

United States Senate

WASHINGTON, DC 20510

June 19, 2019

Marc J. Leder
Co-Chief Executive Officer

Rodger R. Krouse
Co-Chief Executive Officer

Sun Capital Partners, Inc.
5200 Town Center Circle, 4th Floor
Boca Raton, FL 33486

Dear Mr. Leder and Mr. Krouse:

I am writing on behalf of the nearly 3,000 Wisconsin workers who will or have lost their jobs as a result of the ShopKo liquidation. Your firm, Sun Capital Partners, is the private equity owner of ShopKo. As such, your firm is responsible for the series of decisions that led to ShopKo's bankruptcy, its stores closing, and its workers losing their jobs. To make matters worse, because of your mismanagement, ShopKo is now breaking a promise it recently made its workers.

In order to encourage workers to stay on through the difficult liquidation phase, ShopKo promised its workers severance pay. Now, as ShopKo's final stores prepare to close this Sunday, June 23rd, these workers, many of whom have dedicated decades of their careers to serving ShopKo customers, learned that they won't receive any severance after all. As the owner responsible for ShopKo, I ask that Sun Capital keep its promise and establish a fund to pay the severance of ShopKo employees harmed by the liquidation. I'm also requesting that Sun Capital Partners pay the \$13.5 million in taxes and penalties that ShopKo currently owes the State of Wisconsin.

In 2005, ShopKo—founded in 1961 and headquartered in Ashwaubenon, WI—was bought out by your firm, Sun Capital Partners, a private equity firm headquartered in Boca Raton, Florida. Sun Capital extracted value out of the company, benefitting Sun Capital and its investors at the expense of ShopKo and its workers. While market forces hurt ShopKo's sales over the years, Sun Capital's decisions played the decisive role in driving ShopKo out of business and putting 3,000 Wisconsinites out of work.

Upon buying ShopKo, Sun Capital immediately embarked on a textbook private equity maneuver—the sale leaseback. Sun Capital sold the real estate out from under ShopKo's 351 locations to a company that would lease ShopKo's buildings and land back to ShopKo in one of the largest sale leasebacks in history. Sun Capital said at the time that ShopKo would use the proceeds from the sale to open new locations. But that didn't happen. Instead of investing in the company, you paid yourselves over \$170 million in dividends and management fees, starving ShopKo of the investment it needed to stay competitive.

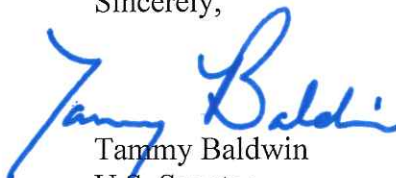
Not only did you not allow ShopKo to use its cash to reinvest, you loaded ShopKo up with debt to fund even more payouts to Sun Capital executives and its investors. ShopKo borrowed \$179.5 million from lenders to pay dividends to Sun Capital and other investors between 2007 and 2015. In addition, while ShopKo always seemed to be able to find cash for payouts to Sun Capital, the firm was apparently unable to pay its fair share of taxes. The Wisconsin Department of Revenue has reported that ShopKo currently owes the state of Wisconsin \$13.5 million in unpaid taxes and penalties. This tax revenue would be helpful for the state to deal with the fallout of the ShopKo job losses and I ask that you pay it.

To ensure an orderly liquidation, ShopKo promised—in written communications—severance pay to its employees in exchange for working to close down their hundreds of stores.¹ Severance pay would help Wisconsin workers stay afloat as they transition to new jobs. As 13-year ShopKo employee Kristi Van Beckum from Madison said, “I always felt proud to work at ShopKo because it was a Wisconsin-based company and it really invested a lot in the community. Losing ShopKo has been devastating to me and my entire community. I saw how Sun Capital sold off Shopko's properties and destroyed the company, all for their own benefit. They made millions while I didn't even get the severance I was promised. Sun Capital owes my coworkers and I, as well as our communities in Wisconsin, for running a company we loved into the ground.” The least you should do is keep your word to these workers by providing the severance they were promised.

Sun Capital's actions and the bankrupting of ShopKo are not a surprise to anyone familiar with the abuses of the private equity playbook. I will continue to work with my colleagues in the Senate to address the forces in our economy that hollow out Wisconsin companies and communities by putting profits for executives over investment in workers.

In closing, I again ask that you establish a fund to pay severance for all ShopKo employees affected by the liquidation and pay your taxes and penalties to the Wisconsin Department of Revenue.

Sincerely,



Tammy Baldwin
U.S. Senator

¹ Primack, Dan. *Axios*. “How workers suffered from Shopko’s bankruptcy while Sun Capital made money”. June 11, 2019. <https://www.axios.com/shopko-bankruptcy-sun-capital-547b97ba-901c-4201-92cc-6d3168357fa3.html>