



**SO ORDERED.**

**SIGNED this 06 day of August, 2004.**

  
LEIF M. CLARK  
UNITED STATES BANKRUPTCY JUDGE

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF TEXAS  
SAN ANTONIO DIVISION**

**IN RE:** §  
§  
**SCHLOTZSKY'S, INC., et al.** § **CHAPTER 11**  
§  
§ **Case No. 04-54504 (lmc)**  
**Debtors.** § **Jointly Administered**

**ORDER GRANTING DEBTORS' EMERGENCY MOTION FOR ORDER  
AUTHORIZING DEBTORS TO PAY PREPETITION SALARIES, WAGES, PAYROLL  
TAXES, EMPLOYEE BENEFITS AND RELATED INSURANCE PREMIUMS**

On August 4, 2004 the Court considered the Debtors' Emergency Motion for Order Authorizing Debtors to Pay Prepetition Salaries, Wages, Payroll Taxes, Employee Benefits and Related Insurance Premiums (the "Motion"), filed by the above-captioned Debtors (the "Debtors"). The Motion requests the entry of an order, pursuant to §§ 105(a), 507(a)(3) and 507(a)(4) of the Bankruptcy Code, to pay certain prepetition obligations owed to either their employees or those who provide employee benefits, and to honor and continue certain employee benefits. The Court finds that (i) it has jurisdiction over the matters raised in the Motion

pursuant to 28 U.S.C. §§ 157 and 1334; (ii) this is a core proceeding pursuant to 28 U.S.C. § 157(b)(2); (iii) the relief requested in the Motion is in the best interests of the Debtors, their estates, and their creditors; (iv) proper and adequate notice of the Motion and the hearing thereon has been given under the circumstances and that no other or further notice is necessary; and (v) upon the record herein after due deliberation thereon, good and sufficient cause exists for the granting of the relief as set forth herein. Therefore

**IT IS HEREBY ORDERED THAT:**

1. The Motion is granted *nunc pro tunc* to the bankruptcy petition date.
2. The Debtors are authorized under §§ 105(a), 363(b), 507(a)(3) and 507(a)(4) of the Bankruptcy Code to pay certain prepetition obligations (the “Prepetition Employee Obligations”) owed to either their employees or those who provide employee benefits, and to honor and continue certain employee benefits. As more fully described below, these pre-petition obligations may include (1) amounts owed to the employees for wages, salaries, vacation, personal time, bereavement leave, jury duty leave, paid holidays, salary continuation benefits under the applicable Debtors’ Family Medical Leave Act policies, and reimbursement of expenses incurred on behalf of Debtors; (2) federal state and local payroll related taxes, payroll deductions in respect of various benefits and for garnishments and child support; and (3) amounts owed to employees or third party providers for benefit claims of employees (including without limitation, worker's compensation, medical, dental, vision, life insurance, disability insurance, insurance, and miscellaneous other benefits).

3. The Debtors are authorized to pay the outstanding amounts owed as of the Petition Date for accrued and unpaid wages, salaries, bonuses and adjustments thereto, including amounts that the Debtors are required by law to withhold from employee payroll checks in respect of federal, state and local income taxes, garnishment contributions, Social Security and Medicare taxes. The Debtors are authorized to pay the amounts to the extent that such amounts do not exceed the \$4,925 cap imposed by § 507(a)(3) of the Bankruptcy Code.

4. The Debtors are authorized to permit their employees to use their accrued vacation and sick leave and to be paid for such leave, as well as bereavement leave, jury duty leave, and holidays, in the ordinary course of the Debtors' business. Additionally, the Debtors are authorized to honor their vacation, personal time and other leave obligations to their employees in the ordinary course of the Debtors' business.

5. The Debtors are authorized to preserve all medical, dental, employee assistance, vision, disability, worker's compensation and life insurance benefits provided to its employees and to pay, from time to time, as and when due, certain prepetition medical claims under self-funded medical insurance plans as well as to continue paying, as and when due, all premiums, expenses, and employee wage deductions related to medical, dental, vision, disability insurance, loss of license insurance, worker's compensation and life insurance benefits for their employees and their eligible dependents.

6. The Debtors are authorized to forward all employee wage deductions for 401(k), 401(m), the Stock Purchase Plan, additional insurance programs, and Flexible Spending Accounts to the appropriate program administrator.

7. The Debtors are authorized to reimburse all employees for prepetition or postpetition expenses incurred on behalf of the Debtors.

8. The Debtors are authorized to pay over all such funds, routinely and ordinarily deducted from employees' payrolls relating to federal, state, and local tax withholdings, child support orders or garnishments, other related deductions, to the appropriate parties in accordance with existing company policies and practices.

9. Notwithstanding the relief granted herein and any actions taken hereunder, nothing contained herein shall create, nor is it intended to create, any rights in favor of, or enhance the status of any claim held by, any person.

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