Associated Wholesale Grocers, Inc.

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May 30, 2006

Via Federal Express

Financial Accounting Standards Board
Attention: Technical Director
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

1025-300

LETTER OF COMMENT NO. 84

Re: File Reference No. 1025-300
Proposed Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans

Dear Sir/Madam:

On behalf of Associated Wholesale Grocers, Inc. ("AWG" or "Company") I am submitting a response to the FASB Exposure Draft regarding Pension Plans and other forms of deferred post retirement payments to employees.

Background of the Respondent Company

AWG, Inc. is a $5 billion member/retailer owned food distributor with 400+ shareholder/members who own and operate over 1500 grocery stores in the central United States. AWG has elected to operate as a cooperatively owned business. Capital consists of four major components as of December 31, 2005:

- the sale of ***stock*** to new members (traded at the Company's book value) which is included in shareholders' equity of $43 million,
- annual retention of 40% of Company earnings from cooperative operations issued in the form of ***7-year redeemable interest-bearing certificates*** ("Patronage Certificates") or $146 million re-classified as long-term liabilities (FAS 150),
- ***bank financing*** -- $325 million credit agreement and $124 million drawn, and
- ***supplier credit*** of $234 million that generates in excess of $1.00 of trade credit for every dollar of inventory at the wholesale level.

Issues Affecting AWG

AWG is supportive of FASB's efforts to add transparency to disclosure of employee benefit liabilities. Our concern focuses on which measures are appropriate and where do they best appear in the presentation of financial position. The Board proposes to bypass the income statement avoiding any impact on cash flows, which in our opinion lessens or completely avoids any immediate impact on a public companies share price. Non public companies that have elected to use book value are impacted immediately with a reduction in shareholders' equity. We recommend placing the offset to the liability in a deferred asset account. This presentation would still allow readers of financial statements to have transparency regarding the size of the underfunded status and its related liability.

If the committee elects to recommend the prescribed changes, in their current form, AWG will have several issues with which to contend, including:

1. ***The rapidity of change.*** It's been difficult to digest the speed with which AWG's balance sheet has been impacted by FAS 150 (FY 2004) and, now the proposed changes to amend FAS 87 in 2005 (and Phase II in 2006? 2007?).
   - The proposed changes will likely create confusion for any company that conducts trading in its stock at book value. Any retrospective application could potentially expose our Company to challenges that restate value, after the fact. In subsequent years, additional volatility is introduced through tweaking actuarial assumptions, such as forecasting the stated returns of plan assets. These actions, adjustments and changes are based on forecasting, not operational control, yet they can influence and subsequently affect the value at which shares change hands.
   - In our opinion, using PBO exaggerates the current fair value of plan obligations. Applying the future compensation negates the effect of discounting to the present value, which is the basis of current value accounting. Worse yet, applying PBO out of the starting gate will more than likely lead to benefit plan design changes and restructuring. These modifications may include freezing plans, modifying contributions, limiting future participation or dissolving sponsorship of our defined benefit plan.
   - Our shareholder/patrons, lenders and suppliers would prefer for us to follow past cooperative industry guidelines. Recording the pension obligation into OCI forces another GAAP reporting change affecting shareholders' equity, like accounting for a pay-fixed interest rate swap. The reality is that our lenders encourage us to modify or adjust our compliance reporting in a manner consistent with past disclosures. Dual reporting structures are cumbersome and create inconsistent views of our business.
   - Other potential AWG Board actions include: (i) amending AWG's bylaws (by membership vote), (ii) changing its method of 'revolving' capital, (iii) addressing the need to re-characterize membership debt as equity (comparing interest bearing patronage certificates with non-dividend paying stock).
   - Our membership may face the realization that their Company as presently constituted is operating at a comparative disadvantage. The OCI adjustments may eventually erode our tangible equity to the point where it becomes increasingly more difficult to access capital, forcing our shareholders to rationalize the cooperative business model.

2. ***Changes add costs.*** At a minimum, AWG will need to address:
   - **Legal costs.** We will need to clarify, in the bylaws, that OCI adjustments (including pension benefit obligation adjustments) are not intended to be included in the calculation of AWG's trading or book value.

- **Lending agreements.** Potential renegotiation of Indenture Agreements to augment language in our covenants, for example, the calculation of tangible net worth.
- **Suppliers.** Potential misunderstandings with our vendors who supply us product on credit. If the perception is that the Coop's capital is shrinking, we are placed in a defensive stance. FAS 150 reduced our tangible equity by 75%. Fully implementing the broader PBO measurements of Phase I for single employer plans and Phase II for multi-employer pension plans will likely wipe out our remaining tangible equity. Fortunately, our key lenders and suppliers typically ignore GAAP adjustments that run contrary to past industry practice.
- **Disinterested third parties.** AWG's management is not confident that other disinterested parties, for example the Comptroller of the Currency, might take a harsher stance if the tangible net worth of a borrower is severely impacted by changes in GAAP reporting. Our lenders do allow us to include our member's patronage notes that currently are classified as long-term liabilities in our modified or adjusted tangible net worth. A government agency might prescribe a tougher approach to securing assets and/or require banks to set aside higher operating reserves that increase their cost of operation. These actions could have a detrimental impact on AWG.
- **Labor negotiations.** AWG sponsors both single and multi-employer plans. The inclusion of the PBO measurement into OCI for single employer plans will certainly add transparency, yet it needlessly accelerates the conflict over how to administer employee benefits in multi-employer plans when an employer is only obligated to make periodic (in our case, weekly) contributions to the trust. The inflated PBO measure will therefore cloud the beneficial aspects of sponsoring plans that can be funded on a pay-as-you go basis.

3. *Measurement.* The PBO measurement includes future pay increases; therefore PBO likely results in a larger liability than the Accumulated Benefit Obligation (ABO) measurement. We understand that there is controversy in accounting and actuarial circles surrounding the efficacy of using PBO over ABO. If the intent is to add transparency, ABO would seem to us to represent the "fair value" approach to disclosing the cost to unwind from a future obligation, assuming that it is frozen in time.

   In the case of AWG, using PBO adds approximately $26 million of additional benefit obligations, of which $9 million has been expensed. The remainder of $17 million would be included in the OCI adjustment, net of taxes, or about $11 million in OCI adjustment liabilities. AWG has tangible shareholder equity of $43 million, resulting in a restatement of approximately 25% of AWG equity.

   > ***It would be shortsighted if the committees involved in Phase II ultimately recommend the alternative (and more closely aligned with 'mark-to-market') ABO measurement. Using the PBO measure will trigger maneuverings, plan design changes and probably add to ill will, if the correct measures were available from the beginning. We recommend using ABO measurement during the interim period leading up to Phase II enactment.***

AWG recommends that if the intent is to use PBO over ABO, then consider taking the difference as a deferred charge, since the obligation is in the future and increases in pay can or should be considered to be in the control of the employer. This charge would be similar to deferred taxes where a company experiences timing differences in reporting expenses and income.

4. ***Computation of book value***. Amending FAS 87 and placing the underfunded liability in OCI unfairly penalizes privately held companies that calculate book value. Publicly traded stocks will likely see their trading values unaffected because the Board has chosen to by-pass the Income Statement. As long as cash flows remain unaffected on a current basis, the transparency moves from the footnotes to the balance sheet, but the public companies avoid the issue facing a private company using book value computations.

   Our concern is that companies will take steps to mitigate the impact of disclosing the PBO liability on the balance sheet under any circumstances. We reiterate that management has the ultimate control over the benefit plans it sponsors. In the past, competitive pressures may have constrained or limited the extent and scope of changes to benefit plan sponsorship and design. That issue is clearly different today. Plan benefits can be contained, frozen or otherwise unwound and are clearly subjective. A majority of plan sponsors have already taken many of these steps. Therefore, our conclusion is that the future liability is not a certainty that should be adjusted to shareholders' equity. The adjustment contemplated is more fiction than fact in today's environment.

5. ***Equity and OCI account presentation***. Cooperative members intend to group their purchasing activities in order to bargain more effectively with suppliers. More than likely, the stock investments represent membership fees rather than passive investments in public companies intended to appreciate in value over time. The member/patrons certainly don't like decreases in their investments that are arbitrarily based on changes in GAAP reporting. They are looking for stability.

   AWG's membership is equally confused by rules that in no way change the unique way in which we conduct business. Rather, these rules may eventually impede the ability of lenders, suppliers and others to view AWG and its cooperative business plan in a favorable light. But the aggravation to management is losing membership, especially retailer/patrons who may potentially exit because they do not understand the complications or they perceive that the cooperative model no longer operates to their advantage in competing with the other chains and/or wholesalers.

   Our membership also wrestles with the issue of switching suppliers from a cooperative to a voluntary wholesaler, which is costly. The switch affects his or her entire business and supply channels (including tagging, merchandising, and the use of proprietary private labels to sell product). In a public company, ownership and customers (patrons) are separate. In cooperatives, the relationship is created by congressional intent. Our concern is that the cooperative model is penalized because of the manner in which it generates equity and/or because it uses a book value measure to conduct trading in its common stock.

In conclusion, AWG is supportive of financial reporting that reflects the business operation. Proper pension disclosures will better illustrate the costs of sponsoring employee benefit programs. We encourage the FASB Board to begin with the ABO measurement to disclose the current pension benefit obligation and disclose any underfunded obligation as a deferred charge on the asset side of the balance sheet. Our company would likely choose not to have an underfunded shortfall, even with the PBO measure, if we could elect to have a 5-year amortization period to charge-off the difference.

AWG is proud to sponsor employee benefit programs that are competitive with the marketplace. The pace of change creates uncertainty because the need for transparency has forced many companies to alter their financial presentation in ways that may ultimately affect their ability to raise capital or accurately model how lenders and suppliers view the credit worthiness of privately held companies.

Sincerely,

Robert Z. Walker, CFO
Associated Wholesale Grocers, Inc.
5000 Kansas Avenue
Kansas City, KS 66106

RZW:
Attachment

Footnote # 8
Employee Benefit Plans

		2005		2004
Projected benefit obligation at end of the year				
Qualified	$	62,821,239	$	52,899,125
Non-Qualified	$	10,698,234	$	8,166,570
	$	73,519,473	$	61,065,695
Benefit Obligation (in thousands)	**$**	**73,519**	**$**	**61,066**
Fair value of net assets available for plan EOY..				
Qualified	$	46,616,873	$	38,968,075
Non-Qualified	$	-	$	-
	$	46,616,873	$	38,968,075
Fair value of plan assets (in thousands)	**$**	**46,617**	**$**	**38,968**
Funded Status	**$**	**(26,902)**	**$**	**(22,098)**
Net Amount Recognized				
Qualified	$	4,428,010	$	5,238,258
Non-Qualified	$	4,850,123	$	3,308,795
	$	9,278,133	$	8,547,053
Accrued pension cost... (in thousands)	**$**	**(9,278)**	**$**	**(8,547)**

		2005		2004		2003
Net Cost						
Qualified	$	7,157,773	$	4,774,597	$	4,496,285
Non-Qualified	$	1,541,328	$	1,291,034	$	461,491
	$	8,699,101	$	6,065,631	$	4,957,776
Benefit Cost (in thousands)	**$**	**8,699**	**$**	**6,066**	**$**	**4,958**
Sponsor Contributions						
Qualified	$	7,968,021	$	5,957,755	$	5,985,463
Non-Qualified	$	-	$	-	$	-
	$	7,968,021	$	5,957,755	$	5,985,463
Employer Contributions (in thousands)	**$**	**7,968**	**$**	**5,958**	**$**	**5,985**
Benefits Paid						
Qualified	$	2,405,220	$	2,292,491	$	6,509,969
Non-Qualified	$	-	$	-	$	-
	$	2,405,220	$	2,292,491	$	6,509,969
Benefits Paid (in thousands)	**$**	**2,405**	**$**	**2,292**	**$**	**6,510**