programs"). Pursuant to the Workers' Compensation Programs for these states, the Debtors purchase their workers' compensation insurance directly from the state (to the extent the Debtors are not self-insured).

133. Deductibles or SIRs with respect to the Debtors' insurance coverage for their Workers' Compensation Programs are billed by the Insurance Carriers or third-party

administrators, or directly by the providers as incurred, and are periodically paid by the Debtors. Premiums for the current Workers' Compensation Programs are based on a fixed rate of estimated payroll and are paid at the inception of the policies. Following an annual audit of the Debtors' payroll, the Debtors either pay a retrospective premium owed or receive back overpayments that were made.

134. The Debtors have also obtained, and there are currently outstanding, two bonds and two letters of credit, as security for their obligations to such carriers for workers' compensation deductible losses. Such letters of credit are in the aggregate amount of approximately $3,250,000.

135. As of the Petition Date, there were workers' compensation claims pending against the Debtors under the Debtors' self-insured workers' compensation plans (the "Workers' Compensation Claims") arising out of employee accidents on the job. Payment of the prepetition Workers' Compensation Claims is essential to the continued operation of the Debtors' businesses. The Debtors estimate that the aggregate amount that may be payable with respect to self-insured workers' compensation claims relating to the pre-petition period will be approximately $1,600,000, based on claims outstanding as of February 29, 2004.

136. The Debtors also maintain various general liability and property insurance policies, which provide the Debtors with insurance coverage for claims relating to, among other things, commercial general, excess liability, commercial umbrella liability, special risks automobile liability, directors' and officers' liability, fiduciary liability, commercial crime, transit, and property (the "Liability and Property Insurance Programs"). These policies are essential to the ongoing operation of the Debtors' businesses.

137. The Debtors are required to pay premiums under the Insurance Programs based upon a fixed rate established and billed by each Insurance Carrier to the Insurance Broker or to the Debtors. The aggregate annual premiums for the Liability and Property Insurance Programs are approximately $5.19 million. The premiums for the Liability and Property Insurance Programs are typically paid yearly in advance (although exceptions exist), and the vast majority of the Debtors' premiums have been paid for pre-petition and post-petition coverage periods, which will begin to expire on June 1, 2004. On certain of the Insurance Programs, there are annual retrospective audits and annual "true-ups" of the premiums owed.

138. In addition to the Insurance Programs, the Debtors maintain numerous bonds (the "Bonds"), including, without limitation, those for unpaid losses on workers' compensation programs in self-insured states and miscellaneous bonds that are generally maintained for a limited time period and are for low dollar amounts, through several different bond carriers (the "Bond Carriers"). Annexed as Exhibit C to the Insurance and Bond Motion is a list of the Bond Carriers and the bonds placed by such carriers, the bond numbers, the duration of each of the bonds, the amount of each bond, and the aggregate annual premium due thereunder. The issuers of certain bonds can draw down on letters of credit posted by the Debtors should the Debtors default on payments to the bond issuers.

139. The Bonds are issued by one of the Debtors' Insurance Carriers. The Debtors pay the Insurance Broker directly for all premiums and the Insurance Broker sends the Debtors a statement for payment by the Debtors. The premiums for the bonds are determined annually at the time of bond renewal, or at the time a new bond is placed and, as noted above, are paid directly to the Insurance Broker. The annual premiums to maintain the Debtors' Bond Programs aggregate approximately $44,830.

140. To maintain certain of their bonds, the Debtors were required to provide the Bond Carriers with letters of credit in the approximate aggregate amount of $3.25 million as security for certain of their obligations to the Bond Carriers to satisfy claims made with respect to the bonds. The letters of credit will be drawn against if the Debtors fail to meet their obligations on such financial guarantee bonds.

141. It is essential to the continued operation of the Debtors' businesses and their efforts to reorganize that the Insurance Programs and Bond Programs be maintained on an ongoing and uninterrupted basis. The failure to pay premiums when due may affect the Debtors' ability to renew the insurance policies or the Bonds. If the insurance policies or the Bonds are allowed to lapse, the Debtors could be exposed to substantial liability for damages resulting to persons and property of the Debtors and others, which exposure could have an extremely negative impact on the Debtors' ability to successfully reorganize. Such a result would also place at risk the estate's assets necessary to satisfy the secured and unsecured claims. Additionally, continued effectiveness of the directors' and officers' liability policies is necessary to the retention of qualified and dedicated senior management. Moreover, pursuant to the terms of many of their leases and commercial contracts, as well as the guidelines established by the United States Trustee, the Debtors are obligated to remain current with respect to certain of their primary insurance policies.

142. The maintenance of the Workers' Compensation Programs is indisputably justified, as applicable state law mandates this coverage. Furthermore, with respect to the Workers' Compensation Claims, the risk that eligible claimants will not receive timely payments with respect to employment-related injuries could have a devastating effect on the financial well-being and morale of the Debtors' employees and their willingness to remain in the Debtors'

employ. A significant deterioration in employee morale undoubtedly will have a substantially adverse impact on the Debtors, the value of their assets and businesses, and their ability to reorganize. Departures by employees at this critical time may result in a disruption of the Debtors' businesses to the detriment of all parties in interest.

143. The amounts the Debtors propose to pay in respect of the Liability and Property Insurance Programs are minimal in light of the size of the Debtors' estates and the potential exposure of the Debtors, absent insurance coverage. With respect to the Debtors' Bond Programs, failure to carry and maintain the Bonds, many of which are required by various government entities, would jeopardize the Debtors' ability to operate its businesses. Therefore, it is critical that the Debtors continue to maintain their Insurance Programs and Bond Programs on an uninterrupted basis and be permitted to pay any obligations in the ordinary course of business and consistent with prepetition practices.

Motion of Debtors for Order Granting Administrative Expense Status to Debtors' Undisputed Obligations Arising from the Postpetition Delivery of Good Ordered in the Prepetition Period and Authorizing the Debtors to Pay such Obligations in the Ordinary Course of Business (the "Delivery Motion")

144. In the ordinary operation of the Debtors' businesses, numerous vendors and suppliers provide the Debtors with goods (i.e., supplies and materials) necessary for the operation of their businesses. As of the Petition Date, and in the ordinary course of their businesses, the Debtors had numerous prepetition purchase orders outstanding (the "Outstanding Orders") with trade vendors and suppliers (the "Vendors") for goods necessary for the operation of their businesses. As a consequence of the commencement of the Debtors' Chapter 11 cases, the Vendors may be concerned that delivery of goods after the Petition Date pursuant to prepetition Outstanding Orders will render the Vendors who make such deliveries prepetition general unsecured creditors of the Debtors' estates with respect to such deliveries. Accordingly,

Vendors may refuse to ship or deliver goods to the Debtors unless the Debtors issue substitute purchase orders or obtain an order of the Court providing that all undisputed obligations of the Debtors arising from the postpetition delivery of merchandise subject to prepetition Outstanding Orders are afforded administrative expense status.

145. Absent the relief requested in the Delivery Motion, the Debtors may be required to expend substantial time and effort reissuing the Outstanding Orders to provide the Vendors with assurance of administrative priority. The attendant disruption to the continuous flow of goods to the Debtors could result in insufficient supplies and materials with which to provide the products and services bargained for by their customers. Such a disruption could lead to dissatisfied customers, potentially harming customer confidence in the Debtors' ability to conduct their businesses at this critical juncture.

Motion for The Debtors for Declaratory Order Enforcing Sections 362 and 525 of the Bankruptcy Code (the "Automatic Stay Motion")

146. The Debtors conduct business with a wide variety of parties in many jurisdictions around the world. Some of the parties affected by sections 362 and 525 of the Bankruptcy Code likely are not aware of the significant and necessary protection these sections provide to the Debtors or may not respect these provisions in the absence of an express order enforcing them. In addition, the Debtors are subject to rules and regulations of numerous governmental authorities, including those in foreign jurisdictions, that may not be familiar with U.S. bankruptcy law and that, absent the relief requested in the Automatic Stay Motion, may take precipitous action against the Debtors in violation of those Code provisions, necessitating legal proceedings here and elsewhere to enforce these protections.

147. The order requested in the Automatic Stay Motion, by simply restating the safeguards which Sections 362 and 525 of the Bankruptcy Code provide for the Debtors, will

help protect the Debtors from unwitting violations of these crucial provisions by creditors and other parties. It also will spare the Debtors from the burden of commencing proceedings to enforce the protections that the Bankruptcy Code provides. Consequently, the proposed order will assist the Debtors in maximizing the value of their estates for their creditors.

Motion for Authority to (A) Maintain Existing Bank Accounts and Cash Management System, (B) Continue Use of Existing Business Forms, and (C) Continue Use of Existing Investment Guidelines (the "Cash Management Motion")

148. Before commencing these chapter 11 cases, the Debtors utilized a centralized cash management system in the ordinary course of their business. The Debtors maintain approximately 17 bank accounts, a schedule of which is attached to the Cash Management Motion as Exhibit A. The Debtors' cash management system with respect to accounts receivable consists of lockboxes, a concentration account with Wachovia Bank N.A. (the "Wachovia Concentration Account"), a concentration account with Bank of America (the "BofA Concentration Account"), and a revolver account with Deutsche Bank (the "DB Revolver Account"). In addition to these accounts, the Debtors maintain separate accounts for certain of their outlet stores (the "Retail Store Accounts") and certain other disbursement accounts described below.

149. Most payments received by the Debtors are deposited into the lockboxes maintained by Wachovia Bank N.A. ("Wachovia"). The amounts that are received into the lockboxes are deposited into the Wachovia Concentration Account. Miscellaneous receipts that are collected by the Debtors at their Danville, Virginia headquarters are deposited into the BofA Concentration Account. Payments received by the Debtors' retail stores are deposited into the BofA Concentration Account or the Retail Store Accounts. The amounts in the Retail Store Accounts are periodically transferred to the Wachovia Concentration Account. On the morning

of each banking day, the net available balance in the Wachovia Concentration Account and the BofA Concentration Account is automatically swept to the DB Revolver Account.

150. Accounts for payroll and operating funds are maintained with Wachovia (the "Wachovia Operating Accounts") and are funded from a disbursement account that is also maintained with Wachovia (the "Wachovia Disbursement Account"). Funds are transferred from the DB Revolver Account to the Wachovia Disbursement Account. Additional accounts for taxes (maintained by American National Bank), accident and sickness (maintained by Bank of America), workers' compensation payments for South Carolina (maintained by Wachovia) and for supplemental payroll amounts (maintained by Bank of America) are also funded from the Wachovia Disbursement Account.

151. The Debtors also maintain separate accounts with the National Bank of Canada to minimize foreign exchange gains and losses with respect to the Debtors' business transactions in Canada. Periodically, certain excess Canadian funds are converted to U.S. Dollars and wired to the Wachovia Concentration Account where they become part of the cash management system described above. The Debtors' cash management system is also used to manage funds for the Debtors' Mexico Companies, which are not debtors in these bankruptcy cases. The Mexico Companies maintain their own bank accounts in Mexico, and certain cash payments resulting from sales by the Mexico Companies in Mexico are deposited into these accounts. However, the majority of the payments received on the Mexico Companies' accounts receivable are received into the lockboxes described above and then deposited into the Wachovia Concentration Account. On a weekly basis, funds necessary for the operations of the Mexico Companies are transferred from the Wachovia Disbursement Account to the Mexico Companies. At all times,

the Debtors maintain detailed records regarding intercompany transfers and are able to identify the amount of funds collected on behalf of or distributed to the Mexico Companies.

152. The Debtors' ability to continue and maintain their consolidated cash management system and existing bank accounts is essential to the efficient administration of their bankruptcy estates and is necessary to prevent inordinate disruption to the Debtors' operations. Maintenance of the Debtors' cash management system and existing bank accounts is also essential to the Debtors' ability to fund their existing payroll, and any disruption in the means by which the Debtors manage their financial affairs and satisfy their ordinary course post-petition obligations (and pre-petition payroll and other pre-petition obligations for which appropriate approval is being sought) would jeopardize the Debtors' reorganization at its commencement.

153. The foregoing centralized cash management procedures have been used by the Debtors in the past and constitute ordinary, usual, and essential business practices. Complex enterprises customarily employ cash management procedures similar to the Debtors' cash management system because of the numerous benefits they provide, including enhanced control of funds collected and disbursed across wide-ranging operations and reduced administrative expenses resulting from centralized control and account reconciliation. Such a system is necessary to generate timely and accurate financial information necessary to manage the Debtors' complex businesses. The Debtors maintain regular and detailed records of all transfers among the various accounts described above. Thus, allowing the Debtors to continue their existing cash management procedures will prevent unnecessary disruption and expense and, thus, is in the best interests of the Debtors' estates and creditors.

154. The Debtors' pre-petition bank accounts and business forms are integrally related to the Debtors' cash management system. Thus, maintenance of the Debtors' current accounts and forms is necessary to avoid the same delays, confusion, and disruption of the Debtors' business that would result if their existing cash management procedures are not approved. All interested parties will be well served if the Debtors are permitted to preserve business continuity and avoid the operational and administrative paralysis that closing the existing bank accounts and opening new ones would entail.

155. The Debtors believe that their existing cash management procedures are designed to protect the principal invested while maximizing liquidity and, therefore, believe that sufficient cause exists to waive the investment requirements of section 345(b) to allow the Debtors to continue their existing cash management procedures. The Debtors believe that the deposits at issue are safe because of the relative strength of the banks where the Debtors' pre-petition accounts are maintained. Requiring the Debtors to open multiple accounts at different banks so that the deposits in each such bank would be insured by FDIC would be unnecessarily burdensome and would lead to the same delays and disruption to the Debtors' business that this Motion seeks to avoid.

Debtors' First Motion for an Order Authorizing Rejection of Certain Executory Contracts and Unexpired Leases (the "Rejection Motion")

156. The Debtors have determined that the Rejected Contracts and Leases set forth on Exhibit A to the Rejection Motion are not necessary for the implementation of the Debtors' current plan of organization.

157. The Rejected Contracts and Leases include: (i) Equipment Lease Agreement dated as of the 31st day of December, 1997, by and between Boeing Capital Corporation f/k/a MDFC Equipment Leasing Corporation and The Bibb Company, as amended (the "BCC

Lease"); (ii) the Lease Agreement, dated as of the 10th day of May, 2002 by and between NOM SHORES, LTD. and Dan River Inc. d/b/a LINENS BY DAN RIVER (the "Destin Lease"); (iii) the Music Service Agreement dated July 19, 2002 between Dan River Inc. d/b/a LINENS BY DAN RIVER and Muzak LLC (the "Muzak Contract"); and (iv) Equipment Lease Agreement dated as of June 12, 1998 between Boeing Capital Corporation f/k/a MDFC Equipment Leasing Corporation and Dan River, Inc., as amended (the "Aircraft Lease"). The Debtors are in the process of closing their Destin location that is leased pursuant to the Destin Lease, and expect to vacate the premises on or before April 30, 2004.

158. Debtors request authorization to reject the BCC Lease effective as of the Petition Date, the Destin Lease effective as of April 30, 2004, the Muzak Contract effective as of the Petition Date, and the Aircraft Lease effective as of May 3, 2004;

159. The Debtors have determined that the Rejected Contracts and Leases are not necessary for the Debtors' ongoing business operations and will not contribute to the orderly and efficient reorganization of the Debtors' business and financial affairs. The Rejected Contracts and Leases constitute a burden upon the Debtors' estates and will needlessly increase administrative costs if not rejected immediately.

160. The Debtors have determined that the burdens of complying with the Rejected Contracts and Leases outweighs the benefits to their estates of continued performance under the Rejected Contracts and Leases. The Rejected Contracts and Leases provide no economic benefit to the Debtors' estates to offset their recurring costs. Accordingly, the Debtors believe, in the exercise of their business judgment, that continued performance under the Rejected Contracts and Leases would not be in the best interest of the Debtors' estates or creditors. Thus, the

Debtors seek authority under Section 365 of the Bankruptcy Code to reject the Rejected Contracts and Leases.

Emergency Motion for Interim Order (I) Authorizing Debtors (A) To Obtain Post-Petition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1) and 364(e) and (B) To Utilize Cash Collateral Pursuant to 11 U.S.C. § 363 (II) Granting Adequate Protection To Pre-Petition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363 and 364 and (III) Scheduling a Final Hearing Pursuant to Bankruptcy Rules 2002, 4001 and 9014 (the "DIP Financing Motion")

161. The Debtors do not have sufficient available sources of working capital and financing to carry on the operation of their business without the DIP Financing (as defined in the DIP Financing Motion) and use of cash collateral. The ability of the Debtors to finance their operations, and the availability of sufficient working capital and liquidity through the incurrence of new indebtedness for borrowed money and use of cash collateral, is essential to the Debtors' ability to operate their businesses. In the absence of such financing and use of cash collateral, the operation of the Debtors' businesses would not be possible and serious and irreparable harm to the Debtors and their estates would occur.

162. A working capital facility of the type and magnitude needed in these cases could not have been obtained on an unsecured basis. Potential sources of the proposed DIP Financing for the Debtors, obtainable on an expedited basis and on reasonable terms, were practically nonexistent.

163. Prior to the Petition Date, the Debtors contacted eleven lending institutions, seeking alternative financing sources. Nine of those institutions signed confidentiality agreements and received information regarding the Debtors' financial status to evaluate lending proposals. Three of the financial institutions submitted financing proposals to the Debtor. The DIP Financing proposed by the DIP Lenders (as defined in the DIP Financing Motion) represents the best alternative available to the Debtors.

164. After appropriate investigation and analysis and given the exigencies of the circumstances, the Debtors' management has concluded that the DIP Financing was the only alternative available in the circumstances of these cases. The terms of the DIP Financing are fair and reasonable and are in the best interests of the Debtors' estates. Without the liquidity provided by the DIP Financing, the Debtors will be unable to pay suppliers, employees and other constituencies that are essential to the orderly operation of their businesses. The Debtors' management exercised their best business judgment in negotiating the DIP Financing that is presently before the Court.

165. As with most other large businesses, the Debtors have significant cash needs. Particularly critical in these cases is that it is impossible to forecast collections of accounts receivable for a business in a chapter 11 proceeding. Accordingly, access to substantial credit is necessary to meet the substantial day-to-day costs associated with maintaining business relationships with the Debtors' vendors and suppliers, purchasing new inventory and otherwise financing their operations. Access to sufficient cash is therefore critical to the Debtors. In the absence of immediate access to cash and credit, the Debtors' suppliers will refuse to sell critical supplies and services to the Debtors, and the Debtors will be unable to operate their businesses. The inability to meet payments to vendors, fulfill deliveries scheduled and collect accounts receivable – already a source of concern prior to the Petition Date – would likely grow worse.

166. For these reasons, access to credit under the DIP Financing is critical. The Debtors cannot wait for the beneficial effects of the DIP Financing; any substantial delay could have the same impact as denial of the Motion. The Debtors' need for access to the DIP Financing therefore is immediate.

167. Pending the Final Hearing (as defined in the DIP Financing Motion), the Debtors require immediate use of cash collateral and financing for, among other things, maintenance of their facilities and other working capital needs. It is essential that the Debtors immediately stabilize their operations and resume paying for ordinary, post-petition operating expenses, as well as the pre-petition expenses approved in the first day orders, to minimize the damage occasioned by their cash flow problems.

168. Absent immediate use of cash collateral and financing, the Debtors will be unable to pay ongoing operational expenses. Consequently, if interim relief is not obtained, the Debtors' assets will be immediately and irreparably jeopardized, to the detriment of their estates, their creditors and other parties in interest.

CONCLUSION

169. Accordingly, for the reasons stated herein and in each of the First Day Motions, I respectfully request that each of the First Day Motions be granted in its entirety, together with such further relief as the Court deems just and proper."

[signature on following page]

Executed on March 30, 2004, at Atlanta, Georgia.

/s/ Barry F. Shea
Barry F. Shea
Executive Vice President and Chief Financial
Officer, Dan River Inc.

Sworn to and subscribed before me
this 30th day of March, 2004.

/s/ Lori Price-Demaree
Notary Public

EXHIBIT "A"

DAN RIVER -- FIRST DAY MOTIONS

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1. Motion for Joint Administration

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6. Motion for Authority to Continue Engagement of Conway, Del Genio, Gries & Co., LLC to Provide Restructuring Advisory Services

7. Motion for Authority to Retain Ernst & Young LLP as Audit and Tax Advisors for the Debtors

8. Motion for Authority to Retain Ernst & Young Corporate Finance LLC to Provide Restructuring Advisory Services to the Debtors

9. Motion for Authority to Retain Bankruptcy Management Corp. as Claim, Noticing, and Balloting Agent for the Debtors

10. Motion for Authority to Retain and Compensate Lamberth, Cifelli, Stokes & Stout, P.A. as Counsel

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26. 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