

Congress of the United States
Washington, DC 20510

July 17, 2019

Rodger R. Krouse
Marc J. Leder
Co-Chief Executive Officers
Sun Capital Partners, Inc.
5200 Town Center Circle, 4th Floor
Boca Raton, FL 33486

Dear Messrs. Krouse and Leder:

I write to express my alarm about reports that Sun Capital, after years of looting the discount retailer Shopko and then driving it into bankruptcy, plans to break its promise to make severance payments to thousands of dedicated Shopko employees. I urge you to reverse course and provide these workers with the severance pay they have earned.

Under Sun Capital's control since 2005, Shopko has been saddled with debt, starved of investment, and stripped of its assets, making profits for Sun Capital but doing grave damage to the retailer and ultimately robbing Shopko workers of their jobs and promised payments. This model of financial engineering is all too common in the private equity industry, and marks an especially shameful end to your disastrous management of the company.

Sun Capital started by purchasing the company with little equity mostly using debt that Shopko itself had to pay back.¹ After taking control of the company, Sun Capital forced Shopko to sell some of its most valuable assets—its real estate—to a separate company.² Sun Capital pocketed the profits and forced Shopko to pay high rent to continue to use its own stores.³ Sun Capital then forced Shopko, despite its weakened financial state, to pay enormous dividends—totaling nearly \$180 million between 2007 and 2015,⁴ and charged Shopko massive consulting fees for these dividend payments and for other transactions.⁵ For example, Shopko was forced to pay \$500,000 in fees for \$50 million in dividend.⁶ By extracting hundreds of millions of dollars from

¹ The Gazette, "ShopKo ex-employees seek severance pay from private equity owners," Thomas Friestad, July 12, 2019, <https://www.thegazette.com/subject/news/business/shopko-bankruptcy-employee-severance-package-20190712>.

² The National Real Estate Investor, "ShopKo Spirit," David Bodamer, June 1, 2006, <https://www.nreionline.com/mag/shopkos-spirit>.

³ Axios, "How workers suffered from Shopko's bankruptcy while Sun Capital made money," Dan Primack, June 11, 2019, <https://www.axios.com/shopko-bankruptcy-sun-capital-547b97ba-901c-4201-92cc-6d3168357fa3.html>.

⁴ Bloomberg, "Shopko Workers Are Latest Demanding PE Firms Pay Up After Retailer Fails," Eliza Ronalds-Hannon and Lauren Coleman-Lochner, June 7, 2019, <https://www.bloomberg.com/news/articles/2019-06-07/shopko-workers-latest-demanding-pe-firms-pay-up-as-chain-fails>.

⁵ Axios, "How workers suffered from Shopko's bankruptcy while Sun Capital made money," Dan Primack, June 11, 2019, <https://www.axios.com/shopko-bankruptcy-sun-capital-547b97ba-901c-4201-92cc-6d3168357fa3.html>.

⁶ *Id.*

and imposing unsustainable debt on Shopko, with no regard for the company's workers or other stakeholders, Sun Capital ruined the company's ability to continue doing business at all—making a joke of Sun Capital's claim that it helps companies "reach their full potential"⁷ and robbing it of the opportunity to innovate in an increasingly competitive retail environment.

In January, Shopko filed for bankruptcy after nearly 60 years in business, and in early June, a judge approved a liquidation plan for the company. When the bankruptcy was announced, Shopko offered in writing retention bonuses to the workers who agreed to stay at a store until its closing and to keep the agreement confidential,⁸ and severance pay – in one case, equal to four weeks of wages.⁹ The written communications from the company included specific amounts for both the retention bonus and the severance pay.¹⁰ Shopko's workers apparently did not receive severance payment,¹¹ which is an egregious betrayal of the people who dedicated their careers to Shopko and kept Shopko running until the very end of its destruction at Sun Capital's hands.

Your company reaped millions of dollars in profits from your Shopko acquisition, but the decisions you made ultimately led to the company's liquidation. As a result, more than 14,000 American lost their jobs and may lose their severance payments. To address my concerns about your company's actions, I ask that you answer the following questions:

1. Does your company have any plans to pay promised severance or contribute some financial relief to the 14,000 Shopko employees who lost their jobs when the company chose to close all 360 of its locations, including employees who remained in their jobs throughout the bankruptcy? If not, please explain why. If so, please describe how you will determine how much severance employees will receive.
2. Employees were reportedly given packets of information when the store closings were announced, "offering retention or severance payment in order to keep them working until the store closed."¹² Please provide a copy of all the information included in that packet.

While you will walk away with a healthy return, the workers who kept the stores running despite every obstacle you threw in their path will come away with nothing. The years of financial tricks and outright lies to workers are shameful and I strongly urge you to ensure that these workers receive every penny of the severance payments that they have earned.

⁷ Sun Capital Partners, Inc., "About," accessed June 21, 2019, <http://suncappart.com/about/>.

⁸ Letter from Cindy Moen, Director Human Resources to Shopko Employee, January 16, 2019.

⁹ Memo from Denise Domain, Chief Human Resources Officer to Shopko employee, January 16, 2019.


¹⁰ *Id.*

¹¹ Bloomberg, "Shopko Workers Are Latest Demanding PE Firms Pay Up After Retailer Fails," Eliza Ronalds-Hannon and Lauren Coleman-Lochner, June 7, 2019, <https://www.bloomberg.com/news/articles/2019-06-07/shopko-workers-latest-demanding-pe-firms-pay-up-as-chain-fails>; Green Bay Press Gazette, "Shopko employees press for severance pay after bankruptcy plan approved on Friday," Jeff Bollier, June 7, 2019, <https://www.greenbaypressgazette.com/story/money/2019/06/07/shopko-employees-press-severance-after-bankruptcy-plan-approved/1384127001/>.

¹² Green Bay Press Gazette, "Shopko employees press for severance pay after bankruptcy plan approved on Friday," Jeff Bollier, June 7, 2019, <https://www.greenbaypressgazette.com/story/money/2019/06/07/shopko-employees-press-severance-after-bankruptcy-plan-approved/1384127001/>.

I look forward to your prompt attention to this inquiry, and would appreciate a response no later than July 30, 2019.

Sincerely,



Elizabeth Warren
United States Senator



Alexandria Ocasio-Cortez
Member of Congress