UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF MISSOURI

In Re:	**)**	**In Proceedings Under Chapter 11**
	)	
FARMLAND INDUSTRIES, INC.	**)**	**Case No. 02-50557-JWV**
	)	
Debtor.	**)**	

AFFIDAVIT OF DANIEL J. GARCIA IN SUPPORT OF THE EXPEDITED MOTION OF THE DEBTORS PURSUANT TO SECTIONS 105(a), 363(b)(1), AND 365 OF THE BANKRUPTCY CODE AUTHORIZING THE DEBTORS TO ADOPT AND IMPLEMENT A KEY EMPLOYEE RETENTION AND INCENTIVE PLAN, INCLUDING THE ASSUMPTION AND MODIFICATION OF CERTAIN EMPLOYMENT AGREEMENTS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

DANIEL J. GARCIA being duly sworn, deposes and says:

1. I have personal knowledge of the facts set forth herein, and if called upon to testify, I could and would competently testify thereto.

2. Farmland Industries, Inc. and the other above-captioned debtors and debtors-in-possession (collectively, the "Debtors") commenced these Chapter 11 proceedings on May 31, 2002. The Debtors continue to operate their businesses as debtors-in-possession.

3. I am employed as an associate principal with Buck Consultants, Inc. ("Buck"), a professional services firm with offices located at 200 Galleria Parkway, N.W., Suite 1900, Atlanta, Georgia 30339-5945. As a part of Buck, I have been retained by the Debtors to provide consulting services with respect to certain human resources and employee retention issues. Buck has been employed by the Debtors pursuant to this Court's authorization in its Order entered September 30, 2002.

4. Buck is a wholly owned subsidiary of Mellon Financial Corporation, and it has been providing human resources consulting since 1916. Buck ranks among the top five global human resource consulting firms, with over fifty (50) offices in sixteen (16) countries. Buck employs approximately 3,500 professionals who serve over 5,000 clients throughout the world. Buck's service areas include compensation, retirement programs, employee benefits, benefits administration outsourcing consulting, actuarial services, human resources management and communications consulting.

5. I am employed as an associate principal with Buck, and I have held my present position for approximately 5 years.[1/] I have extensive experience in the working with financially distressed companies and organizations in Chapter 11 proceedings. I have performed work on behalf of numerous debtors in Chapter 11 cases, including the following: Burlington Industries, Harnischfeger Industries, K-mart, PSI Net, Excite@Home, Dairy Mart and Service Merchandise.

6. I have participated in the creation and implementation of approximately ten management retention and executive compensation programs in the context of Chapter 11 proceedings, such as Burlington Industries, PSI Net, Excite@Home, Dairy Mart and Service Merchandise. I am well versed in the issues surrounding the implementation of key employee retention plans in Chapter 11 proceedings and the goals that such plans are meant to achieve.

7. I have read the Expedited Motion of the Debtors Pursuant to Sections 105(a), 363(b)(1), and 365 of the Bankruptcy Code for an Order Approving the Adoption of a Key Employee Retention and Incentive Target Plan, Including the Assumption and Modification of Certain Employment Agreements (the "Motion"), including all exhibits thereto, which was filed by the Debtors on October

[1/] Buck Consultants acquired PricewaterhouseCoopers' compensation consulting practice, of which I was a

23, 2002. To the best of my knowledge and belief, the statements contained in the Motion and this Affidavit are true and accurate.

8. The Debtors engage in a wide array of specialized industries, including the manufacture and marketing of fertilizer, the operation of a petroleum refinery, an integrated food and food processing business, the wholesale and retail farm supply business and a transportation brokerage business. The Debtors' aggregate gross annual sales for the 2001 fiscal year were approximately $11.7 billion.

9. The Debtors employ approximately 8,000 salaried and hourly employees.

10. The Debtors' businesses are highly competitive, and the Debtors depend heavily on the skills of their management and employees to give them a competitive advantage in those industries. Due to the nature, magnitude and complexity of the Debtors' business activities and the uncertainty surrounding these Chapter 11 proceedings, the Debtors' ability to protect their businesses and reorganize successfully largely depends upon the retention of a select group of key employees identified in the Motion (the "Key Employees").

11. The Key Employees have been identified by the Debtors as those employees that are absolutely essential to the Debtors' prospects for a successful reorganization. They are employees who possess specialized knowledge, expertise or skills, and cannot be easily replaced. The loss of the Key Employees would not only be costly for the Debtors and their estates—it could be devastating to the Debtors' chances for reorganization and maximization of value.

12. Because the Debtors have announced the intention to sell certain business units,

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Director since 1999, in January of 2002.

many of the Key Employees are experiencing a great deal of anxiety with respect to their future with the Debtors. Several of the Debtors employees that were extremely important to the Debtors' businesses have recently left for other employment in the wake of the Debtors' financial difficulties. The loss of any more Key Employees could severely disrupt the Debtors' businesses and adversely affect the Debtors' ability to function competitively in their industries.

13. The Debtors seek to implement a Key Employee Retention and Incentive Target Plan (the "KERIT Plan"), as set forth in the Motion and the attachments thereto, in order to induce the Key Employees to remain with the Debtors throughout these Chapter 11 proceedings. This Court's approval of the KERIT Plan is in the best interests of the Debtors, their estates and all parties-in-interest, and it is essential to ensure that the Debtors' can effect a successful reorganization.

14. Retention plans such as the one the Debtors seek to implement are common in Chapter 11 proceedings of this size. They have been approved by courts in this Circuit and many others.

15. Ninety-six Key Employees will be included in the KERIT Plan. They are divided into six different tiers, based on each Key Employee's particular position in the organization. The Debtors both selected the Key Employees and divided them into tiers after an extensive analysis of their core employee needs.

16. The KERIT Plan consists of three separate components: (i) an Incentive Pay Program; (ii) a Severance Program; and (iii) the modification and assumption of the employment agreements of three Key Employees. The Incentive Pay Program is further broken down into two sub-components: (i) a Fixed Incentive; and (ii) Variable Compensation.

17. The Fixed Incentive will provide a set payment for each of the Key Employees,

according to tier, which will be paid out in installments over the course of these Chapter 11 proceedings. Based on my experience, and compared with other retention plans with which I have worked, it is both reasonable and appropriate to include the Fixed Incentive as a part of the KERIT Plan.

18. The incremental cost of the Fixed Incentive is approximately $3 million – an amount that is more than offset by the benefits that the Debtors will receive by retaining the Key Employees through the Fixed Incentive. The costs of these types of payments (which are commonly referred to as "pay-to-stay" amounts) are often much higher in cases of this magnitude.

19. The Variable Compensation component of the KERIT Plan follows the Debtors' historical policy of providing a compensation opportunity for their employees which is based on the financial performance of the Debtors. Traditionally, the Debtors have paid below-market salaries to their employees, instead opting to provide a variable compensation opportunity for employees which is dependent upon the overall financial success of the Debtors. This variable compensation opportunity is meant to be a regular part of each employee's compensation, and it is the only way that the Debtors' salaries remain market-competitive.

20. The KERIT Plan implements the Debtors' Variable Compensation with a modest extra incentive of $1.5 million for Key Employees if the Debtors reach their "target" level of performance over the next fiscal year. The Variable Compensation aligns the interests of both the Key Employees and the creditors of these Estates, as the Key Employees will be rewarded for their success in their unique roles in the creation of maximum value. The added amount of potential Variable Compensation is quite small when compared with the Debtors' overall revenues and total assets.

21. The additional incentive payment that the Key Employees may receive is

reasonable and appropriate in the circumstances, especially when compared with the retention programs of similar companies in Chapter 11 proceedings. In addition, because the Variable Compensation is only paid if the Debtors are successful in creating value throughout the fiscal year, it aligns the interests of both the Key Employees and the creditors of the Debtors' estates.

22. The Severance Program component of the KERIT Plan is likewise reasonable and appropriate. Under the Severance Program, the Debtors will continue their historical, prepetition severance policy, under which they provided each employee with two weeks' pay per year of service. However, the KERIT Plan also provides a floor for each tier of Key Employees, as provided in the Motion. This floor provides a meaningful "safety net" of severance for those Key Employees whose service time is somewhat less than others.

23. The severance is meant to set Key Employees at ease that their efforts in operating the Debtors and preparing for the sale of some of the Debtors' business segments will not result in their termination, "not-for-cause", without appropriate compensation. The provision of severance for Key Employees is common in Chapter 11 retention programs, and the cost of the severance provided for Key Employees under the KERIT Plan is commensurate with the benefits that will be gained by implementation of the Severance Program.

24. In addition, it is highly unlikely that all Key Employees will be terminated without cause, so it is very unlikely that many employees will be entitled to receive any payments under the Severance Program. A terminated Key Employee who is offered a similar position with a buyer of any of the Debtors' businesses in connection with the sale is not eligible to receive severance payments under the terms of the KERIT Plan. In addition, the severance payable to the Key Employees in the top three tiers of the Severance Program is subject to mitigation should they secure like employment,

thus further reducing the likely cost of the program.

25. The Debtors seek to assume the Employment Agreements of three of their Key Employees in connection with the implementation of the KERIT Plan. These Employment Agreements contain relatively standard terms and conditions. Moreover, in accordance with the Motion and the KERIT Plan, the incentive payment and severance portions of the Employment Agreements will be modified so that the terms of the KERIT Plan control with respect to any discrepancies. The economic terms of the KERIT Plan are less favorable to the Key Employees than the Employment Agreements. These three employees have agreed to the changes effected in connection with the KERIT Plan. Additionally, rejection of the Employment Contracts would give rise to substantial claims.

26. Considering the components of the KERIT Plan individually and collectively, the KERIT Plan is eminently reasonable in its scope and cost. A comparison of the costs and benefits of the KERIT Plan reveals that the benefits that will be realized from implementing the plan far outweigh any incremental costs that will be incurred as a result. The Key Employees are absolutely necessary to the ongoing success of the Debtors and the prospects for their reorganization. The amount of money that will be required to implement the KERIT Plan is quite small relative to the Debtors' annual revenues and total assets. In contrast, the value of the Debtors as a going concern will be extremely adversely affected if the Key Employees leave the Debtors' employ.

27. The method and manner in which the KERIT Plan was devised was thorough and thoughtful. The KERIT Plan is the result of many hours of careful planning by the Debtors. The Debtors have engaged in extensive negotiations with both of the official committees appointed in these proceedings, as well as the Debtors' senior secured prepetition and postpetition lenders. The suggestions and comments of all constituent groups are reflected in the proposed KERIT Plan. All

parties now agree that the KERIT Plan is in the best interests of the Debtors, their estates and creditors.

28. The KERIT Plan is less costly than other retention plans that have been utilized by similar Chapter 11 debtors. In fact, the costs of implementing the KERIT Plan are modest for a company of the size and complexity of the Debtors.

29. In my opinion, the Debtors have exercised their reasonable business judgment in formulating and proposing the KERIT Plan. It is necessary to implement the KERIT Plan as described in the Motion in order preserve the value of the Debtors' businesses.

30. Approval of the KERIT Plan is vital to avoid the loss of the Debtors' Key Employees and to prevent a reduction in the morale of those Key Employees that remain.

31. In my judgment, and considering my experience in the field, the failure to grant the Motion would result in a significant adverse economic impact upon the Debtors' businesses and the value of these estates.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 29th day of October, 2002, at Kansas City, Missouri.

/s/ Daniel J. Garcia
Associate Principal
Buck Consultants

Subscribed and sworn to before me this 29th day of October, 2002.

/s/ Molly A. Forge
Notary Public

My Commission Expires:

January 5, 2003