

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

----- X
In re : **Chapter 11**
:
GUILFORD MILLS, INC., : **Case No. 02-40667 (BRL)**
et al., :
: **Jointly Administered**
Debtors. :
----- X

**FIRST INTERIM AND FINAL APPLICATION OF ROTHSCHILD INC. AS
FINANCIAL ADVISOR AND INVESTMENT BANKER FOR THE DEBTORS
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Name of Applicant: Rothschild Inc.

Authorized to Provide Professional Services to: GUILFORD MILLS, INC., et al

Date of Retention: As of March 13, 2002

Period for which compensation and reimbursement are sought: March 13, 2002 – October 4, 2002

Amount of compensation sought as actual, reasonable, and necessary: \$2,637,096.77

Amount of expense reimbursement sought as actual, reasonable, and necessary: \$40,162.67

This is a(n): Monthly X Interim X Final Application

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In re : **Chapter 11**
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**FIRST INTERIM AND FINAL APPLICATION OF ROTHSCHILD INC. AS
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Rothschild Inc. (“Rothschild”), financial adviser and investment banker for Guilford Mills, Inc. (“Guilford” or “GMI”), certain of its wholly-owned subsidiaries, debtors and debtors in possession in these Chapter 11 cases (together with Guilford, the “Debtors”), makes this first interim and final application (this “Application”) for compensation and reimbursement of expenses for the period March 13, 2002 through October 4, 2002, and in support thereof respectfully represents:

1. This application is made pursuant to (i) Sections 330 and 331 of Title 11 of the United States Code (the “Bankruptcy Code”), (ii) Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), (iii) Administrative Order M-150, Amended Guidelines for Fees and Disbursements for Professionals in Southern District of New York Bankruptcy Cases (the “Amended Guidelines”), (iv) the Amended Order of this Court, dated April 3, 2002 (as further modified by subsequent orders of this Court, the “Fee Order”), Establishing Procedures for Monthly Compensation and Reimbursement of Expenses of

Professionals and (v) the Order of this Court, dated June 26, 2002 (the “Retention Order”), Authorizing Employment and Retention of Rothschild, nunc pro tunc, to March 13, 2002, a copy of which is attached hereto as Exhibit A.

BACKGROUND

2. On March 13, 2002 (the “Petition Date”), the Debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code and have filed a motion seeking joint administration of these cases. Pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code, the Debtors have continued in the management and possession of their properties as debtors in possession.

3. For many years, GMI primarily produced fabrics for apparel applications. While GMI had diversified into automotive fabrics in the 1970s, sales of apparel fabrics remained dominant through most of the 1990s. For its fiscal year ended July 1, 1990, sales of apparel fabrics and automotive fabrics represented 65% and 29% of total sales, respectively. Sales of automotive fabrics continued to grow, ultimately eclipsing sales of apparel fabrics in fiscal year 1999 (when automotive sales and apparel sales represented 42% and 39% of total sales, respectively). The automotive business was more profitable of the two. In fiscal 1998 and 1997, the automotive business accounted for 53% and 39%, respectively, of GMI’s total operating profit, compared to 13% and 20%, respectively, for the apparel business.

4. The shift in the sales mix between automotive and apparel fabrics occurred during a period when the Debtors’ overall sales were rising. From fiscal 1991 through fiscal 1997, total sales including automotive and apparel fabrics rose steadily, from \$528 million to \$894 million. The Debtors’ performance during this period mirrored substantially the performance of the entire

textile industry. From 1992 to 1997, textile mill shipments hit new records every year, peaking at a record \$83.9 billion in 1997.

5. GMI's fiscal 1998 fiscal year, however, witnessed a decline in apparel sales from 1997, which fell from \$352 million to \$340 million. The principal cause of this decline – an influx of low priced Asian yarns, fabrics and finished garments in the United States – proved to have devastating consequences for both the Debtors and the entire textile industry. While Asian fabric imports into the U.S. had actually declined by 36% from 1992 to 1996, such imports surged after the currency devaluations began in 1997, as Asian fabric imports into the U.S. increased by 61% from 1996 to 2000. The 40% decline in Asian currencies since the onset of the financial crisis, together with the strong U.S. dollar policy, resulted in greater market share for Asian importers and lower prices for domestic textile products. Earnings of domestic textile companies were directly affected – calendar year 2000 marked the first annual loss for the industry in the more than 50 years since such data was collected. Employment in the textile industry naturally suffered as a result, with at least 25 plants closing in 2000. Established textile mills including Burlington Industries (also located in Greensboro, North Carolina), Malden Mills and Galey & Lord filed for Chapter 11 protection.

6. Although the effects of the crisis were only beginning to be recognized, the Debtors, during fiscal 1998, consolidated two fiber-producing facilities, shifting their focus toward specialty yarns and away from commodity yarns, and restructured certain apparel operations to remove fixed costs. GMI's business continued to suffer during fiscal 1999 as a result of cheap foreign imports. Apparel sales continued to decline in fiscal 2000.

7. During the fourth quarter of fiscal 2000, GMI committed to a comprehensive restructuring plan intended to reduce capacity and improve the profitability of its apparel operations. The plan included discontinuing the knitting, dyeing and finishing operations at the Fishman and Greenberg facilities in Greensboro, North Carolina. A portion of the Greenberg operations was transferred to GMI's new state-of-the-art facility in Altamira, Mexico, which began production in May 2001, while other production was transferred to GMI facilities in the United States.

8. In July 2001, GMI announced that it would cease production of apparel and home fashions fabrics at its Pine Grove, Pennsylvania facility. In a further shift away from domestic apparel production, GMI also announced in September 2001, its intention to exit the manufacture of stretch knit, intimate apparel, swimwear fabrics, lace and home fashion lace at the Cobleskill, New York facility. GMI ceased operations in Cobleskill prior to the Petition Date. GMI also closed four domestic facilities and scaled back production at a fifth. These plant consolidations resulted in the loss of approximately 1,725 employees. With these actions, GMI has substantially ceased apparel and home fashions warp knit fabric production in the United States and has exited numerous other fabrics and home fashions products.

9. Notwithstanding the restructuring efforts, GMI's business continued to suffer throughout fiscal 2001, with each of the four business segments experiencing year over year sales declines in each quarter. Total sales in fiscal 2001 declined to \$644 million from \$814 million in fiscal 2000. The Company reported a net loss of \$160.7 million for fiscal 2001 (most of which was attributable to non-automotive business) compared with a net loss of \$21 million for the prior year. The factors resulting in this performance were varied, with apparel sales being

battered by low-priced foreign competition and soft economic environment, and automotive fabric sales being adversely affected by a slower car production in the United States and the loss of market share by GMI's U.K. automotive customers.

10. The decline in revenues continued in the first quarter of fiscal 2002, during which net sales decreased by \$36 million from the same quarter last year, to \$137 million. GMI sustained an operating loss for the quarter of \$7.8 million. Subsequent to the end of the first fiscal quarter, GMI decided to exit the direct-to-retail Home Fashions business and sold certain assets of that segment to Homestead Fabrics, Ltd. The decision to exit the direct-to-retail Home Fashions segment is consistent with GMI's strategic decision to reorganize around its core automotive and technical businesses.

11. In the Spring of 2001, GMI began preliminary negotiations with the Secured Lenders to consensually restructure roughly \$275 million of secured debt that the Company could no longer service. One of GMI's primary objectives was to de-leverage its balance sheet and decrease its debt capacity to a level that was appropriate for a company of its size and with its earnings. Negotiations intensified in the Fall. GMI retained Rothschild in November 2001 to analyze strategic alternatives for GMI, value its businesses and assist in its negotiations with its Secured Lenders.

12. On March 5, 2002, GMI announced that it had reached an agreement in principle with the Banks and Noteholders to restructure the Company's senior indebtedness and capital structure. Under the agreement in principle, GMI hoped to reorganize around its core automotive and technical businesses through a series of transactions whereby the Company would sell non-core assets, pay down its debt and restructure its capital arrangement.

13. On March 13, 2002, the Debtors sought protection under Chapter 11 of the Bankruptcy Code to obtain the necessary time to fully implement their strategic plan and financial restructuring as agreed to in principle with the Secured Lenders.

14. On August 15, 2002, the Debtors filed a plan of reorganization (the "Plan") and a disclosure statement (the "Disclosure Statement") in accordance with section 1125 of the Bankruptcy Code. Under the Plan, GMI will restructure its business to reflect an appropriate debt capacity level, by focusing on its core automotive and specialty textile businesses.

15. On September 19, 2002, a hearing was held at which this Court confirmed the Plan. The Plan became effective on October 4, 2002.

RETENTION AND COMPENSATION OF ROTHSCHILD

16. By letter agreement, dated November 1, 2001 and modified by a letter agreement, dated January 1, 2002 (collectively, the "Engagement Letter"), the Debtors retained Rothschild to assist the Debtors with a possible restructuring. A copy of the Engagement Letter is attached hereto as Exhibit B, and Rothschild respectfully refers this Court to the Engagement Letter for a full recitation of its terms. In summary, the Debtors retained Rothschild to provide financial advisory and investment banking services, including, without limitation:

(a) to the extent it deems necessary, appropriate and feasible, review and analyze the operating and financial strategies of the Company;

(b) review and analyze the business plans and financial projections prepared by the Company including but not limited to testing assumptions and comparing those assumptions to historical Company and industry trends;

(c) evaluate the Company's debt capacity in light of the projected cash flows and assist in the determination of an appropriate capital structure for the Company;

(d) assist the Company and its other professionals in developing the terms of proposal regarding a Restructuring Transaction;

(e) determine a range of values for the Company and any securities that the Company offers in connection with a Restructuring Transaction;

(f) in connection with advising the Company with respect to its intermediate and long-term business prospects and strategic alternatives that may be available to the Company to maximize the business enterprise value of the Company, advise the Company on the risks and benefits of considering a Restructuring Transaction;

(g) review and analyze any proposals the Company receives from third parties regarding a Restructuring Transaction;

(h) assist or participate in negotiations with the Company and/or any other parties in interest regarding a Restructuring Transaction;

(i) advise and attend meetings of the Company's Board of Directors, as necessary;

(j) assist in obtaining debt and equity financing and in negotiating with prospective providers of such financing, if requested by the Company;

(k) in the event the Company determines to commence Chapter 11 proceedings in order to pursue a Restructuring Transaction, assist in the plan of reorganization negotiation and confirmation process, including preparation and delivery of expert testimony relating to financial matters, if required; and,

(l) render such other financial advisory and investment banking services as may be agreed upon by Rothschild and the Company in connection with the foregoing.

17. Under the Engagement Letter and the Retention Order, the Debtors' have agreed to compensate Rothschild for its services as follows:

(a) A monthly cash advisory fee (the "Monthly Fee") equal to \$150,000 per month.

(b) A recapitalization fee (the "Recapitalization Fee") payable upon the consummation of the Restructuring Transaction (as defined in the Rothschild Agreement) equal to \$3,000,000, subject to a credit (the "Credit") equal to 100% of Monthly Fees paid to Rothschild.

(c) A new capital fee (the "New Capital Fee") payable upon closing of a new financing, (the "New Capital Financing"), where Rothschild acts as the Company's agent in obtaining such New Capital Financing, provided that such financing is raised from third parties not involved in the Restructuring Transaction, equal to the excess of (A) the sum of (i) 1.0% of the face amount of any secured debt, (ii) 3.5% of the face amount of

any junior secured or senior or subordinated unsecured debt and (iii) 6.0% of the gross proceeds of any equity or hybrid capital over (B) (i) \$1,500,000 if the sum of the amounts set forth in clause (A) is equal to or greater than \$3,000,000 or (ii) one-half of the sum of the amounts set forth in clause (A) if the sum of the amounts set forth in clause (A) is less than \$3,000,000.

(d) The Debtors further agreed to reimburse Rothschild for reasonable out-of-pocket expenses incurred in connection with the provision of services under the Rothschild Agreement, including without limitation the reasonable fees, disbursements and other charges of Rothschild's outside counsel. Out-of-pocket expenses shall also include, but not be limited to, reasonable expenses incurred in connection with travel and lodging, data processing and communication charges, research and courier services.

18. On April 16, 2002, the Debtors filed an Application for an Order Authorizing the Retention and Employment of Rothschild, nunc pro tunc to March 13, 2002, under the terms of the Engagement Letter. The Debtors required the services of financial advisors and investment bankers. Because of Rothschild's extensive pre-petition involvement with the Debtors, their knowledge of the industry as well as the Debtors' operations and predicament, integral role in negotiating the terms of the reorganization plan, and Rothschild's broad experience in corporate restructuring transactions for companies in Chapter 11, the Debtors determined that the continued employment of Rothschild as the Debtors' financial advisors and investment bankers was in the best interest of their bankruptcy estates, and essential to a successful outcome of the case. By Order dated June 26, 2002, this Court entered the Retention Order, approving Rothschild's retention.

19. Pursuant to the terms of the Retention Order and the Fee Order, Rothschild has submitted monthly statements of fees and disbursements to (i) the Debtors, (ii) counsel to the Debtors, (iii) counsel to all official committees, (iv) counsel for the Office of the United States Trustee, and (v) counsel to the agent for the Debtors' pre-petition and post-petition secured lenders. Pursuant to the Fee Order, Rothschild has been paid, or anticipates that it will be paid,

80% of the fees and 100% of the expenses identified in each monthly statement to which no objection has been served. The monthly fee statements delivered by Rothschild are summarized in the following table:

<u>Statement Date</u>	<u>Statement Amount</u>		<u>Payments Received</u>	
	<u>Fees</u>	<u>Expenses</u>	<u>Fees</u>	<u>Expenses</u>
6/28/02	\$360,474.26	\$19,763.26	\$288,379.41	\$19,763.26
7/25/02	\$150,000.00	\$7,015.10	\$120,000.00	\$7,015.10
8/23/02	\$150,000.00	\$1,686.72	\$120,000.00	\$1,686.72
9/19/02	\$1,920,000.00	\$7,688.96		

20. By this Application, Rothschild seeks (i) approval of compensation for services rendered during the period March 13, 2002 through and including October 4, 2002 (the “Relevant Period”), consisting of \$2,637,096.77 of fees (as specified below) plus the reimbursement of reasonable and necessary expenses incurred by Rothschild during the Relevant Period in the amount of \$40,162.67, (ii) confirming payments received by Rothschild pursuant to the Fee Order in respect of the fees and disbursements for the Relevant Period, as detailed in the monthly statements and (iii) authorizing and directing the Debtors to make payment in respect of any fees and disbursements not yet received by Rothschild for the Relevant Period, as detailed in the monthly statements, including any “hold-back” amounts.

21. Annexed hereto as Exhibit C are the invoices for the total compensation and expenses sought by Rothschild for the Relevant Period, including a breakdown of Rothschild's expenses incurred during the Relevant Period. In summary, during the Relevant Period, Monthly

Fees accrued under the Engagement Letter for March 2002 (pro-rated), April 2002, May 2002, June 2002, July 2002, August 2002, and September 2002, in the aggregate amount of \$987,096.77 and Rothschild incurred reasonable and necessary expenses in the amount of \$40,162.97. In addition, Rothschild is entitled to receive its Recapitalization Fee under the Engagement Letter, less the Credit of \$1,350,000.00 (consisting of \$362,903.23 pre-petition monthly fees and \$987,096.77 post-petition monthly fees) for a net Recapitalization Fee of \$1,650,000.00. No New Capital Fee has become due under the Engagement Letter.

22. Pursuant to the Fee Order and previously delivered monthly statements, Guilford has paid Rothschild a total of \$745,561.85 for services performed during the Relevant Period, consisting of (i) \$687,096.77 in monthly fees for March 2002 (pro-rated), April 2002, May 2002, June 2002, July 2002, less (ii) \$120,000.00 in withholdings of monthly fees, plus (iii) \$28,465.08 in reimbursement of reasonable expenses, plus (iv) \$150,000.00 Retainer as defined below. In March 2002, Guilford paid Rothschild a retainer equal to one Monthly Fee or \$150,000.00 (the "Retainer"). Rothschild will credit Guilford the Retainer against monthly fees due.

23. Accordingly, Rothschild seeks interim and final approval of compensation of \$2,637,096.77 of Rothschild's fees and \$40,162.67 for reimbursement of Rothschild's reasonable, necessary expenses incurred by the Rothschild during the Relevant Period, for a total of \$2,677,259.44. Rothschild also seeks payment by Guilford of the portions of Rothschild's compensation and expenses that currently remain unpaid, including fees of Rothschild withheld pursuant to the provisions of the Fee Order.

24. Rothschild respectfully submits that the compensation requested for the Relevant Period for services rendered by Rothschild to the Debtors is fully justified and reasonable based

on the following: (a) the degree of activity during the Relevant Period and the high level of services rendered by Rothschild to the Debtors, (b) the complexity of the issues presented, (c) the skill necessary to perform the investment banking services properly, (d) the preclusion of other employment, (e) customary fees charged in non-bankruptcy situations for similar services rendered, (f) time constraints required by the exigencies of the case, and (g) the experience, reputation and ability of the professionals rendering services.

SUMMARY OF SERVICES RENDERED

25. Senior level professionals with extensive experience in the area of investment banking and bankruptcy services have directed Rothschild's team. The investment banking services set forth above were performed primarily by David L. Resnick, Managing Director, Ira L. Wolfson, Vice President, Matthew P. Whiting, Associate, and Naveen Bhatia, Analyst, as well as other professionals and paraprofessionals, as needed. Biographies of David L. Resnick, Ira L. Wolfson, Matthew P. Whiting, and Naveen Bhatia are attached hereto as Exhibit D. Rothschild's general staffing policy is to assign senior bankers, experienced junior bankers and financial analysts to each restructuring assignment. The senior banker, David L. Resnick, has overall responsibility for the case. He is primarily responsible for developing strategy with respect to the case, directing negotiations and interfacing with the other senior professionals involved with the case. The additional senior banker, in this case Ira L. Wolfson, and the experienced junior banker, in this case Matthew P. Whiting, assist in the day-to-day coordination of the case and perform with the financial analyst, in this case Naveen Bhatia, extensive financial analyses. The senior bankers, the experienced junior banker and the financial analyst coordinate their actions so as to not duplicate efforts. Given that the senior bankers, the experienced junior

banker and the financial analyst have different roles in the case but have overlapping responsibilities, there are frequent times where it is appropriate for two or more bankers to be present at a meeting.

26. Attached hereto as Exhibit E are daily time logs detailing the activities and services performed by Rothschild on behalf of the Debtors during the Relevant Period. The amount of fees and expenses sought in this application and Rothschild's billing processes are consistent with market practices for investment banking firms both in and out of a bankruptcy context. Rothschild does not bill its clients based on the number of hours expended by its professionals. It bills clients on a retainer basis (generally monthly), plus a transaction fee based upon successful completion. Accordingly, Rothschild does not have hourly rates for its professionals and Rothschild's professionals generally do not maintain time records for the work performed for its clients. Rothschild's policy, for all engagements in or out of bankruptcy, is to dedicate the appropriate number of professionals to the assignment to complete the work as efficiently as possible.

27. All services rendered by Rothschild during the Relevant Period were performed at the request or direction of the Debtors or legal professionals of Togut, Segal & Segal ("Togut"). Rothschild has provided a broad range of necessary financial advisory services. Major areas of effort can be summarized into the following general categories:

A. Operating and Financial Review

28. Rothschild's ongoing financial and operating due diligence involved numerous meetings and telephone calls with officers of Guilford. The subjects reviewed on these occasions included the operating results of Guilford, variance of these results to forecasts and numerous

other subjects. Rothschild was instrumental in working with Guilford and its advisors to develop the business plan focusing on the core businesses, identifying assets and businesses for disposition, engaging in comprehensive due diligence and testing and challenging assumptions by management.

B. Valuation/Financial Analysis

29. Rothschild reviewed and performed various analyses of Guilford's financial projections, capital structure and the potential financial implication of various scenarios. Rothschild's review involved the analysis of the Debtors' historical financial performance and the Debtors' projections, as well as discussions with Guilford management and an analysis of the industry and financial and market performance of its competitors. As part of the financial analysis process, Rothschild performed a wide range of financial analyses to assist the Debtors and their other advisors in the Chapter 11 process with regard to valuation and debt capacity including comparable company, precedent transaction, and discounted cash flow analyses.

C. Strategic Alternatives/Meetings & Discussions with Management

30. Rothschild participated in numerous meetings and calls with the Debtors and Togut to discuss strategic and other issues relating to the Chapter 11 process. Rothschild was involved in and analyzed a broad range of the alternatives considered by the Debtors in the Chapter 11 process. Rothschild assisted the Debtors in devising a plan to identify non-core business units and assets for sale/liquidation, and reorganize around the Debtors core automotive and technical textile businesses.

D. Meetings/Discussions with Secured Lenders

31. Rothschild participated in numerous meetings and conference calls with the Secured Lenders, both as a group and individually, their legal advisors, Morgan, Lewis & Bockius LLP (“MLB”) and King & Spalding (“K&S”), and their financial advisors, FTI Consulting, Inc. (“P&M”). Rothschild was responsible for presenting and discussing strategic alternatives to maximize value, valuation of the individual businesses and the consolidated business as a whole, debt capacity, and potential capital structures. Rothschild was instrumental in developing and negotiating a capital structure and the associated securities that would ultimately be received by the Secured Lenders pursuant to the Plan. Over the course of such meetings referenced above, Rothschild and the Secured Lenders discussed senior term debt, senior notes, subordinated notes, convertible debt instruments, preferred stock, convertible stock and other equity-linked securities.

E. POR Negotiations

32. Rothschild was instrumental in negotiations that ultimately resulted in the Plan. Rothschild participated in several meetings/discussions with Guilford and its advisors, in addition to meetings/discussions with creditor constituencies, P&M, MLB, and K&S to negotiate the terms of the Plan including, but not limited to, Guilford’s going-forward business plan, valuation, debt capacity, and capital structure.

33. Rothschild was instrumental in negotiations that resulted in the term sheet which formed the basis of the Plan. Rothschild’s valuation and debt capacity analyses were critical to

determine the recoveries to the Secured Lenders resulting from the combination of new debt, proceeds from the liquidating trusts and the value of the equity the Secured Lenders would receive in Reorganized GMI, and played a lead role in negotiating such recoveries.

F. Creditors Committee Meetings/Discussion

34. Rothschild participated in several Creditors Committee meetings. Rothschild also had discussions with, prepared materials for and responded to information requests from the Creditors Committee and P&M in conjunction with the general administration of the case and in particular with respect to the potential refinancing.

G. Corporate Finance Alternatives

35. Rothschild pursued several alternatives including a potential refinancing of the securities to be delivered to the Secured Lenders as part of their recovery and an M&A transaction. In conjunction with Guilford management, Rothschild created and distributed a Confidential Information Brochure detailing the Company's operations, planned Chapter 11 recapitalization, and historical and projected financial data to potential interested parties. Rothschild set up and participated in numerous calls with potential interested parties, including both financial and strategic investors. Rothschild negotiated and presented proposals to the Senior Lenders.

36. Rothschild was involved in numerous other activities involving alternatives, including: participation in calls with Guilford management and its advisors, negotiating and executing confidentiality agreements, soliciting indications of interest from potential interested

parties, discussing Guilford's operations as well as preparation of due diligence materials for the calls with potential interested parties.

H. Board of Directors Meetings

37. Rothschild participated in several meetings with the Board of Directors of GMI. Rothschild reviewed valuation, debt capacity and strategic alternatives with the Board, including the sale/liquidation of non-core businesses and assets. Additionally, Rothschild was responsible for reviewing with the Board the various proposals for the Plan including proposals received regarding the potential refinancing of GMI.

I. Court Hearings/Filings

38. Rothschild participated in and prepared for Bankruptcy Court Hearings including but not limited to matters pertaining to retention matters, Disclosure Statement Hearing and the Confirmation Hearing.

39. Rothschild attended the Confirmation Hearing on September 19, 2002. The testimony of David L. Resnick was proffered during the hearing.

J. Miscellaneous

40. During the Relevant Period, Rothschild advised the Debtors on a number of miscellaneous matters. Rothschild participated in numerous conference calls with the Debtors and other advisors to discuss the Debtors' Chapter 11 cases and various related issues. Additionally, this category included travel time to and from various Company locations and meetings.

41. Rothschild respectfully submits that the services it has rendered to the Debtors have been necessary and in the best interest of the Debtors and their estates and have furthered the goals of all parties in interest.

42. The services summarized by this application and rendered by Rothschild to the Debtors during the Relevant Period were substantial, highly professional and instrumental to Guilford's reorganization. They were reasonable and necessary to the Debtors' performance of their duties.

SUMMARY OF POLICIES WITH RESPECT TO REIMBURSEMENT OF EXPENSES

43. Rothschild's charges for expenses to the Debtors are determined in the same manner as for clients in non-bankruptcy matters. Out-of-pocket expenses incurred by Rothschild are charged to a client if the expenses are incurred for the client or are otherwise necessary in connection with services rendered for such particular client. Rothschild does not factor general overhead expenses into disbursements charged to clients in connection with Chapter 11 cases. Rothschild has followed its general internal policies with respect to out-of-pocket expenses billed to the Debtors as set forth below, with any exceptions fully explained.

(a) Rothschild's general policy permits its employees to bill lunch or dinner meals to a client if the employee is required to provide services to the client during such mealtime due to extreme time constraints. Rothschild's employees are permitted to order meals in the office if Rothschild's employee is required to work after 8:00 p.m. on weekdays or more than five (5) consecutive hours on weekends or holidays. Meal expenses incurred during meetings which employees and other meeting participants are required to attend are billed at cost.

(b) Messengers and couriers are used by Rothschild to deliver hard copy documents relating to a client matter, which require receipt on an expedited basis; otherwise, Rothschild uses the regular postal system. Any charges for either messengers or couriers are billed to the client at cost.

(c) All airfare and other transportation charges incurred by Rothschild's

employees directly in connection with services to the client are billed to client at cost.

(d) The research/database category consists of the cost of using databases (e.g., Disclosure, Securities Data Corporation, Dow Jones, Lexis-Nexis, etc.) to which Rothschild subscribes to search for and obtain information used in Rothschild's financial analyses. Rothschild pays the vendor's standard rate for such database services. In certain instances, Rothschild has determined that paying a flat annual or monthly fee for such services is less costly than contracting for such services on a per use basis. Such annual or monthly services are allocated to clients based on such clients' use of each service. The research category also consists of charges from outside services, which supply, for a fee, financial documents from regulatory agencies, which cannot be obtained from databases subscribed to by Rothschild.

(e) Rothschild bills photocopying charges at the rate of \$.10 per page for black and white copies and \$1.00 per page for color copies.

(f) With respect to local travel, Rothschild's general policy enables employees to travel by taxi or, in certain circumstances, by private car service, to and from meetings while rendering services to a client on a client related matter, for which the client is charged. This policy is based on Rothschild's determination that travel by taxi or private car service is the most efficient use of a professional's time. Rothschild's employees are not permitted to charge personal commuting expenses to a client unless the employee is traveling after 8:00 p.m. and has been required to work late as a result of the time exigencies of that client's matters.

(g) Telephone expenses are charged based on Rothschild's actual cost of telephone charges with respect to client matters. Cellular phone charges are based on vendor's actual invoices.

(h) Word processing charges represent actual costs incurred by Rothschild's in-house vendor and actual cost of overtime secretarial support in connection with client matters.

(i) Conference calls arranged through a third party vendor are charged a \$.75 per line per minute usage charge.

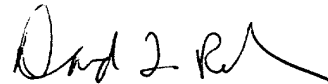
CONCLUSION

44. The services summarized by this application and rendered by Rothschild to the Debtors during the Relevant Period were substantial, highly professional and instrumental to the successful resolution of the Debtors' Chapter 11 cases. Such services were reasonable and necessary to the Debtors' performance of their duties.

WHEREFORE, Rothschild respectfully requests that this Court enter an order (a) granting interim and final allowance of compensation for the period beginning March 13, 2002 through and including October 4, 2002 in the amount of \$2,637,096.77 for services rendered by Rothschild as investment banker to the Debtors, and reimbursement of expenses incurred and recorded by Rothschild during the Relevant Period in the amount of \$40,162.67, for a total of \$2,677,259.44, (b) authorizing and directing the Debtors to pay Rothschild such amounts, to the extent not yet paid to Rothschild, specifically the payment of \$1,920,000.00 for fees and \$11,697.59 for necessary and reasonable expenses and (c) granting such other and further relief as this Court deems just and proper.

Dated: New York, New York
November 1, 2002

ROTHSCHILD INC.

By: 
David L. Resnick, Managing Director

CERTIFICATION

DAVID L. RESNICK, under penalty of perjury, certifies and says:

1. I am a Managing Director with the applicant firm, Rothschild Inc. ("Rothschild"), which firm maintains offices for providing financial advisory and investment banking services at 1251 Avenue of the Americas, New York, NY 10020. Rothschild has acted as investment banker to and rendered professional services on behalf of the Debtors.

2. This certification is submitted in support of Rothschild's First Interim Application for Compensation and Reimbursement of Expenses (the "Application"), pursuant to Rule 2016 of the Federal Rules of Bankruptcy Procedure and Administrative Order M-150, Amended Guidelines for Fees and Disbursements for Professionals in Southern District of New York Bankruptcy Cases (the "Amended Guidelines").

3. I hereby certify that:

(a) I have read the Application.

(b) To the best of my knowledge, information and belief formed after a reasonable inquiry, the fees and disbursements sought in the Application fall within the Amended Guidelines and the guidelines promulgated by the Office of the United States Trustee applicable to the Application (the "UST Guidelines"), except as specifically noted in this Certification and in the Application.

(c) Except to the extent that fees or disbursements are prohibited by the Amended Guidelines or the UST Guidelines, the fees and disbursements sought are billed at rates and in accordance with practices customarily employed by Rothschild and generally accepted by Rothschild's clients.

(d) In providing a reimbursable service, Rothschild does not make a profit on that service, whether the service is performed by Rothschild in-house or through a third party.

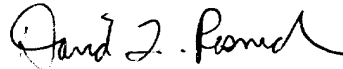
4. Subject to the terms of applicable procedural orders of this Court and any order or orders of this Court approving the retention of Rothschild, the Debtors and the official

committees appointed in the Debtors' Chapter 11 cases have been provided not later than 20 days after the end of each month with a statement of fees and disbursements accrued during such month, in the manner set forth in the Amended Guidelines.

5. Subject to the terms of applicable procedural orders of this Court and any order or orders of this Court approving the retention of Rothschild, the Debtors and the official committees appointed in the Debtors' Chapter 11 cases have been provided with a copy of the Application at least 10 days before the date set by the Court or any applicable rules for filing fee applications.

I certify under penalty of perjury that the foregoing is true and correct.

Dated: New York, New York
November 1, 2002



David L. Resnick

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

----- X
In re : Chapter 11
: :
GUILFORD MILLS, INC., : Case No. 02-40667 (BRL)
 : :
 et al., : :
 : Jointly Administered
 Debtors. : :
----- X

**ORDER GRANTING FIRST INTERIM AND FINAL APPLICATION OF ROTHSCHILD
INC. AS FINANCIAL ADVISOR AND INVESTMENT BANKER FOR THE DEBTORS
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Upon consideration of the First Interim and Final Application (the "Application") of Rothschild Inc. for Compensation and Reimbursement of Expenses, for the period from March 13, 2002 through October 4, 2002, filed by Rothschild Inc. ("Rothschild"); and due and adequate notice of the Application having been given under the circumstances; and capitalized terms used but not defined herein being used with their defined meanings as set forth in the Application; and after due deliberation, and good and sufficient cause appearing therefore, it is

ORDERED, that the Application be, and it hereby is, GRANTED; and it is further

ORDERED, that there SHALL BE ALLOWED TO Rothschild (i) compensation for its professional services rendered during the Relevant Period as investment banker and financial advisor to the Debtors in the amount of \$2,637,096.77 and (ii) reimbursement of actual, reasonable and necessary expenses incurred during the Relevant Period in the amount of \$40,162.67; and it is further

ORDERED that any and all payments heretofore made to Rothschild pursuant to the procedures set forth in the Fee Order in respect of Rothschild's fees and expense reimbursements accrued during the Relevant Period are hereby RATIFIED and CONFIRMED; and it is further

ORDERED that the Debtors are AUTHORIZED and DIRECTED to pay to Rothschild fees in the amount of \$1,920,000.00 and expense reimbursements in the amount of \$11,697.59, representing the amount of fees and expenses allowed under this Order and not yet paid to Rothschild, less the amount of any Retainer paid to Rothschild and applied by Rothschild to such fees and expenses; and it is further

ORDERED, that this Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Dated: New York, New York
_____, 2002

United States Bankruptcy Judge