

The Discussions of the Future of the Co-op from the November 26 Board Meeting

This is a summary of the November 26th board meeting of the Co-op, not fully transcribed in the interest of getting the information in this paper out to people while it still matters. There were no votes taken, other than to unanimously approve the previous month's minutes (Withrow, Stanek), so most matters will be glossed over in favor of the discussion of the ongoing vote about the future of the Co-op.

Board members in attendance were Jason Bruce, Lisa Chin, Michael Lowenthal, Serethea Matthews, Hope Mueller, James Poueymirou, Robert Stanek, Donna Trainor and James Withrow. There were eight employees in attendance and about sixteen community members.

General Manager's Report

Bruce Brandfon, the general manager, opened his report by noting that the Co-op had a good Thanksgiving weekend. It did \$136,000 in sales on the Wednesday before, and on Friday and Saturday – known in the business as Black Friday and Black Saturday – it did \$63,000 in business, which is not far off from its usual Saturday total of \$90,000. He said that our ad and prices were very competitive on the market. In particular, our prices for turkey and other Thanksgiving foods were as good as anyones. The Deli/Café department made 59 turkey dinners. Brandfon especially praised Kim White, the department manager, who had to bake 59 fresh turkeys when the cooked ones that we expected didn't arrive.

He praised the new bakery manager, a career Whole Foods woman, for the new ideas she is bringing to the department, and said he expects to see sales go up there. Also, a new meat cutter has been hired that Brandfon called a real go-getter who is a tremendous help in keeping the meat case filled. Brandfon added that he is now running an ad for Smart chicken, which costs a lot but is very unique, so we need to advertise to let its fans know that we carry it.

Brandfon also said that these have been a very challenging couple of weeks for the employees, as the uncertain future of the Co-op puts a lot of stress on them. He noted that many employees have been with the Co-op for twenty years or more, and this is a big part of their life. They have families, mortgages, and it's very difficult not only to be uncertain about your job but also having people come in and say bitter nasty things to them like "I can't wait for the store to close; you deserve to lose your job." He praised them for continuing to come in, continuing to keep the store ship-shape, and dealing with a situation that is outside every normal situation for running a supermarket. Another challenge has been the vendors, who read the erroneous newspaper headlines and get nervous. Brandfon said that the department managers have put their

names on the line, assuring vendors that the store isn't really in momentary danger of closure. He added that we all wish we weren't going through this, and the employees appreciate every sort of support you can give them.

Member Comments

The member comments kicked off with a bit of back and forth at the end of which it was established that the board would only vote for Option A (university paying off the Co-op's creditors in return for the Co-op voting itself out of existence) if a simple majority of the members voted for it. This however raised the possibility of the members voting for Option B (reorganization under Chapter 11 bankruptcy as an attempt to stay in business) but having the Chapter 11 filing fall through because of not raising the necessary funds. If this happened, the Co-op would fall into involuntary bankruptcy under Chapter 7, which would lead to the store being shuttered and all activity there halted until the remaining assets of the Co-op were completely liquidated. Since the Co-op's "secured creditor" is Certified Grocer, whatever money was raised through the sale of fixtures, etc., would all go to them, and none to any vendor or other creditor.

James Poueymirou emphasized that the announcement at the town hall meeting that 2/3 of the board favored Option A was just an informal poll, and did not occur at a regular board meeting. He said that the board is "trying with every last breath to create a viable financial picture for this organization, as they owe it to the employees who come in here every day. Jay Mulberry said he didn't recall the majority member vote being mentioned at the town hall meeting, and Poueymirou said that it was a condition of the (Option A) funds being provided.

Don Lamb then asked if it was possible that Certified would accept \$1 million for the 47th St leasehold under Option B as well as Option A. Poueymirou said that they certainly wouldn't accept any less, but they might go for \$1 million if it was paid all at once. Stanek explained that under Chapter 11 bankruptcy, Certified would get paid about twice as much, but it would be spread out over a several years – so they might prefer the \$1 million up front, and they might be worried that we wouldn't make it through Chapter 11, so they'd never see the money that was due later on.

Jo Reizner, the university's assistant vice president for real estate, said that it's an overstatement to say that the university wants the Co-op out – what it wants is a good grocery store in the location. Joan Palmer asked Reizner doesn't she think the Co-op *is* a good grocery store, and Reizner responded "Do *you*?" Joan Staples then corrected Reizner, noting that President Zimmer was quoted in the Maroon saying that he wanted the Co-op out.

Leon Shernoff, the everGreen editor, then asked what the benefits for the Co-op were to accepting Option A. He noted that the vendors get paid off and Certified gets a million in cash,

but there is no benefit to the Co-op as an organization or to the shareholders. He asked why the members should vote for something if there's nothing in it for them. Poueymirou responded that under Option A, the university will pay the vendors the full amount that is owed them. Shernoff repeated that this isn't a benefit to the Co-op, since it wouldn't be paying the vendors itself under involuntary bankruptcy anyway. What's in it for the members? Poueymirou then launched into a lengthy and impassioned description of how all the vendors would hate us for not paying our bills, how the lengthily-shuttered store would spread a financial blight over the entire Hyde Park commercial landscape, how this would cause incalculable damage to the community, and would lead people to spit when the name of the Co-op was mentioned. He said that Option A would allow the Co-op to go out with dignity and hold our heads high. Shernoff pointed out that people already spit when the name of the Co-op is mentioned.

Hope Mueller then responded with some heat that the true problem isn't the financial status of the store, it's that the Co-op has allowed other people to define us away from what we once were. She said there was a time when the Co-op, in support of Cesar Chavez, wouldn't even buy non-union lettuce, and here the board was, seriously discussing selling the employees down the river so that the university could put a non-union store [Treasure Island] in its place. She said that there was more dignity in struggling for six or seven months and going down in flames than it was to sell out the employees who have worked for the Co-op for five years without a raise, and it was a matter of shame that the board would even consider it. She received a hearty round of applause.

Poueymirou pointed out that the Co-op had cut most of its social service programs over the years, and perhaps its mission had changed. Mueller responded "And if we go out of business, who will bring them back?" Lowenthal asked her, "And who will pay the bills," and she responded that Robert Stanek's analysis showed that it's possible to do so once the 47th St lease is divested under Chapter 11.

Brenda Bedingfeld, acting controller, said that she had worked for the Co-op for six years with no raise, and many employees had done so for longer. She said that the employees have made many sacrifices but they're still coming in here, trying to support it, because they feel it's a good store, and there are many in the community who feel likewise.

M. L. Rantala then noted that when the board made the decision in February not to pay rent to the university, it was a defining moment. How did they choose rent, of all things, as what not to pay?

James Poueymirou said that the Co-op had to pay its vendors to keep product on the shelves, and the rent at 47th St was non-negotiable. He noted that Carl Waggoner, the previous

general manager, had been very good at keeping vendors just at the edge of their comfort levels, so it was possible to get away with not paying them as much.

Rantala said that now the board was saying that it was ready to shut down the store and walk away. Why didn't it go for Chapter 11 in February, when it had the resources to do so? Poueymirou said that you could also ask why the board didn't do that three years ago. Rantala said because you'll give the same excuse you always do, that that was a different board. You must have known that it would eventually come to this, and now you expect to just tell the employees to go home?

Poueymirou responded that the negotiations for the 47th St lease didn't start in earnest until March through May, and until that point no one on the board had no idea how difficult they would be. Rantala asked if the board considered bankruptcy then, and Poueymirou said not during that time period. Chin added that they all thought they were going to unload the lease. Mueller said that Certified added a new condition just six weeks ago that made it impossible for the Co-op to fulfill; up until that point, they all still thought that the deal would go through. Poueymirou said that 47th St has been a tease for the last year and a half – the board kept thinking it was that close, and then a new condition would be imposed and it would find itself a football field away.

Don Lamb said that 47th St was a terrible situation compounded by Certified's supplier relationship with the Co-op. He said he didn't see anything for the employees in Option B, and wanted to know exactly how much money is needed to start over. He said that the board needs to set an exact target for the pledge drive if it expects to get the donations it needs to file for Chapter 11.

Robert Stanek said that under Option B, the store would keep running, so the employees would have their jobs just as they do now. The exact amount needed for Option B is \$2.4 million, which would pay off the university and the Co-op's trade payable, plus a \$400,000 letter of credit as security for another supplier to replace Certified. James Withrow clarified that the Co-op is not trying to raise this amount through pledges – the pledges are for capital improvements on the store, after commercial financing takes care of the Co-op's main needs. He also thought that they might impress a bank with a show of community support and make it more willing to finance us, if the pledge drive raised, say \$50,000.

Lamb said that he thought the Co-op should go for the whole amount in pledges, as taking out a commercial loan would just put a crimp in the Co-op's cash flow. Stanek said that a combination of debt and equity is actually a very normal way to finance a business, and will not crimp cash flow. He said that Option B will not match the university's plan for physical improvements to the store, but in terms of product offerings and service it will be just as good.

Lamb asked if \$50,000 would really interest a bank, and does the Co-op know what it's aiming at. James Poueymirou said that the university's deadline was December 17th, so if the Co-op will not be taking an offer of about \$4 million by that time, he'd certainly want to have something in its place instead. He added that he doesn't think that \$50,000 will impress a bank at all, as it amounts to \$2.50 per shareholder, "a paltry sum." He felt that the pledge drive must net at least a quarter million in order to be impressive.

Joseph Dozier asked if filing for Chapter 11 might cause some vendors to pull out. Bruce Brandfon said that it's not at all an unusual business situation. Not only did United Airlines recently go into Chapter 11 and emerge stronger than it was before, but supermarkets go in and out of it all the time, because it can be the only way to get out of a long-term lease at an under-performing location that's dragging the rest of the business down.

Brandfon added that Chapter 11 freezes all old debt and you start fresh. All vendors get paid the current amount due them while you work out a plan to pay your old debt. If you're a vendor, it's in your interest for the operation to succeed, as this is the only chance for you to collect the old debt money. They could get mad and take it personally and leave, but that's not what usually happens. Robert Stanek added that all the Co-op's local and national suppliers already know about this already – they will probably thank god that we're terminating the 47th St lease rather than be upset.

Deborah Halpern said asked if there had been an update on the terms from the National Cooperative Bank. Stanek said that the NCB had expanded the terms of the commercial loan it was offering, but was not offering debtor-in-possession financing.

The University Speaks

The last portion of the meeting was mostly spent in a give-and-take with Jo Reizner, who stood up and identified herself as the university's assistant vice president for real estate. She said that she had been a member of the Co-op for 21 years, and admired the fervor of its supporters. However, she said, it isn't a Co-op issue, or a university issue, it's a community issue. She said that the university had gotten data from the Whole Foods at Roosevelt Road – when you buy stuff there, you swipe a card that has your address information on it, and Whole Foods had told them that they were doing \$100,000 a week in business to people with zip codes of 60615 or 60637.

[A small note: Leon wonders if this isn't some sort of violation of privacy or confidentiality.]

Reizner urged the Co-op members to think that if this leakage stayed in Hyde Park, how much it might benefit the community, and if the Co-op goes dark for any period of time, what will happen to the retail stores in the rest of Hyde Park. She shared the news – not yet released to

the mainstream media – that the two finalists in the university’s search process for the Co-op’s space were Dominick’s and Treasure Island.

She said that the university has been a supporter of the Co-op for many years, but debtor financing is for big corporations, not volunteer Co-ops with a volunteer board. The question, she said, is if the Co-op *must* go out, how can it best serve the community, by going out with dignity. She noted that the new store under the university’s plan (Option A) will interview all the Co-op’s employees, who will wind up with better jobs with better benefits. She then added that how well they are retained will depend on how well they interview. She reminded those present that whatever store has a big ripple effect on the community, for better or worse.

Joan Palmer asked Reizner why the university has already decided that the Co-op can’t make it. She said if people are going to Roosevelt Road, it’s because they don’t know how good the Co-op has gotten, and the university can help the community by publicizing this instead of trying to drive the Co-op out. She added that Bruce was absolutely right: the Co-op has turned around, but she didn’t know that herself until she attended the town hall meeting last week and then went in to the store to see for herself. So the question is how the university can help the situation by turning public opinion around instead of just deciding the Co-op is no good.

Reizner said that the university had commissioned a study from a very eminent finance group that concluded that the Co-op’s prospects of survival were nil. James Withrow disputed her conclusions, pointing out the Co-op sales over the last few years had been flat, not declining, and the other stores in the mall with it had been doing very well. So some shoppers may be going to Roosevelt Road, but they certainly weren’t leaving in droves. Bruce Brandfon added that the Co-op serves 22,500 customers a week [At which rate, it’s losing just under \$4.50 per customer to the Roosevelt Road Whole Foods]. He said that in every situation there is bleed. He noted that soon there will be a Target at Roosevelt Road, and that will lead to more bleed. It’s just the nature of the retail situation.

Reizner said that the Co-op used to be a major destination for people, but it isn’t any more. Brandfon said that that’s the nature of sprawl, and what you have at Roosevelt Road is sprawl. He notes that he lives in the northwest, by Randall Road. There’s a big Jewel there that used to be *the* destination in the area, but as sprawl caught up with the area, a Caputo’s and a few other supermarkets moved in and now that Jewel is no longer the destination it once was. It’s just a natural result of growth.

Leon Shernoff then asked Reizner if the university’s study had counted how many shoppers and consumer dollars come *in* to Hyde Park from across the south side because of the Co-op, or did they only count how many dollars left the area. Reizner responded that the local

merchants were not yet sophisticated enough to have cards that encoded their customer's zip codes, so it didn't have data about people coming into the area. Shernoff then asked how come the study didn't collect this information, and Reizner responded that he was getting the data shared by Whole Foods mixed up with the study. The study collected only data from the financial records of the Co-op and decided that it was beyond the tipping point, according to their experts. Michael Lowenthal then spoke up and said that he had seen this study, and in all fairness it assumed first of all that the 47th St lease would continue, and secondly it was taken just after the Co-op had had a string of one-time disasters – the major power outage, the loss of the front-end systems, and the robbery at 53rd St, and the report assumed that these would go on indefinitely as well.

Joan Staples then said that she respected consultants, but they are not the community. Her parents joined the Co-op in 1936, and she was on the board in the seventies. Staples questioned Reizner's characterization of the ripple effect, and asked why she was focusing only on the Co-op in this regard: when she walked around the community, she sees many vacant storefronts, and many of these are owned by the university. Why? We need more businesses in Hyde Park, said Staples: you can't buy underwear in Hyde Park.

Furthermore, Staples said it's not accurate to say that Co-ops are passé, or that a cooperative is somehow a doomed form of incorporation. When she was on the board, there were training sessions for board members in how to handle their responsibilities, and this worked quite well. She said that the Co-op is not responsible for all the woes of Hyde Park.

Reizner responded that the university had some vacant properties because it always held out for "value-added" tenants. She gave as an example the former Hallmark storefront right next to the Co-op in the mall, saying that this would not be rented until the university could find a tenant for it that brought something valuable to the community.

[Another note from Leon: I didn't remember this until coming home: earlier this year, the US Postal Service announced that it would be moving its little station in the basement of the Co-op to that former Hallmark storefront next door. You may remember that they held a town meeting to publicize this, that was covered in the everGreen and the Hyde Park Herald. This is the very one that Reizner has said is vacant because it's awaiting a "value-added" client. Is a bigger, more accessible post office somehow not "value-added" enough for the university? Why would they announce the move unless they thought the university had already committed to it?]

[Also: In spite of what Reizner says about the university wanting to help the community by not shuttering big businesses, they own the Harper Court movie theater building, which they have kept shuttered for the last five years. So the university's position seems to be that it's

somehow okay for the university to keep the flagship institution of Harper Court vacant for five years, but the Co-op will be just plain evil if it doesn't nobly extinguish itself within two weeks so another grocer can come in.

The row of vacant properties along 53rd St by the side of the movie theater are also owned by the university, which has spent all summer forcing out the tenants. None of them has been empty for less than a month now, so this whole block consists of a church and vacant university-owned properties. Is the university planning to re-open the area around the movie theater within two weeks? Maybe it should concentrate on filling its own vacant properties rather than creating a new, big one.]

Kim White, the Deli/Café manager, then said that her vendors were telling her that they'd heard Treasure Island was going to come in after the Co-op, and if so they would not be here because it does not pay its bills. Reizner said that there were two finalists, and the final decision had not been made yet. However, she said the university had done due diligence on both candidates and had not uncovered any credit problems. White said that she certainly didn't know if they were telling the truth, either about the bill payment or the not being here, but she had heard this from at least a dozen vendors.

After this, discussion turned to the mailing list for the ballots, and arrangements were made to have Project LEAP collate the list that the board had provided them, from an old backup file maintained by Integrated Systems, with the more up-to-date one maintained for the everGreen's mailing list.

The meeting was adjourned soon after.