

UNITED STATES DISTRICT COURT
DISTRICT OF NORTH DAKOTA

In re:

Vanity Shop of Grand Forks, Inc.,

Debtor.

Case No.: 17-30112

Chapter 11

Related to Docket Nos. 17 and 97

**OFFICIAL COMMITTEE OF UNSECURED CREDITORS LIMITED OBJECTION
TO THE DEBTOR'S MOTION FOR ENTRY OF AN ORDER (I) AUTHORIZING
THE DEBTOR TO PAY AND HONOR CERTAIN PREPETITION WAGES,
BENEFITS, AND OTHER COMPENSATION OBLIGATIONS, (II) HONOR
MANAGEMENT SERVICES AGREEMENT AND PAY PREPETITION
OBLIGATIONS RELATED THERETO, AND (III) AUTHORIZING BANKS TO
HONOR AND PROCESS CHECKS AND TRANSFERS RELATING TO SUCH
OBLIGATIONS**

The Official Committee of Unsecured Creditors (the "Committee") of Vanity Shop of Grand Forks, Inc., the debtor and debtor-in-possession in this case ("Vanity" or the "Debtor"), by and through its undersigned proposed counsel Fox Rothschild LLP, hereby objects to the Debtor's *Motion for Entry of an Order (I) Authorizing the Debtor to Pay and Honor Certain Prepetition Wages, Benefits, and Other Compensation Obligations, (II) Honor Management Services Agreement and Pay Prepetition Obligations Related Thereto, and (III) Authorizing Banks to Honor and Process Checks and Transfers Relating to Such Obligations* [Docket No. 17] (the "Motion").¹

In support of is objection, the Committee respectfully represents as follows:

1. Vanity filed the Motion on March 1, 2017, and on March 6, 2017, the Court entered an interim order approving the Motion.
2. On March 10, 2017, the Office of the United States Trustee for the District of North

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to such term in the Motion.



Dakota (the “UST”) appointed the following three members to the Committee: Washington Prime Group, Inc.; GGP Limited Partnership; and Simon Property Group, Inc. On March 13, 2017, the Committee selected Fox Rothschild LLP as counsel. On March 17, 2017, the UST appointed two additional members to the Committee: Cavalini, Inc. and Anfield Apparel Group, Inc.

3. Promptly following the Committee’s appointment and its retention, Committee counsel requested information important to understanding this bankruptcy case, Vanity’s anticipated going-out-of-business process, its proposed liquidation budget, and how the payment of various prepetition and postpetition expenses may enhance the return to creditors in this liquidating chapter 11 case.

4. The Committee does not object to the payment of wages and benefits accrued prepetition for the benefit of the *debtor’s* employees, as proposed in the Motion. However, the Committee is concerned about the payments being made to, or through, a non-debtor affiliate to non-debtor employees.

5. The Motion seeks authority for the Debtor to continue performing under a prepetition Management Agreement with Vanity, Inc. Under the Management Agreement, the Debtor is obligated to pay “100% of [Vanity, Inc’s] direct management costs.”² Vanity, Inc. is a *non-debtor* affiliate. While the Debtor has indicated that Vanity, Inc. is undergoing a separate downsizing or wind down outside of the bankruptcy court process and this Court’s oversight, the Debtor has not provided sufficient details on what costs comprise the “direct management costs,” the employee payments and regular expenses of the Management Agreement, what portion of the Debtor’s operating budget is attributable to the Management Agreement, and whether less expensive alternatives are available to the Debtor, such as directly hiring employees on a contract basis.

² See Docket No. 19.

6. The Motion seeks authority for the Debtor to spend over \$300,000 in prepetition amounts to cure defaults under this prepetition executory contract with its non-debtor affiliate, and additional undisclosed amounts on a postpetition basis. The Committee is unable to determine the necessity or appropriateness of these payments without additional information. Such information is necessary for the Committee to fulfill its statutory obligations under 11 U.S.C. § 1103(c).

7. Unfortunately, the Debtor's counsel has not provided sufficient answers to the Committee's information requests to alleviate the Committee's concerns about this process. Given the lack of information provided by counsel, the Committee has engaged a financial advisor and has requested that the Debtor's CFO and other members of its management team meet with the financial advisor to help shed light on case, the steps being taken to ensure a fulsome liquidation effort, the debtor's operating budget, payments to Vanity, Inc., the non-debtor affiliate, and related matters that will impact creditor recoveries.

WHEREFORE, the Committee respectfully requests that this Court: (a) defer entry of a final order approving the Motion, at least with respect to Vanity, Inc. and the Management Contract, to permit the Committee sufficient time to obtain additional information, or alternatively, that it enter an order denying final approval of this aspect of the Motion at this time; and (b) grant any further relief the Court deems proper and just.

Date: March 22, 2017

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*Proposed Counsel to the Official Committee of
Unsecured Creditors*

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on March 22, 2017 by this Court's CM/ECF System on all parties receiving electronic notice in this case.

/s/ Mette H. Kurth
METTE H. KURTH