

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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In re : Chapter 11
 :
RathGibson, Inc., et al.,¹ : Case No. 09 - 12452 (CSS)
 :
Debtors. : Joint Administration Pending
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**DECLARATION OF LEON SZLEZINGER IN SUPPORT OF DEBTORS’
MOTION FOR INTERIM AND FINAL ORDERS PURSUANT TO
11 U.S.C. §§ 105, 361, 362, 363 AND 364: (I) AUTHORIZING DEBTORS
TO (A) OBTAIN POSTPETITION FINANCING, AND (B) GRANT
SENIOR LIENS AND SUPERPRIORITY ADMINISTRATIVE EXPENSE
STATUS; (II) APPROVING USE OF CASH COLLATERAL;
(III) GRANTING ADEQUATE PROTECTION TO CERTAIN
PREPETITION SECURED PARTIES; (IV) SCHEDULING A
FINAL HEARING; AND (V) GRANTING RELATED RELIEF**

I, Leon Szlezinger, hereby declare under penalty of perjury:

1. I am a Managing Director at Jefferies & Company, Inc. (“Jefferies”), which is an investment banking firm with principal offices located at 520 Madison Avenue, New York, NY 10022. Prior to the commencement of these chapter 11 cases, in April 2009, the above-captioned debtors and debtors in possession (collectively, “RathGibson”, the “Company”, or the “Debtors”) retained Jefferies as their financial advisor and investment banker² to explore and implement potential strategic alternatives to address their liquidity constraints and covenant issues.

¹ The last four digits of the taxpayer identification numbers of the debtors in the above-captioned cases follow in parentheses: (i) Greenville Tube Company (2689); (ii) RathGibson, Inc. (3283); (iii) RG Tube Holdings LLC (4080); and (iv) RGCH Holdings Corp. (9683). Such debtors’ executive headquarters’ address is 475 Half Day Road, Suite 210, Lincolnshire, Illinois 60069.

² Jefferies’ understands that its continued retention post-petition is subject to the Bankruptcy Court’s approval of the Debtors’ application to employ Jefferies as their financial advisor and investment banker in these chapter 11 cases.

2. I submit this declaration (the “Declaration”) in support of the *Debtors’ Motion for Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363 and 364: (I) Authorizing Debtors to (A) Obtain Postpetition Financing, and (B) Grant Senior Liens and Superpriority Administrative Expense Status; (II) Approving Use of Cash Collateral; (III) Granting Adequate Protection to Certain Prepetition Secured Parties; (IV) Scheduling a Final Hearing; and (V) Granting Related Relief* (the “DIP Motion”).³

3. Except as otherwise indicated, all facts set forth in this Declaration are based upon (a) my direct personal knowledge of RathGibson’s operations and finances, (b) information learned from my review of relevant documents, and/or (c) information supplied to me by members of RathGibson’s management, employees of Jefferies working directly with me or under my supervision, direction or control and/or from RathGibson’s other professionals and advisors. I am not being compensated specifically for this testimony (other than payments received by Jefferies in its capacity as financial advisor and investment banker to RathGibson). If called to testify, I could and would testify competently to the facts set forth herein.

A. Jefferies’ Qualifications

4. Jefferies is a registered broker-dealer with the United States Securities and Exchange Commission, and is a member of the Boston Stock Exchange, the International Stock Exchange, the Financial Industry Regulatory Authority, the Pacific Stock Exchange, the Philadelphia Stock Exchange, and the Securities Investor Protection Corporation. Jefferies was founded in 1962 and is a wholly-owned subsidiary of Jefferies Group, Inc. Jefferies Group, Inc.

³ Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the DIP Motion.

is a public company and, together with its subsidiaries, has gross assets of approximately \$20 billion and approximately 2,000 employees in more than 20 offices around the world.

5. Jefferies provides a broad range of corporate advisory services to its clients including, without limitation, services pertaining to: (i) general financial advice, (ii) mergers, acquisitions, and divestitures, (iii) special committee assignments (iv) capital raising, and (v) corporate restructuring. Jefferies and its senior professionals have extensive experience in the reorganization and restructuring of troubled companies, both out-of-court and in chapter 11 proceedings. The employees of Jefferies have advised debtors, creditors, equity constituencies, and purchasers in numerous reorganizations. Since 2001, Jefferies has been involved in over 160 restructurings representing over \$175 billion in restructured liabilities.

6. Jefferies and its professionals have extensive experience in reorganization cases and have an excellent reputation for services they have rendered in large and complex chapter 11 cases on behalf of debtors, creditors and creditors' committees throughout the United States, including: In re Pliant Corp.; In re Nortel Networks Inc.; In re Apex Silver Mines Limited; In re Circuit City Stores Inc.; In re Quebecor World (USA) Inc.; In re Ames Department Stores, Inc.; In re Bally Total Fitness of Greater NY, Inc.; In re Tropicana Entertainment, LLC; In re ASARCO LLC; In re AmeriServe Food Distribution, Inc.; In re Diamond Brands Operating Corp.; In re Federal Mogul Corporation; In re Heartland Wireless Communications; In re Delphi Corporation, et. al.; In re Foamex International Inc.; In re International Wireless Communications. Inc., et. al.; In re WXH Corp.; and In re XO Communications Inc.

7. I have been working closely with RathGibson's management and other professional advisors since April 27, 2009, and, as a result, I have developed relevant experience

and acquired considerable knowledge with respect to the Debtors' business operations, financial affairs, and debt structure. My primary responsibilities with respect to this engagement have included, without limitation: (i) analyzing the liquidity and projected cash flows of the Debtors; (ii) assisting in developing and evaluating alternative means to meet near-term liquidity requirements; (iii) exploring strategic restructuring and financing opportunities; (iv) with respect to debtor-in-possession ("DIP") financing, working with the Debtors on an accelerated timeframe to identify potential lenders, including the Debtors' prepetition secured lenders and other third-party lenders, willing to provide financing in an amount to fund the Debtors with adequate liquidity during these chapter 11 cases; and (v) assisting the Debtors in structuring and negotiating the proposed DIP financing.

B. Debtors' Prepetition Capital and Debt Structure

8. The Debtors' prepetition debt and capital structure is comprised of: (i) a senior secured revolving credit facility (the "Revolving Credit Facility") with a maximum borrowing capacity of \$90.0 million, subject to borrowing base availability; (ii) 11.25% senior unsecured notes due February 15, 2014 (the "Senior Notes"), in an aggregate principal amount of \$200 million, issued by RathGibson, Inc.; and (iii) 13.5% unsecured payment-in-kind notes due June 15, 2015 (the "PIK Notes"), in an original principal amount of \$115 million, issued by RGCH Holding Corp.

9. The Revolving Credit Facility is governed by a Prepetition Secured Credit Agreement (the "Prepetition Secured Credit Agreement") with General Electric Capital Corporation ("GECC"), as administrative agent (the "Prepetition Agent"), and the lenders from time to time party thereto (the "Prepetition Secured Lenders"). As of July 13, 2009, the outstanding balance under the Prepetition Secured Credit Agreement is approximately \$55.3

million (the “Prepetition Secured Debt”), which debt is secured by substantially all of the Debtors’ real and personal property (collectively, “Prepetition Collateral”), including proceeds from collateral, bank accounts and all deposits therein, and all money, cash or cash equivalent of the Debtors (collectively, the “Cash Collateral”).

C. Debtors’ Prepetition Liquidity Crisis and Efforts to Obtain Postpetition Financing

10. During the fourth quarter of fiscal 2009 and the first quarter of fiscal 2010,⁴ RathGibson experienced significant net losses and a significant decrease in net sales, primarily due to the unprecedented global economic downturn and general slowdown in industrial activity in the United States. As a result of the Company’s performance and its high level of debt obligations, in February 2009, Moody’s Investors Services downgraded RathGibson’s credit ratings from B3 to Caa2 with a revision to the Company’s outlook from stable to negative. In May 2009, Standard & Poor’s downgraded RathGibson’s credit ratings from B to CCC+ with a revision to the Company’s outlook from negative to watch negative.

11. Credit ratings are relied upon by the supplier community as a key indicator of a Company’s ability to meet its obligations. Following the credit rating downgrades referred to above, a significant number of suppliers informed the Debtors of their concerns regarding the financial stability of the Company. While the Debtors’ management initially was able to manage suppliers in an effective manner, it became clear that such parties were awaiting the filing with the SEC of RathGibson’s audited financial statements for the fiscal year ended January 31, 2009 under Form 10-K. The 10-K was due to be filed on May 1, 2009, but ultimately was not filed until May 18, 2009. The Debtors’ Form 12b-25 filed with the SEC discussing the reasons for the

⁴ The Debtors’ fiscal year end is January 31. Fiscal 2009 is the year ended January 31, 2009. Fiscal 2010 is the year ended January 31, 2010.

filing delay, included disclosures regarding questions raised by the Debtors' auditors about the Debtors' ability to continue as a going concern enterprise. This disclosure caused significant trade contraction, which negatively affected the Debtors' liquidity. Indeed, the delay in filing of the 10-K combined with the poor financial performance disclosed therein increased suppliers' anxiety and certain suppliers imposed more strict payment terms, which had a material adverse effect on the Company's liquidity.

12. On May 15, 2009, the Debtors, the Prepetition Agent, and the then Prepetition Secured Lenders entered into an amendment to the Prepetition Secured Credit Agreement that was necessary to bring the Debtors into compliance with certain covenants therein. This amendment, among other things, required the Company to maintain minimum amounts available under its Revolving Credit Facility throughout the period until July 31, 2009.

13. On June 15, 2009, RathGibson filed its Form 10-Q with the SEC, which contained disclosures regarding the Company's continued poor performance, continued constrained liquidity and the possibility that the Company may need to seek protection under the U.S. Bankruptcy Code. As a result thereof, RathGibson experienced additional trade contraction whereby significant suppliers demanded immediate payment of existing receivables and cash terms for future orders in order to continue to do business with the Company.

14. The continued critical liquidity pressures the Debtors were facing, combined with certain borrowing base adjustments likely to be made pursuant to the requirements of the Revolving Credit Facility, led the Debtors to believe that they would shortly be out-of-compliance with the minimum availability covenants referred to above and potentially without a source of funding for operations. As a result, the Debtors began discussions with the then Prepetition Secured Lenders with a view to assuring their liquidity. It quickly became clear

that the then Prepetition Secured Lenders would not provide such additional liquidity unless it was in the context of a chapter 11 filing.

15. In consultation with Jefferies, the Debtors determined that, as well as negotiating for DIP financing with GECC, they should investigate and explore other potential sources of liquidity. The Debtors' liquidity situation, however, left them with little more than a week to locate and negotiate with such sources of DIP financing.

16. The Debtors approached the Prepetition Agent regarding the consensual use of Cash Collateral and potential DIP financing in a chapter 11 filing context and while awaiting a proposal from the Prepetition Agent, the Debtors, through Jefferies, also solicited offers from several other parties for the provision of postpetition DIP financing. Jefferies solicited interest from approximately twenty parties, of which six entered into non-disclosure agreements and were provided an opportunity to perform due diligence.

17. On June 16, 2009, the Debtors received a proposal (the "DIP Proposal") from Wayzata Investment Partners LLC, a member of the Ad Hoc Committee of Senior Noteholders, regarding an approximately \$100 million DIP facility that would be used to refinance the Revolving Credit Facility and provide approximately \$50 million of additional liquidity to fund an expedited chapter 11 plan process requiring approval of a disclosure statement and plan within 75 and 120 days after the Petition Date, respectively.

18. Also on June 16, 2009, the Debtors received a proposal from GECC regarding an approximately \$70 million DIP facility that also would refinance all of the Prepetition Secured Debt using the interim borrowings prior to entry of a final order and, in connection with an unspecified junior DIP facility provided by an unidentified third party, provide approximately \$30 million of additional liquidity to fund a dual-track chapter 11 plan

and sale process. This process required the filing of either a plan and disclosure statement or a motion to establish bid procedures for the sale of all or substantially all assets within 100 days after the Petition Date, with approval and consummation of such plan/sale to occur within 150 and 180 days after the Petition Date, respectively.

19. On June 17, 2009, the Debtors received a proposal from another party regarding an approximately \$15 million junior DIP facility that would have funded an expedited sale process requiring approval of a sale of all or substantially all of the Debtors' assets within 90 days after the Petition Date.

20. During the time in which the Company had begun to receive such proposals, the borrowing base under the Revolving Credit Facility had fallen below \$10 million and, as permitted under the Revolving Credit Facility, the then Prepetition Secured Lenders began sweeping the Debtors' bank accounts. As the sweeping of the Debtors' bank accounts were beginning, the then Prepetition Secured Lenders also was concluding an inventory valuation, which may have resulted in the borrowing base availability being reduced to zero. During this period of time the Company was experiencing further pressure from certain key suppliers who were, among other things, demanding cash on delivery and shorter payment terms. As a result, the Debtors informed the three parties mentioned above that the Debtors required the submission of a debtor in possession financing commitment letter within a very short period of time.

21. In light of the circumstances the Debtors faced at the time and their analysis of the merits of the alternate proposals to meet the Debtors' immediate need for incremental liquidity, the Debtors determined that pursuing the DIP Proposal represented the best course of action to preserve and maximize the value of their assets (which I believe will be

best accomplished through the preservation of a going-concern enterprise rather than a liquidation). Accordingly, on June 19, 2009, the Debtors negotiated a term sheet and signed a commitment letter (as amended the "Commitment Letter") with certain funds managed by Wayzata Investment Partners LLC outlining the terms and conditions pursuant to which the Debtors could finance the ongoing operations of their businesses during these cases through the use of cash collateral and proceeds of up to \$80 million from a post-petition loan agreement structured as a non-amortizing, multiple-draw, secured term loan facility (the "DIP Facility") to be provided by certain members of the Ad Hoc Committee of Senior Noteholders (together with their successors and permitted assigns, the "DIP Lenders").

22. Simultaneous with the execution of the Commitment Letter on June 19, 2009, Wayzata Opportunities Fund II, LP ("Wayzata"), one of the DIP Lenders, took assignment from the Prepetition Secured Lenders of their respective interests and commitments under the Prepetition Credit Agreement. Consequently, as of the Petition Date, Wayzata is the sole remaining Prepetition Secured Lender under the Prepetition Secured Credit Agreement, though GECC continues to act as Prepetition Agent.

23. In its capacity as a Prepetition Secured Lender, Wayzata entered into certain amendments to the Revolving Credit facility to enable the Debtors to receive up to \$14 million of additional credit under the Revolving Credit Facility. This additional credit was absolutely necessary to avoid serious operational disruptions and/or the necessity for a potential chapter 7 liquidation. Wayzata also agreed to provide the Debtors with additional time in which to proceed on a more orderly path to a pre-arranged chapter 11 filing.

24. With the additional time afforded them by the additional financing provided by Wayzata, the Debtors, as required by the terms of the Commitment Letter,

negotiated the terms of a plan support agreement (the “Plan Support Agreement”), with the Ad Hoc Committee of Senior Noteholders (which, as noted above, includes certain of the DIP Lenders) and a proposed plan of reorganization for the Debtors (the “Plan”) attached to the Plan Support Agreement and filed concurrently with the DIP Motion.

25. Based on the current state of the credit markets, as well as Jefferies’ experience in the DIP financing market generally and the outcome of Jefferies’ recent discussions with other potential lending sources, I believe that the financing provided under the DIP Facility was the only financing available to the Debtors on comparable terms to meet the Debtors’ working capital requirements to sustain their business operations during these chapter 11 proceedings and maximize and preserve the value of the Debtors’ bankruptcy estates. This determination is informed by, among other considerations: (i) the fact that Wayzata was willing to become the Prepetition Secured Lender and extend additional needed credit to the Debtors prior to the Petition Date, including for the refinancing of the Prepetition Secured Debt; (ii) the ability of the Debtors to procure any other commitment up to \$80 million; and (iii) the lack of superior DIP financing proposals from third parties.

26. The DIP financing will allow the Debtors to immediately access substantial working capital at this critical, early stage of their reorganization efforts in order to stabilize their businesses, mitigate any adverse affects attendant to the commencement of these cases and ensure ongoing business operations. In combination with cash generated from operations, the DIP Facility will provide the Debtors with much needed liquidity to fund their operating and capital expenditure needs during the course of these cases. Importantly, the credit provided under the DIP Facility will help restore the confidence of the Debtors’ vendors, customers and key constituencies, which, in turn, should encourage such parties to provide the

Debtors with credit terms and enhance the value of the Debtors' estates. Put another way, the ability of the Debtors to access the funds provided by the DIP Facility will facilitate a smooth transition into these chapter cases and help restore the confidence of the Debtors' vendors, customers and key constituents which, in turn, should encourage those parties to resume ongoing credit relationships with the Debtors that will enhance the value of the Debtors' estates.

27. I believe that the terms of the proposed DIP Facility were negotiated in good faith and at arm's length, are fair and reasonable and consistent with the current market for DIP loans. I believe also that no other financing is reasonably available to the Debtors that would meet their working capital needs during these chapter 11 cases, and that approval of the DIP Facility is necessary to avoid immediate and irreparable harm to the Debtors, including, without limitation, a potential shutdown of business operations and/or a liquidation under chapter 7 of the Bankruptcy Code to the detriment of the Debtors' estates, creditors and other parties in interest.

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Dated: Wilmington, Delaware
July 13, 2009



Leon Szlezinger