UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW MEXICO

01 APR 18 PM 1:15
U.S. BANKRUPTCY COURT
ALBUQUERQUE, NM

In Re:

FURR'S SUPERMARKETS, INC.,

Chapter 11
Case No. 01-10779-SA

Debtor.
_____/

OBJECTION OF OFFICIAL UNSECURED CREDITORS' COMMITTEE TO MOTION FOR ORDER AUTHORIZING DEBTOR TO (a) IMPLEMENT EMPLOYEE RETENTION, SEVERANCE, AND SUCCESS BONUS PLANS; (b) ENTER INTO TRANSITION AGREEMENT WITH THOMAS DAHLEN; AND (c) ENTER INTO CONSULTING AGREEMENTS WITH GEORGE GOLLEHER AND GREG MAYS

PEPPER HAMILTON LLP, on behalf of the Official Unsecured Creditors' Committee (the "Committee"), and in support of its Objection (the "Objection") to the Debtor's Application Motion for Order Authorizing Debtor To (a) Implement Employee Retention, Severance, And Success Bonus Plans; (b) Enter Into Transition Agreement With Thomas Dahlen; And (c) Enter Into Consulting Agreements With George Golleher And Greg Mays (the "Employee Motion"), respectfully states as follows:

INTRODUCTORY STATEMENT

1. On February 8, 2001, the Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code (the "Code").

2. On or about February 13, 2001, the United States Trustee appointed the Committee under Section 1102 of the Code.

3. On March 26, 2001, the Debtor filed the Employee Motion. Pursuant to the Employee Motion, the Debtor asks this Court to approve three different plans and two different

276

agreements.

4. The first plan is an Employee Retention Plan under which the Debtor proposes to pay certain employees approximately $1.89 million, 50% of it immediately and the other 50% at the earlier of the Debtor's emergence from Chapter 11 or December 31, 2001.

5. The second plan is a Severance Plan under which the Debtor proposes to pay its senior managers and other salaried employees severance payments if their employment is terminated without cause or at the end of the Chapter 11 case.

6. The third plan is a Success Bonus Plan under which the Debtor proposes to pay its senior executives from $1.6 million to $6 million upon the refinancing and/or sale of the Debtor's assets.

7. The first agreement is a Transition Agreement with Thomas Dahlen under which he is paid for assisting in the transition of leadership of the Debtor to Steven Mortensen.

8. The second agreement (really two, basically identical agreements) are Consulting Agreements with George Golleher and Greg Mays under which they are paid for the refinancing and/or sale of the Debtor's assets.

9. On March 5, 2001, the Debtor filed an Application for Order Authorizing Employment and Retention of Peter J. Solomon Company Limited As Its Investment Bank (the "Solomon Application"). As set forth in the Solomon Application, Peter J. Solomon Company Limited ("Solomon") is being retained to help in the refinancing and/or sale of the Debtor, with its fee, in part, being based upon the results of such refinancing and/or sale.

10. For the reasons set forth below, the Committee objects to the Employee Motion. The Committee has objected to the Solomon Application by a separate objection filed on April 16, 2001.

The Debtor has told the Committee that it is in the process of revising some or all of the plans and agreements covered by the Employee Motion and that certain revisions to the terms of Solomon's retention will be proposed, which revisions may solve some of the Committee's objections. Because the Debtor has not yet presented to the Committee any revision and will not extend the time for the Committee to object to the Employee Motion, the Committee, finds it necessary to file this Objection.

OBJECTIONS TO EMPLOYEE MOTION

Objections to Retention Plan.

11. The Committee does not object to the Retention Plan in principle as it applies to the "rank and file" employees, including the payment of 50% of the Retention Bonus immediately.

12. The Committee, however, objects to the payment of the remaining 50% on December 31, 2001, if the Debtor has not confirmed its plan of reorganization before then. If the purpose of the retention plan is to retain the employees while the Debtor reorganizes, the full benefit of the plan is lost if the employees are paid before confirmation.

Objections to Severance Plan.

13. With respect to certain employees ("Existing Management"), the Severance Plan duplicates payments to be made under the Retention Plan. The severance payments to these employees before confirmation, if any, should be reduced by the up-front payment of 50% of the Retention Bonus. The employees constituting Existing Management are Mortensen, Stork, Smart, James, Denison, Chavez, Gwizdala, Walls, and Stephens.

14. Because the Committee has not yet seen the actual document setting forth the Severance Plan, the Committee does not know whether the terms under which severance is to be paid

will be overly broad. Therefore, the Committee reserves the right to object further to the Severance Plan when it sees the document.

Objections to Success Bonus Plan and Consulting Agreements.

15. The Committee is presenting its objections to the Success Bonus Plan together with its objections to the Consulting Agreements because they all provide for payments of fees for the refinancing and/or sale of the Debtor. In fact, the retention agreement with Solomon provides it with a fee for the **very same refinancing and/or sale**, and the Success Bonus Plan, Consulting Agreements, and Solomon retention should really be looked at as a package.

16. When the payments under the Success Bonus Plan and the Consulting Agreements are combined with the fees to be paid to Solomon, the Committee believes the combined payments are way too high. Attached as Exhibit 1 is a chart showing, at different transaction values, the total of the proposed fees for such transaction. These fees range from 1.5% (for a $100 million transaction) to 6.28% (for a $300 million transaction). The Committee believes the total fees should be less than 1.5%, with Solomon and the Consultants dividing 1.25% of the first $200 million in transaction value and decreasing percentages on the excess. This pool would be divided among them as they agree.

17. In addition, the Committee does not believe that Existing Management should be paid for a transaction as provided in the Success Bonus Plan unless (and to the extent) the value of the transaction exceeds $200 million. Management should be focused on the Debtor's profitability, not selling or refinancing the Debtor. That should be the task of the Consultants and Solomon. Management's primary pay, therefore, should be based on profitability not sales of the business. If, however, the transaction exceeds $200 million, Management should receive a 1% bonus. That

would give them an incentive without distracting them from their task or duplicating the fees being paid to those primarily in charge of selling or refinancing the Debtor.

18. The Committee also believes that the Consulting Agreements should provide that the signing bonus paid to the Consultants will be offset against their success fee, that a liquidation should not be considered a Success, and that there should not be a fee for serving on the Debtor's board of directors in addition to the monthly fees. Additionally, the proposed "walk-away bonus" for the Consultants should be eliminated.

Objections to Transition Agreement.

19. The Committee objects to the proposed payment of a $100,000 retention bonus to. Dahlen, who has already indicated he is leaving. Paying him his salary for the initial period and $30,000 for the secondary period is more than sufficient. In addition, Dahlen and his new employer, Fleming Companies (which is a competitor of the Debtor and which the Committee believes will be a potential purchaser of the Debtor) should be prohibited from hiring any of the Debtor's employees, not just from soliciting them to leave the Debtor.

WHEREFORE, the Committee prays that this Honorable Court deny the Employee Motion unless the various plans and agreements are modified as set forth above.

Respectfully submitted,

DAVIS & PIERCE, P.C.

William F. Davis, Esq.
Chris W. Pierce, Esq.
PO Box 6
Albuquerque, NM 87103
PH# (505) 243-6129
FX# (505) 247-3185

-and-

PEPPER HAMILTON, LLP
Stuart Hertzberg, Esq.
I. William Cohen, Esq.
100 Renaissance Center, #3600
Detroit, Michigan 48243
PH# (313) 259-7110

The undersigned hereby certifies
that a true and accurate copy of
the foregoing was mailed this
16th day of April, 2001.

Ron Andazola, Esq.
UNITED STATES TRUSTEE
PO Box 608
Albuquerque, NM 87103-0608

Alan Carr, Esq.
Jay M. Goffman, Esq.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLC
Four Times Square
New York, NY 10036

Richard Levin, Esq.
Peter W. Clapp, Esq.
Jamie L. Edmonson, Esq.
Stephen J. Lubben, Esq.
Amy S. Park, Esq.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLC
300 South Grand Avenue, Suite 3400
Los Angeles, CA 90071-3144

Chris W. Pierce, Esq.

F:\Furrs Motion\OBJRETCOMP.wpd

($ in thousands) Transaction Value	Existing Management [1]	Golleher/ Mays [2]	P.J. Solomon [3]	Total	Total as a % of T.V.	Existing Management w/ Dahlen [4]
$ 100,000	$ -	$ -	$ 1,500	$ 1,500	1.50%	$ -
110,000	-	1,500	1,650	3,150	2.86%	-
120,000	750	1,500	1,800	4,050	3.38%	1,600
130,000	950	1,500	1,975	4,425	3.40%	1,800
140,000	1,150	1,500	2,175	4,825	3.45%	2,000
150,000	1,250	1,500	2,375	5,125	3.42%	2,250
160,000	1,500	1,500	2,625	5,625	3.52%	2,500
170,000	1,750	1,750	2,875	6,375	3.75%	2,750
180,000	2,000	2,000	3,125	7,125	3.96%	3,000
190,000	2,250	2,250	3,375	7,875	4.14%	3,300
200,000	2,500	2,500	3,625	8,625	4.31%	3,600
210,000	2,750	2,750	3,925	9,425	4.49%	3,900
220,000	3,050	3,050	4,225	10,325	4.69%	4,200
230,000	3,350	3,350	4,525	11,225	4.88%	4,500
240,000	3,650	3,650	4,825	12,125	5.05%	4,800
250,000	3,950	3,950	5,125	13,025	5.21%	5,200
260,000	4,250	4,250	5,525	14,025	5.39%	5,500
270,000	4,650	4,650	5,925	15,225	5.64%	5,800
280,000	5,050	5,050	6,325	16,425	5.87%	6,200
290,000	5,450	5,450	6,725	17,625	6.08%	6,600
300,000	5,850	5,850	7,125	18,825	6.28%	7,000

EXHIBIT 1