* 1 5 5 0 - 1 0 0 *

LETTER OF COMMENT NO. 37

ORGANIC VALLEY
Family of Farms

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Comments to Preliminary Views on Financial Instruments with Characteristics of Equity, Issued November 30, 2007
Reference #1550-100

Dear Chairman Herz:

In the United States, cooperatives are typically businesses that are owned and democratically controlled by their members. They operate in every sector of the economy from agriculture and utilities to finance and food retailing and distribution. CROPP Cooperative is an agricultural marketing cooperative located in LaFarge, WI representing 1300 organic farmers in 30 states. CROPP is also designated a 521 Cooperative under sec 521 of the IRC.

Cooperatives face many challenges in today's global economy including identifying new sources of capital for start-up and growth activities. Changes in generally accepted accounting principles are one of the challenges that cooperatives must address to ensure the viability of not only their individual businesses but also the cooperative model itself. When the matter at hand is the redefinition of equity it becomes a matter of critical importance to all American businesses.

Why is equity important to co-ops? Cooperatives need equity capital for the same reasons publicly traded and investor owned companies do – to fund the costs involved in starting and growing a business; to absorb losses in years without a surplus; and to leverage debt. Cooperatives rely on their members for most, if not all, of their equity capital.

Investors expect a return on their capital when they invest in private or publicly traded firms. Typically, the interests of the customers and the owners of publicly traded firms diverge. However, in the cooperative business model, the interests of the owners are aligned with those of the customers as they are one and the same. Patronage dividends, the net margins or "profits" in a cooperative, are returned over time to the cooperative's members based on the amount or value of business the member did with or for the co-op.

Both the initial capital contributed by the member and the allocated capital from margins represent capital at risk. Typically, in the event of bankruptcy, the members' interest in their cooperative would be subordinate to the interests of all other creditors or investors.

It is our understanding that the Basic Ownership Approach outlined in the Preliminary Views document requires equity to be the most subordinated interest in a cooperative. Further, it is our understanding that the member in a cooperative must be entitled to participate in a distribution of net assets upon a hypothetical

Organic Valley Family of Farms CROPP Cooperative One Organic Way La Farge WI 54639 *ph* 608 625 2602 *fx* 608 625 2600 www.organicvalley.coop

liquidation. This final distribution may have neither a ceiling nor a floor associated with it. Our members' shares would be the most subordinated interest in a cooperative -- they do not have priority over any other claim in liquidation. Our members would be entitled to a percentage of the net assets of the cooperative upon liquidation and there is typically no limit on how much they would receive except for the amount of net assets available.

Our cooperative cannot support the Basic Ownership Approach as outlined in your draft review document. We respectfully disagree with the fundamental assumption that only the most subordinated interests can be equity. We also disagree with the concepts that certain types of member equity distributions cannot have seniority over other member equity distributions or that distributions cannot be subject to a ceiling. The following table lists our current equity structure as well as some of its features.

CROPP's Equity Structure
(Listed in Order of Seniority)

				Liquidation	
Description	Ownership	Voting	Dividend	Ceiling	Floor
Preferred Stock Class E Series 1	Non-Members	No	Yes	Yes – actual investment plus accrued dividends	zero
Preferred Stock Class E Series 2	Individual Members	No	Yes	Yes – actual investment plus accrued dividends	zero
Capital Base Plan	Individual Members	No	Yes	Yes – actual investment plus accrued dividends	zero
Class A Stock	Individual Members	Yes	No	Yes – actual investment	zero
Allocated Equity	Individual Members	No	No	Yes – amount credited to member	zero
Unallocated Equity	Cooperative Members As a whole. Not assigned to specific Member.	No	No	No – allocation based on percentage method chosen at liquidation	zero

Note: At liquidation, additional assets (in excess of liabilities and senior equity) would be distributed based on patronage methods chosen by the Board of Directors. Patronage methods could be based on the historical activity from the last 3 years up to the last 20 years (inception of our cooperative) based on our Board's decision.

Each class of equity was developed to serve a business purpose with the approval of the Board of Directors and the membership. Most of our equity is assigned to individual members. Due to the growth and the changing nature of our business each class of equity has significant overlap in members but no class has a 100% overlap. Each class is at risk of loss. Historically at liquidation a cooperative's Board of Directors develops a formula to split the assets left over after liabilities are paid and each class of member equity is redeemed. This formula must be based on historical patronage of members. The Board of Directors has a certain amount of latitude in composition of the formula including volume vs dollars and length of time (last

5 years, 15 years etc.) included in the calculation. This will always result in a distribution to members that does not match any of the various classes of member equity. As an example Farmer A and B represents the following percent of each equity class and liquidation formula:

Description	Ownership	Farmer A	Farmer B	Liquidation Ceiling	Floor
Preferred Stock Class E Series 2	Individual Members	1%	1.5%	Yes – actual investment plus accrued dividends	zero
Capital Base Plan	Individual Members	2%	.5%	Yes – actual investment plus accrued dividends	zero
Class A Stock	Individual Members	1%	1%	Yes – actual investment	zero
Allocated Equity	Individual Members	0%	1%	Yes – amount credited to member	zero
Liquidation Formula	Individual Members	3%	2%	No	zero

In the above Capital Base Plan example Farmer A was rolling over their annual dividends as additional shares and Farmer B was taking their dividends in cash. Farmer A equity is at risk for loss during the entire period. It would be unfair not to pay each farmer their actual remaining investment at time of liquidation.

The common feature is that the above classes of equity all apply to current and past members. In our opinion the Board of Directors should be able to assign seniority rights among the classes of equity as long as they all represent current and past members. They should also be able to set a ceiling at liquidation for each class of equity as long as all of the excess assets are distributed to current and past members. The key point is that any class of equity created or required by the patronage (delivering goods or buying products) of members is an equivalent set of events that should be subject to various attributes like seniority and a ceiling as long as it is at the direction of the Board of directors and their membership.

As a cooperative business, it is critical that the member interests represented by Capital Base plans and Allocated Equity of our cooperative's members be classified as equity. If our members' interest in our cooperative are not classified as equity we would de-capitalize our cooperative and most of the cooperatives' in the United States. This obviously would have disastrous consequences for this business model. Typically 80-90% of agricultural cooperatives' equity is member equity with a current or past member name attached to it.

Our second area of disagreement is Preferred Shares. In our opinion Preferred Shares that are perpetual and are only redeemable at the discretion of the Board of Directors should be included in equity. Preferred shares have a long history and precedence in the equity section of businesses. Preferred shares are a common form of equity for non-public businesses. Excluding preferred shares from equity would have the effect of reducing the equity capital and thus the viability of many businesses.

We agree that Preferred Shares have been an area of abuse and have been used to blur the line between equity and liabilities. We urge you to not "throw the baby out with the bath water" as Preferred Shares have an important role in the equity section of American businesses. I would note that in the last six months the largest US commercial banks, investment banks and Federal Home Loan institutions have recapitalized their equity sections by issuing in excess of $30 billion of Preferred Shares that would not qualify as equity under the Basic Ownership Approach.

In conclusion we feel that an enhanced Basic Ownership Approach would work for cooperatives. Our approach would be Basic Ownership Plus. Using your Basic Ownership Approach we would add the following enhancements:

Preferred shares should be classified as equity: The issuance of preferred shares is one way that cooperatives have raised additional capital but maintained the member owned and one member, one vote structure of the cooperative enterprise. We believe that FASB should consider preferred shares that are perpetual, have priority in liquidation, pay dividends and without membership voting rights as part of the definition of a basic ownership instrument.

More than one class of shares with different attributes may be classified as equity: Cooperatives may issue multiple classes of shares that have different attributes. When these classes cover the activity of members they are equivalent in concept even if they have different attributes covering seniority and a ceiling on distribution. We believe that if any member equity of a cooperative was created or required as a result of membership activity, and its redemption is solely at the discretion of the Board of Directors, it should meet the definition of a basic ownership instrument even if it has attributes of seniority (within the membership classes of shares) or has a fixed payout at liquidation or redemption.

Shares of former member owners should be considered equity: Equity of former members may be retained by the cooperative and may be paid to the former member at some point in time in the future, or, alternatively, the former member's equity may be reallocated to remaining members. In the case where the equity was created as a result of membership activity it should continue to be included as equity until it is redeemed. In instances in which the former members do not have a right to a final distribution on liquidation, their equity would get distributed to the remaining members limited only by the realized value of the net assets of the cooperative. Consequently, we believe that the equity of active or former members which meets the definition of a basic ownership instrument is indeed equity, regardless of its source.

We appreciate the elegance and straightforward nature of the treatment of equity in the Basic Ownership Approach, however we feel that accounting, like life, is not that simple or straightforward. We also agree that certain parties have blurred the line between equity and liabilities and that you have a difficult task in attempting to provide clarity for investors. We do have great faith in the investors' ability to understand an equity section that is an enhanced version of the Basic Ownership Approach.

We thank FASB for considering the views of our cooperative and we urge you to make clear that cooperative shares would be considered equity under this or any approach adopted by FASB.

Sincerely,

Michael Bedessem
Chief Financial Officer
Cooperative Regions of Organic Producer Pools (CROPP)
One Organic Way, LaFarge, WI 54639
P 608-625-3205 F 608-625-2600