



August 23, 2014

Dear Elm City Market Member-Owner:

Your Board of Directors-fellow member-owners of the Elm City Market Co-op ("the Co-op") - want to bring you up-to-date on the current financial challenges facing the market. Because the Co-op has never had enough working capital, we had fallen behind on our financial obligations to Webster Bank and to our landlord, the Multi-Employer Pension Trust (MEPT), which owns 360 State Street, the high-rise building next to the store. We have been working on restructuring our debt, which includes a 3.6 million dollar (\$3,600,000) loan from Webster Bank, for over a year.

At this point, we are at a critical juncture, and two alternate paths forward have been proposed. The decision on our Co-op's future, which we expect will be made next week, is ultimately up to Webster Bank, MEPT, and the U.S.

Department of Agriculture (USDA), which has guaranteed 80% of our bank loan. One of these paths retains the cooperative structure and protects your ownership shares in the market, and this is the path unanimously and strongly favored by your Board. Under that scenario, the National Cooperative Grocers Association (NCGA) will assume management of the Co-op, and our debts to the bank and landlord will be restructured so that they are paid back over a longer period of time. The NCGA has agreed to loan the Co-op an additional \$700,000, and a group of member-owners and others will put up an additional \$300,000 in new loans. That will give us \$1,000,000 in new working capital.

If the bank and landlord choose to follow the alternative path, which is called a "friendly foreclosure," all of the debts to the creditors will be wiped out, including most of the Webster Bank loan, the USDA guarantee to the bank, the back rent owed to the landlord, other creditors' debt including the Department of Economic Development and the investments and shares of our 2,200+ member-owners and preferred shareholders. The market will then be sold, debt-free and without members, to a private investor, a non-profit foundation that plans to continue operating it as a grocery store to preserve jobs. Not only will the Co-op's investors be wiped out; this "friendly foreclosure" will cost U.S. taxpayers over \$3 million, which will be reimbursed to Webster Bank by the USDA to cover 80% of its losses, due to the loan guarantee. But Webster Bank will also be a loser in this deal: the 20% that is not covered by the guarantee, approximately \$600,000.

The Board is doing all it can to convince Webster Bank and MEPT that the path leading to Elm City Market's survival as a co-op is the most prudent path for all stakeholders, i.e. the bank, the landlord, the Co-op's

investors, our shareholders, our employees, the vendors, and the New Haven community.

So how did we get here?

Since the new Board of Directors was elected in November, 2013, we have been focused on raising capital and improving the market's performance. We spent several months developing capital-raising strategies. We gathered in April for a day-long retreat in which presentations were made about different strategies for increasing membership and raising new capital. We also focused on improving the monitoring of management, so that the market's revenues would grow. The retreat concluded with the Board resolving to implement an ambitious and energetic capital campaign to improve the Co-op's liquidity, with each Director tasked to a specific initiative.

Unfortunately, the Board was never able to begin implementation of these initiatives. In early May, the Co-op was served with a Notice of Default by the landlord, MEPT. That caused other financial problems, because other loans could not be disbursed to us because of the default notice. Although we tried to get the landlord to withdraw that notice, we were not successful. Since that time, the Board has had to prioritize fulfillment of its obligations to vendors, employees and creditors, with all Board attention focused on negotiations involving MEPT, Webster Bank, as well as potential investors. Our intention and goal was to restructure our debt with the bank, renegotiate the terms of the lease, and secure new investment in our Co-op.

The Board remained optimistic that MEPT and

Webster would remain flexible with the Co-op's fiscal obligations while the Co-op focused on implementation of management and financial restructuring initiatives whose purpose was to allow the market to continue in its present form as a community asset and resource to its member-owners, to residents of 360 State Street, to preferred equity shareholders, to the City of New Haven and surrounding communities. To that end, on August 4, 2014, the Board of Directors voted unanimously to invite the NCGA to provide consultation and assistance to the Co-op.

Unfortunately, the Board learned the following day that negotiations with MEPT and Webster had failed to result in an agreement, and on August 5, 2014, the Co-op was served with a Notice of Default by the bank. Also that day, the Board was confronted with the alternate proposal, "friendly foreclosure " sale, which proposes to liquidate the Co-op and sell it to an investor, which is technically known as an Article 9 sale (based on a provision of the Connecticut Uniform Commercial Code). This would, presumably, allow Elm City Market to survive as a market that provides jobs to the community and healthy food to downtown residents. However, an Article 9 sale, if it occurs, will end the market's life as a co-op, eliminating the community ownership and cooperative structure that have been the hallmark and defining character of Elm City Market since the Co-op's genesis three years ago. In real terms, this path would: render worthless the investments of the Co-op's 2,200+ member-owners and preferred equity holders; leave numerous vendors and other creditors unpaid; and, cost U.S. taxpayers, through the USDA loan guarantee, over \$3 million.

In the meantime, following the Board's invitation, a

team of analysts and consultants from the NCGA Development Cooperative (NCGA-DC, a subsidiary of NCGA) came in to assess the Co-op's viability and to develop a financial plan to present to the bank and the landlord. NCGA's credentials are impressive and unimpeachable: as a co-op itself, this business-services co-op represents 142 food co-ops in 38 states with combined annual sales of over \$1.6 billion, helping each co-op optimize operations, marketing, and sales through collective purchasing power. The NCGA-DC has the sole and specific purpose of providing development support for co-ops facing financial challenges, like Elm City Market, and their success stories are numerous and encouraging.

Upon arriving to New Haven, the NCGA-DC team spent countless hours assessing the Co-op's likelihood of viability and success. Following several days of deliberation, they presented a sound yet conservative plan for the Co-op's turnaround that ensures Elm City Market's survival, and puts it squarely on a path to becoming the thriving and strong community-owned business we all envision.

In contrast to the Article 9 plan, the NCGA plan will:

- enable all vendors and creditors to be paid in full;
- keep whole the investments of every member-owner and equity holder;
- bring in a management structure that improves merchandising, marketing, and operations.

The Board understands that Webster Bank may have strong incentives to favor the Article 9 sale, in particular, and not insignificantly, because it will keep the Market open to continue to serve New Haven. However, we are also hopeful that the bank will remain the good friend of Elm City Market and the New Haven community that it has been since the inception of the co-op, and will consider NCGA's sound

arguments and decide in favor of that plan. We also hope that our landlord will see the benefit of the NCGA plan to its tenants at 360 State Street, many of whom are also member-owners.

In closing, the Board wishes to express to its fellow member-owners how proud we are of what the Co-op-its employees, members and Board-has accomplished in its short history. We firmly believe that the Elm City Market's mission of providing first-class downtown grocery shopping, excellent jobs and benefits, and access to healthy food for the community, is best achieved through its continued existence as a co-op.

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