

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF OHIO  
EASTERN DIVISION

----- x Case Nos. 06-61794, 06-61796  
In re : and 06-61797  
: :  
CEP HOLDINGS, LLC, *et al.*, : Chapter 11  
: Honorable Russ Kendig  
Debtors. :  
: Related to Docket Entry No. 22  
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**OBJECTION OF THE UNOFFICIAL COMMITTEE OF PRE-PETITION TRADE CREDITORS  
TO ENTRY OF EMERGENCY ORDER AUTHORIZING DEBTORS TO: (A) USE CASH  
COLLATERAL ON AN EMERGENCY BASIS; (B) INCUR POSTPETITION DEBT ON AN  
EMERGENCY BASIS; (C) GRANT ADEQUATE PROTECTION AND PROVIDE SECURITY  
AND OTHER RELIEF TO WACHOVIA CAPITAL FINANCE CORPORATION (CENTRAL)  
AND (D) GRANT CERTAIN RELATED RELIEF**

The Unofficial Committee of Pre-Petition Trade Vendors (the “Trade Committee”), by and through its undersigned counsel, files this objection (the “Objection”) to entry of the proposed Emergency Order Authorizing Debtors to: (A) Use Cash Collateral on an Emergency Basis; (B) Incur Postpetition Debt on an Emergency Basis; (C) Grant Adequate Protection and Provide Security and Other Relief to Wachovia Capital Finance Corporation (Central); and (D) Grant Certain Related Relief (the “Proposed Interim DIP Order”) and in support thereof states as follows:

**Introduction**

1. The Trade Committee files the instant Objection as a stop-gap measure in order to assure that “the train does not leave the station” before an official committee of unsecured creditors is formed by the Office of the United States Trustee. The instant Objection does not exhaustively list all objectionable provisions of the Proposed Interim DIP Order, as the Proposed Interim DIP Order is extraordinarily complex and incorporates by reference, directly or indirectly, voluminous documentation (some of which is not even attached to the Debtors’ financing pleadings). Instead, this Objection illustrates significant legal, structural and practical flaws and

improprieties of the Proposed Interim DIP Order. All rights are reserved by the Trade Committee (which hopes to promptly become an official committee sanctioned under section 1102 of the Bankruptcy Code) to raise other or further objections, and nothing contained herein shall be construed as a waiver or estoppel of other or further objections to the provisions of the Proposed Interim DIP Order.

2. The Proposed Interim DIP Order—a fifty-six (56) page tome (excluding its exhibits and the numerous references to volumes of documents outside of the record that are necessary to its interpretation)—provides for; *inter alia*, (a) an immediate rollup of the entire pre-petition secured debt of Wachovia Capital Finance (“Wachovia”) and additional collateral for the benefit of Wachovia, notwithstanding the fact that a substantial portion of Wachovia’s debt is term debt AND Wachovia is advancing **no new funds** to the Debtors, but rather permitting in-formula use of its cash collateral with reserves and with enhancements from the Customers<sup>1</sup>; and (b) an unmanageable scheme for a combination of cash infusions and post-petition loans by the Customers, where all such funding is for the sole purpose of bank build production for the exclusive benefit of the Customers, and, to that end the Proposed Interim DIP Order allows the Customers (non-fiduciaries of these bankruptcy estates) to unilaterally choose whether their funding is to be treated as debt or a cash contribution.

3. The fundamental premise of the Proposed Interim DIP Order appears to be that the Participating Customers have an ordained right to production of inventory build for as long as they see fit, regardless of the impact upon other parties in interest, and the failure or refusal by the Debtors to do so purportedly would result in the assertion of catastrophic damage claims by the Participating Customers. In an instance where, *inter alia*, (i) the Participating Customers were aware of the Debtors’ financial distress since at least March 2006; (ii) the Participating Customers were aware or should have been aware since at least June 2006 that the likely disposition of the Debtors’ operations were liquidation; and (iii) the components that the Debtor

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<sup>1</sup> All capitalized terms used herein shall have the meaning ascribed to them in the DIP Motion (defined below) or the Proposed Interim DIP Order.

produces for the Participating Customers relate to domestic vehicles with substantially declining sales, the Debtors' premise that they will incur catastrophic damage claims in favor of the Participating Customers if they do not cede to demands of the Participating Customers is flawed. Managed correctly, the expeditious liquidation of the Debtors' estates in the absence of the overbearing and in some instances extraordinary provisions of the Proposed Interim DIP Order will produce measurable return to general unsecured creditors. The current scheme established under the Proposed Interim DIP Order will afford little to no opportunity for a return to general unsecured creditors.

4. For the reasons outlined below, the Proposed Interim DIP Order should not be approved by this Court, as it is overreaching, incomprehensible in places and undeniably detrimental to the Debtors' bankruptcy estates and harmful to the interests of the general unsecured creditors, whose interests, under the current circumstances, are best served by immediate conversion of the Debtors' chapter 11 liquidation cases to cases under chapter 7 of the Bankruptcy Code.

#### **The Bankruptcy Filing**

5. On September 20, 2006 (the "Petition Date"), CEP Holdings, LLC ("Holdings"), Creative Engineered Polymer Products, LLC ("CEP"), and Thermoplastics Acquisition, LLC ("Thermoplastics", with Holdings and CEP, collectively are the "Debtors") each filed their respective voluntary petitions for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.* (the "Bankruptcy Code").

#### **Background**

6. In August 2005, The Reserve Group and certain individual insiders thereof acquired substantially all of the assets (other than accounts receivable) of CEP from the CRT Capital Group through Holdings, a wholly owned affiliate of The Reserve Group. The acquisition price for CEP was approximately \$13.5 million, of which \$12.5 million was funded

through secured term debt by Wachovia Capital Finance Corporation (“Wachovia”), and a \$1.0 million cash investment, or an equity contribution, from The Reserve Group.

7. In December 2005, The Reserve Group, through Thermoplastics, a wholly owned subsidiary of CEP, acquired substantially all of the assets of the Thermoplastics division from Parker-Hannifin Corporation for purchase price consideration of approximately \$7.1 million; the entire purchase price of which was funded from the proceeds of loans by Wachovia as well as a \$4.2 million seller-retained secured note.

8. The Debtors prepetition debt that is allegedly secured is primarily comprised of (i) two working capital-based revolving credit loans from Wachovia, (ii) multiple term loans from Wachovia and (iii) seller retained debt relating to the Parker-Hannifin sale of Thermoplastics. In addition, Wachovia has been selling the Customers, who are General Motors Corporation, Visteon Corporation and Delphi Corporation (the Debtors’ three largest customers), subordinated participation interests in the Wachovia loan facilities. As of the Petition Date, the Customers have purchased at least \$2.9 million of subordinated participation interests.

9. Collectively, CEP and Thermoplastics (as well as a non-debtor Mexican affiliate, Composite Parts Mexico S.A. de C.V.), comprise a ten (10) facility operation with approximately \$190 Million in gross annual revenue.

10. By March 2006, CEP had overdrawn its revolving credit availability with Wachovia by over \$2.0 million. By April 2006, the Debtors were subject to an initial forbearance agreement with Wachovia due to a multitude of alleged defaults under their various loan agreements with Wachovia. Likewise, the Debtors requested and obtained a variety of financial accommodations from the Customers necessary to sustain operations in order to satisfy the purchase orders of the Customers.

11. During the period from January 2006 to April 2006, the trade obligations of the pre-petition Debtors ballooned from approximately \$18.9 million to \$27.9 million, after the Debtors, already significantly overleveraged, used practically every dollar of secured financing

available to them. It is the position of the Trade Committee that the officers and directors of the Debtors caused the Debtors to finance their operations with trade debt that they knew or should have known the Debtors would be unable to repay.

12. In June 2006, the Debtors encouraged their trade vendors, with pre-petition claims in the aggregate amount of approximately \$26.5 million, to organize an unofficial committee for purposes of representing the interests of trade creditors in an out-of-court restructuring effort by the Debtors. The trade creditors did organize in July 2006, and formed the Trade Committee, which is comprised of six (6) members – Lanxess Corporation, DuPont, Rhodia Inc., BASF Corporation, Gold Key Processing, LTD. and Excel Polymers LLC (the holders of claims aggregating approximately \$6.5 million of the approximately \$26.5 million in total trade debt, or approximately 25% of the aggregate pre-petition trade debt of the Debtors (and their Mexican affiliates).

13. Without taking into account certain subordinated participation loans from the Customers, by July 31, 2006 the Debtors had approximately \$32.4 million of allegedly secured debt.

14. During the few months immediately preceding the Petition Date, the Debtors, Wachovia and the Customers have worked together to formulate a bankruptcy strategy that benefits no one but the Debtors, Wachovia and the Customers, as evidenced by the Proposed Interim DIP Order.

15. On the Petition Date, the Debtors filed the Motion of the Debtors and Debtors and Debtors in Possession for Emergency Order Authorizing Debtors to: (A) Use Cash Collateral on an Emergency Basis; (B) Incur Postpetition Debt on an Emergency Basis; (C) Grant Adequate Protection and Provide Security and Other Relief to Wachovia Capital Finance Corporation (Central); and (D) Grant Certain Related Relief (the “DIP Motion”).

16. As set forth in greater detail below, the DIP Motion and the Proposed Interim DIP Order effectively cedes control of these bankruptcy cases to the Customers for their primary

benefit while unreasonably providing Wachovia with unnecessary protections, additional collateral and exorbitant fees.

### **Objections to the Proposed Interim DIP Order**

17. Objectionable provisions of the Proposed Interim DIP Order include, but are not limited to the following:

- (i) Findings of fact at pages 3-7 of the Proposed Interim DIP Order are excessive, unnecessary and cannot be sustained at this time. Included among such Findings are recitals G (relating to significant damage claims of Participating Customers); H (as it includes not only findings but mandates upon the Debtors); I (as it includes not only findings but mandates upon the Debtors and non-Debtor affiliates); K (as the finding of oversecured status of Wachovia is wholly unsubstantiated at this time); and M (as the Debtors have made ostensibly NO efforts to obtain financing on better terms. Furthermore, and perhaps more importantly, all such findings other than those of recitals J and K are immediately binding upon all parties without subsequent rights of challenge or other objection (see, Proposed Interim DIP Order ¶16(a)), and as to recitals J and K, an official committee of unsecured creditors has only 60 days from the date of entry of the Proposed Interim DIP Order to file an adversary complaint challenging such findings (the Debtors, however, have waived such rights, made substantial admissions, and yet derivative standing is not granted to the official committee of unsecured creditors under the Proposed Interim DIP Order);
- (ii) Paragraph 1 of the Proposed Interim DIP Order raises two fundamental issues with the order. Paragraph 1 refers to Cash Collateral—a defined term under the definitions section of the order. Cash Collateral is defined to include another defined term—Aggregate Collateral, which in turn refers to two additional defined terms—Prepetition Collateral and Post-Petition Collateral;
  - ISSUE 1: The Proposed Interim DIP Order is a rollup, pursuant to a “first day order”, of all prepetition debt to Wachovia and the Participating Customers as junior participants in the prepetition Wachovia credit facilities. This prepetition debt includes both revolving credit and substantial term debt. It must be noted that Wachovia is funding no new money, but instead, permitting use of its “cash collateral” (as the term is defined under section 363 of the Bankruptcy Code) within a borrowing base formula.
  - ISSUE 2: The Proposed Interim DIP Order is heavily dependent upon defined terms, many of which contain defined terms within other defined terms and a significant portion of which rely upon definitions established or otherwise identified in documents other than the Proposed

Interim DIP Order itself (some of which are not even attached or incorporated by reference into the Interim DIP Order).

- (iii) Paragraph 2(a) of the Proposed Interim DIP Order provides for a waterfall for application of estate proceeds in a manner outlined in paragraph 6(e) of the Proposed Interim DIP Order. Paragraph 6(e), however, includes references to definitions that appear circular thereby making the waterfall of paragraph 6(e) incomprehensible;
- (iv) Paragraph 3(b) appears to authorize loans by the Participating Customers to pay, among other items, fees and expenses of Wachovia. Any such funding by Participating Customers must only be made in the form of Cash Infusions;
- (v) The provisions of paragraph 3(c)(ii) appear to limit post-petition loans by Participating Customers to \$1,500,000; however, a closer reading makes this cap wholly illusory, as the limit imposed is premised upon a maximum amount of Aggregate Debt. Given the right of Wachovia to apply proceeds of collateral during the rapid liquidation of the Debtors, it is possible for the Participating Customers to loan (subject to repayment with priority in distribution above unsecured creditors) far in excess of \$1.5 million to the detriment of unsecured creditors;
- (vi) Fees payable to Wachovia of **\$430,000** under paragraph 3(c)(v), in consideration of Wachovia permitting the use of its collateral within formula for purposes of liquidating Wachovia's collateral for its benefit are, at best, unjustifiable. Furthermore, the admission by the Debtors under finding J of Wachovia's right to an additional **\$430,000** by way of an Early Termination Fee adds insult to injury;
- (vii) The Postpetition Guarantee concept of paragraph 3(c)(vii) is inappropriate bootstrapping of any collateral that Wachovia (and Participating Customers) may not have had on a pre-petition basis;
- (viii) Paragraph 3(c)(xi) prohibits the Debtors' use of Postpetition Debt to fund its Mexican operations, but it does not prohibit the Debtors from providing goods or services to its Mexican operations, which is simply another way of funding Mexican operations through the incurrence of Postpetition Debt;
- (ix) Paragraph 4 relates to the treatment of the Carveout. This provision encompasses over four pages and is largely incomprehensible. Two items, however, are prominent: (1) the Budget provides for Debtor professional fees of \$1,000,000, while Committee professional fees are limited to \$150,000 or 15% of the Debtors' professionals (while a standard rule of thumb is 2 to 1). It is also worth noting that fees of Participating Customers will be paid in the amount of \$450,000 and fees of Wachovia (in addition to the \$430,000 Early Termination Fee and the \$430,000 under ¶3(c)(v)) will be paid without limitation); and (2) based on the definition of Termination Date, professionals of an unsecured creditors committee are only to be paid through the third day following the

Final Hearing on the DIP financing order, while the Carveout as it relates to Debtor professionals extends beyond this period;

- (x) In Paragraph 5, relating to termination of the Debtors' right to use Cash Collateral, the unsecured creditors committee neither receives notice or is granted standing to challenge such termination, which is demonstrative of the lack of notice and standing provisions for an unsecured creditors committee throughout the Proposed Interim DIP Order;
- (xi) Paragraph 6(a) appears as though it may be important, but is incomprehensible;
- (xii) Paragraph 6(c) purports to grant replacement liens for use of "cash collateral" (as defined under section 363 of the Bankruptcy Code rather than as defined in the Proposed Interim DIP Order), however, by virtue of the rollup accomplished through use of the defined term Cash Collateral, there is no use of cash collateral by the Debtors for which replacement liens may be granted in accordance with section 361 of the Bankruptcy Code;
- (xiii) The limitation against marshalling, found at paragraph 6(m) is inappropriate in the context of an emergency interim order;
- (xiv) The right of Participating Customers to direct payments to vendors under paragraph 7(b)(ii) is a thinly veiled endeavor to accomplish through the Proposed Interim DIP Order the relief otherwise sought through a "critical vendor motion";
- (xv) Given the substantial benefits derived by Participating Customers through the Debtors' chapter 11 process, the payment of professional fees (\$450,000) of Participating Customers from estate proceeds (through the setoff against accounts receivable authorized at paragraph 7(b)(iii)) is not appropriate;
- (xvi) History demonstrates that the "useable" and "merchantable" concepts with respect to inventory buybacks by Participating Customers provides Participating Customers unreasonable latitude and discretion in their inventory purchases such that the Debtors will inevitably be harmed by the Participating Customers interpretation of these terms in the event of an Inventory Purchase Trigger Date under paragraph 7(c). Given the time and effort devoted by Participating Customers to the negotiation of the Proposed Interim DIP Order, quantifying "useable" and "merchantable" inventory at the beginning rather than the end of the liquidation process is appropriate;
- (xvii) The mandate that free cash flow rather than Participating Customer Cash Infusions fund up to \$1.2 million of employee retention payments under paragraph 8(a)(iv) is unjustifiable where such employees are required to be incentivized for the sole purpose of inventory build for the benefit of the Participating Customers. Furthermore, to the extent the Interim DIP Order purports to do so, no employee retention program should be



approved by any mechanism other than an independent motion and order;

- (xviii) In several places in the order, including paragraph 8(c), BBK, Inc. exercises control over payments for the benefit of the Debtors or their estates. As such, it is appropriate for BBK, Inc. to submit to the jurisdiction of the Bankruptcy Court and be obligated to provide regular accountings with respect to any distributions made under a DIP order if one is entered;
- (xix) Paragraph 8(d) provides the Participating Customers the exclusive right to designate Sale Facilities. This means that (1) Participating Customers decide which facilities will be funded with loans by the Participating Customers and which will be funded by Cash Infusions; and (2) Participating Customers are authorized to exercise the Debtors' business judgment in determining the manner of disposition of each of the Debtors' facilities. Clearly, this mechanism cannot be approved by the Court;
- (xx) Paragraph 9(a) illustrates a reoccurring issue with respect to CEP Mexico in that the Proposed Interim DIP Order binds a non-debtor affiliate entity to a variety of provisions throughout the order and grants Wachovia and the Participating Customers a variety of rights and remedies with respect to this entity. CEP Mexico, however, has not submitted to the jurisdiction of the Bankruptcy Court. All provisions of the order with respect to CEP Mexico should be stricken from the order unless CEP Mexico submits to the jurisdiction of the Bankruptcy Court (in which case such provisions can be properly argued);
- (xxi) The Appraiser under paragraph 9(c) must submit to the jurisdiction of the Bankruptcy Court and agree to consult and confer with the unsecured creditors committee. It is unclear from the order the manner in which the Appraiser is to be compensated for the services it is contemplated to provide;
- (xxii) The limitation upon an increase in purchase price for Designated Equipment in Tuscaloosa, Alabama at paragraph 9(d) must be justified;
- (xxiii) The provisions of 9(g) with respect to removal of Customer Tooling and Customer Equipment cannot be reconciled with the Sale Facility designation right afforded to the Participating Customers;
- (xxiv) Assumption by the Debtors of the Access and Security Agreement at paragraph 10 cannot be approved. There is a process and procedure for assumption of executory contracts established under the Bankruptcy Code and Bankruptcy Rules. Assumption of an agreement with rights and remedies as extraordinary as those in the Access and Security Agreement is not appropriate under the guise of approval of a financing order. This is particularly true where the Proposed Interim DIP Order itself attempts to grant the Participating Customers extensive rights and remedies;

- (xxv) Any suggestion that the Debtor can effectively solicit the participation of twenty-two customers in ten days following the Petition Date, as provided by paragraph 11(c), is impractical;
- (xxvi) Any suggestion that the Debtors can liquidate a facility within fourteen days following cessation of production (see, definition of Exit Date), as provided by paragraph 13(b) is impractical;
- (xxvii) The build of a parts bank at any facility on behalf of Participating Customers must be funded only through Cash Infusions and not debt. The Court should pay particular attention to the definition of Capacity as utilized in paragraph 14. Furthermore, contrary to the provisions of paragraph 14, the failure by the Debtors to maintain production for bank builds requested by Participating Customers is NOT cause for appointment of a chapter 11 trustee;
- (xxviii) Paragraph 15(f)(1) is contrary to applicable caselaw, which makes clear that a secured creditor is only entitled to additional adequate protection from the point in time that such additional adequate protection is requested by motion of the secured creditor;
- (xxix) The definition of Postpetition Collateral includes bankruptcy avoidance actions. Wachovia is lending no new money and the Participating Customer loans, which are wholly inappropriate given that their sole purpose is for the Participating Customers benefit, should not receive the benefit of bankruptcy avoidance actions.

18. For the foregoing reasons, which the Trade Committee reserves the right to supplement, the DIP Motion should be denied.

WHEREFORE, the Trade Committee respectfully requests that this Court deny the DIP Motion and grant such other relief as it deems to be just and proper.

Dated: September 21, 2006

**McGuireWoods LLP**

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