BANKRUPTCY LAW360

Portfolio Media, Inc. | 648 Broadway, Suite 200 | New York, NY 10012 | www.law360.com
Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | customerservice@portfoliomedia.com

Bankruptcy Judge OKs Jeweler's Incentive Plan

By **Shannon Henson**, shannon.henson@portfoliomedia.com

Monday, Jun 30, 2008 --- A judge has approved an employee retention and incentive plan for bankrupt jewelry retailer Friedman's Inc. more than a month after shooting down an alternative version of such a plan.

Judge Christopher S. Sontchi of the U.S. Bankruptcy Court for the District of Delaware gave the plan his blessing in an order Wednesday.

The management incentive plan includes C. Steven Moore, the company's chief restructuring officer and general counsel, and Robin Urban, the vice-president and controller. Neither will receive anything if the company's net cash balance is below $11 million as of Aug. 29.

If the company meets that threshold, the two will receive the equivalent of seven months of base salary and an additional one month salary for each $1 million of net cash balance over the threshold up to one year's base salary. Moore's base salary is $360,500, and Urban's is nearly $170,000.

The other part of the incentive plan, valued at nearly $625,000 would benefit 38 employees working in various aspects of the business.

The workers receiving a one-month benefit include a merchandise planner and lead distribution center management who have to remain for at least two months of the store-closing sales period. It also includes those who must remain through the final sales period, which could last about three months.

Other incentive participants include a key information technology manager who is set to receive a four-month retention incentive.

In May, Judge Sontchi denied a bid for such a program, citing opposition from acting U.S. Trustee Roberta A. DeAngelis, among other problems.

DeAngelis said at the time that the plan was not the type of transaction commonly entered into by companies in the retail jewelry industry, nor was it something they would have done before filing for Chapter 11.

The company, newly led by Lee E. Buchwald and counseled by Stevens & Lee following a settlement with Harbinger Capital Partners Master Fund I Ltd., filed an amended plan in mid-June that it said resolved the judge's problems with its prior proposal.

Friedman's noted that the amended plan was objective and formulaic, without discretionary elements. The company added that the plan proposed a modest range of retention compensation in light of the services required, and removed rewards associated with goals that were sure to be reached, such as satisfying the senior debtor-in-possession financing.

Friedman's was forced into Chapter 7 on Jan. 22. On Jan. 28, the court entered an order converting the case to a voluntary Chapter 11 case, and Crescent filed for Chapter 11 protection.

On April 4, Judge Sontchi gave Friedman's a green light to liquidate approximately $400 million in inventory from 377 of its stores.

Seventy-eight of the debtors' stores will be sold to Whitehall Jewelers Holdings Inc., while the remainder will be liquidated through going-out-of-business sales.

The judge extended Friedman's request for more time to file its Chapter 11 plan after the company said in May that it had been too preoccupied with selling off its assets and dealing with other matters to put together a restructuring plan.

The company has an exclusive right to file a Chapter 11 plan through Sept. 24, 2008, and an exclusive right to lobby for acceptance of a plan through Nov. 24, 2008.

Friedman’s is represented in its bankruptcy by attorneys from Stevens & Lee.

The case is Friedman’s Inc., case number 08-10161, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Amanda Ernst and Ben James

