



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

LETTER OF COMMENT NO. 25

Re: Comments to Preliminary Views Document -- Reference #1550-100

Dear Chairman Herz:

On behalf of the Board of Directors of Just Food: Northfield Community Coop, I am writing to comment on FASB's proposal to reclassify equity in its Preliminary Views document and to urge FASB to make clear that cooperative shares would be considered equity under this or any approach adopted by FASB.

Just Food: Northfield Community Coop, incorporated April 28, 2003, is a member-owned natural food market which is democratically controlled by its members. As a relatively new cooperative we face the challenges faced by many cooperatives in today's global economy and uncertain economic future 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. Currently, 42% of Just Food's owners' investment is classified as equity of various classes. Were this investment reclassified as debt, this decision would have huge ramifications for our store, future owner investment, and outside debt investment without which the Co-op could not operate.

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.

As a cooperative business, it is critical that the residual interests of our cooperative's members be classified as equity. If our members' interest in our cooperative is not classified as equity, it could have an impact on how our members, creditors, vendors, and other stakeholders perceive the financial health of our cooperative.

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 liquidation. This final distribution may have neither a ceiling nor a floor associated with it.

Our members' shares are the most subordinated interest in a cooperative -- they do not have priority over any other claim in liquidation. Our members are 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.

While we hope that co-op shares in general and our shares in particular would be classified as equity under the basic ownership approach, we urge the FASB to consider these other issues:

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 the FASB should consider preferred shares that meet the definition of a basic ownership instrument in the Preliminary Views document equity.

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 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 that meets the definition of a basic ownership instrument is indeed equity, regardless of its source.

More than one class of shares may be classified as equity: Cooperatives may issue multiple classes of shares that may represent different voting rights. We believe that if any share of a cooperative meets the definition of a basic ownership instrument as proposed in the Preliminary Views document, such shares should be considered equity.

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,

Elizabeth O. Hutchins, President