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at _____ o'clock ____ M

UNITED STATES BANKRUPTCY COURT FEB 08 2001
DISTRICT OF NEW MEXICO

United States Bankruptcy Court
Albuquerque, New Mexico

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In re : 01-11-10779-SA
FURR'S SUPERMARKETS, INC., : Chapter 11
Debtor. :
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DECLARATION OF STEVEN L. MORTENSEN IN SUPPORT
OF DEBTOR'S MOTION FOR INTERIM AND FINAL ORDER (I) AUTHORIZ-
ING DEBTOR TO INCUR POST-PETITION SECURED INDEBTEDNESS, (II)
GRANTING SECURITY INTERESTS, (III) MODIFYING THE AUTOMATIC
STAY, AND (IV) SCHEDULING A FINAL HEARING

Steven L. Mortensen states that the following is true to the best of his
knowledge, information and belief:

1. I am the Senior Vice President and Chief Financial Officer of Furr's Supermarkets, Inc. (the "Debtor").
2. I have been with the Debtor since January 2000, and have intimate knowledge of all aspects of the Debtor's business and its restructuring efforts. In particular, I am familiar with the Debtor's day-to-day operations, business affairs, and books and records.

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3. I submit this Declaration in support of the Debtor's Motion for Interim and Final Order (i) Authorizing the Debting the Automatic Stay, and (iv) scheduling a final hearing. For convenience, capitalized terms used but not expressly defined herein have the meaning given them in the Motion. Except as otherwise indicated, all facts in this Declaration are based upon my personal knowledge, my review of relevant documents, or my opinion, based upon my experience and knowledge of the Debtor's operations and financial condition. If I were called upon to testify, I could and would testify competently to the facts herein. I am authorized to submit this Declaration.

4. In addition to the Declaration described herein, the Debtor is also filing separate first-day motions and applications with respect to its postpetition operations. I am submitting a separate declaration in support of those pleadings.

The Chapter 11 Filing

5. On February 8, 2001 (the "Petition Date"), the Debtor filed a voluntary petition in this Court for reorganization relief under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330, as amended (the "Bankruptcy Code"). The Debtor continues to operate its businesses and manage its property as a debtor-in-possession under sections 1107 and 1108 of the Bankruptcy Code.

The Debtor's Prepetition Financing

6. Before the Petition Date, Fleet Capital Corporation ("Fleet"), Bank of America, N.A. ("BofA") and Heller Financial, Inc. ("Heller") (collectively, the "Pre-

Petition Senior Lenders”) loaned money and issued letters of credit to the Debtor under a Loan and Security Agreement (the “Existing Loan Agreement”), dated as of December 21, 2000, and other Loan Documents (as defined therein) (collectively, the “Pre-Petition Senior Loan Documents”). As of the Petition Date, the Debtor owed the Pre-Petition Senior Lenders approximately \$47 million (including all Letter of Credit Liability included in the Letter of Credit Reserve, as defined in the Existing Loan Agreement), plus all accrued and unpaid pre-petition interest, costs and fees, including professional fees and expenses and other Obligations under and as defined in the Existing Loan Agreement (collectively, the “Pre-Petition Senior Indebtedness”).

7. The Debtor does not contest that, as of the Petition Date, under the Pre-Petition Senior Loan Documents, the Pre-Petition Senior Indebtedness is secured by a continuing first, valid and perfected security interest in substantially all of the Debtor's existing Collateral (as defined in the Existing Loan Agreement), including all of the Debtor's accounts, inventory, general intangibles, intellectual property, documents, instruments, chattel paper, investment property, deposit accounts, cash and other property in the possession or under the control of any Pre-Petition Senior Lender, books and records that evidence or contain information relating to such collateral, and all proceeds thereof and continuing valid and perfected security interest in Equipment and all proceeds thereof (collectively, the “Pre-Petition Senior Collat-

eral”), second only to the security interest of Metropolitan Life Insurance Company (“MetLife”) described below.

8. Under a Note Purchase Agreement dated as of June 30, 1995, and amended and restated as December 21, 2000 (the “1995 NPA”), the Debtor also issued to MetLife two promissory notes, each in the amount of \$12,500,000. As of the Petition Date, under these notes, the Debtor owed MetLife approximately \$25,000,000, plus all accrued and unpaid pre-petition interest, costs and fees (collectively, the “Pre-Petition ML Senior Debt”).

9. The Debtor does not contest that the Pre-Petition ML Senior Debt is secured by a continuing first, valid and perfected security interest in the Debtor's Equipment and all proceeds thereof and a valid and perfected security interest in the other Pre-Petition Senior Collateral (collectively, the “Pre-Petition ML Collateral”), second only to the security interest of the Pre-Petition Senior Lenders.

10. The Debtor also entered into a Note Purchase Agreement, dated as of March 27, 2000, and amended and restated as December 21, 2000 (the “March 2000 NPA”), with MetLife and Credit Suisse First Boston Private Equity (“CSFB”) under which it issued a note to MetLife in the principal amount of \$8,773,108.90 and to CSFB in the principal amount of \$6,226,891.10. As of the Petition Date, under these notes, the Debtor owed MetLife and CSFB an aggregate amount of approximately

\$15,000,000, plus all accrued and unpaid pre-petition interest, costs and fees (collectively, the "Pre-Petition March 2000 Debt").

11. Under another Note Purchase Agreement, dated as of June 23, 2000, and amended and restated as December 21, 2000 (the "June 2000 NPA") with MetLife, CSFB, Windward Capital Associates, L.P. ("Windward"), and management noteholders, the Debtor issued to (a) MetLife a note in the principal amount of \$2,193,277.23; (b) CSFB a note in the principal amount of \$1,556,722.77; (c) Windward a note in the principal amount of \$500,000, (d) Tom Dahlen a note in the principal amount of \$100,000; (e) Steve Mortensen a note in the principal amount of \$50,000; (f) Steven Smart a note in the principal amount of \$50,000; (g) Gene Denison a note in the principal amount of \$20,000; (h) Delwyn James a note in the principal amount of \$30,000; (i) Steve Stork a note in the principal amount of \$50,000; (j) E.G. Gonzalez a note in the principal amount of \$25,000, (k) George Golleher a note in the principal amount of \$100,000; (l) Dick Goodspeed a note in the principal amount of \$200,000; (m) Arthur Typermass a note in the principal amount of \$35,000 and (n) David Morrow a note in the principal amount of \$250,000. As of the Petition Date, the approximate aggregate amount owed under these notes was \$5,160,000, plus all accrued and unpaid pre-petition interest, costs and fees (collectively, the "Pre-Petition June 2000 Debt").

12. In addition, the Debtor entered into a Subordinated Note Agreement, dated as of June 30, 1995, and amended and restated as December 21, 2000 (the "Subordinated Note Agreement"), with Fleming Companies, Inc. ("Fleming"), Windward/Merchant, L.P. ("Windward/Merchant"), Windward/Merban, L.P. ("Windward/Merban" and, together with Windward and Windward/Merchant, the "Windward Entities"), Windward/Northwest, L.P. ("Windward/Northwest") and MetLife, under which the Debtor issued Subordinated Notes to each of (a) Fleming in the principal amount of \$16,142,000.00 (the Debtor purchased these notes on June 21, 2000); (b) Windward/Merchant in the principal amount of \$2,902,114.00; (c) Windward/Merban in the principal amount of \$1,934,742.00; (d) Windward/Northwest in the principal amount of \$4,836,858.00 (Windward/Northwest sold this note to MetLife before the Petition Date); and (e) MetLife in the principal amount of \$24,184,286.00. As of the Petition Date, the approximate aggregate amount owed under these Notes was \$33,858,000, plus all accrued and unpaid interest, costs and fees (collectively, the "Pre-Petition 1995 Subdebt").

13. The Pre-Petition March 2000 Debt, the Pre-Petition June 2000 Debt and the Pre-Petition 1995 Subdebt (collectively, the "Pre-Petition Junior Indebtedness") are subordinated to the Pre-Petition ML Senior Debt and the Pre-Petition Senior Indebtedness under an Intercreditor Agreement dated as of December 21, 2000 (the "Intercreditor Agreement"), among MetLife, CSFB, Windward, the other holders

of Pre-Petition Junior Indebtedness, the Debtor and Heller, as agent for Pre-Petition Senior Lenders. The Intercreditor Agreement sets forth the relative priorities of the liens on the Pre-Petition Senior Collateral and the Pre-Petition ML Collateral and how the Pre-Petition Senior Lenders and MetLife would allocate the proceeds upon sale of the collateral

B. Post-Petition Financing

14. The Debtor has determined that post-petition financing is necessary to sustain post-petition operations and for the Debtor's successful reorganization.

Without immediate additional financing, the Debtor will be unable maintain critical trade vendor support to purchase goods essential to its continuing as a going concern.

15. In the last few weeks, in contemplation of a chapter 11 filing, the Debtor approached approximately four or five financial institutions about providing post-petition financing. Because the pre-petition liens of the Pre-Petition Senior Lenders and MetLife encumber nearly all of the Debtor's assets, except for certain leasehold interests, none of those financial institutions were willing to prime the existing lenders or to take out those lenders.

16. The Debtor then approached Heller, BofA, Fleet and MetLife (collectively, the "DIP Lenders") and Heller, as agent on behalf of the Lenders (the "Agent"), about obtaining post-petition financing if the Debtor were to file a chapter 11 petition.

17. After intensive arm's-length negotiations, the DIP Lenders proposed to provide post-petition financing (the "Post-Petition Financing") on substantially the following terms:

a. Commitment: not to exceed \$30 million in the form of revolving credit loans and letters of credit, subject to certain restrictions set forth more fully in the Term Sheet, including Borrowing Base formulas;

b. Availability: To fund working capital needs of the Debtor (including inventory purchases in the ordinary course of business of the Debtor). But documentary letters of credit issued under the Interim DIP Facility or the Permanent DIP Facility shall not be used for the purchase of inventory from domestic vendors;

c. Term: Earlier of (i) 270 days after entry of the Interim Order or (ii) substantial consummation of a plan of reorganization;

d. Plan of Reorganization: The Debtor will be expected to file an acceptable plan of reorganization within 180 days of the Petition Date.

e. Priority: The DIP Lenders will receive superpriority status under Bankruptcy Code section 364(c)(1), subject to (i) the Carve-Out and (ii) the payment of fees under 28 U.S.C. §1930;

f. Liens: All indebtedness liabilities and obligations of the Debtor shall be secured by the following liens (the "Post-Petition Liens"), subject to the Carve-Out and section 1930 fees under Bankruptcy Code sections 364(c)(2) and 364(c)(3), a first lien, subject only to any nonavoidable, valid, enforceable and perfected liens on and security interests in the assets of Debtor, as prepetition debtor (other than any pre-petition liens on Accounts and Inventory and general intangibles, documents, chattel paper and instruments related thereto and the proceeds thereof and the prepetition liens in favor of Pre-Petition Senior Lenders, MetLife and Pre-Petition Junior Lenders, if any) which existed on the Petition Date, but only to the extent such liens and security interests are superior in priority, after giving effect to any existing subordination or intercreditor arrangements, to Pre-Petition Senior Lenders' prepetition liens on and security interests in the assets of Debtor, as prepetition debtor ("Prior Claims"), on all of the Debtor's real and personal property and

assets and all proceeds, rents or profits thereof (as more fully described in the Interim Post-Petition Loan Documents, collectively, the "DIP Collateral"), including all of the Pre-Petition Senior Collateral and all claims or recoveries of the Debtor under the Bankruptcy Code (including avoidance claims and all proceeds therefrom under sections 544, 545, 547, 548 and/or 553, and any unused or unearned retainers, deposits, or prepaid items, subject to the limitations set forth in paragraph 6 of the Interim Order and the DIP Credit Terms.

g. Carve-out: Before the occurrence and declaration of an unwaived Termination Date (a "Carve-Out Event"), the liens and superpriority claims granted to the Lenders shall be subject and subordinate to unpaid professional fees and disbursements incurred by the professionals retained under sections 327 or 1103(a) of the Bankruptcy Code by the Debtor and one statutory committee appointed in the this case, and approved and allowed by this Court pursuant to sections 330 and 331 of the Bankruptcy Code (limited to the amounts permitted to be paid in the Budget). Following the occurrence of and during a Carve-Out Event, the liens and superpriority claims granted to the Lenders shall be subject and subordinate to the payment of allowed professional fees and disbursements incurred after the occurrence and during the pendency of a Carve-Out Event by these professionals in an aggregate amount not to exceed \$1,500,000.

h. Fees: Closing fee of 3.0% of the DIP Revolver plus certain other fees as set forth in the Term Sheet,

i. Interest: 1.75% per annum in excess of the Base Rate;

j. Default Rate: 2.0% per annum greater than the rate of interest specified above.

18. The DIP Lenders possess valuable knowledge of the Debtor's business and their Post-Petition Financing Proposal addresses the Debtor's working capital needs.

19. The Debtor believes, in its business judgment, that the DIP Lenders' Post-Petition Financing proposal is the most favorable option under the circumstances and the sole means of preserving and enhancing the Debtor's value as a going concern.

20. Without post-petition financing, I do not believe the Debtor will be able to reorganize successfully and exit from chapter 11.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief

Executed this 8th day of February, 2001, at Albuquerque, New Mexico.

Steven L. Mortensen

UNITED STATES BANKRUPTCY COURT
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7. The Debtor does not contest that, as of the Petition Date, under the Pre-Petition Senior Loan Documents, the Pre-Petition Senior Indebtedness is secured by a continuing first, valid and perfected security interest in substantially all of the Debtor’s existing Collateral (as defined in the Existing Loan Agreement), including all of the Debtor’s accounts, inventory, general intangibles, intellectual property, documents, instruments, chattel paper, investment property, deposit accounts, cash and other property in the possession or under the control of any Pre-Petition Senior Lender, books and records that evidence or contain information relating to such collateral, and all proceeds thereof and continuing valid and perfected security interest in Equipment and all proceeds thereof (collectively, the “Pre-Petition Senior Collat-

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B. Post-Petition Financing

14. The Debtor has determined that post-petition financing is necessary to sustain post-petition operations and for the Debtor's successful reorganization. Without immediate additional financing, the Debtor will be unable maintain critical trade vendor support to purchase goods essential to its continuing as a going concern.

15. In the last few weeks, in contemplation of a chapter 11 filing, the Debtor approached approximately four or five financial institutions about providing post-petition financing. Because the pre-petition liens of the Pre-Petition Senior Lenders and MetLife encumber nearly all of the Debtor's assets, except for certain leasehold interests, none of those financial institutions were willing to prime the existing lenders or to take out those lenders.

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17. After intensive arm's-length negotiations, the DIP Lenders proposed to provide post-petition financing (the "Post-Petition Financing") on substantially the following terms:

a. Commitment: not to exceed \$30 million in the form of revolving credit loans and letters of credit, subject to certain restrictions set forth more fully in the Term Sheet, including Borrowing Base formulas;

b. Availability: To fund working capital needs of the Debtor (including inventory purchases in the ordinary course of business of the Debtor). But documentary letters of credit issued under the Interim DIP Facility or the Permanent DIP Facility shall not be used for the purchase of inventory from domestic vendors;

c. Term: Earlier of (i) 270 days after entry of the Interim Order or (ii) substantial consummation of a plan of reorganization;

d. Plan of Reorganization: The Debtor will be expected to file an acceptable plan of reorganization within 180 days of the Petition Date

e. Priority: The DIP Lenders will receive superpriority status under Bankruptcy Code section 364(c)(1), subject to (i) the Carve-Out and (ii) the payment of fees under 28 U.S.C. §1930;

f. Liens: All indebtedness liabilities and obligations of the Debtor shall be secured by the following liens (the "Post-Petition Liens"), subject to the Carve-Out and section 1930 fees under Bankruptcy Code sections 364(c)(2) and 364(c)(3), a first lien, subject only to any nonavoidable, valid, enforceable and perfected liens on and security interests in the assets of Debtor, as prepetition debtor (other than any pre-petition liens on Accounts and Inventory and general intangibles, documents, chattel paper and instruments related thereto and the proceeds thereof and the prepetition liens in favor of Pre-Petition Senior Lenders, MetLife and Pre-Petition Junior Lenders, if any) which existed on the Petition Date, but only to the extent such liens and security interests are superior in priority, after giving effect to any existing subordination or intercreditor arrangements, to Pre-Petition Senior Lenders' prepetition liens on and security interests in the assets of Debtor, as prepetition debtor ("Prior Claims"), on all of the Debtor's real and personal property and

assets and all proceeds, rents or profits thereof (as more fully described in the Interim Post-Petition Loan Documents, collectively, the "DIP Collateral"), including all of the Pre-Petition Senior Collateral and all claims or recoveries of the Debtor under the Bankruptcy Code (including avoidance claims and all proceeds therefrom under sections 544, 545, 547, 548 and/or 553, and any unused or unearned retainers, deposits, or prepaid items, subject to the limitations set forth in paragraph 6 of the Interim Order and the DIP Credit Terms.

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h. Fees: Closing fee of 3.0% of the DIP Revolver plus certain other fees as set forth in the Term Sheet;

i. Interest: 1.75% per annum in excess of the Base Rate;

j. Default Rate: 2.0% per annum greater than the rate of interest specified above.

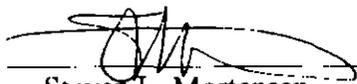
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19. The Debtor believes, in its business judgment, that the DIP Lenders' Post-Petition Financing proposal is the most favorable option under the circumstances and the sole means of preserving and enhancing the Debtor's value as a going concern

20. Without post-petition financing, I do not believe the Debtor will be able to reorganize successfully and exit from chapter 11.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this 8th day of February, 2001, at Albuquerque, New Mexico.



Steven L. Mortensen