

Schnuck Markets, Inc.  
11420 Lackland Road  
P.O. Box 46928  
St. Louis, Missouri 63146-6928  
(314) 994-9900

Letter of Comment No: 139  
File Reference: 1082-154  
Date Received: 1/29/96

TODD R. SCHNUCK  
CORPORATE VICE PRESIDENT  
AND CHIEF FINANCIAL OFFICER

January 22, 1996

Mr. Timothy S. Lucas  
Director of Research and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P. O. Box 5116  
Norwalk, Connecticut 06856-5116

File Reference No. 154-D  
Consolidated Financial Statements: Policy and Procedures

Dear Mr. Lucas:

We are pleased to submit our industry views on the FASB's Exposure Draft, "Consolidated Financial Statements: Policy and Procedures" (the ED), dated October 16, 1995. As written, the ED will have a momentous effect on how we and our industry prepare our financial statements. Accordingly, we request you consider our issues when revising the ED for final issuance.

*Background Information on Schnuck Markets, Inc.:*

Schnuck Markets, Inc. (the "Company") is a family-owned company operating 114 full service retail supermarkets in the states of Missouri, Kansas, Illinois and Indiana. The Company started as mom and pop grocery in 1939 and has grown to its present size through aggressive acquisitions and internal expansions. Today, many of the Schnucks stores are the anchor stores in strip malls managed by various separate legal entities owned by the Schnuck family. Our strategy is to be a world-class, independent, growth oriented supermarket chain. To be successful at this strategy, we separated our real estate development/management company from our supermarket business. Accordingly, our real estate partnerships primarily hold the real estate assets which are leased to Schnuck Markets under operating leases. Our vision and strategy is to grow those partnerships so that Schnuck Markets is not the predominant lessee.

*Background Information of the Supermarket Industry:*

The majority of supermarket chains do not have direct large holdings of real estate recorded on their financial statements. Rather, depending on the size and complexity of the company, the real estate is leased from either related or third parties under operating leases. Many large public supermarkets choose to obtain third party leasing for retail locations because such investments do

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not offer the GAAP earnings commensurate with their required investment although they can have strong after-tax cash flows. Conversely, many smaller, private supermarkets choose to diversify their holdings by investing in the real estate core to the family supermarket business.

*Issue:*

Under the current ownership structure, the Company does not have any legal control of the partnerships. Therefore, consistent with APB 51, Consolidated Financial Statement, the partnerships are not consolidated into the financial statements of the Company. We believe this consolidation policy of separate financial statements is more meaningful than the ED that introduces the concept of effective control. Under the ED definition of effective control, the real estate partnerships would be consolidated into the financial statements of the Company. This consolidation would occur because the partnerships were established for the sole purpose of constructing and managing stores to be leased to the Company (example 5 in the ED).

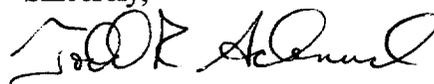
We believe this treatment to be detrimental to the family-owned, independent supermarkets. The consolidation policy penalizes the family-owned supermarkets' financial performance for the family investor who made an investment decision to invest in the real estate of the supermarket operations. Because of that decision, the ED requires the separate real estate entities to be consolidated resulting in additional long-term assets and debt to be recorded. Contrasted to the public company who could do the same transaction with third-parties, but would not be required to consolidate them. Accordingly, when financial analysts and other financial statement users scrutinize the financial performance of the family-owned supermarket compared to its peers, the family-owned supermarket will have inversely distorted ratios.

*Conclusion:*

We urge the FASB Board to consider their position on the definition of control. We disagree that the criteria in paragraph 14 represents presumed control. While we believe they may be indicators of control, professional judgment of the specific facts and circumstances should override any "brightline" tests.

If you have any questions, I would be happy to discuss our position with you in greater detail.

Sincerely,



TRS/ps