UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF MISSOURI

In Re:	)	**In Proceedings Under Chapter 11**
	)	
FARMLAND INDUSTRIES, INC., et al.,	)	**Case No. 02-50557-JWV**
	)	**Joint Administration**
Debtors.	)	

EMERGENCY MOTION FOR ORDER AUTHORIZING PAYMENT OF PREPETITION WAGES, SALARIES, REIMBURSABLE EMPLOYEE EXPENSES AND MEDICAL AND OTHER EMPLOYEE BENEFITS

COME NOW Farmland Industries, Inc., et al., as Debtors and Debtors in Possession (collectively, the "Debtors"), and submit their Emergency Motion for Order Authorizing Payment of Prepetition Wages, Salaries, Reimbursable Employee Expenses and Medical and Other Employee Benefits (the "Motion"). In support of this Motion, the Debtors rely on the Affidavit of Steven R. Rhodes in Support of First Day Applications and Motions (the "Rhodes Affidavit"), and the Affidavit of Holly D. McCoy in Support of this Motion (the "McCoy Affidavit"). In further support of this Motion, the Debtors respectfully represent as follows:

A. Background

1. On May 31, 2002 (the "Petition Date"), the Debtors filed voluntary petitions in this Court for reorganization relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101-1330, as amended (the "Bankruptcy Code"). The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

2. No trustee or examiner has been appointed, and no official committee of creditors or equity interest holders has yet been established.

3. With their voluntary petitions, the Debtors contemporaneously filed this Motion and an Emergency Motion for Expedited Hearings on Certain Motions and Applications (the "Hearing Motion"). This Motion is included within the Hearing Motion.

4. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. § 1334 and the Amended General Order of the United States District Court for the Western District of Missouri as amended. Venue of this case and motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

5. Debtor Farmland Industries, Inc. ("Farmland"), a Kansas corporation headquartered in Kansas City, Missouri, is organized and operated as a cooperative system of farm and food related businesses. Farmland, in conjunction with the debtor subsidiaries and other non-debtor consolidated subsidiaries, manufactures and markets fertilizer and operates an integrated food and food processing business.

6. Collectively, the Debtors (through direct operations and various subsidiaries) operate farm and food related businesses that have annual sales of approximately $11.7 billion.

7. As of February 28, 2002, the Debtors reported on a consolidated basis (including non-debtor consolidated subsidiaries), assets of approximately $2.7 billion, with goodwill accounting for approximately $51.7 million of the Debtors' total assets. As of such date, the Debtors' consolidated liabilities of approximately $1.9 billion were primarily comprised of (a) approximately $400.1 million in principal under a senior secured credit facility (the "Prepetition Credit Facility") entered into with certain financial institutions (the "Prepetition Lenders"), (b) approximately $263 million of other secured debts; (c) approximately $16.8 million of unsecured demand loans; (d) approximately $504.4 million of unsecured subordinated

debt securities; (e) approximately $80.0 million of unsecured accumulated interest related to the subordinated debt securities; (f) approximately $7.9 million of accrued interest payable; (g) approximately $222 million in trade debt; and (h) other liabilities of approximately $440 million.

8. Capital previously derived from the Prepetition Credit Facility was used for capitalizing fixed assets and working capital and other operating expenses. The Prepetition Lenders possess a security interest in substantially all of the Debtors' major assets.

9. On a consolidated basis, the Debtors (including non-debtor consolidated subsidiaries) reported $3.4 billion in revenues for the six months ended February 28, 2002 and generated EBITDA of $42.5 million (before nonrecurring expenses) for that same period.

B. The Employees

10. The Debtors employ approximately 8,000 salaried and hourly employees throughout the country, comprised of the following three (3) categories:

(i)	Exempt [1/] :	1,305
(ii)	Non-exempt [2/] :	2,863
(iii)	Non-exempt Union:	3,832
	Total Employees:	8,000

11. The employees include both union and non-union workers, the majority of which are paid on an hourly basis. A smaller percentage of employees (i.e., management,

[1/] "Exempt" refers to employees who are exempt from wage and hour laws (i.e., professional and managerial employees).

[2/] "Non-exempt" refers to employees' status as not being exempt from wage and hour laws (i.e., production workers, clerical employees and administrative staff).

professionals, or supervisors), are paid on a salaried basis. All employees will suffer great hardship if they were to lose or suffer any delay in receiving their pay and/or benefits.

12. The Debtors are engaged in highly competitive businesses and depend on their ability to retain existing skilled and dedicated employees. The continued, uninterrupted service of the Debtors' employees is vital to the Debtors' operations and their ability to reorganize. The employee compensation, reimbursement and benefits described in this Motion are reasonable compared to cash and non-cash payments and benefits provided by other employers and are absolutely necessary to maintain a productive and effective work force.

13. The Debtors' ability to preserve their businesses and assets and ultimately reorganize will be adversely affected if they are unable to retain the services of their employees. Accordingly, it is essential that undue hardships that employees may suffer as a consequence of this Chapter 11 filing be minimized and that morale be maintained.

14. As described more fully herein, employees have claims against the Debtors consisting of wages, salaries, vacation pay, holiday pay, sick leave pay, family medical leave pay, long- and short-term disability income protection, life insurance, 401(k) contributions, pension benefits, payroll deductions to custodial accounts, reimbursable business expenses, tuition reimbursement, workers' compensation, employee relocation expenses, and medical, vision, dental benefits and other benefits (collectively referred to as the "Prepetition Employee Claims"). For ease of reference, a summary of the Prepetition Employee Claims identified in this Motion is attached as Exhibit A hereto.

15. By this Motion the Debtors seek emergency relief. Any delay in making scheduled payments and/or providing the employee benefits described herein undermines relationships with the Debtors' employees, irreparably impairs employee morale and risks

interruption of services at the precise time when employee dedication, confidence and cooperation are critical.

16. The initiation of these bankruptcy proceedings creates a precarious situation for the Debtors. The loss of employees could have significant adverse economic impacts upon the Debtors' businesses, the value of their assets, and the ultimate prospects for a successful reorganization.

17. To the extent that payment of the amounts described in this Motion may subsequently be determined to be greater than a recipient thereof would otherwise have received if these cases were commenced or proceeded under Chapter 7 of the Bankruptcy Code, the Debtors (or any subsequently appointed Trustee) expressly reserve the right to seek recovery of such payments.

18. Approval of the Motion and the payment of the compensation, reimbursements and benefits described herein are essential to the Debtors' reorganization efforts and are in the best interests of all parties in interest.

19. Notwithstanding anything contained herein to the contrary, this Motion shall not constitute the assumption of any executory contract of any type, kind or nature, under §§ 365, 1113 or 1114 of the Bankruptcy Code or otherwise, and is filed without prejudice to the Debtors' rights to assume, assume and assign, reject, terminate, or modify any of their executory contracts, all of which rights are expressly reserved.

20. In order to effectuate the relief sought in this Motion relating to the payment of the employee obligations discussed herein, the Debtors also seek an order authorizing all applicable banks and other financial institutions, as detailed on Exhibit B attached hereto, to receive, process, honor, and pay any and all checks drawn on the Debtors' employee

related accounts, whether presented prior to or after the Petition Date in accordance with the Debtors' stated policies with regard thereto, and with any charges (including charges for returned or dishonored checks) for the same payable by the Debtors, provided sufficient funds exist in the employee related accounts to cover such payments.

21. Additionally, the rationale for entering such an order relating to the payment of employee obligations is also set forth in the Debtors' Emergency Motion for Order Authorizing Maintenance of Cash Management System and Continued Use of Certain Existing Bank Accounts Investment and Deposit Practices and Certain Business Forms filed concurrently with this Motion.

C. Prepetition Wages

22. On May 29, 2002, the Debtors distributed payroll checks to their employees in the ordinary course of business. The total amount of these payments, including federal, state and local tax obligations related thereto, was approximately $8,738,000.

23. The Debtors remain obligated to pay their employees for other work completed before the Petition Date (the "Prepetition Payroll"). By this Motion the Debtors request authority to pay such Prepetition Payroll in the ordinary course of their business. The estimated amount of the Prepetition Payroll, including federal, state and local tax obligations, for all employees is approximately $6,152,000. The next regular payroll disbursement for certain of the Debtors' employees is scheduled to be made June 7, 2002, which includes the prepetition period of May 27, 2002 through June 2, 2002. This disbursement includes a prepetition amount of approximately $3,526,000. Subsequent payrolls will be paid on June 14, 2002 in respect of weekly, bi-weekly and semi-monthly payrolls. These payrolls cover the periods of June 3 to June 9 (weekly), May 27 to June 9 (bi-weekly) and June 1 to June 14 (semi-monthly), and they

include estimated prepetition amounts of $588,000, $1,831 and $207,000, respectively. To the extent necessary, the Debtors request authority to pay the Prepetition Payroll in the ordinary course of their business.

D. Reimbursable Expenses

24. Prior to commencement of these Chapter 11 proceedings, certain employees incurred a variety of business expenses on behalf of the Debtors which, consistent with ordinary practice, are reimbursable. It is both inequitable and serves as an undue hardship if employees are required to bear those expenses, all of which were incurred on behalf of the Debtors with the expectations that employees would be promptly reimbursed by the Debtors. The average monthly cost to the Debtors of such reimbursements is approximately $408,000, which is estimated to be due as of the Petition Date.

E. Prepetition Medical, Disability and Life Insurance Plans

25. The Debtors have established various employee benefits plans and policies which provide employees with benefits such as medical insurance, dental insurance, vision insurance, life insurance and short-term and long-term disability insurance (collectively, the "Insurance Benefits"). The primary program providing Insurance Benefits for health insurance, dental insurance, and prescription drug coverage is the Farmland Industries, Inc. Employee Benefit Plan (the "Farmland Plan"). The Farmland Plan is self-insured by the Debtors. Medical coverage under the Farmland Plan is administered by Principal Life Insurance Company, dental coverage is administered by Delta Dental of Missouri, and prescription drug coverage is administered by Caremark, Inc. (Prescription Service Division). The average monthly net expense for the Debtors under the Farmland Plan is approximately $2,700,000. The Debtors

estimate that the total incurred, unreported or unpaid prepetition cost for providing the Insurance Benefits was approximately $7,417,700 as of December 31, 2001.

26. The Debtors also offer vision insurance provided through Vision Service Plan. Under this plan, the Debtors pay only coverage for employee vision exams, but employees may elect to receive family and materials coverage as well at their own expense. The average monthly cost to the Debtors to maintain vision insurance is $3,113.

27. The Debtors provide employees with a flexible spending account qualified under Section 125 of the Internal Revenue Code that allows employees to place pre-tax income into a plan for use on medical costs incurred during the calendar year. The Debtors do not contribute to this plan on behalf of their employees, and the administrative costs to maintain this plan for employees are minimal.

28. The Debtors maintain other life insurance, accidental death and dismemberment and disability insurance plans for employees. Through Minnesota Life, the Debtors provide fully insured life insurance for employees. Employees may supplement this life insurance plan with voluntary contributions, if they so elect. The basic insurance plan provides a one-time flex wage base of up to $50,000 paid by the Debtors at an average monthly cost to the Debtors of approximately $41,300. In addition, approximately $146,833 in prepetition life insurance claims remain outstanding under a previous life insurance program through American United Life ("AUL"). The Debtors are obligated to satisfy these amounts when claims are finalized. The Debtors also provide life insurance to certain individuals who have become disabled under a "continuation of life waiver program" at an approximate monthly cost of $5,500.

29. Employees also receive accidental death and dismemberment coverage insured through Minnesota Life and paid by the Debtors at an average monthly cost of approximately $5,942. Employees may supplement the contributions of the Debtors to obtain extra coverage.

30. Also through Minnesota Life, employees may obtain dependent life insurance coverage. This coverage is paid entirely by employees, and the Debtors' administrative costs to maintain the program are minimal.

31. The Debtors provide long-term disability insurance for employees through a fully insured plan with UNUM. Under this plan, the Debtors are obligated to pay fifty percent of a disabled employee's salary. Employees may elect to supplement this coverage at their own cost to provide sixty percent of their salary should they become disabled. Included within this plan is an employee assistance benefit plan through UNUM by Ceredian called LifeBalance. The total average monthly cost for the Debtors to maintain this long-term disability coverage is approximately $39,250.

32. The Debtors also maintain life insurance policies through a split-dollar arrangement with certain corporate officers, older employees and retirees. Individual policies are owned by the Debtors, and the covered employees have beneficial interests in the insurance policies. The costs to maintain these policies are paid partially by the employees and partially by the Debtors. Vested retirees have policies with Cigna in a face amount of fifty percent of their active insurance amount, which policies are paid entirely by the Debtors. No payments are due on these policies during 2002, as the Debtors used the surrender and/or cash value of the policies to offset premiums otherwise due for the current year.

33. Under an Executive Carve Out Life Insurance Replacement Program, the Debtors make premium payments on individual life insurance policies for approximately 15 employees whose coverage under the split-dollar plan described in paragraph 32 was discontinued. Pursuant to this program, the Debtors pay premiums on affected employees' individual life insurance policies with Mass Mutual for two years. The second annual premium payments for the employees are due on varying dates between October and December 2002, and the total annual cost of making these payments is $34,814.

34. The Debtors also make payments to certain disabled employees under the self-insured portion of two discontinued long-term disability plans. The first of these plans was administered through AUL. The Debtors self-fund the plan for the first two years of an employee's disability, and AUL insures after 24 months of continued disability. This plan was replaced on October 1, 2001 with the UNUM plan described in paragraph 31 above. Several employees became disabled before the plan was replaced. The average monthly cost to the Debtors under this self-insured disability plan is approximately $14,000. Likewise, the Debtors sponsored a self-funded employee disability plan for union employees prior to October 1, 2001. Several employees remain entitled to receive payments under this plan, which is administered by UNUM. The average monthly cost to the Debtors to meet these obligations for union employees is approximately $1,600.

35. The Debtors provide a small number of employees (i.e., who were either older than 55 or retired on October 1, 2001) with additional retiree life insurance. The insurance plan through which these benefits are provided is fully insured through Minnesota Life. The approximate cost for the Debtors to maintain this program is approximately $63,000 per month.

36. The Debtors provide voluntary short-term disability insurance for employees through AUL. Employees pay for this coverage through payroll deductions, and the Debtors do not contribute to this plan. The administrative costs for the Debtors to maintain this program are minimal.

37. Certain additional life insurance benefits are provided to directors which are administered through Mass Mutual. Upon election to a first term as a member of the board of directors, each director is provided with $100,000 in life insurance coverage during that person's tenure as a director, and $50,000 in coverage upon leaving the board of directors. This plan is a split-dollar plan, whereby the company owns the policy and the director has a beneficial interest in the policy. The Debtors pay the total cost of the plan, which amounts to approximately $250,000 on an annual basis. The majority of the premiums for 2002 have already been paid, and the Debtors estimate that the remaining premiums to be paid are approximately $8,000. In addition, upon election to a second term on the board of directors, each director is entitled to an additional $100,000 in life insurance coverage under a split-dollar arrangement. The director owns the policy and collaterally assigns it to the company while serving as an active director. The Debtors pay for the policy for the longer of 10 years or the length of time during which the director serves as a member of the board after becoming eligible. The approximate annual cost of these premiums is $50,000, which has not yet been paid for 2002. The premium becomes due in June, but the invoice has not yet been received.

38. The Debtors also pay certain union employee benefits which are not administered by the Debtors. These union-sponsored plans cover the Debtors' union employees at their Wichita, Kansas, Springfield, Massachusetts, and New Reigel, Ohio facilities. These are "Taft-Hartley" benefit plans that include medical, dental, vision and life insurance. The Debtors

pay the costs for these benefits directly to the union funds. The approximate average monthly cost of providing these benefits is $214,797.

39. The Debtors believe that a portion of their obligations for medical and disability plan coverage is entitled to priority treatment pursuant to 11 U.S.C. § 507(a)(4); however, the precise amount of that priority is difficult to estimate at this time.

40. The Debtors must be permitted to honor these prepetition obligations with respect to the Insurance Benefits to maintain the morale of employees and to preserve the status quo of the Debtors' businesses. The failure to maintain Insurance Benefits in force and effect places the Debtors at risk that employees would refuse continued work efficiencies and/or engage in work slow-downs. At the very least, employee morale will decline rapidly, which will adversely affect productivity, thereby impairing the Debtors' chances for a successful reorganization.

F. Workers' Compensation Benefits

41. In compliance with statutory requirements, the Debtors maintain self-insured workers' compensation programs up to a limit of approximately $500,000 per occurrence. The upper limit on the amount the Debtors self-insure varies slightly among the Debtors, but claims generally do not exceed the self-insured limit.

42. Workers' compensation claim payments approximate $940,504 per year, including administrative fees. Outstanding claims incurred and reported as of April 30, 2002 were approximately $8,694,304.

43. Workers' compensation claim coverage is required under law, is necessary to maintain the status quo, provides benefits to employees injured in the ordinary course of the

Debtors' businesses, and prevents undue hardship for disabled employees who depend upon such benefits to satisfy personal needs and obligations.

G. Pension and 401(k) Contributions

44. Like many large companies, the Debtors maintain pension and 401(k) plans for their employees, and they partially match the contributions of the employees to the 401(k) plan. The Debtors maintain two main types of retirement plans for their employees: (i) qualified defined benefit plans and (ii) qualified defined contribution plans. The Debtors also sponsor and administer a qualified defined benefit plan for employees of joint ventures and former joint ventures of Debtors. Employees of certain affiliates, joint ventures and former joint ventures participate in the qualified defined contribution plans sponsored and administered by the Debtors.

45. The Debtors sponsor and administer two different qualified defined benefit retirement plans and administer three other qualified defined benefit plans that they do not sponsor. The first of these plans sponsored and administered by Debtors is the Farmland Industries, Inc. Employee Retirement Plan, which provides benefits for the eligible employees of Farmland and its subsidiaries through a retirement trust, with JPMorgan Chase Bank serving as the trustee. The trust is funded by contributions from both employees and Debtors. There are no prepetition obligations owed with respect to this plan, as no mandatory contributions were required as of March 31, 2002. The second of these plans sponsored and administered by Debtors is the Mid-America Retirement Plan, which provides benefits for employees of joint ventures and former joint ventures of Debtors. The benefits are provided through a retirement trust funded by contributions by both employees and participating employers. Because the Debtors are not participating employers, they make no contributions to the plan. The Debtors

also administer three qualified, defined benefit plans, which they do not sponsor and to which they do not make contributions. These plans are the Co-op Retirement Plan, the Agriliance LLC Employee Retirement Plan and the Agro Distribution LLC Employee Retirement Plan.

46. The Debtors sponsor and administer three qualified defined contribution retirement plans and administer one qualified defined contribution retirement plan that they do not sponsor. First, the Debtors sponsor and administer the SavingsBuilder 401(k) Plan, a qualified defined contribution retirement plan, which provides benefits for the eligible employees of Debtors and their controlled group members as well as employees from certain affiliated organizations and joint ventures. Under the SavingsBuilder 401(k) Plan, the Debtors match $0.15 for each $1.00 of each control group employee's contribution to the plan, up to 4.0% of employee compensation. With respect to non-controlled group members, each individual employer is responsible for its own matching contribution. Second, Debtors sponsor and administer the SF Services Inc. Employees Retirement and Savings Plan, which is a frozen 401(k) plan to which the Debtors make no contribution. Third, under the Retirement Savings Plan for Select Bargaining Unit Employees, the Debtors match 100% of each employee's contribution to the plan, up to a maximum of $0.20 per hour of service. It is anticipated that the Retirement Savings Plan for Select Bargaining Unit Employees will be merged into the SavingsBuilder 401(k) Plan by the end of June. The Debtors contribute approximately $74,000 per month to these plans in matching contributions. The Debtors also administer the Agriliance LLC SavingsBuilder 401(k) Plan. The Debtors are not participating employers in the Agriliance LLC SavingsBuilder 401(k) Plan and therefore make no matching contributions.

H. Severance Payments

47. The Debtors have prepetition severance obligations to former employees, the payment of which amounts is in the best interests of the estates and necessary for the preservation of value. Although severance payments are owed in respect of prepetition debts, the majority of payments are due in June, 2002. By this Motion, the Debtors request authority to pay the amounts owed of approximately $333,645 as and when due, and continue their severance policy in force and effect subject to the Debtors' rights to modify the policy (in whole or in part) based upon financial operations and performance during these Chapter 11 proceedings. These severance payments do not include any severance obligations to executives or former employees under or in connection with employment agreements, which are expressly excluded from this Motion.

I. Payroll Deductions

48. As a convenience and accommodation for employees, the Debtors make deductions from employees' payroll checks and subsequently pay those funds, along with any required employee refunds, to various third parties. These payroll deductions are for such items as medical savings accounts, dental insurance premiums, disability insurance premiums, term life premiums, dependent child care, and claims under writs of garnishment. Approximately $4,095,380 is deducted for these items on behalf of employees each month. As of the Petition Date, approximately $4,095,380 of such payroll deductions had been withheld for these items. These funds are not property of the estate under 11 U.S.C. § 541, and accordingly, the Debtors request authority to pay over all such funds to the designated payees in accordance with existing company policies and practices.

J. Vacation, Holiday, Sick Leave, and Family Medical Leave Pay

49. The Debtors maintain a policy whereby employees accrue entitlements to paid vacation, holidays, and sick leave. The Debtors also maintain a policy of providing paid time off for particular family medical situations, such as the birth of a child. The Debtors do not pay for vacation, holidays, sick leave or family medical leave days not used, with one exception. Employees who leave the Debtors' employment (voluntarily or involuntarily) are paid for accrued vacation days up to the maximum number allowed for carryover. (For employees with under 15 years of service, the maximum payment is 24 days, and for employees with 15 years of service or more, the maximum payout is 30 days). The Debtors believe that the costs attributable to accrued vacation pay are minimal. As with the Debtors' other employee programs, failure to honor existing company policies will result in low employee morale, ill-will and decreased productivity and effectiveness. Like employee wages, such amounts are entitled to priority treatment under 11 U.S.C. § 507(a)(3). Although the exact amount of such pay and entitlements cannot be determined with precision at this time, the Debtors request authority to maintain their vacation, holiday, sick leave, and family medical leave policies in the ordinary course of their operations.

K. Tuition Reimbursement

50. The Debtors maintain a tuition reimbursement policy by which they assist employees who further their education or pursue degrees. In order to qualify for the tuition reimbursement, the employee's education program must be related to areas of study that apply to the Debtors' businesses. The Debtors reimburse employees, on a pre-approved basis, for tuition and related educational fees upon completion of each course, up to a maximum amount per employee of $2,500 per year. The total amount reimbursed depends upon the letter grade which

an employee receives in each course. The average monthly cost to the Debtors to continue this program is approximately $8,634. The current liability outstanding to employees enrolled in pre-approved courses but who have not yet submitted reimbursement requests is approximately $34,826.

51. In order to maintain status quo and morale of current employees, it is important that the Debtors be permitted to maintain the tuition reimbursement program. The educational skills of the Debtors' employees provide a substantial benefit to the estate. The cost of maintaining this program is relatively insignificant.

L. Employee Relocation

52. The Debtors employ Executive Relocation to provide assistance for employees who are relocated. Currently, there are approximately 29 employees in the process of moving who are eligible for relocation reimbursement. The approximate cost for this program is approximately $20,000 per employee move, and the Debtors estimate that the current amount outstanding in respect of the relocation program is no greater than $580,000.

53. The policy of providing assistance to relocated employees is important in maintaining employee morale and persuading key employees to move to locations where they can best be utilized. Without such a program in effect, employees may refuse transfers to new locations or resign, all to the detriment of the Debtors. It is in the best interests of these estates to maintain the relocation assistance program for the employees.

M. CEO Discretionary Fund

54. Many of the Debtors' employees possess particularly important, industry-specific knowledge, and/or "hot" skills that are absolutely necessary for the Debtors' continued operations and prospects for a successful reorganization. These employees must be retained by

the Debtors to preserve status quo and continue the operations of the Debtors' business. Although not currently a part of a formalized program, the Debtors request that a separate fund (the "CEO Discretionary Fund") be established to address potential employee retention issues that arise from the Debtors' bankruptcy filings. The CEO Discretionary Fund is designed to protect the Debtors' investment in management, supervisory and professional personnel, together with other employees having "hot skills." In order to retain such employees, the CEO Discretionary Fund will be utilized only for selected employees on an "as-needed basis" for retention purposes. The Debtors request that the CEO Discretionary Fund be established in the amount of $250,000, and that the Debtors' CEO, Robert B. Terry, be given discretion to use this fund "as needed" to address specific employee retention issues.

55. The Debtors request that they be authorized to pay the Prepetition Employee Claims described above. Without such relief, the Debtors' employees will be irreparably harmed resulting in ill-will towards the Debtors and less effective employee performance. The vast majority of employees will receive less than the $4,650 amount allowed by 11 U.S.C. § 507. To the extent that payment of the amounts described in this Motion may subsequently be determined to be greater than a beneficiary would otherwise have received if these cases were commenced or proceeded under Chapter 7 of the Bankruptcy Code, the Debtors (or any subsequently appointed Trustee) expressly reserve the right to seek recovery of such payments.

N. Applicable Law

56. Authority to pay pre-petition employee benefits is essential to the continued operation of the Debtors' businesses, and is in the best interests of the Debtors' estates and all creditors. Courts in the Western District of Missouri and elsewhere have recognized the

need to satisfy pre-petition obligations relating to employees to maintain and protect the continuity of a debtor's business and preserve employee morale. See In re Food Barn Stores, Inc., Case No. 93-40012 (Bankr. W.D. Mo. 1993), Jan. 7, 1993; In re Federated Dept. Stores, Inc., Order dated January 15, 1990, Chapter 11 Case Nos. 1-90-00130 through 1-90-00196 (Bankr. S.D. Ohio) (authorizing and directing debtors to pay employees, in accordance with standard policies all pre-petition wages, salaries, commissions for retail sales, sick pay, holiday pay, etc.); In re Apex Oil Co., et. al., Order dated February 1, 1988, Chapter 11 Case No. 87-3804-BKC-BSS (Bankr. E.D. Mo.) (authorizing debtors to pay pre-petition wages, vacation pay, income withholding, medical deductions, maintenance, union dues, bonuses, and overtime compensation); In re Continental Airlines Corp., et. al., Order dated September 29, 1983, Chapter 11 Case No. 83-04019-H2-5 (Bankr. S.D. Tex.) (authorizing the debtors to pay active employees pre-petition claims for salary, insurance benefits, and out-of-pocket expenses and to pay $500,000 toward certain insurance claims of employees); and In re KDT Industries, Order dated September 16, 1982, Chapter 11 Case Nos. 82B11453 through 82B11515 and 82B11687 through 82B11718 (Bankr. S.D.N.Y.) (authorizing debtor to reimburse employees for pre-petition travel expenses). These authorities and others recognize that it is critical that the Debtors pay pre-petition claims of employees to preserve and protect the Debtors' businesses and enhance the Debtors' prospect of reorganization, by minimizing disruption to the workforce and maintaining positive employee morale.

57. This Court, pursuant to the "Necessity of Payment" doctrine, may authorize the payment of pre-petition claims if (i) necessary to the continued operation of the Debtors; (ii) in the best interest of the Debtors' creditors and employees; and (iii) necessary for

the Debtors' successful reorganization. In re Ionosphere Clubs, Inc., 98 B.R. 174, 176 (Bkrtcy. S.D.N.Y. 1989); In re Chateaugay Corp., 80 B.R. 279, 281 (S.D.N.Y. 1987).

58. Moreover, the Debtors are authorized to continue to retain their assets and operate their businesses pursuant to Bankruptcy Code §§1107(a) and 1108. Section 363(c)(1) of the Bankruptcy Code authorizes the Debtors to enter into transactions in the ordinary course of business without notice or a hearing. Thus, with respect to the Debtors' authority to continue to provide employee benefits post-petition, no court order is required. However, to minimize disruption and preserve values, the Debtors must also honor employee compensation, reimbursements, and benefits that were earned or accrued pre-petition or which are based, in whole or in part, upon pre-petition services.

59. Furthermore, by virtue of Bankruptcy Code §1114, the Debtors are required to continue paying "retiree benefits." Nothing in this motion at this time should be construed as a request to reduce or delay any such payments. Rather, it is consistent with the purpose and intent of Bankruptcy Code §1114 that the Debtors also continue to make payments for non-retired employees, their spouses and dependents, for wages, expenses, and the types of benefits enumerated in Bankruptcy Code §1114(a), including medical, disability and accident programs, funds, or insurance. Consistent with Bankruptcy Code §1114, the Debtors intend (and to the extent necessary, seek authorization of this Court) to timely pay all "retiree benefits" subject, however, to the right of the Debtors to seek agreements and/or orders modifying such "retiree benefits" in accordance with Bankruptcy Code §1114 at a later date if necessary.

O. Overall Rationale

60. The relief sought in this Motion will facilitate the stabilization of a productive workforce and the success of the Debtors' efforts to reorganize all operations.

61. Absent the emergency relief requested in this Motion being granted:

(a) the Debtors will suffer interruption of ordinary course of business relationships, and the Debtors' employees will suffer undue hardships and, in many instances, serious financial difficulties because such amounts are necessary to enable employees to meet their respective personal, household and family obligations; and

(b) the stability of the Debtors' businesses and workforce will be undermined by persistent threats that otherwise loyal employees will seek other employment alternatives, coupled with increased inefficiencies and loss of morale.

CONCLUSION

WHEREFORE, the Debtors respectfully request that this Court enter an order (i) authorizing the Debtors to pay all Prepetition Employee Claims and other benefits as set forth herein; (ii) authorizing all applicable banks and other financial institutions as described on Exhibit B hereto, to receive, process, honor, and pay any and all checks drawn on the Debtors' employee related accounts, whether presented prior to or after the Petition Date in accordance with the Debtors' stated policies with regard thereto, provided sufficient funds exist in the employee related accounts to cover such payments; and (iii) granting such other and further relief as is just and proper.

Dated: _____, 2002.

FARMLAND INDUSTRIES, INC., ET AL.

By: /s/ Laurence M. Frazen

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EXHIBIT A

SUMMARY OF EMPLOYEE BENEFITS PROGRAMS

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
Wages and Salaries	Regular compensation for employees.		
Reimbursable Business Expenses	Reimbursement to employees for business expenses, such as travel and the like.	$408,000	
Farmland Industries, Inc. Employee Benefit Plan	Self-funded health plan, including medical, dental and prescription coverage. Medical administered by Principal. Dental administered by Delta Dental of Missouri. Prescription drug coverage is through Caremark.	$2,700,000	Estimated incurred but unreported or unpaid claims as of December 31, 2001 were approximately $7,417,700.
Vision Plan	Insured plan through Vision Service Plan. Company pays for employee exam only coverage. Employees can elect family coverage and can elect materials coverage, at the employee cost.	$3,113	
Section 125 Cafeteria Plan	Flexible Spending Account plans for unreimbursed medical and dependent care. Employee can elect to place pre-tax income into the plan for use during the calendar year.		

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
Life Insurance Plan	Insured plan through Minnesota Life, with one-time flex wage base (up to $50,000) paid by the company. Employee can elect supplemental employee-paid coverage for an additional amount up to 4 times flex wage base.	$41,300	In addition, there are currently $146,833 in outstanding life claims related to our previous life insurance program with AUL. Because we have terminated our contractual arrangement with AUL, Farmland will be obligated to pay on these claims when finalized. We are also paying $5,500 per month to continue life insurance policies for individuals who have become disabled under a continuation of life waiver program.
Accidental Death and Dismemberment Coverage	Insured plan through Minnesota Life, with one times flex wage base paid (up to $50,000) by the company. Employee can elect supplemental employee-paid additional coverage up to four times flex wage base.	$5,942	
Dependent Life Insurance	Insured plan available for spouse and/or dependent children through Minnesota Life. Employee paid.		
UNUM Long-Term Disability Insurance Plan	Fully insured plan through UNUM. Company pays for 50% of salary. Employee can elect a supplement of 60% of salary at employee cost. Included in plan is an employee assistance benefit plan through UNUM by Ceredian called LifeBalance.	$39,250	

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
Executive Life Insurance/Split Dollar Life Insurance	Life insurance for Appointed Corporate Officers and for some grandfathered employees age 55 and older and retirees. Company-owned individual policies, with employee having beneficial interest. Company pays for part and employee pays towards plan as well. Vested retirees have a policy in the amount of 50% of their active insurance amount, paid entirely by the Company. Participants sign a Split Dollar agreement and individual life policies through Cigna are obtained for each eligible employee.		No payment in FY2002 as we used the surrender and/or cash value of policies to offset premiums otherwise due.
Executive Carve Out Life Insurance Replacement Program	As a transition program when Farmland discontinued the Executive Life Insurance/Split Dollar Life Insurance program for a large number of employees, Farmland committed to assisting those impacted by making premium payments for individual policies for two years. There are 15 individuals who have selected those individual policies. The second of the annual premium payments will be due on varying dates between October and December 2002. The policies are through Mass Mutual.		Annual one time cost of $34,814

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
AUL Long-Term Disability Plan	Previous life insurance plan, whereby Farmland self-funded for first two years of disability, with AUL insuring after 24 months of continued disability. Plan was replaced with the UNUM disability plan October 1, 2001. However, some employees who became disabled before October 1, 2001 are still on the self-funded period. These are administered by AUL during self-funded period but paid by Farmland. After the 24-month period, AUL administers and insures the benefit payment.	$14,000	
Self-Funded Disability Plan	This plan was in place for union employees prior to October 1, 2001. There are still a few employees receiving payments under this self-funded plan, where the disability began prior to October 1, 2001. This is administered by UNUM, but paid by Farmland. Disability payments are made over a 12-month period.	$1,600	
Retiree Life Insurance	Life insurance plan for a group of grandfathered employees either already 55 prior to October 1, 2001 and/or already retired. Plan is insured through Minnesota Life.	$63,000	
Short-Term Disability	This is a voluntary insured plan through AUL. It is employee paid by payroll deduction.		
Workers' Compensation	Company is self-insured up to an approximate limit of $500,000 per occurrence. The limit may vary depending on the state and the entity involved, but generally the claims do not exceed the limit.		Including administrative fees, payments are approximately $940,504 per year, based on the payments made over the last 10 years. Reported claims outstanding as of April 30, 2002 were approximately $8,694,304.

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
Qualified Defined-Benefit Pension Plans	The company sponsors the Farmland Industries, Inc. Employee Retirement Plan and the Mid-America Retirement Plan. The company also administers, but does not sponsor or contribute to, the Co-op Retirement Plan, the Agriliance LLC Employee Retirement Plan and the Agro Distribution LLC Employee Retirement Plan.		The company only makes contributions to the Farmland Industries, Inc. Retirement Plan. However, no contributions were required for the plan year ending on March 31, 2002.
Qualified Defined-Contribution Retirement Plans	These plans include the Farmland Industries, Inc. SavingsBuilder 401(k) Plan, the SF Services 401(k) and Savings Plan, and the Retirement Savings Plan for Select Bargaining Unit Employees. We administer, but do not sponsor the Agriliance LLC SavingsBuilder 401(k) Plan. The Debtors match employee contributions under these plans in the following amounts: Farmland Industries: 15% of contribution up to 4% of compensation SF Services: Frozen plan, no contribution requirement Retirement Savings: 100% of contribution up to maximum of $0.20 per hour of service Agriliance: Contributions paid by Agriliance	$74,000 (total for all matching)	
Severance	Certain employees receive severance pay upon their departure from the company.		Amounts currently owing are approximately $333,645.
Payroll Deductions	Not really a benefit, but the company directs employees' payroll to various third parties. This is not a cost to the company. The deductions are for such items as insurance premiums, dependent child care, garnishments and the like.		Company directs approximately $4,095,380 in these types of payroll deductions to third parties each month.

Employee Benefit Program	Description of Program	Average Monthly Cost	Other Costs
Tuition Reimbursement	This program is available to employees furthering their education by obtaining a GED or pursuing an academic degree at a college or university. The education program must be related to areas of study applicable to Farmland. It covers tuition and related educational fees upon completion of a pre-approved course, with a maximum to each employee of $2,500 per fiscal year for classes taken during that fiscal year. Reimbursement percentage depends upon the grade received for the course.	$8,634	We have $34,826 in tuition costs anticipated for employees who have had pre-approval of courses but have not yet submitted their reimbursement requests for those courses.
Sick Leave	Paid time off based on accruals for illness. Plans vary by unit and/or bargaining unit agreement.		
Vacation	Paid time off based on accruals. Plans vary by unit and/or bargaining unit agreement.		
Family Medical Leave	Time-off program available for medical situations for self or family member and for birth, adoption or placement of a child.		
Relocation	Relocation program administered by Executive Relocation provides relocation assistance for new hires and/or employees relocated by company actions.		There are currently 29 moves in process, but not yet completed. Our average cost per relocation is approximately $20,000.

Board of Directors Benefit Programs			
Employee Benefit Program	**Description of Program**	**Average Monthly Cost**	**Other Costs**
Life Insurance	Provided to Directors upon election to first term. Provides for $100,000 life insurance coverage while a director, and $50,000 after leaving the board. Split Dollar plan, with company owning the policy and Director having a beneficial interest. Company pays for the plan. It is through Mass Mutual		Annual premium. Amount paid January 2002 was $246,739.51. Premium for 2003 will increase as new directors are added to the program. We have not yet paid 2002 premiums for the two new directors this year. We do not have final premiums invoices for them, but for one of them the annual premium should be approximately $3920.
Supplemental Life Insurance	Provided to Directors upon election to second term. Provides for $100,000 life coverage. Split Dollar plan, with employee owning the policy, but collaterally assigning the policy to the company while an active director. Company pays for the policy for a term of 10 years and/or the length of time the director serves on the board following second election, whichever is longer. If payments are made after leaving the board, company has continuation agreement to pay the former director an amount equal to the premium for the remaining obligation term, but former director directly pays for the premiums. After the company premium payment obligation term expires, the director has options to continue the plan by paying the premiums him/herself, or other options available under the policy. Policy is through Mass Mutual.		Annual premiums are paid in June for these policies. We have not yet received the invoice for this year. Last year we paid $47,703 in premiums for this program, but it will vary somewhat this year as additional directors have become eligible for the program.

Farmland Foods Union Employee Benefits not Administered by Farmland Human Resources Department			
Employee Benefit Program	**Description of Program**	**Average Monthly Cost**	**Other Costs**
Union-sponsored benefit plans for Wichita, KS union employees	Taft-Hartley benefit plans, including medical, dental, vision and life Insurance. Benefit payments are made to United Food & Commercial Workers Local 2 and Employers Health & Welfare Fund.	$176,895	
Union sponsored pension plan for Springfield, MA and New Reigel, Ohio union employees.	Taft-Hartley pension plan. Payments are made to UFCW National Pension Fund.	$37,902	

EXHIBIT B

LIST OF BANK ACCOUNTS USED TO PAY FOR EMPLOYEE BENEFITS

Account	Bank	Account Number
Farmland Industries, Inc. Payroll Account	Bank of America, N.A. P.O. Box 105713 Atlanta, Georgia 30348-5713	3299924466
Farmland Foods Payroll Account	Bank of America, N.A. P.O. Box 105713 Atlanta, Georgia 30348-5713	3299924409
Farmland Industries, Inc. Accounts Payable Account	Bank of America, N.A. P.O. Box 105713 Atlanta, Georgia 30348-5713	3299910598
Farmland Industries, Inc. Employee Benefits Account	Bank of America, N.A. P.O. Box 105713 Atlanta, Georgia 30348-5713	3299924821
Farmland Foods Workers' Compensation Account	Fleet Bank Mail Stop: PA EH 0801 NR 1 Fleet Way Scranton, PA 18505	145-0450
Farmland Foods Account Payable Account	Bank of America, N.A. P.O. Box 105713 Atlanta, Georgia 30348-5713	3299941122
Farmland Industries, Inc. Employee Benefits Plan (Health Plan Trust Account)	Commerce Bank of Kansas City	2746084

Account	Bank	Account Number
Mid-America Retirement Administrative Account	Commerce Bank	284-054-4
Co-op Retirement Administrative Account	Commerce Bank	281-046-1
Farmland Industries, Inc. Employee Retirement Administrative Account	Commerce Bank	233-146-0

Trust Accounts for Benefit Plans		
Trust Account Name	**Bank**	**Tax ID Number of Trust Account**
Farmland Industries, Inc. Employee Retirement Plan Account	JPMorgan Chase Bank	11-3454197
Co-op Retirement Plan Account	JPMorgan Chase Bank	11-3454196
Mid-America Retirement Plan Account	JPMorgan Chase Bank	11-3454198
Agriliance LLC Employee Retirement Plan Account	JPMorgan Chase Bank	11-3580370
Agro-Distribution Employee Retirement Plan Account	JPMorgan Chase Bank	11-3580371
Savingsbuilder 401(k) Plan Account	Nationwide Trust Company	74-2978262
Agriliance Savingbuilder 401(k) Plan Account	Nationwide Trust Company	74-2982491
Foods Select Bargaining Units 401(k) Plan Account	Merrill Lynch Trust Company	42-0862509
SF Services 401(k) Plan Account	Lincoln National Life Insurance Company	71-0220282