

# SECURITIES AND EXCHANGE COMMISSION

## FORM POS AM

Post-Effective amendments for registration statement

Filing Date: **1994-01-07**  
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### FILER

#### **UNITED GROCERS INC /OR/**

CIK: **225966** | IRS No.: **930301970** | State of Incorpor.: **OR** | Fiscal Year End: **0930**  
Type: **POS AM** | Act: **33** | File No.: **033-57272** | Film No.: **94500766**  
SIC: **5141** Groceries, general line

Mailing Address  
*P O BOX 22187  
6433 S.E. LAKE ROAD  
PORTLAND OR 97222*

Business Address  
*6433 SE LAKE RD  
MILWAUKIE OR 97222  
5036536330*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Post-Effective Amendment No. 1  
to  
FORM S-2  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933

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UNITED GROCERS, INC.

(Exact name of registrant as specified in its charter)

Oregon

93-0301970

(State of incorporation)  
No.)

(I.R.S. Employer Identification  
No.)

6433 S. E. Lake Road (Milwaukie, Oregon), Post Office Box 22187,  
Portland, Oregon 97222

(503) 653-6330

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

ALAN C. JONES, President

United Grocers, Inc.

6433 S. E. Lake Road (Milwaukie, Oregon), Post Office Box 22187,  
Portland, Oregon 97222

(503) 653-6330

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

Miller, Nash, Wiener, Hager & Carlsen  
111 S. W. Fifth Avenue  
Portland, Oregon 97204-3699  
Attention: Erich W. Merrill, Jr.

Approximate date of commencement of proposed sale to the public:  
From time to time following the effective date of this registration  
statement.

If any of the securities being registered on this form are to be  
offered on a delayed or continuous basis pursuant to Rule 415 under the  
Securities Act of 1933, check the following box. [X]

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to

Item 11(a)(1) of this form, check the following box. [X]

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Pursuant to Rule 429, the prospectus for the Common Stock, \$5 par value, covered hereby is a combined prospectus that also relates to the registration statement on Form S-2 of the registrant (No. 33-49450) effective August 10, 1992, and the Series H Notes covered thereby.

UNITED GROCERS, INC.  
Cross Reference Sheet Between  
the Items of Part I of Form S-2 and the Prospectus

Items in Form S-2	Location or Caption in Prospectus
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus	Statement of Available Information; Incorporation of Certain Documents by Reference; Table of Contents
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges	Prospectus Summary
4. Use of Proceeds	Introduction
5. Determination of Offering Price	Introduction
6. Dilution	*
7. Selling Security Holders	*
8. Plan of Distribution	Introduction

- |     |   |   |
|-----|---|---|
| 9.  | Description of Securities to be Registered  | Introduction;<br>Description of Membership<br>Stock; Description of Notes                               |
| 10. | Interests of Named Experts and Counsel  | *   |
| 11. | Information with Respect to the Registrant  | Prospectus Summary;<br>Introduction;<br>The Company;<br>Incorporation of Certain Documents by Reference |
| 12. | Incorporation of Certain Information by Reference                                   | Incorporation of Certain Documents by Reference   |
| 13. | Disclosure of Commission Position on Indemnification for Securities Act Liabilities | *   |

\* Omitted either because the item is inapplicable or because the answer is in the negative.

UNITED GROCERS, INC.  
(Portland, Oregon)

250,000 Shares  
Common Stock, \$5 Par Value

\$19,600,000 Series H 5% Subordinated  
Redeemable Capital Investment Notes  
Maturing Approximately 10 Years from Date of Issue

Common stock ("Membership Stock") is sold solely to members of United Grocers, Inc. ("United"), at adjusted book value determined for each calendar year as of the end of United's preceding fiscal year. In addition to shares sold to newly admitted members as a prerequisite for membership, Membership Stock may be issued to existing members for cash or in payment of patronage dividends. See "The Company."

Notes are issued in registered form in denominations of \$100 or multiples of \$100 at 100% of principal amount, with interest payable quarterly. Notes are issued in noncertificated form. Notes are redeemable at United's option during the 7 years prior to maturity at a

price equal to principal plus accrued interest. United does not expect any public market for Notes to develop. Although it is not legally obligated to do so, United intends to prepay any Note, at any time, upon request of the holder. See "Introduction."

The board of directors of United has decided to pay interest at the rate of 5.5% per annum during the period December 16, 1993, to March 15, 1994, on all Notes outstanding at any time during that period. On March 16, 1994, the interest rate on all Notes will revert to the stated rate of 5% per annum unless the board of directors takes further action. The decision to pay interest at 5.5% per annum is a voluntary action taken by the board of directors in recognition of prevailing interest rates. There can be no assurance that the interest rate on Notes after March 15, 1994, will exceed 5% per annum. The only right evidenced by the Notes is to receive timely payment of principal and interest at 5% per annum.

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	Price to Public	Underwriting discounts and commissions	Proceeds to United
<S> Per Share	<C> \$57.00	<C> None	<C> \$57.00
Per Note	100%	None	100%

</TABLE>

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This offering is not underwritten; all sales will be made by United through its regular employees. United reserves the right to withdraw, cancel or modify the offer without notice and to reject orders in whole or in part.

The date of this prospectus is January \_\_, 1994.

<TABLE>  
<CAPTION>

## TABLE OF CONTENTS

	Page
<S>	
<C>	
Statement of Available Information	2
Incorporation of Certain Documents by Reference	2
Prospectus Summary	3
Introduction	6
The Company	8
Description of Membership Stock	11
Description of Notes	13
Legal Matters	16
Experts	16
Additional Information	16

</TABLE>

No person is authorized to give any information or to make any representations other than those contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery hereof nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of United since the date hereof. This prospectus does not constitute an offer to sell or a solicitation of any such offer in any state to any person to whom it is unlawful to make such an offer in such state.

### STATEMENT OF AVAILABLE INFORMATION

United is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission ("Commission"). Such reports and other information can be inspected and copied at the public reference facilities maintained by the Commission in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C., and at the Commission's regional offices at 7 World Trade Center, 13th Floor, New York, New York 10048, and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies can be obtained at prescribed rates by writing to the Securities and Exchange Commission, Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549.

United intends to provide its security holders annual reports containing audited financial statements which have been examined and reported on by independent certified public accountants.

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

United incorporates herein by reference (i) its annual report on Form 10-K for the fiscal year ended October 1, 1993, and (ii) the material under the captions "Board of Directors" and "Management" and the information on pages 2 through 20 of United's annual report to its security holders for the year ended October 1, 1993.

This prospectus is accompanied by a copy of United's 1993 annual report to security holders. United will provide, without charge, to each person to whom a copy of this prospectus is delivered, upon the written or oral request of any such person, a copy of the above mentioned Form 10-K (other than certain exhibits). Requests should be directed to John W. White, Vice President, United Grocers, Inc., Post Office Box 22187, Portland, Oregon 97269-2187, telephone (503) 653-6330.

#### PROSPECTUS SUMMARY

The following material summarizes certain matters described in the prospectus. It is necessarily incomplete and is qualified in its entirety by reference to the remainder of the prospectus.

United

The Company

United Grocers, Inc., 6433 S. E. Lake Road (Milwaukie, Oregon), Post Office Box 22187, Portland, Oregon 97269-2187; telephone (503) 653-6330.

Principal Business

A wholesale grocery distributor which operates as a cooperative. United sells groceries and related products at wholesale to approximately 363 independent retail grocery stores operated by its members in Oregon, western Washington and northern California.

Use of Proceeds of Offering

Working capital and general corporate purposes.

See "Introduction--Use of Proceeds" and "The Company."

Membership Stock

Shares Offered to

Retail grocers who have been accepted as members of United on the basis of 200 shares per retail store. Membership Stock will also be issued to members in payment of patronage dividends and to

members who wish to acquire additional shares for cash.

Price Adjusted book value computed as of the end of each fiscal year (the Friday nearest September 30) to be effective for the following calendar year (\$57.00 per share, or \$11,400 for 200 shares, during 1994).

Repurchase Under its present bylaws United is obligated to repurchase shares held by terminated members at the price at which Membership Stock is then being offered (book value as of the end of the fiscal year preceding the year of termination, adjusted for certain items). A portion of the repurchase price may, under certain circumstances, be paid in installments on such terms as the board of directors determines.

Voting Rights One vote for each shareholder of record.

Transfer Membership Stock is not transferable.

Dividends and Federal Tax Consequences It is United's policy not to declare dividends other than patronage dividends based upon members' purchases. The total amount of patronage dividends (including Membership Stock) is taxable to individual members when distributed.

See "Introduction," "The Company" and "Description of Membership Stock."

Notes

Notes Offered Series H Subordinated Redeemable Capital Investment Notes.

Interest 5% per annum, payable quarterly. The board of directors of United has decided to pay interest at the rate of 5.5% per annum during the period December 16, 1993, to March 15, 1994, on all Notes outstanding at any time during that period. On March 16, 1994, the interest rate on all Notes will revert to the stated rate of 5% per annum unless the board of directors takes further action. The decision to pay interest at 5.5% per annum is a voluntary action taken by the board of



directors in recognition of prevailing interest rates. There can be no assurance that the interest rate on Notes after March 15, 1994, will exceed 5% per annum. The only right evidenced by the Notes is to receive timely payment of principal and interest at 5% per annum.

Denominations	\$100 and multiples thereof.
Price	100% of the principal amount.
Certificates	Notes will be noncertificated. The rights of holders of Notes will be evidenced by the Investment Note Register maintained by United. United will provide holders of Notes with quarterly statements of their Note holdings.
Maturity of Principal	On the interest payment date coinciding with, or next following, the expiration of 10 years from date of issue.
Prepayment	In the event of death of a registered holder or joint registered holder of a Note, United will be legally obligated to prepay the Note upon request of the person entitled to the Note. Although United has no other obligation to prepay Notes, its present intention is to prepay any Note, at any time, upon request of the holder. Although United's present intention is to continue this prepayment policy indefinitely, it may discontinue such policy at any time. See "Introduction--Notes Offered." The prepayment price is the principal amount plus accrued interest.
Type	Unsecured, subordinated to Senior Indebtedness. The amount of Senior Indebtedness outstanding as of October 1, 1993, was approximately \$75,281,000.
Redemption	Redeemable at the option of United during the 7 years prior to maturity at a price equal to principal plus accrued interest.
Transfer	Notes are transferable but no market for Notes exists or is expected to develop.
Indenture Trustee	United States National Bank of Oregon.

See "Introduction" and "Description of Notes."

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Selected Financial Data

	Fiscal years ended				
	Oct. 1 1993	Oct. 2 1992	Sept. 27 1991	Sept. 28 1990	Sept. 30 1989
	(Dollars in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement<F1>:					
Net sales and operating revenues	\$876,985	\$896,587	\$882,878	\$873,685	\$796,768
Income before members' patronage dividends and income taxes	11,291	13,314	13,126	12,408	10,820
Patronage dividends	9,000	10,211	10,427	10,000	9,011
Net income<F2><F3>	1,714	2,723	1,712	1,394	1,262
Balance Sheet:					
Working capital<F4>	41,819	53,326	61,032	49,912	45,082
Total assets	280,600	261,289	249,205	218,143	200,489
Liabilities					
Current	132,067	113,759	112,256	101,179	97,044
Long-term	105,539	104,645	98,685	82,918	72,172
Members' equity	39,112	39,141	36,431	33,299	30,308
Adjusted book value per share<F5>	57.00	53.94	48.99	46.24	43.81
Ratio of adjusted income to fixed charges<F1><F6>	1.86	2.00	2.07	2.05	1.91

<FN>  
<F1> In fiscal 1993, United changed its method of accounting for inventories to the first-in, first-out method. Amounts for prior periods have been restated to reflect the change. See Note 4 to the consolidated financial statements appearing in the accompanying annual report to shareholders ("Consolidated Financial Statements").

<F2> Earnings per share are not shown because earnings are distributed only in the form of patronage dividends; under United's policy no earnings are available for the purpose of paying dividends on the Membership Stock.

<F3> In fiscal 1992, United changed its method of accounting for income taxes, resulting in a one-time increase in net income of \$526,314. See Note 7 to the Consolidated Financial Statements.

<F4> In fiscal 1992, United changed its method of accounting for investments,

resulting in an increase in current assets at October 2, 1992, of \$26,684,291 and a corresponding decrease in non-current assets. Amounts for prior periods have been restated to reflect the change. See Note 1.e. to the Consolidated Financial Statements.

<F5> Adjusted book value per share, which is the offering price per share, is computed by subtracting from total members' equity at fiscal year end, stock to be issued from patronage and paid-in capital on such stock and undistributed equity from investments accounted for on the equity method, net of the tax effect, and dividing the resulting amount by shares outstanding at fiscal year end.

<F6> Adjusted income used to compute the ratio of adjusted income to fixed charges represents net income to which has been added income taxes, patronage dividends and fixed charges. Fixed charges consist of interest on all indebtedness and that portion of rentals considered to be the interest factor. </FN>

For additional information, reference is made to the Consolidated Financial Statements and other information incorporated herein by reference as described under "Incorporation of Certain Documents by Reference."

/TABLE

## INTRODUCTION

General. United is offering to sell 250,000 shares of its Membership Stock and \$19,600,000 in principal amount of Notes. All sales will be made by United through its regular employees, who will not receive any additional remuneration in connection with the sales. No sales will be made through brokers and there are no underwriters. Membership Stock is not transferable and there is, therefore, no public market for it. United does not expect that any public market for Notes will develop. United anticipates that the securities offered hereby will not all be sold in the immediate future and that the offerings will, therefore, be made on a continuous basis over a period of time. There is no assurance that any portion of the offerings will be sold.

Use of Proceeds. United expects to use the proceeds from the sale of the securities offered hereby for working capital and general corporate purposes. To the extent that proceeds are insufficient to meet United's requirements for working capital at any particular time, United intends to rely upon increased borrowing from banks. Although United has not in the past experienced any substantial difficulty in obtaining bank financing, there can be no assurance that United will be able to obtain additional bank financing or that it will be able to obtain such financing at interest rates which it considers reasonable.

Membership Stock Offered. Membership Stock is sold only upon approval by United's board of directors to retail grocers who have applied for and been accepted for membership in United. Retail grocers accepted for membership will thereby gain the right to purchase groceries and related products from United on a cooperative basis. See "The Company." Membership Stock is sold in units of 200 shares for each retail store accepted for membership. Shares will be sold from time to time as United's board of directors admits additional members and as existing members are accepted for membership with respect to additional stores. Membership Stock will also be issued to existing members in partial payment of patronage dividends (see "The Company") and to members who wish to purchase additional shares for cash.

Membership Stock is offered at its adjusted book value, as determined by United's annual audited balance sheet as of the end of each fiscal year, effective the following January 1. Adjusted book value per share is computed by subtracting from total members' equity at fiscal year end, stock to be issued from patronage and paid-in capital on such stock and undistributed equity from investments accounted for on the equity method, net of the tax effect, and dividing the resulting amount by shares outstanding at

fiscal year end. At October 1, 1993, the only adjustment for investments accounted for on the equity method was United's investment in Western Family Holding Company. The adjusted book value at October 1, 1993, was \$57.00 per share. Thus, the offering price for 200 shares during calendar year 1994 is \$11,400.

From time to time, United sells Membership Stock to new members on an installment basis. If the board of directors determines that an applicant's financial standing merits such treatment, Membership Stock may be issued upon receipt of a cash down payment plus a promissory note or other undertaking to pay the balance of the purchase price. The amount of the down payment, interest rate and other terms of installment sales may vary depending on the applicant's financial standing.

United's bylaws provide that, upon termination of membership, Membership Stock will be repurchased by United at the price at which Membership Stock is then being offered (adjusted book value). United's board of directors may elect to pay the repurchase price in installments upon such terms as the board of directors determines with respect to any shares held over and above the number of shares a member was initially required to purchase upon acceptance to membership. For additional information, see "Description of Membership Stock." Although United has no other obligation to repurchase Membership Stock, the board of directors has indicated that it will consider requests for repurchase of Membership Stock from members which are corporations upon a bona fide transfer of ownership of

the corporate member.

It is United's policy not to declare dividends other than patronage dividends based on a member's purchases from United. The total amount of patronage dividends (including Membership Stock) is taxable to individual members when distributed. See "The Company."

United's bylaws provide that the number of shares of Membership Stock which a member is required to purchase shall be established by the board of directors. The board of directors has decided that, at present, members must purchase a unit of 200 shares for each retail store for which they are admitted as members. This number is subject to change from time to time. There will not be any refund on or redemption of any shares already purchased as a result of any decrease in the number of shares required for new stores. Existing members will not be required to purchase additional shares as a result of any future increase in the number of shares required per store.

United's bylaws and articles of incorporation also provide that each holder of record of Membership Stock is entitled to one vote regardless of the number of shares owned. Thus, a newly admitted member purchasing 200 shares of Membership Stock will have the same voting rights as an existing member directly holding a greater or lesser number of shares. Certain members control family corporations or other separate entities that own shares. Those members may control more than one vote because each controlled entity is a separate holder of record. See "Description of Membership Stock."

Under United's present policies, members acquiring additional Membership Stock may have (i) the possibility, under certain circumstances, of receiving a greater portion of future patronage dividends in cash (see "The Company--Deposit") and (ii) the possibility of realizing gain in the event of future appreciation in the book value of Membership Stock (see "Description of Membership Stock"). Members considering acquiring additional shares of Membership Stock should be aware that there can be no assurance that United's future operations will result in the payment of patronage dividends or in any appreciation in book value. In the event of losses in future years, the book value of Membership Stock could decline. Also, as described more fully under "The Company" and "Description of Membership Stock," the proportion of patronage dividends to be paid in cash and the method of payment for repurchased shares of Membership Stock are all subject to the discretion of United's board of directors, and the right to repurchase at book value upon termination of membership is subject to change by a vote of United's members. Acquisition of additional shares of Membership Stock will not give a member any additional voting rights.

Any increase in the total number of shares outstanding will, of course, proportionately reduce the effect of future changes in total members' equity upon book value per share. In other

words, future increases or decreases in members' equity resulting from earnings or losses will have a lesser effect per share if the total number of shares outstanding is increased.

Notes Offered. United is offering Notes only in fully registered form without coupons in denominations of \$100 or multiples of \$100 at 100% of principal amount. Notes bear interest at 5% per annum, payable quarterly, and mature on the interest payment date coinciding with, or next following, the expiration of 10 years from the date of issue. The board of directors of United has decided to pay interest at the rate of 5.5% per annum during the period December 16, 1993, to March 15, 1994, on all Notes outstanding at any time during that period. On March 16, 1994, the interest rate on all Notes will revert to the stated rate of 5% per annum unless the board of directors takes further action. The decision to pay interest at 5.5% per annum is a voluntary action taken by the board of directors in recognition of prevailing interest rates. The board expects to review the interest rate paid on Notes from time to time in light of prevailing interest rates and other factors. There can be no assurance that the interest rate on Notes after March 15, 1994, will exceed 5% per annum. The only right evidenced by the Notes offered hereby is to receive timely payment of principal and interest at 5% per annum.

Notes are issued as noncertificated Notes. The rights of Note holders are evidenced by the Investment Note Register. Note holders are therefore dependent on the Investment Note Registrar to maintain accurate records regarding their Note holdings. United presently serves as Investment Note Registrar. Because there is no certificate, Notes may not be readily saleable. However, no market for Notes exists or is expected to develop.

Notes are unsecured and are subordinated in right of payment to Senior Indebtedness (as defined, see "Description of Notes--Subordination") in the event of any liquidation or dissolution. The amount of Senior Indebtedness at October 1, 1993, was approximately \$75,281,000 (consisting of approximately \$58,281,000 in unsubordinated long-term debt and approximately \$17,000,000 in current liabilities). Notes may be redeemed at United's option during the 7 years prior to maturity at a redemption price equal to their principal amount plus accrued interest. For additional information, see "Description of Notes."

Upon the death of a registered holder or joint registered holder, United will be legally obligated to prepay the Note upon request of the person entitled to the Note. United may require evidence of

death before making prepayment. Although United has no other legal obligation to prepay Notes, its present intention is to prepay any Note, at any time, upon request of the holder. The prepayment price upon death or under United's prepayment policy is the principal amount of the

Note plus accrued interest.

United's prepayment policy may provide holders of Notes with liquidity which they might not otherwise have. Although United's present intention is to continue its prepayment policy indefinitely, it may discontinue such policy at any time. In the event that United discontinues its prepayment policy, holders of Notes might, because of the absence of an established market, be unable to sell their Notes prior to maturity or might be unable to sell the Notes other than at a price below their principal amount.

It is anticipated that most sales of Notes will be made to members of United, friends and relatives of members, key employees and other persons with existing relationships with United. United allows members to purchase Notes on a regular basis by adding the purchase price to any such member's weekly invoice for grocery purchases.

#### THE COMPANY

General. United, a wholesale grocery distributor, is an Oregon business corporation organized in 1915 which operates and is taxed as a cooperative.

It supplies groceries and related products to independent retail grocers located in Oregon, western Washington and northern California. United's goal is both to supply grocery products to retailers at prices which enable them to compete effectively in the retail market and to furnish them other services, such as marketing assistance, engineering, accounting, financing, and insurance, which are important to the successful operation of a retail grocery business.

United also sells groceries and related products at wholesale through 28 cash-and-carry depots, principally to nonmember grocers, restaurants, and institutional buyers.

United's board of directors consists of nine members serving staggered three-year terms, and they may not be elected to consecutive terms. Directors, all grocers, must either be proprietors or partners owning a membership in United or the holder of a substantial interest in a corporation owning a membership in United. United's directors are Arnold L. Atkins, Bert S. Babb, Kenneth M. Owen, Gilbert A. Foster, H. Lawrence Montgomery, Marlin A. Smythe, Dennis Blasingame, Craig Danielson, and James C. Vickers.

The management of the corporation is under the direction of a President and Chief Executive Officer who is employed and guided by the board of directors.

Additional information is set forth in the documents incorporated



herein by reference.

Membership. United has approximately 250 members operating a total of approximately 363 retail grocery stores. All applicants for membership, who must be retail grocers, are subject to approval by United's board of directors on the basis of financial responsibility and operational ability. On approval, applicants are required to purchase shares of United's Membership Stock.

Upon termination of membership, a member's shares of Membership Stock are redeemed. Sales and redemptions of Membership Stock are made at adjusted book

value. Adjusted book value for this purpose is determined according to United's most recent annual audited balance sheet, adjusted for certain items, effective for the following calendar year. See "Description of Membership Stock."

United's board of directors may elect to pay the repurchase price in installments with respect to any shares held over and above the number of shares a member was initially required to purchase upon acceptance to membership. See "Description of Membership Stock."

The following table shows the adjusted book value per share of Membership Stock for the past five years:

<TABLE>

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Fiscal years ended

	Oct 1	Oct 2	Sept 27	Sept 28
Sept 30				
	1993	1992	1991	1990
1989	<S>	<C>	<C>	<C>
<C>	<C>			
Adjusted book value per share	\$57.00	\$53.94	\$48.99	\$46.24
\$43.81				

</TABLE>

The issuance of the additional shares offered hereby may result in substantial dilution of the rate of increase or decrease in adjusted book value per share. See "Introduction."

Cost Savings. By pooling the buying power of its members, United is able to purchase goods in large quantities at prices lower than the prices generally available to independent retail grocers. The savings from the bulk purchases are passed along to members in the form of



rebates, allowances and patronage dividends.

Sales to members are invoiced to their accounts at prices contained in United's order guide. While the complex pricing systems used in the wholesale grocery industry make item-by-item price comparisons impracticable, United believes that its pricing structure, including the various cost savings available to members, compares favorably on an overall basis with the pricing structures of its competitors. A cost equalization program results in the addition or subtraction of a percentage of the member's weekly invoice cost based on the member's average weekly purchases for the preceding four weeks, excluding drop shipment purchases. The cost equalization percentages are designed to reflect the economies of scale realized by United in servicing larger accounts.

Rebates and allowances are paid to members periodically based upon their purchases of particular items or their promotional and advertising performance. Generally, such rebates and allowances stem from United's margins and the merchandising or promotional programs of United's suppliers. The amount of rebates and allowances paid to members with respect to particular items may vary from the amount realized by United from its suppliers.

United also pays its members annual patronage dividends based on the overage, or excess of revenues over expenses, on sales to members for the year. Each year United's board of directors determines the portion of the overage which is to be distributed as patronage dividends. For fiscal year 1993, the

board decided to distribute 79.7% of the overage that was available for distribution. Decisions concerning the portion of overage to be retained are based upon various factors, including United's future capital needs and the amount of earnings available from operations not qualifying for distribution as patronage dividends. The patronage dividends are allocated among the members in proportion to the contribution to United's gross profit (before rebates and allowances) attributable to their purchases from United. The patronage dividends are paid partly in cash and partly in Membership Stock. See "Deposit."

As a result of cost equalization, rebates, allowances and patronage dividends, the total cost savings each member realizes will vary depending on the member's volume of purchases and merchandising of particular products.

Patronage Dividends and Tax Matters. The following discussion summarizes the operation of certain aspects of the federal income tax treatment of cooperatives. The tax treatment of cooperatives is subject to change from time to time as the Internal Revenue Code of 1986, as amended ("Code"), is amended and as new regulations and interpretations are periodically adopted.

United operates and is taxed as a cooperative. Accordingly, patronage dividends are not included in United's taxable income but are instead taxed to the individual members receiving the patronage dividends.

The Code requires that not less than 20% of each member's patronage dividend be paid in cash. It is United's policy to at least meet that minimum requirement and to pay the balance of patronage dividends in Membership Stock. See "Deposit" for information regarding the method used by United to determine the patronage dividends to be paid in cash in excess of the Code's minimum requirement.

Members are required to agree to abide by all United's bylaw provisions, including those applicable to federal income taxation of patronage dividends. Accordingly, members must report as taxable income the total amount of patronage dividends, including the adjusted book value of Membership Stock, in the year such patronage dividends are received, and such amounts are not taxable to United.

United is taxed on income which does not qualify for distribution as patronage dividends and on the portion of overage which is not distributed to members. United's subsidiaries generally retain all profits (or losses) from their operations and are subject to all applicable income taxes.

Deposit. Members are encouraged to accumulate holdings of Membership Stock. Such holdings are referred to in the cooperative grocery trade as "Deposits," although the Membership Stock is not physically deposited with United. The amount of a member's Deposit is defined to be the adjusted book value of his or her Membership Stock. The Deposit does not include notes representing United's obligation to pay the deferred balance of the price of Membership Stock repurchased from members or Capital Investment Notes. The Deposit is used to:

- a. Provide a guarantee fund for the member's purchases on open account.
- b. Ensure the funding of United's operations.
- c. Serve as a basis for calculating cash patronage dividends. The method of calculation is intended to encourage members to maintain

Deposits of at least one and one half times their average weekly purchases ("AWP") from United. AWP is the average of a member's weekly purchases of all items from United during the fiscal year for which patronage dividends are being calculated.

In recent years, the noncash portion of patronage dividends has been paid in Membership Stock, and it is anticipated that future payments will also be made in Membership Stock. The board's present

policy is to pay patronage dividends as follows:

1. If the Deposit is less than one and one half times AWP, the member's patronage dividend is paid 20% in cash and 80% in Membership Stock.
2. If the Deposit equals or exceeds one and one half times AWP but is less than 4,000 shares, the member's patronage dividend is paid 80% in cash and 20% in Membership Stock.
3. If the Deposit equals or exceeds one and one half times AWP and is at least 4,000 shares, the member's patronage dividend is paid 100% in cash.
4. In the case of multiple store operations, Deposit and AWP requirements are applied on a per store basis.
5. If a member's Deposit exceeds 4,000 shares of Membership Stock per store, excess shares may be submitted for redemption over a five-year period. Twenty percent of the shares submitted for each store will be redeemed each year at the current share price for that year.

The board's Deposit policy is subject to change from time to time. Although the board expects to retain the general principle of paying increasing portions of patronage dividends in cash as a member's Deposit increases, the board may, in the future, decide to consider additional factors in the payment of patronage dividends. Therefore, there can be no assurance that the purchase of Membership Stock by a member will result in the member's receiving any particular portion of future patronage dividends in cash.

#### DESCRIPTION OF MEMBERSHIP STOCK

United's authorized Membership Stock consists of 10,000,000 shares of Membership Stock, \$5 par value. Membership Stock is sold only to members of United. All members must be actively engaged in the retail grocery business and must be approved by the board of directors, primarily on grounds of financial responsibility and operational ability, before being admitted to membership.

Each member must purchase the number of shares of Membership Stock as determined by the board of directors for each retail store the member operates. Each shareholder of record is entitled to one vote, regardless of the number of shares owned. Certain members control family corporations or other separate entities that own shares. Those members may control more than one vote because each controlled entity is a separate holder of record. Voting for directors is noncumulative.

Membership Stock is not transferable and is not negotiable.

Under United's bylaws all shares are sold at adjusted book value and, upon a member's death, retirement, voluntary withdrawal, expulsion or cessation of purchases from United, will be repurchased by United at adjusted book value as determined

by United's annual audited balance sheet as of the end of each fiscal year, effective the following January 1. Adjusted book value per share is computed by subtracting from total members' equity, stock to be issued from patronage and paid-in capital on such stock and undistributed equity from investments accounted for on the equity method, net of the tax effect, and dividing the resulting amount by shares outstanding at fiscal year end (as restated for any stock splits, stock dividends or similar changes). United's bylaws provide that the repurchase price for any shares over and above the number of shares the member was required to purchase as a condition of membership for a retail store or stores may, in the discretion of United's board of directors, be paid in 20 quarterly installments with interest at the same rate being paid from time to time (presently 5.5%) on United's Capital Investment Notes then being offered or in such other manner as the board of directors may from time to time determine.

United's board has adopted a policy, subject to change without notice, requiring United to repurchase on request the number of shares a member owns in excess of 4,000. The excess shares are repurchased over a five-year period at the current adjusted book value each year, payable in cash.

United's obligation to repurchase the shares of members is subject to the general limitations imposed by the Oregon Business Corporation Act that United may not purchase shares if, after giving the purchase effect, United would not be able to pay its debts as they become due in the usual course of business or United's total assets would be less than its total liabilities.

A member is subject to expulsion by the board of directors for the following reasons: (1) disclosure to nonmembers of confidential information relating to United's business, (2) abuse of office by officers, (3) purchase of goods for the benefit of a nonmember, (4) commission of a felony, (5) violation of the corporation's bylaws, or (6) action to the detriment of the corporation. Since 1954, no members have been expelled. Patronage dividends for the fiscal year in which a membership is terminated are paid in cash following the end of the fiscal year, based on the member's purchases from United during the fiscal year. All bylaw provisions, including those relating to the repurchase of Membership Stock at adjusted book value, are subject to amendment by a vote of a two-thirds majority of the quorum of shares voting on such amendment.

Shares of Membership Stock are issued from time to time upon payment of less than the full purchase price. Upon payment of the full purchase price, shares of Membership Stock are fully paid and

nonassessable. A member's interest in the adjusted book value of shares of Membership Stock, is, however, subject to being set off against any debts of the member to United or its subsidiaries.

The shares of Membership Stock are entitled to share pro rata in any liquidating distributions and dividends other than patronage dividends. It is not the policy of the board of directors to declare any dividends other than patronage dividends. In the event of any liquidation of United, the rights of holders of Membership Stock with respect to any liquidating distributions and the rights of former holders of Membership Stock with respect to any deferred payments due them would be subordinated to all other claims against United's assets.

Shares of Membership Stock are not subject to any sinking fund provisions and have no conversion rights.

#### DESCRIPTION OF NOTES

The Notes offered hereby are issued as the eighth series of Capital Investment Notes under an indenture dated as of February 1, 1978, between United and United States National Bank of Oregon, as trustee ("U. S. Bank"), as supplemented by supplemental indentures dated as of August 15, 1979, November 11, 1981, December 15, 1984, December 15, 1986, January 27, 1989, January 22, 1991, and July 6, 1992, between United and U. S. Bank (which indenture, as so supplemented, is herein referred to as the "Indenture"). First Trust National Association ("Trustee") has assumed U. S. Bank's rights and obligations as trustee under the Indenture. A copy of the Indenture is on file with the Securities and Exchange Commission as an exhibit to the registration statement of which this prospectus forms a part. The following description summarizes certain provisions of the Indenture and is subject to the detailed provisions of the Indenture, to which reference is hereby made for a complete statement of such provisions. Whenever particular Sections or terms defined in the Indenture are referred to herein, such Sections or definitions are incorporated by reference. References in parentheses are to Sections of the indenture dated as of February 1, 1978, except that references marked with an asterisk (\*) are to Sections of the supplemental indenture dated as of July 6, 1992. See "Additional Information."

General. Notes bear interest from the date of issue at the stated annual rate indicated on the cover page of this prospectus. United may, under the Indenture, issue Notes at other interest rates, but no change in interest rates may affect the stated interest rate on Notes then outstanding. Interest is paid on the 15th day of March, June, September, and December for the quarters ending on those dates to the persons in whose names the Notes are registered as of the last business day of the calendar month preceding the payment date.

(Secs. 3.06 and 4.02\*)

Notes mature on the interest payment date which is on, or next following, the date ten years from the date of issue, are unsecured obligations of United and are limited to \$50,000,000 aggregate principal amount, of which \$19,600,000 is being offered pursuant to this prospectus. Notes are issuable only in registered form, without coupons, in denominations of \$100 or any multiple of \$100 approved by United. Notes are issued as noncertificated Notes. (Secs. 1.15, 3.02, 2.01\*, 4.01\* and 4.02\*)

Principal and interest on all Notes are payable at the principal office of United in Clackamas County, Oregon, provided that, at the option of United, interest and principal payments on Notes may be made by check mailed to the address of the registered holders of the Notes. United intends to pay interest and principal by check. (Secs. 3.01, 7.02 and 3.03\*) United will exchange Notes for other Notes of the same series and of a like principal amount and having the same terms and conditions upon written request of the holder. No service charge will be made to the holder for any exchange or transfer, except for any tax or governmental charge incidental thereto. (Secs. 3.04 and 3.04\*) United is required to mail quarterly statements of Note holdings to holders of Notes. (Sec. 4.03\*)

United may from time to time without the consent of any holder of an outstanding Note issue under the Indenture, by means of an indenture supplemental thereto, additional Capital Investment Notes having different terms and of a series other than the Notes. The amount of additional Capital Investment Notes or other debt which may be issued by United is not limited by the Indenture. (Sec. 4.01)

The Indenture does not contain any covenant or provision that protects the holders of Notes against a reduction in the value of the Notes resulting from a highly leveraged transaction, whether or not such transaction involves a change in control of United. Similarly, no holder of Senior Indebtedness of United at October 1, 1993, is protected against a reduction in the value of Senior Indebtedness held by such holder resulting from a highly leveraged transaction, except that certain agreements relating to Senior Indebtedness require that United maintain specified financial ratios.

Prepayment. Although United is not obligated to prepay Notes except in the event of the death of a registered holder, United's present intention is to prepay the principal amount of any Note, together with accrued interest to the date of payment, at any time upon the request of the holder.

In the event of the death of a registered holder or joint registered holder of a Note, United is obligated, at the option of the person legally entitled to become the holder of the Note, to prepay the



principal amount of the Note, together with accrued interest to the date of payment. Any request for prepayment must be made to United in writing. United may, as a condition precedent to the prepayment, require the submission of evidence satisfactory to United of the death of the registered holder or joint registered holder and such additional documents or other material as it may consider necessary to establish the person entitled to become the holder of the Note or such other facts as it considers relevant to the fulfillment of its prepayment obligation. (Sec. 5.01\*)

Redemption. The Notes may be redeemed at the election of United during the seven years prior to maturity at their principal amount, plus accrued interest, upon not less than 30 days' notice by mail to the registered holder. United, in its sole discretion, may designate for redemption Notes maturing on specified dates or bearing specified interest rates. If less than all the Notes with a specified maturity date or interest rate are to be redeemed, the Trustee shall select the particular Notes to be redeemed in whole or in part. (Secs. 5.02\* and 5.03\*) No interest on Notes selected for redemption will accrue after the date fixed for redemption. (Sec. 5.04\*)

Subordination. Payment of the principal of, and interest on, the Notes is subordinated in the manner and to the extent set forth in the Indenture in right of payment to the prior payment in full of all Senior Indebtedness. (Sec. 6.01\*) Senior Indebtedness is defined as indebtedness of United, whether outstanding on the date of the Indenture or thereafter incurred, (a) for money borrowed by United (other than indebtedness evidenced by Capital Investment Notes and Registered Redeemable Building Notes); (b) for money borrowed by others and guaranteed by United; (c) constituting purchase money indebtedness incurred for the purchase of tangible property and for the payment of which United is directly or contingently liable; or (d) arising under any document creating an absolute or contingent obligation of United to purchase promissory notes and related documents from third parties; unless by the terms of the instrument creating or evidencing the indebtedness it is provided that such indebtedness is not superior in right of payment to the Notes. (Secs. 1.01\* and 6.01\*) The Indenture does not limit the amount of Senior Indebtedness which United may incur.

The Indenture provides that, in the event of and during the continuation of any default on any Senior Indebtedness, no payment may be made on the Notes or for the redemption or purchase of Notes. (Sec. 6.03\*) Upon any distribution of assets of United, upon any liquidation, dissolution, winding up or

reorganization of United, whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors, or other proceeding, all principal of (and premium, if any) and interest on all Senior Indebtedness must be paid in full before the holders of the Notes are entitled to receive or retain any payment. Subject to the payment in full of all Senior Indebtedness, the holders

of the Notes are subrogated to the rights of the holders of the Senior Indebtedness to receive distributions of assets of United applicable to Senior Indebtedness until the Notes are paid in full. (Sec. 6.02\*) By reason of such subordination, in the event of insolvency, creditors of United who are holders of Senior Indebtedness may recover more, ratably, than the holders of the Notes, and creditors of United who are not holders of Senior Indebtedness or of the Notes may recover less, ratably, than the holders of Senior Indebtedness, and may recover more, ratably, than the holders of the Notes.

Modification of Indenture. Modifications and amendments of the Indenture may be made by United and the Trustee with the consent of the holders of 66 2/3% in principal amount of the Capital Investment Notes of all series then outstanding, provided that no such modification or amendment may, without the consent of the holder of each Note affected thereby, (a) change the maturity date of the principal or the interest payment dates; (b) reduce the principal amount of or the interest on any Note; (c) change the currency of payment; (d) impair the right to institute suit for the enforcement of any such payment on or after the maturity date or the Redemption Date, as the case may be; or (e) reduce the above-stated percentage of holders of Capital Investment Notes necessary to modify or amend the Indenture. (Sec. 13.02)

Events of Default; Notice and Waiver. The following constitute Events of Default: (a) default in the payment of any interest continued for 30 days; (b) default in the payment of the principal of (or premium, if any, on) any Capital Investment Note at its maturity; (c) default in the performance of any other covenant or warranty of United, continued for 60 days after written notice as provided in the Indenture; (d) acceleration of any Senior Indebtedness of United as a result of a default with respect thereto if such acceleration is not rescinded within 30 days after written notice as provided in the Indenture; and (e) certain events in bankruptcy, insolvency or reorganization. (Sec. 9.01) If an Event of Default shall happen and be continuing, the Trustee or the holders of not less than 25% in principal amount of outstanding Capital Investment Notes may declare the principal of all the Capital Investment Notes to be due and payable immediately. (Sec. 9.02)

The Indenture provides that the Trustee will, within 90 days after the occurrence of a default, give to the holders of Capital Investment Notes notice of such default known to it, unless such default shall have been cured or waived; but, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any of the Capital Investment Notes, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of such holders. (Sec. 9.14)

The holders of a majority in principal amount of the outstanding Capital Investment Notes may direct the time, method and place of



conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that such direction shall not be in conflict with any rule of law or the Indenture. (Sec. 9.12) Before proceeding to exercise any right or power under the Indenture at the direction of such holders, the Trustee is entitled to receive from such holders reasonable security or indemnity against the costs, expenses and liabilities which might

be incurred by it in compliance with any such direction. (Sec. 10.02)

The holders of not less than a majority in principal amount of the outstanding Capital Investment Notes may, on behalf of the holders of all the Capital Investment Notes, waive any past default except (a) a default in the payment of principal of (or premium, if any) or interest on any Capital Investment Note, and (b) a default in respect of a covenant or provision of the Indenture which cannot be amended without the consent of the holder of each Capital Investment Note affected. (Sec. 9.13)

United is required to furnish to the Trustee annually a statement as to the fulfillment by United of all its obligations under the Indenture. (Sec. 7.06)

Other. The Notes have no sinking fund provisions. The Indenture contains no restrictions on the dividends that may be paid by United and imposes no obligations with respect to the maintenance of reserves, levels of net worth, liabilities, working capital or the like.

Regarding the Trustee. United has no agreements or business relationships with the Trustee other than those contained in or contemplated by the Indenture. The Trustee is required to furnish annual reports to holders of Notes as to certain matters relating to the Notes, the Trustee's performance and the Trustee's eligibility to act as Trustee. (Sec. 8.03)

#### LEGAL MATTERS

The validity of the Membership Stock and Notes offered hereby have been passed upon for United by Miller, Nash, Wiener, Hager & Carlsen, Portland, Oregon, who have acted as special counsel to United in connection with this offer.

#### EXPERTS

The consolidated financial statements of United incorporated in this prospectus by reference have been audited by DeLap, White & Raish, independent certified public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting in giving said report.

ADDITIONAL INFORMATION

This prospectus omits certain information contained in a registration statement filed by United with the Securities and Exchange Commission. For further information, reference is made to the registration statement, including the financial schedules and exhibits filed as a part thereof. See "Statement of Available Information."

PART II

Information Not Required in Prospectus

<TABLE>

<CAPTION>

Item 14. Other Expenses of Issuance and Distribution.

<S>	<C>
a. Registration fees	\$ 5,057.00
b. Printing, mailing and engraving costs	6,000.00*
c. Legal fees	25,000.00*
d. Accounting fees	20,000.00*
e. Blue sky fees	7,019.55
f. Other	6,923.45*
Total	\$70,000.00*

</TABLE>

\* Expense is estimated.

Item 15. Indemnification of Directors and Officers

Section 60.367 of Oregon Revised Statutes (a part of the Oregon Business Corporation Act) provides in substance that any director held liable pursuant to that section for the unlawful payment of a dividend or other distribution of assets of a corporation shall be entitled to contribution from the shareholders who accepted the dividend or distribution, knowing the same to have been made in violation of said Act or the articles of incorporation. The section also provides that any such director shall be entitled to contribution from the other directors who voted for or assented to the dividend or distribution without complying with the applicable standards of conduct prescribed by said Act.

As authorized by said Act, Article V of the registrant's restated articles of incorporation provides:

"ARTICLE V

"A. Indemnification; Actions and Suits Other than by the Corporation. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action taken or not taken in his capacity as such director, officer, employee or agent may be indemnified by the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, including any appeal relating thereto, if he acted

in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person (i) did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the corporation or (ii) with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

"B. Indemnification; Actions and Suits by the Corporation. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action taken or not taken in his capacity as such director, officer, employee or agent, may be indemnified by the corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, including any appeal relating thereto, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to

the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

"C. Indemnification as a Matter of Right. To the extent that a person referred to in Sections A and B of this Article has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections A and B of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith, as a matter of right.

"D. Indemnification Other Than as a Matter of Right. Any indemnification under Sections A and B of this Article of a person referred to therein (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the applicable standard of conduct set forth in Sections A and B of this Article, as the case may be, has been met. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or

proceeding, (ii) if such a quorum is not obtainable, or, even if obtainable, and a quorum of disinterested directors so directs by independent legal counsel in a written opinion, or (iii) by the shareholders.

"E. Payment of Expenses in Advance. Expenses incurred in defending a civil or criminal action, suit or proceeding, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding, as authorized in the manner provided in Section D of this Article upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized in this Article.

"F. Provision Not Exclusive. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any other provision of these Restated Articles of Incorporation, or any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

"G. Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the corporation has the authority or obligation to indemnify him against such liability under the provisions of this Article."

Insofar as indemnification for liabilities arising under the Securities Act of 1933 ("1933 Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

The registrant maintains a policy of insurance (incorporated by reference in Exhibit 10-B hereto) which provides for coverage of certain of the registrant's obligations under this provision. The undertaking of the registrant in the preceding paragraph shall not apply to insurance against liability arising under the 1933 Act.

Item 16. Exhibits.

The exhibits are listed in the accompanying index to exhibits.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the 1933 Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial

information.

See Item 15 regarding the Securities and Exchange Commission's position on indemnification.

### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-2 and has duly caused this amendment to this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Milwaukie, State of Oregon, on January 7, 1994.

UNITED GROCERS, INC.  
(Registrant)

By:/s/ JOHN W. WHITE  
John W. White, Vice President

Pursuant to the requirements of the Securities Act of 1933, this amendment to this registration statement has been signed by the following persons in the capacities indicated on January 7, 1994.

Name	Title
Principal executive officer	
* ALAN C. JONES Alan C. Jones	President Secretary and
Treasurer	
Principal financial officer and principal accounting officer	
/s/ JOHN W. WHITE and John W. White	Vice President Chief Financial
Officer	
A majority of the Board of Directors	
* ARNOLD L. ATKINS Arnold L. Atkins	Director
* BERT G. BABB Berg G. Babb	Director
* KENNETH M. OWENS Kenneth M. Owens	Director

* GILBERT A. FOSTER Gilbert A. Foster	Director
* H. LAWRENCE MONTGOMERY H. Lawrence Montgomery	Director
* MARLIN A. SMYTHE Marlin A. Smythe	Director

\* By /s/ JOHN W. WHITE  
John W. White  
Attorney-in-fact

#### EXHIBIT INDEX

Exhibit No.	Description
4-A.	Form of certificate representing shares of the registrant's common stock, \$5 par value (incorporated by reference to Exhibit 4-A to the registrant's registration statement on Form S-2, No. 33-26631).
4-B.	Copy of indenture dated as of February 1, 1978, between the registrant and United States National Bank of Oregon, as trustee, relating to the registrant's Capital Investment Notes (incorporated by reference to Exhibit 4-I to the registrant's registration statement on Form S-1, No. 2-60488).
4-C.	Copy of supplemental indenture dated as of July 6, 1992, between the registrant and United States National Bank of Oregon, as trustee, relating to the registrant's Series H 5% Subordinated Redeemable Capital Investment Notes (incorporated by reference to Exhibit 4-C to the registrant's registration statement on Form S-2, No. 33-49450).
4-D.	Copy of the registrant's restated articles of incorporation, as amended (incorporated by reference to Exhibit 4-E to the registrant's registration statement on Form S-2, No. 33-26631).
4-E.	Copy of the registrant's bylaws, as amended (incorporated by reference to Exhibit 4-F to the registrant's registration statement on Form S-2, No. 33-26631).
5.	Opinion of Miller, Nash, Wiener, Hager & Carlsen (previously



filed as part of this registration statement).

- 10-A1. Copy of United Grocers, Inc. pension plan and trust agreement dated as of October 1, 1985 (incorporated by reference to Exhibit 10-A to the registrant's registration statement on Form S-2, No. 33-11212).
- 10-A2. Copy of first amendment to United Grocers, Inc., pension plan and trust agreement dated as of October 1, 1987 (incorporated by reference to Exhibit 10-B to post-effective amendment No. 1 to the registrant's registration statement on Form S-2, No. 33-11212).
- 10-A3. Copy of policy summary and related documents pertaining to a life insurance policy for Alan C. Jones, President of the registrant, purchased pursuant to the registrant's supplemental executive retirement plan (incorporated by reference to Exhibit 10-E to the registrant's Form 10-K for the fiscal year ended September 28, 1990).
- 10-A4. Copy of registrant's executive deferred compensation plan (incorporated by reference to Exhibit 10-U to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-A5. Copy of executive compensation agreement dated March 1, 1991 (incorporated by reference to Exhibit 10-T to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-B. Copy of binder of insurance with respect to indemnification of officers and directors, as described under Item 15 (incorporated by reference to Exhibit 10-C to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-C1. Copy of note purchase agreement dated as of April 15, 1988, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-V to the registrant's Form 10-K for the fiscal year ended September 30, 1988).
- 10-C2. Copy of amendment number one to 1988 note purchase agreement among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-C2 to the registrant's registration statement on Form S-2, No. 33-26631).
- 10-C3. Copy of amendment number two to 1988 note purchase agreement, dated March 31, 1989, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-R3 to the registrant's Form 10-K for the fiscal year ended September 30, 1989).

- 10-C4. Copy of amendment number three to 1988 note purchase agreement, dated as of April 16, 1990, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q4 to the registrant's Form 10-K for the fiscal year ended September 28, 1990).
- 10-C5. Copy of amendment number four to 1988 note purchase agreement dated as of September 27, 1991, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q5 to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-C6. Copy of note purchase agreement dated March 31, 1989, and modification to note purchase agreement dated March 31, 1989, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-R4 to the registrant's Form 10-K for the fiscal year ended September 30, 1989).
- 10-C7. Copy of amendment to 1989 note purchase agreement, dated as of April 16, 1990, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q6 to the registrant's Form 10-K for the fiscal year ended September 28, 1990).
- 10-C8. Copy of amendment number two to 1989 note purchase agreement, dated as of September 27, 1991, among the registrant, Seattle-First National Bank, and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q8 to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-C9. Copy of note purchase agreement dated as of April 16, 1990, among the registrant, Seattle-First National Bank and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q7  
to the registrant's Form 10-K for the fiscal year ended September 28, 1990).
- 10-C10 Copy of amendment number two to 1990 note purchase agreement, dated as of September 27, 1991, among the registrant, Seattle-First National Bank and United States National Bank of Oregon (incorporated by reference to Exhibit 10-Q10 to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-C11. Copy of credit agreement of July 31, 1991, among the registrant, United States National Bank of Oregon, Seattle-First National

Bank, and Security Pacific Bank Oregon (incorporated by reference to Exhibit 4-H to the registrant's Form 10-K for the fiscal year ended September 27, 1991).

- 10-C12. Copy of amendments 1, 2, and 3 to credit agreement of July 31, 1991, among the registrant, United States National Bank of Oregon, Seattle-First National Bank, and Security Pacific Bank Oregon, dated as of August 19, 1991, December 20, 1991, and March 13, 1992 (incorporated by reference to Exhibit 4-C2 to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-C13. Copy of amendment 4 to credit agreement of July 31, 1991, among the registrant, United States National Bank of Oregon, Seattle-First National Bank, and Bank of America Oregon (successor organization to Security Pacific Bank Oregon), dated as of April 20, 1993 (incorporated by reference to Exhibit 4-C3 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-C14. Copy of amendment 5 to credit agreement of July 31, 1991, and amendment to notes, among the registrant, United States National Bank of Oregon, Seattle-First National Bank, and Bank of America Oregon (successor organization to Security Pacific Bank Oregon), dated as of May 28, 1993 (incorporated by reference to Exhibit 4-C4 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-C15. Copy of promissory notes to United States National Bank of Oregon, Seattle-First National Bank, and Bank of America Oregon (successor organization to Security Pacific Bank Oregon), dated as of April 20, 1993 (incorporated by reference to Exhibit 4-C5 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-C16. Copy of note agreement dated as of September 20, 1991, and Senior Notes dated September 24, 1991, among the registrant and various purchasers (incorporated by reference to Exhibit 4-I to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-C17. Copy of 1991 note purchase agreement dated as of September 27, 1991, among the registrant, United States National Bank of Oregon, and Seattle-First National Bank (incorporated by reference to Exhibit 10-S to the registrant's Form 10-K for the fiscal year ended September 27, 1991).
- 10-C18. Copy of Promissory Note, Assignment of Rents and Leases, Deed of Trust, Financing Agreement and Security Agreement, and Environmental Indemnity Agreement dated as of September 30, 1993,

between the registrant and United of Omaha Life Insurance Company, relating to the registrant's construction of a new office building (incorporated by reference to Exhibit 4-E to the registrant's Form 10-K for the fiscal year ended October 1, 1993).

- 10-C19. Interest rate and currency exchange agreement dated as of April 22, 1993, between the registrant and Bank of America National Trust and Savings Association.
- 10-D1. Typical forms executed in connection with loans to members, including directors.
- 10-D1a. Installment note (Stevens-Ness form 217), with optional interest rate riders (incorporated by reference to Exhibit 10-D1a to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1b. Promissory note (Stevens-Ness form 216), with optional interest rate riders (incorporated by reference to Exhibit 10-D16 to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1c. Subsequent note (three forms) (incorporated by reference to Exhibit 10-D1c to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1d. Loan agreement (two forms) (incorporated by reference to Exhibit 10-D1d to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1e. Loan agreement for subsequent notes (incorporated by reference to Exhibit 10-D1e to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1f. Amendment to loan and security agreements, including optional clauses (incorporated by reference to Exhibit 10-D1f to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1g. Security agreement (Stevens-Ness form 1201) (incorporated by reference to Exhibit 10-D1g to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1h. Purchase money security agreement (Stevens-Ness form 1202) (incorporated by reference to Exhibit 10-D1h to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1i. Security agreement for equipment (Stevens-Ness form 1203) (incorporated by reference to Exhibit 10-D1i to the registrant's Form 10-K for the fiscal year ended October 2, 1992).

- 10-D1j. Inventory loan and security agreement (Stevens-Ness form 1206) (incorporated by reference to Exhibit 10-D1j to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1k. Security agreement (equipment and inventory) (incorporated by reference to Exhibit 10-D1k to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D1l. Security agreement for subsequent notes (incorporated by reference to Exhibit 10-D1l to the registrant's Form 10-K for the fiscal year ended October 2, 1992).

Pursuant to Instruction 2 to Item 601 of Regulation S-K, the registrant has filed the forms listed above in lieu of filing each document executed in connection with loans to directors. A schedule showing the principal amount and interest rate of each director loan at November 26, 1993, appears in Item 13.C of the registrant's Form 10-K for the fiscal year ended October 1, 1993. The registrant agrees to furnish a copy of any omitted loan document to the Securities and Exchange Commission upon request.

- 10-D2a. Typical form of residual stock redemption note executed in connection with redemption of common stock from members, including directors (incorporated by reference to Exhibit 10-D2 to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
- 10-D2b. Schedule listing material details of residual stock redemption notes payable to directors and nominees.

Pursuant to Instruction 2 to Item 601 of Regulation S-K, the registrant has filed the form and schedule listed above in lieu of filing each document executed in transactions with directors. The registrant agrees to furnish a copy of any omitted document to the Securities and Exchange Commission upon request.

- 10-E1. Copy of sublease agreement for Salem store dated August 28, 1986, between the registrant and Arnold L. Atkins, a director of the registrant (incorporated by reference to Exhibit 10-F6 to the registrant's Form 10-K for the fiscal year ended September 28, 1990).
- 10-E2. Copy of option and loan modification agreement dated November 30, 1992, between the registrant and Lindar Limited, an affiliate of Arnold L. Atkins, a director of the registrant (incorporated by reference to Exhibit 10-F2 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).

- 10-F1. Copy of sublease agreement for Sandy store dated March 8, 1990, between the registrant and Sandy Thriftway, Inc., an affiliate of Pamela Garcia, a nominee for director of the registrant (incorporated by reference to Exhibit 10-H1 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-F2. Copy of sublease agreement for Murrayhill store dated October 30, 1989, between the registrant and Murrayhill Thriftway, Inc., an affiliate of Pamela Garcia, a nominee for director of the registrant (incorporated by reference to Exhibit 10-H2 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).
- 10-G. Copy of sublease agreement for Crescent City store dated April 26, 1966, and related documents, between the registrant and Kenneth Martin, a nominee for director of the registrant, for store sublease that has expired but is being continued on a month-to-month basis (incorporated by reference to Exhibit 10-M to the registrant's Form 10-K for fiscal year ended October 1, 1993).
- 10-H. Copy of sublease agreement for Sisters store dated June 27, 1978, between the registrant and Arthur L. Thenell, a director of the registrant (incorporated by reference to Exhibit 10-M1 to the registrant's Form 10-K for the fiscal year ended September 30, 1989).
12. Statement of computation of ratio of adjusted income to fixed charges (incorporated by reference to Exhibit 12 to the registrant's Form 10-K for the fiscal year ended October 2, 1992).
13. Portions of annual report to security holders incorporated by reference in the prospectus forming a part of this registration statement.
- 23-A. Consent of Miller, Nash, Wiener, Hager & Carlsen (filed as part of Exhibit 5).
- 23-B. Consent of DeLap, White & Raish.
24. Power of attorney (previously filed as part of this registration statement).
28. Copy of schedule P of the annual statement for United Employers Insurance Company, a subsidiary of the registrant, as filed with the state insurance departments where the company operates, for the year ended December 31, 1992 (incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the fiscal year ended October 1, 1993).

ISDA

International Swap Dealers Association, Inc.

INTEREST RATE

AND

CURRENCY EXCHANGE AGREEMENT

Dated as of April 22, 1993

UNITED GROCERS, INC. and  
ASSOCIATION

BANK OF AMERICA NATIONAL  
TRUST AND SAVINGS

have entered and/or anticipate entering into one or more transactions (each a "Swap Transaction"). The parties agree that each Swap Transaction will be governed by the terms and conditions set forth in this document (which includes the schedule (the "Schedule")) and in the documents (each a "Confirmation") exchanged between the parties confirming such Swap Transactions. Each Confirmation constitutes a supplement to and forms part of this document and will be read and construed as one with this document. so that this document and all the Confirmations constitute a single agreement between the parties (collectively referred to as this "Agreement"). The parties acknowledge that all Swap Transactions are entered into in reliance on the fact that this document and all Confirmations will form a single agreement between the parties, it being understood that the parties would not otherwise enter into any Swap Transactions.

Accordingly, the parties agree as follows:

1. Interpretation

(a) Definitions. The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Agreement.

(b) Inconsistency. In the event of any inconsistency between the provisions of any Confirmation and this document, such Confirmation will prevail for the purpose of the relevant Swap Transaction.

2. Payments

(a) Obligations and Conditions.

(i) Each party will make each payment specified in each Confirmation as being payable by it.

(ii) Payments under this Agreement will be made not later than the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency.

(iii) Each obligation of each party to pay any amount due under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing and (2) each other applicable condition precedent specified in this Agreement.

(b) Change of Account. Either party may change its account by giving notice to the other party at least five days prior to the due date for payment for which such change applies.

(c) Netting. If on any date amounts would otherwise be payable:

(i) in the same currency; and

(ii) in respect of the same Swap Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

If the parties specify "Net Payments - Corresponding Payment Dates" in a Confirmation or otherwise in this Agreement, sub-paragraph (ii) above will cease to apply to all Swap Transactions with effect from the date so specified (so that a net amount will be determined in respect of all amounts due on the same date in the same currency, regardless of whether such amounts are payable in respect of the same Swap Transaction); provided that, in such case, this Section 2(c) will apply separately to each Office through which a party makes and receives payments as set forth in Section 10.

(d) Deduction or Withholding for Tax.

(i) Gross-Up. All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any



applicable law, as modified by the practice of any relevant governmental revenue authority then in effect. If a party is so required to deduct or withhold, then that party ("X") will:

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or, receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for a Change in Tax Law.

(ii) Liability. If:

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4):

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly, against X.

then, except to the extent Y has satisfied or then satisfies

the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i) or (d)).

(e) Default Interest. A party that defaults in the payment of any amount due will, to the extent permitted by law, be required to pay interest (before as well as after judgment) on such amount to the other party on demand in the same currency as the overdue amount. for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

### 3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Swap Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:

(a) Basic Representations.

(i) Status. It is duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation and, if relevant under such laws, in good standing;

(ii) Powers. It has the power to execute and deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorize such execution, delivery and performance;

(iii) No Violation or Conflict. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) Consents. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) Obligations Binding. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar

laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) Absence of Certain Events. No Event of Default or Potential Event of Default or to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) Absence of Litigation. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that purports to draw into question, or is likely to affect, the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) Accuracy of Specified Information. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in paragraph 2 of Part 3 of the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) Payer Tax Representation. Each representation specified in Part 2 of the Schedule as being made by it for the purpose of this Section 3(c) is accurate and true.

(f) Payee Tax Representations. Each representation specified in Part 2 of the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

#### 4. Agreements

Each party agrees with the other that, so long as it has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:

(a) Furnish Specified Information. It will deliver to the other party:

(i) any forms, documents or certificates relating to taxation specified in Part 3 of the Schedule or any Confirmation, and

(ii) any other documents specified in Part 3 of the Schedule or any Confirmation.

by the date specified in Part 3 of the Schedule or such Confirmation or, if none is specified, as soon as practicable.

(b) Maintain Authorizations. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) Comply with Laws. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) Tax Agreement. It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) Payment of Stamp Tax. It will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated, organized, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

## 5. Events of Default and Termination Events

(a) Events of Default. The occurrence at any time with respect to a party or, if applicable, any Specified Entity of such party, of

any of the following events constitutes an event of default (an "Event of Default") with respect to such party:

(i) Failure to Pay. Failure by the party to pay, when due, any amount required to be paid by it under this Agreement if such failure is not remedied on or before the third Business Day after notice of such failure to pay is given to the party;

(ii) Breach of Agreement. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to pay any amount required to be paid by it under this Agreement or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) Credit Support Default.

(1) Failure by the party or any applicable Specified Entity to comply with or perform any agreement or obligation to be complied with or performed by the party or such Specified Entity in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document, or the ceasing of such Credit Support Document to be in full force and effect, prior to the final Scheduled Payment Date of each Swap Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Specified Entity repudiates, or challenges the validity of, such Credit Support Document;

(iv) Misrepresentation. A representation (other than a representation under Section 3(c) or (f)) made or repeated or deemed to have been made or repeated by the party or any applicable Specified Entity in this Agreement or any Credit Support Document relating to this Agreement proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) Default under Specified Swaps. The occurrence of an event of default in respect of the party, or any applicable Specified Entity under a Specified Swap which, following the giving of any applicable notice or the lapse of any applicable grace Period, has resulted in the designation or occurrence of an early termination date in respect of such Specified Swap;

(vi) Cross Default. If "Cross Default" is specified in Part I of the Schedule as applying to the party, (1) the occurrence or existence of an event or condition in respect of such party or any applicable Specified Entity under one or more agreements or instruments relating to Specified Indebtedness of such party or any such Specified Entity in an aggregate amount of not less than the Threshold Amount (as specified in Part I of this Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) the failure by such party or any such Specified Entity to make one or more payments at maturity in an aggregate amount of not less than the Threshold Amount under such agreements or instruments (after giving effect to any applicable grace period):

(vii) Bankruptcy. The party or any applicable Specified Entity:

(1) is dissolved; (2) becomes insolvent or fails or is unable or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for the winding-up or liquidation of the party or any such Specified Entity, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the winding-up or liquidation of the party or such Specified Entity or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up or liquidation; (6) seeks or becomes subject to the appointment of an administrator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets (regardless of how brief such appointment may be, or whether any obligations are promptly assumed by another entity or whether any other event described in this clause (6) has occurred and is continuing); (7) any event occurs with respect to the party or any such Specified Entity which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (6) (inclusive); or (8) takes any action

in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts;

other than in the case of clause (1) or (5) or, to the extent it relates to those clauses, clause (8), for the purpose of a consolidation, amalgamation or merger which would not constitute an event described in (viii) below; or

(viii) Merger Without Assumption. The party consolidates or amalgamates with, or merges into, or transfers all or substantially all its assets to another entity and, at the time of such consolidation, amalgamation, merger or transfer:

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party under this Agreement by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement:  
or

(2) the benefits of any Credit Support Document relating to this Agreement fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) Termination Events. The occurrence at any time with respect to a party or, if applicable, any Specified Entity of such party of any event specified below constitutes an illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below, a Tax Event Upon Merger if the event is specified in (iii) below or a Credit Event Upon Merger if the event is specified in (iv) below:

(i) Illegality. Due to the adoption of, or any change in, any applicable law after the date on which such Swap Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):

(1) to perform any absolute or contingent obligation to make a payment or to receive a payment in respect of such Swap Transaction or to comply with any other material provision of this Agreement relating to such Swap Transaction; or

(2) to perform, or for any applicable Specified Entity to perform, any contingent or other obligation which the party (or such Specified Entity) has under any Credit Support Document relating to such Swap Transaction;

(ii) Tax Event.

(1) The party (which will be the Affected Party) will be required on the next succeeding Scheduled Payment Date to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e)) as a result of a Change in Tax Law; or

(2) there is a substantial likelihood that the party (which will be the Affected Party) will be required on the next succeeding Scheduled Payment Date to pay to the other party an additional amount in respect of an indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e)) and such substantial likelihood results from an action taken by a taxing authority or brought in a court of competent jurisdiction, on or after the date on which such



Swap Transaction was entered into (regardless of whether such action was taken or brought with respect to a party to this Agreement).

(iii) Tax Event Upon Merger. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount, in either case as a result of a party consolidating or amalgamating with, or merging into, or transferring all or substantially all its assets to another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii); or

(iv) Credit Event Upon Merger. If "Credit Event Upon Merger" is specified in Part I of the Schedule as applying to the party, such party ("X") consolidates or amalgamates with, or merges into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting surviving or transferee entity (which will be the Affected Party) is materially weaker than that of X immediately prior to such action.

(c) Event of Default and Illegality. If an event or circumstance which would otherwise constitute or give rise to an Event of

Default also constitutes an illegality, it will be treated as an Illegality and will not constitute an Event of Default.

## 6. Early Termination

(a) Right to Terminate Following Event of Default. If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Swap Transactions. However, an Early Termination Date will be deemed to have occurred in respect of all Swap Transactions immediately upon the occurrence of any Event of Default specified in Section 5(a)(vii)(1), (2), (3), (5), (6), (7) or (8) and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence of any Event of Default specified in Section 5(a)(vii)(4).

(b) Right to Terminate Following Termination Event.

(i) Notice. Upon the occurrence of a Termination Event, an



Affected Party will promptly upon becoming aware of the same, notify the other party thereof, specifying the nature of such Termination Event and the Affected Transactions relating thereto. The Affected Party will also give such other information to the other party with regard to such Termination Event as the other party may reasonably require.

(ii) Transfer to Avoid Termination Event. If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will as a condition to its right to designate an Early Termination Date under Section 6(b)(iv) use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its offices, branches or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i). Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent

of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into swap transactions with the transferee on the terms proposed.

(iii) Two Affected Parties. If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action that would cause such Termination Event to cease to exist.

(iv) Right to Terminate. If:

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2) or a Credit Event Upon Merger occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party.

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event, or the party which is not the Affected Party in the case of a Credit Event Upon Merger, may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) Effect of Designation.

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is continuing on the relevant Early Termination Date.

(ii) Upon the effectiveness of notice designating an Early Termination Date (or the deemed occurrence of an Early Termination Date), the obligations of the parties to make any further payments under Section 2(a) (i) in respect of the Terminated Transactions will terminate, but without prejudice to the other provisions of this Agreement.

(d) Calculations.

(i) Statement. Following the occurrence of an Early Termination Date, each party will make the calculations (including calculation of applicable interest rates) on its part contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations) and (2) giving details of the relevant account to which any payment due to it under Section 6(c) is to be made. In the absence of written confirmation of a quotation obtained in determining a Market Quotation from the source providing such quotation, the records of the "party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) Due Date. The amount calculated as being payable under Section 6(c) will be due on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or deemed to occur as a result of an Event of Default) and not later than the day which is two Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon in the Termination Currency from (and including) the relevant Early Termination Date to (but excluding) the relevant due date, calculated as follows:

(1) if notice is given designating an Early Termination Date or if an Early Termination Date is deemed to occur, in either case as a result of an Event of Default, at the Default Rate; or

(2) if notice is given designating an Early Termination Date as a result of a Termination Event, at the Default Rate minus 1% per annum.

Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) Payments on Early Termination.

(i) Defaulting Party or One Affected Party. If notice is given designating an Early Termination Date or if an Early Termination Date is deemed to occur and there is a Defaulting Party or only one Affected Party, the other party will determine the Settlement Amount in respect of the Terminated Transactions and:

(1) if there is a Defaulting Party, the Defaulting Party will pay to the other party the excess, if a positive number, of (A) the sum of such Settlement Amount and the Termination Currency Equivalent of the Unpaid Amounts

owing to the other party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party; and

(2) if there is an Affected Party, the payment to be made will be equal to (A) the sum of such Settlement Amount and the Termination Currency Equivalent of the Unpaid Amounts owing to the party determining the Settlement Amount ("X") less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the party not determining the Settlement Amount Y").

(ii) Two Affected Parties. If notice is given of an Early Termination Date and there are two Affected Parties, each party will determine a Settlement Amount in respect of the Terminated Transactions and the payment to be made will be equal to (1) the sum of (A) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (B) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (2) the Termination Currency Equivalent of the Unpaid Amounts owing to Y.

(iii) Party Owing. If the amount calculated under Section 6(e)(i)(2) or (ii) is a positive number, Y will pay such amount to X; if such amount is a negative number, X will pay the

absolute value of such amount to Y.

(iv) Adjustment for Bankruptcy. In circumstances where an Early Termination Date is deemed to occur, the amount determined under Section 6(e)(i) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(v) Pre-Estimate of Loss. The parties agree that the amounts recoverable under this Section 6(e) are a reasonable preestimate of loss and not a penalty. Such amounts are payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

#### 7. Transfer

Subject to Section 6(b) and to any exception provided in the Schedule, neither this Agreement nor any interest or obligation in or under this Agreement may be transferred by either party without the prior written consent of the other party (other than pursuant

to a consolidation or amalgamation with, or merger into, or transfer of all or substantially all its assets to, another entity) and any purported transfer without such consent will be void.

#### 8. Contractual Currency

(a) Payment in the Contractual Currency. Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts due in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency due in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency due in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) Judgments. To the extent permitted by applicable law, if any

judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above. the party seeking recovery, after recovery in full of the additional amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange

payable in connection with the purchase of or conversion into the Contractual Currency.

(c) Separate Indemnities. To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums due in respect of this Agreement.

(d) Evidence of Loss. For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

## 9. Miscellaneous

(a) Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) Amendments. No amendment, modification or waiver in respect of this Agreement will be effective unless in writing and executed by each of the parties or confirmed by an exchange of telexes.

(c) Survival of Obligations. Except as provided in Section 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Swap Transaction.

(d) Remedies Cumulative. Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies, and privileges provided by law.

(e) Counterparts and Confirmations.

(i) This Agreement may be executed in counterparts. each of which will be deemed an original.

(ii) A Confirmation may be executed in counterparts or be created by an exchange of telexes, which in either case will be sufficient for all purposes to evidence a binding supplement to this Agreement. Any such counterpart or telex will specify that it constitutes a Confirmation.

(f) No Waiver of Rights. A failure, or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude

any subsequent or further exercise of that right, power or privilege or the exercise of any other right, power or privilege.

(g) Headings. The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

#### 10. Multibranch Parties

If a party is specified as a Multibranch Party in Part 4 of the Schedule, such Multibranch Party may make and receive payments under any Swap Transaction through any of its branches or offices listed in the Schedule (each an "Office"). The Office through which it so makes and receives payments for the purpose of any Swap Transaction will be specified in the relevant Confirmation and any change of Office for such purpose requires the prior written consent of the other party. Each Multibranch Party represents to the other party that, notwithstanding the place of payment, the obligations of each Office are for all purposes under this Agreement the obligations of such Multibranch Party. This representation will be deemed to be repeated by such Multibranch Party on each date on which a Swap Transaction is entered into.

#### 11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or by reason of the early termination of any Swap Transaction, including, but not

limited to, costs of collection.

## 12. Notices

(a) Effectiveness. Any notice or communication in respect of this Agreement will be sufficiently given to a party if in writing and delivered in person, sent by certified or registered mail (airmail, if overseas) or the equivalent (with return receipt requested) or by overnight courier or riven by telex (with answer back received) at the address or telex number specified in Part 4 of the Schedule. A notice or communication will be effective:

(i) if delivered by hand or sent by overnight courier on the day it is delivered (or if that day is not a day on which commercial banks are open for business in the city specified in the address for notice provided by the recipient (a "Local Banking Day"), or if delivered after the close of business on a Local Banking Day, on the first following day that is a Local Banking Day);

(ii) if sent by telex, on the day the recipient's answer back is received (or if that day is not a Local Banking Day, or if after the close of business on a Local Banking Day, on the first following day that is a Local Banking Day; or

(iii) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), three Local Banking Days after despatch if the recipient's address for notice is in the same country as the place of despatch and otherwise seven Local Banking Days after despatch.

(b) Change of addresses. Either party may by notice to the other change the address or telex number at which notices or communications are to be given to it.

## 13. Governing Law and Jurisdiction

(a) Governing Law. This Agreement will be governed by and construed in accordance with the law specified in Part 4 of the Schedule.

(b) Jurisdiction. With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the



laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by, English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) Service of Process. Each party irrevocably appoints the Process Agent (if any) specified opposite its name in Part 4 of the Schedule to receive, for it and on its behalf, service of process

in any Proceedings. If for any reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) Waiver of Immunities. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

#### 14. Definitions

As used in this Agreement:-

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Swap Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Swap Transactions.

"Affiliate" means, subject to Part 4 of the Schedule, in relation to any



person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Burdened Party" has the meaning specified in Section 5(b).

"Business Day" means (a) in relation to any payment due under Section 2(a)(i), a day on which commercial banks and foreign exchange markets are open for business in the place(s) specified in the relevant Confirmation and (b) in relation to any other payment, a day on which commercial banks and foreign exchange markets are open for business in the place where the relevant account is located and, if different, in the principal financial centre of the currency of such payment.

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Swap Transaction is entered into.

"consent" includes a consent, approval, action, authorization, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument which is specified as such in this Agreement.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date specified as such in a notice given under Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a).

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organized, present or engaged in a trade or business in such jurisdiction,

or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and "lawful" and "unlawful" will be construed accordingly.

"Loss" means, with respect to a Terminated Transaction and a party, an amount equal to the total amount (expressed as a positive amount) required, as determined as of the relevant Early

Termination Date (or, if an Early Termination Date is deemed to occur, as of a time as soon thereafter as practicable) by the party in good faith, to compensate it for any losses and costs (including loss of bargain and costs of funding but excluding legal fees and other out-of-pocket expenses) that it may incur as a result of the early termination of the obligations of the parties in respect of such Terminated Transaction. If a party determines that it would gain or benefit from such early termination, such party's Loss will be an amount (expressed as a negative amount) equal to the amount of the gain or benefit as determined by such party.

"Market Quotation" means, with respect to a Terminated Transaction and a party to such Terminated Transaction making the determination, an amount (which may be negative) determined on the basis of quotations from Reference Market-makers for the amount that would be or would have been payable on the relevant Early Termination Date, either by the party to the Terminated Transaction making the determination (to be expressed as a positive amount) or to such party (to be expressed as a negative amount), in consideration of an agreement between such party and the quoting Reference Market-maker and subject to such documentation as they may in good faith agree, with the relevant Early Termination Date as the date of commencement of such agreement (or, if later, the date specified as the effective date of such Terminated Transaction in the relevant Confirmation), that would have the effect of preserving for such party the economic equivalent of the payment obligations of the parties under Section 2(a)(i) in respect of such Terminated Transaction that would, but for the occurrence of the relevant Early Termination Date, fall due after such Early Termination Date (excluding any Unpaid Amounts in respect of such Terminated Transaction but including, without limitation, any amounts that would, but for the occurrence of the relevant Early Termination Date, have been payable (assuming each applicable condition precedent had been satisfied) after such Early Termination Date by reference to any period in which such Early Termination Date occurs). The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent practicable as of the same time (without regard to different time zones) on the relevant Early Termination Date (or, if an Early Termination Date is deemed to occur, as of a time as soon thereafter as practicable). The time as of which such quotations are to be obtained will, if only one party is obliged to make a determination

under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties. If more than three such quotations are provided, the Market Quotation will be the arithmetic mean of the Termination Currency Equivalent of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the quotations having the highest and lowest values.

If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction cannot be determined.

"Office" has the meaning specified in Section 10.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant swap market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organized, managed and controlled or considered to have its seat, (b) where a branch or office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment is due under Section 2(a) (i) with respect to a Swap Transaction.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:-

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction for which a Market Quotation is determined; and

(b) for each Terminated Transaction for which a Market Quotation is not, or cannot be, determined, the Termination Currency Equivalent of such party's Loss (whether positive or negative);

provided that if the parties agree that an amount may be payable under Section 6(e) to a Defaulting Party by the other party, no account shall be taken of a Settlement Amount expressed as a negative number.

"Specified Entity" has the meaning specified in Part 1 of the Schedule.

"Specified Indebtedness" means, subject to Part 1 of the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Swap" means, subject to Part 1 of the Schedule, any rate swap or currency exchange transaction now existing or hereafter entered into between one party to this Agreement (or any applicable Specified Entity) and the other party to this Agreement (or any applicable Specified Entity).

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means (a) with respect to any Early Termination Date occurring as a result of a Termination Event, all Affected Transactions and (b) with respect to any Early Termination Date occurring as a result of an Event of Default, all Swap Transactions, which in either case are in effect as of the time immediately preceding the effectiveness of the notice designating such Early Termination Date (or, in the case of an Event of Default specified in Section 5(a)(vii), in effect as of the time immediately preceding such Early Termination Date).

"Termination Currency" has the meaning specified in Part 1 of the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value the relevant Early Termination Date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.



SCHEDULE  
to the  
Interest Rate and Currency Exchange Agreement

dated as of April 22, 1993

between United Grocers, Inc. ("Party A" and Bank of America  
National Trust and Savings Association ("Party B"))

Note: Italicized words (other than headings) in this  
Schedule indicate variations made by Party B to the form of  
Schedule attached to the Interest Rate and Currency Exchange  
Agreement published by the International Swap Dealers Association.

Part 1  
Termination Provisions

In this Agreement:

(1) "Specified Entity" means in relation to Party A for the  
purpose of:

Section 5 (a) (iii) and (iv) and 5(b) (i): Not Applicable

Section 5(a) (v): Not Applicable

Section 5(a) (vi): Not Applicable

Section 5(a) (vii): Not Applicable

"Specified Entity" means in relation to Party B for the purpose  
of:

Section 5 (a) (iii) and (iv) and 5(b) (i): Not Applicable

Section 5(a) (v): Not Applicable

Section 5(a) (vi): Not Applicable

Section 5(a) (vii): Not Applicable

(2) "Specified Swap" will have the meaning specified in  
Section 14 and will also include any of the following  
additional transactions: forward rate agreements, rate "cap"  
agreements, rate "floor" agreements, rate "collar" agreements  
and other similar interest rate protection agreements however  
entitled

(3) The "Cross Default" provisions of Section 5(a) (vi):

will apply to Party A  
will not apply to Party B

If such provisions apply:

"Specified Indebtedness" will have the meaning specified in Section 14.

"Shareholders' Equity" means with respect to an entity, at any time, the sum at such time of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be determine in accordance with generally accepted accounting principles.

"Threshold Amount" means, as to Party A only, three percent (3%) of Shareholders' Equity.

(4) "Termination Currency" means United States Dollars ("US\$").

(5) The "Credit Event Upon Merger" provisions of Section 5(b)(iv):

will apply to Party A  
will apply to Party B

Part 2  
Tax Representations

Not Applicable

Part 3  
Documents to be delivered

For the purpose of Section 4(a):

(1) Tax forms, documents or certificates to be delivered are:

(a) By Party A:

Form/Document/Certificate	Date by which to be delivered
Any document allowing Party B to make payments under this Agreement without withholding or deduction on account of any Tax or with such withholding or deduction at a reduced rate.	

Within ten (10) days of learning that such

documentation is needed.

(b) By Party B:

Form/Document/Certificate	Date by which to be delivered	
---------------------------	-------------------------------	--

Any document allowing Party A to make payments under this Agreement without withholding or deduction on account of any Tax or with such withholding or deduction at a reduced rate.

Within ten (10) days of learning that such documentation is needed.

(2) Other documents to be delivered are:

(a) By Party A:

Form/Document/Certificate (See Exhibit 1)	Date by which to be delivered	Covered by Section 3(d) Representation
Corporate Resolution	Upon executing Agreement	Yes
Specimen Signature Certificate	Upon executing Agreement	Yes

(b) By Party B:

Form/Document/Certificate (See Exhibit 1)	Date by which to be delivered	Covered by Section 3(d) Representation
Corporate Resolution	Upon executing Agreement	Yes
Specimen Signature Certificate	Upon executing Agreement	Yes

Part 4  
Miscellaneous

(1) Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York without reference to choice of law doctrine.

(2) Process Agent. For the purpose of Section 13(c):



Party A appoints as its Process Agent: Not Applicable

Party B appoints as its Process Agent: Not Applicable

(3) "Affiliate" will have the meaning specified in Section 14.

(4) Multibranch Party. For the purpose of Section 10:

Party A is not a Multibranch Party and will act only through its Portland, Oregon Office.

Party B is a Multibranch Party and may act through the following Offices:

Its London Branch at  
Office at  
Bank of America House  
1 Ahe Street  
94104  
London E1 8DE  
England

Its San Francisco Head  
555 California Street  
San Francisco, California

Its Frankfurt Branch at  
Mainzer Landstrasse 46  
Floor  
P. O. Box 11 0243  
Minato-ku  
D-6000 Frankfurt am Main - I  
West Germany

Its Tokyo Branch at  
ARK Mori Building, 34th  
12-32 Akasaka, 1-chome,  
Tokyo 107  
Japan

Its Zunch Branch at  
Claridenstrasse 45  
P. O. Box 8022 Zurich  
Switzerland

Its Grand Cayman Branch at  
Anchorage Center  
Harbour Drive  
P.O. Box 1078  
Grand Cayman  
B.W.I.

Its Antwerp Branch at  
Van Eycklei 34  
B-2018Antwerp  
Belgium

Its Hong Kong Branch at  
Bank of America Tower  
23rd Floor  
12 Harcourt Road  
G.P.O. Box 472  
Hong Kong

Its Dublin Branch at  
Russell Court  
Armee  
St. Stephen's Green  
Cedex 16,  
Dublit4 2  
Republic of Ireland

Its Paris Branch at  
43/47 Avenue de la Grand  
F-75782 Paris,  
France

Its Amsterdam Branch at

Its Milan Branch at

Herengracht 469  
101 7 BS Amsterdam  
1000 BP Amsterdam  
Netherlands

Corso Matteotti 10  
20121 Milano  
Italy

(5) Addresses for Notices. For the purpose of Section 12(a):

Address for notices or communications to Party A:

Address: United Grocers, Inc.  
6433 SE Lake Road  
Portland, OR 97222-2198

Attention: John W. White, Vice President & Chief Financial  
Officer

Facsimile: (503) 652-7378

(For all purposes)

Addresses for notices or communications to Party B:

Address: Bank of America National Trust and Savings  
Association  
555 California Street  
San Francisco, California 94104, U.S.A

Attention: Interest Rate Swap Administrator (Unit No.: 3269)

Telex No.: 249839

Answerback: OPRST UR Facsimile: (415) 622-3548

(6) Credit Support Document. Details of any Credit Support  
Document: None.

(7) Netting of Payments. Netting will apply as to and within  
each individual Swap Transaction hereunder; however, for the  
purposes of Section 2(c) of the Agreement, Net  
Payments-Corresponding Payment Dates shall not apply.

Part 5  
Other Provisions

(1) Section 11 is revised by inserting after the word "against"  
in the first line the words "all allocated costs of in-house  
counsel and" and by inserting after the word "Agreement" in the  
third line the following.

"(including, without limitation, any such costs and  
expenses incurred in connection with a work-out or

otherwise, as a result of the occurrence of an Event of Default whether or not an Early Termination Date has occurred or been deemed to have occurred)".

(2) Party B shall be the Calculation Agent for all Swap Transactions under this Agreement.

(3) This Schedule shall include paragraphs (1), (2) and (3) of the ISDA May 1989 Addendum for Caps, Floors and Collars (attached hereto as Addendum A) and paragraphs (1), (2), (3) and (4) of the ISDA July 1990 Addendum for Options (attached hereto as Addendum B) as if said paragraphs were set forth in their entirety herein below.

(4) Full Two-Way Payments. For purposes of calculating payments due in respect of an Early Termination Date (including any payments under Section 6(d) and an Unpaid Amounts), any event or condition constituting an Event of Default under this Agreement shall be treated as if it were a Termination Event with the Defaulting Party as the Affected Party, (and for such Purposes the provision of the definition of "Settlement Amount" shall be deemed of no force and effect).

(5) Setoff on Early Termination. If a party has an obligation to pay any amount pursuant to Section 6(e) in connection with a Termination Event or an event treated hereunder as a Termination Event, it shall be entitled to set off that amount to the extent possible against any amount payable to it by the other party pursuant to this or any other agreement between the parties, and each party hereby expressly authorizes the other to exercise that right of setoff, to the extent permitted by applicable law, without prior notice or other action

UNITED GROCERS, INC.

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION

By John W. White  
Name: John W. White  
Title Vice President

By George Handjinicolaou  
Name: George Handjinicolaou  
Title Senior Vice President

Exhibit 1

For the purpose of Section 4 of the Agreement relating to documents (other than tax forms) to be delivered by a party, the following terms shall have the following meanings:-

"Corporate Resolution" means a copy of a resolution adopted by the Board of Directors of such party, certified by the Secretary or an Assistant Secretary, authorizing the execution and delivery of this Agreement and any Confirmation thereunder and the performance of its obligations under the Agreement and such Confirmations.

"Specimen Signature Certificate" means a certificate of the Secretary or an Assistant Secretary of such party certifying the name and true signature of each officer of such party authorized to sign the Agreement and any Confirmation thereunder.

#### ADDENDUM A

International Swap Dealers Association, Inc.

May 1989 Addendum to Schedule to  
Interest Rate and Currency Exchange Agreement

Interest Rate Caps, Collars and Floors

(1) As used in this Agreement or in a Confirmation, (i) "Rate Protection Transaction" will mean any Swap Transaction that is identified in the related Confirmation as a Rate Protection Transaction, Rate Cap Transaction, Rate Floor Transaction or Rate Collar Transaction and (ii) "Specified Swap" means, notwithstanding Section 14 of this Agreement but subject to Part 1 of this Schedule, any rate swap, rate cap, rate floor, rate collar, currency exchange transaction, forward rate agreement, or other exchange or rate protection transaction, or any combination of such transactions or agreements or any option with respect to any such transaction now existing or hereafter entered into between one party to this Agreement (or any applicable Specified Entity) and the other party to this Agreement (or any applicable Specified Entity).

(2) Notwithstanding anything to the contrary in this Agreement or in any Interest Rate and Currency Exchange Definitions published by the International Swap Dealers Association, Inc. and incorporated in any Confirmation, the following provisions will apply with respect to a Rate Protection Transaction:

(a) the Floating Rate applicable to any Calculation Period will be (i) with respect to a

Floating Rate Payer for which a Cap Rate is specified, the excess, if any, of the Floating Rate calculated as provided in this Agreement (without reference to this paragraph 2(a)) over the Cap Rate and (ii) with respect to a Floating Rate Payer for which a Floor Rate is specified, the excess, if any, of the Floor Rate over the Floating Rate calculated as provided in this Agreement (without reference to this paragraph 2(a));

(b) "Cap Rate" means, in respect of any Calculation Period, the per annum rate specified as such for that Calculation Period; and

(c) "Floor Rate" means, in respect of any Calculation Period, the per annum rate specified as such for that Calculation Period.

(3) For purposes of the determination of a Market Quotation for a Terminated Transaction in respect of which a party ("X") had, immediately prior to the designation or occurrence of the relevant Early Termination Date, no future payment obligations, whether absolute or contingent, under Section 2(a)(i) of this Agreement with respect to the Terminated Transaction, (i) the quotations obtained from Reference Market-makers shall be such as to preserve the economic equivalent of the payment obligations of the party ("Y") that had, immediately prior to the designation or occurrence of the relevant Early Termination Date, future payment obligations, whether absolute or contingent, under Section 2(a)(i) of this Agreement with respect to the Terminated Transaction and (ii) if X is making the determination such amounts shall be expressed as positive amounts and if Y is making the determination such amounts shall be expressed as negative amounts.

#### ADDENDUM B

International Swap Dealers Association, Inc.

July 1990 Addendum to Schedule to  
Interest Rate and Currency Exchange Agreement

#### Options

(1) As used in this Agreement or in any Confirmation, "Option" means any Swap Transaction that is identified in the related Confirmation as an Option and provides for the grant by Seller to Buyer of (i) the right to cause an underlying Swap Transaction, the terms of which are identified in that Confirmation (an "Underlying Swap Transaction"), to become effective, (ii) the right to cause Seller to pay Buyer pursuant to Section 2(a)(i) of this Agreement the Cash Settlement Amount, if

any, in respect of the Underlying Swap Transaction on the Cash Settlement Payment Date, (iii) the right to cause the Optional Termination Date to become the Termination Date and, if so specified in the related Confirmation, the Final Exchange Date of the related Swap Transaction that is identified in that Confirmation (a "Related Swap Transaction") or (iv) any other right or rights specified in the related Confirmation. An Option may provide for the grant of one or more of the foregoing rights, all of which can be identified in a single Confirmation.

(2) The following capitalized terms, if used in relation to an Option, have the respective meanings specified in or pursuant to the related Confirmation (or elsewhere in this Agreement): "Buyer", "Seller", "Option Premium", "Option Premium Payment Date", "Cash Settlement Payment Date", "Cash Settlement Amount", "Optional Termination Date", "Exercise Terms" and "Option Exercise Period".

(3) The following provisions will apply with respect to an Option:

(a) Buyer will pay Seller pursuant to Section 2(a)(i) of this Agreement the Option Premium, if any, on the Option Premium Payment Date or Dates.

(b) On the terms set forth in this Agreement (including, the related Confirmation), Seller grants to Buyer pursuant to the Option, (i) if "Physical Settlement" is specified to be applicable to the Option, the right to cause the Underlying Swap Transaction to become effective, (ii) if "Cash Settlement" is specified to be applicable to the Option, the right to cause Seller to pay Buyer pursuant to Section 2(a)(i) of this Agreement the Cash Settlement Amount, if any, in respect of the Underlying Swap Transaction on the Cash Settlement Payment Date or

(iii) if "Optional Termination" is specified to be applicable to the Option, the right to cause the Optional Termination Date to become the Termination Date and, if so specified in the related Confirmation, the Final Exchange Date of the Related Swap Transaction. The Underlying Swap Transaction, if any, shall not become effective unless (i) "Physical Settlement" is specified to be applicable to the Option and (ii) the right to cause that Underlying Swap Transaction to become effective has been exercised.

(c) Buyer may exercise the right or rights granted pursuant to the Option cable notice (a "Notice of Exercise") to Seller (which, notwithstanding any other

provision of this Agreement, may be delivered orally (including by telephone)). The Notice of Exercise must become effective during the Option Exercise Period and must include the Exercise Terms, if any.

(d) Buyer will, if "Written Confirmation" is specified to be applicable to the Option or upon demand from Seller (which, notwithstanding any other provision of this Agreement may be delivered orally (including by telephone)), (i) execute a written confirmation confirming the substance of the Notice of Exercise and deliver the same to Seller or (ii) issue a telex to Seller setting forth the substance of the Notice of Exercise. Buyer shall cause such executed written confirmation or telex to be received by Seller within one Local Banking Day following the date that the Notice of Exercise or Seller's demand, as the case may be, becomes effective. If not received within such time, Buyer will be deemed to have satisfied its obligations under the immediately preceding sentence at the time that such executed written confirmation or telex becomes effective.

(e) Any notice or communication given, and permitted to be given, orally (including by telephone) in connection with the Option will be effective when actually received by the recipient.

(4) For purposes of the determination of a Market Quotation for a Terminated Transaction that is identified as an Option, and quotations obtained from Reference Market-makers shall take into account, as of the relevant Early Termination Date, the economic equivalent of the right or rights granted pursuant to that Option which are or may become exercisable.

<TABLE>  
<CAPTION>

STOCK REDEMPTION NOTES PAYABLE TO  
DIRECTORS AND NOMINEES

NAME	PRINCIPAL AMOUNT AT OCTOBER 1, 1993
<S>	<C>
Craig Danielson	\$273,121.81
Gilbert A. Foster	104,819.89
Dennis Blasingame	16,422.09

</TABLE>

The interest rate on stock redemption notes is equal to the interest rate paid on capital investment notes. On October 1, 1993, the interest rate was 5.75% per annum.



UNITED GROCERS 1993 ANNUAL REPORT  
SUMMARY OF SALES AND OPERATIONS

<TABLE>  
<CAPTION>

(Dollars in Thousands)

	For Fiscal Year Ended					
	October 1, 1993	October 2, 1992		September 27, 1991		
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Products & Services						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Grocery<F1>	\$370,237	42.20	\$381,679	42.58	\$385,538	43.68
Dairy & Deli	97,425	11.11	101,868	11.36	99,359	11.25
Meat	86,115	9.82	86,115	9.60	85,011	9.63
Produce	46,462	5.30	44,672	4.98	43,820	4.96
Frozen Foods	49,078	5.60	51,787	5.78	48,862	5.53
Gen. Merchandise	42,494	4.85	44,901	5.01	41,449	4.69
Institutional<F2>	155,572	17.74	156,705	17.48	144,947	16.42
Retail Services	7,683	.88	7,477	.83	14,373	1.63
Insurance	19,545	2.23	18,441	2.05	16,325	1.85
Store Finance	2,374	.27	2,942	.33	3,194	.36
TOTAL	\$876,985	100.00	\$896,587	100.00	\$882,878	100.00

<FN>  
<F1> Grocery revenues include sales from retail stores operated on a temporary basis.  
<F2> Institutional revenues include sales of all product lines.

</TABLE>

SELECTED CONSOLIDATED FINANCIAL DATA

<TABLE>  
<CAPTION>

(Dollars in Thousands)

	For Fiscal Year Ended					
	Oct. 1, 1993	Oct. 2, 1992	Sept. 27, 1991	Sept. 28, 1990	Sept. 30, 1989	
<S>	<C>	<C>	<C>	<C>	<C>	
Net sales and operations	\$876,985	\$896,587	\$882,878	873,685	\$796,768	
Net income	1,714	2,723	1,712	1,394	1,262	
Total Assets	280,600	261,289	249,205	218,143	200,489	
Long-term obligations	105,539	104,645	98,685	82,918	72,172	

</TABLE>  
No dividends on common stock have been declared during any of the fiscal years presented.  
Sales are reported on a 52/53 week year basis. The year ending October 2, 1992 was 53 weeks, all other years are 52 weeks.  
The amounts prior to 1993 have been restated to reflect changes in accounting for inventories, income taxes and investments as described in the notes to financial statements.

ANNUAL 10-K REPORT

Stockholders may obtain a copy of the Company's 1993 Form 10-K Report filed with the Securities and Exchange Commission without charge by writing to

John White, Vice-President, United Grocers, Inc., Box 22187, Portland, OR 97222.

#### A BRIEF REVIEW

United Grocers, Inc. (United) an Oregon corporation organized in 1915, taxed as a cooperative, is a wholesale grocery distributor. It supplies groceries and related products to retail grocers located in Oregon, western Washington, and northern California. United's goal is to supply grocery products to retailers at prices which enable them to compete effectively in the retail market, and to furnish them other services, such as marketing assistance, engineering, accounting, financing, and insurance, which are important to the successful operation of a retail grocery business.

The Common Stock of United is sold only to members who must be retail grocers. Upon termination of membership, a member's shares of stock are redeemed. Sales and redemptions of stock are made at book value. United's Board of Directors consists of nine members serving staggered three-year terms, and they may not be elected to consecutive terms. Directors, all grocers, must either be proprietors or partners in a partnership owning a membership in United or the holder of a substantial interest in a corporation owning a membership in United. The management of the corporation is under the direction of a President and Chief Executive Officer who is guided by the Board of Directors.

United, operating upon a cooperative basis, usually returns most of its earnings to its members every year in the form of "patronage dividends." These payments are based on the excess of revenues over expenses on sales to members for the year. Consequently, net income of the corporation is relatively low, but not unusual for a cooperative. The patronage dividends are paid partly in cash and partly in Common Stock.

United also sells groceries and related products to restaurants, hospitals, and other institutional buyers, as well as to retailers who are not members. These sales are through 28 company-owned Cash and Carry stores located throughout its marketing area.

Grocers Insurance Group, Inc. is a holding company for United's insurance related subsidiaries. Grocers Insurance Group, Inc. assists in marketing insurance related services offered by those subsidiaries. Grocers Insurance Agency, Inc. is an insurance agency. Sales of insurance are made to members and nonmembers in fourteen states. United Employers Insurance Co., based in Oregon, and UGIC, Ltd., based in Bermuda, are both insurance companies. United Workplace Consultants, Inc. offers rehabilitation services to insurance companies. Affiliated General Agency is a Texas insurance agency.

Western Passage Express, Inc. provides freight services to United and others. Northwest Process, Inc. dba Creative Process provides printing services. United Resources, Inc. and its subsidiaries provide financing and engineering services. In addition, it is involved in retail store development activities.

United owns 22 percent of the stock of Western Family Holding Company, an Oregon-based corporation which pools the buying power of its stockholders in order to obtain lower cost, high-quality merchandise. Purchases from Western Family Holding Company, which account for about 10 percent of United's total purchases, are distributed under "Western Family," and "Cottage" labels.

In existence for 78 years, United is proud of its record growth and success. But more important, United takes special pride in the success of its retailers, who own the Corporation, depend on it as their principal

supplier, and are the ultimate source of its success.

The general public knows United's 363 member stores and 250 stockholders by the name of their advertising groups; e.g., Thriftway Stores, Sentry Markets, Select Stores, Food Warehouse, Food Connection, Holiday, or by the individual store name; e.g., Hanks, Kienow's, Meister's, Murphy's, Strohecker's, Wizer's, etc. Almost all the leading independent retailers in our marketing area are members of United.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
United Grocers, Inc.

We have audited the accompanying consolidated balance sheets of United Grocers, Inc. and subsidiaries as of October 1, 1993 and October 2, 1992, and the related consolidated statements of income, members' equity and cash flows for each of the three years in the period ended October 1, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Grocers, Inc. and subsidiaries as of October 1, 1993 and October 2, 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 1, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company changed its method of accounting for inventories in 1992-93. Also, as discussed in Note 1.e. and 7, the Company changed its method of accounting for investments and income taxes in 1991-92.

DELAP, WHITE & RAISH  
Certified Public Accountants

Portland, Oregon  
November 24, 1993

<TABLE>  
<CAPTION>

UNITED GROCERS, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED OCTOBER 1, 1993, OCTOBER 2, 1992, and SEPTEMBER 27, 1991

	1993	1992	1991
<S>	<C>	<C>	<C>
Net sales and operations	\$876,985,353	\$896,587,372	\$882,877,880

Costs and expenses:			
Cost of sales (Note 1.d.)	749,447,130	772,846,658	768,765,478
Operating expenses	88,046,293	83,656,610	75,786,118
Selling and administrative expenses	9,441,916	9,866,765	9,059,295
Depreciation and amortization	4,737,401	4,290,543	4,080,430
Interest:			
Interest expense	8,217,017	8,724,766	9,051,471
Interest income	(3,552,107)	(3,547,423)	(4,108,202)
Interest expense, net	4,664,910	5,177,343	4,943,269
Total costs and expenses	856,337,650	875,837,919	862,634,590
Net income before members' allowances, patronage dividends, income taxes and cumulative effect of change in accounting principle	20,647,703	20,749,453	20,243,290
Members' allowances	(9,356,885)	(7,435,167)	(7,116,824)
Members' patronage dividends (Note 9)	(9,000,000)	(10,211,000)	(10,427,000)
Net income before income taxes and cumulative effect of change in accounting principle	2,290,818	3,103,286	2,699,466
Provision for income taxes (Note 8)	(576,435)	(906,690)	(987,388)
Cumulative effect of change in accounting principle (Note 7)	--	526,314	--
Net income	\$ 1,714,383	\$ 2,722,910	\$ 1,712,078

</TABLE>

The accompanying notes are an integral part of this financial statement.

UNITED GROCERS, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
OCTOBER 1, 1993, and OCTOBER 2, 1992

<TABLE>  
<CAPTION>

ASSETS

	1993	1992
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 18,807,473	\$ 18,390,835
Investments (Note 1.e. and 2)	34,397,583	30,215,455
Accounts and notes receivable (Note 3)	40,514,016	41,274,624
Inventories (Note 1.d. & 4)	73,866,416	70,508,402
Other current assets	3,477,033	3,714,734
Deferred income taxes (Note 7 & 8)	2,823,829	2,981,576
Total current assets	173,886,350	167,085,626

Non-current assets:

Notes receivable (Note 3)	33,250,562	24,966,526
Investment in affiliated company (Note 1.c. & 16)	1,929,929	1,929,157
Other receivables	8,875,247	9,484,211
Other non-current assets (Note 5)	3,156,301	3,065,478
 Total non-current assets	 47,212,039	 39,445,372
 Property, plant and equipment - (net of accumulated depreciation and amortization) (Note 6)	 59,501,356	 54,757,794
 Total	 \$280,599,745	 \$261,288,792

</TABLE>

LIABILITIES AND MEMBERS' EQUITY

<TABLE>

<CAPTION>

	1993	1992
	<C>	<C>
Current liabilities:		
Notes payable - bank (Note 10)	\$ 24,730,400	\$ 14,548,920
Accounts payable	57,886,107	52,137,163
Insurance reserves	29,021,276	25,545,601
Compensation and other taxes payable	2,256,970	3,364,853
Other accrued expenses	4,143,272	3,903,469
Members' patronage and other refunds payable	7,214,927	7,739,974
Current installments on long-term liabilities (Note 11)	6,814,221	6,519,491
 Total current liabilities	 132,067,173	 113,759,471
 Long-term liabilities (Note 11)	 105,539,231	 104,645,193
 Deferred income taxes (Note 7 & 8)	 3,281,135	 3,097,674
Deferred income (Note 14)	599,804	645,138
Members' equity:		
Common stock (authorized, 10,000,000 shares at \$5.00 par value; issued and outstanding, 632,312 shares in 1993 and 651,250 shares in 1992)	3,285,755	3,464,735
Additional paid-in capital	21,006,563	20,642,128
Retained earnings	14,820,084	15,034,453
 Total members' equity	 39,112,402	 39,141,316
 Commitments and contingencies (Note 18)		
 Total	 \$280,599,745	 \$261,288,792

</TABLE>

The accompanying notes are an integral part of this financial statement.

UNITED GROCERS, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY  
YEARS ENDED OCTOBER 1, 1993, AND SEPTEMBER 27, 1991

<TABLE>

<CAPTION>

<S>	<C>	Common stock		Additional paid-in capital	Retained earnings	Total
		Number of shares	Amount			
		<C>	<C>	<C>	<C>	<C>
Balance,		611,829	\$3,431,345	\$16,330,906	\$14,120,525	\$33,882,776
09/28/90						
Stock:	Issued	103,480*	145,200	1,190,543	--	1,335,743
	Repurchased	(83,209)	(416,045)	(1,456,680)	(1,858,665)	(3,731,390)
Patronage dividend	To be issued 80,600 shares	--	403,000	3,491,592	--	3,894,592
Net income		--	--	--	1,712,078	1,712,078
Balance,		632,100	3,563,500	19,556,361	13,973,938	37,093,799
09/27/91						
Stock:	Issued	87,069*	32,345	334,723	--	367,068
	Repurchased	(67,919)	(339,595)	(1,291,015)	(1,662,395)	(3,293,005)
Patronage dividend	To be issued 41,697 shares	--	208,485	2,042,059	--	2,250,544
Net income		--	--	---	2,722,910	2,722,910
Balance,		651,250	3,464,735	20,642,128	15,034,453	39,141,316
10/02/92						
Stock:	Issued	57,448*	78,755	759,972	--	838,727
	Repurchased	(76,386)	(381,930)	(1,687,165)	(1,928,752)	(3,997,847)
Patronage dividend	To be issued 24,839 shares	--	124,195	1,291,628	--	1,415,823
Net income		--	--	--	1,714,383	1,714,383
Balance,		632,312	\$3,285,755	\$21,006,563	\$14,820,084	\$39,112,402
10/01/93						

\* Includes prior year patronage dividend to be issued.

</TABLE>

The accompanying notes are an integral part of this financial statement.

<TABLE>

<CAPTION>

## UNITED GROCERS, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED OCTOBER 1, 1993, OCTOBER 2, 1992, and SEPTEMBER 27, 1991

<u>&lt;S&gt;</u>	1993	1992	1991
<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
Cash flows from operating activities:			
Net income	\$ 1,714,383	\$ 2,722,910	\$ 1,712,078
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,737,401	4,290,543	4,080,430
Provision for doubtful accounts	2,182,551	2,108,346	1,876,769
Patronage dividends payable in common stock	1,415,823	2,250,544	3,894,592
(Gain) loss on sale of assets	(472,126)	(173,596)	82,991
Equity in earnings of affiliate	(772)	(1,170)	(1,509)
Deferred income taxes	341,209	(227,982)	(402,786)
Decrease (increase) in non-cash current assets:			
Accounts and notes receivable	2,005,201	10,019,086	(10,792,435)
Inventories	(3,358,014)	623,364	(4,578,406)
Other current assets	237,701	(564,271)	1,753,354
Increase (decrease) in non-cash current liabilities:			
Accounts payable and insurance reserves	9,224,619	(1,648,717)	984,033
Compensation and other taxes payable	(1,107,883)	122,475	881,889
Other accrued expenses	239,803	872,465	(248,698)
Members' patronage and other refunds	(525,047)	1,187,271	153,685
Decrease (increase) in other non-current assets	518,142	(1,955,120)	(1,446,385)
Net cash provided by (used in) operating activities	17,152,991	19,626,148	(2,050,398)
Cash flows from investing activities:			
Loans to members	(18,766,639)	(15,158,344)	(17,518,366)
Collections on loans to members	6,155,085	5,044,961	7,434,436
Proceeds from sale of member loans	900,373	5,805,685	5,650,126
Sale and redemption of investments	3,857,384	242,223	3,638,203
Purchase of investments	(8,039,512)	(5,079,844)	(13,370,961)
Sale of property, plant and equipment	2,936,809	3,361,255	2,408,514
Purchase of property, plant and equipment	(11,990,981)	(20,479,941)	(9,210,367)
Net cash used in investing activities	(24,947,481)	(26,264,005)	(20,968,415)
Cash flows from financing activities:			

Sale of common stock	\$ 838,727	\$ 367,068	\$ 1,335,743
Repurchase of common stock	(3,997,847)	(3,293,005)	(3,731,390)
Proceeds of long-term liabilities:			
Revolving bank lines of credit	510,100,000	519,500,000	452,350,000
Mortgages and notes	5,505,830	6,014,106	821,064
Redeemable notes and certificates	25,322,100	22,887,400	15,809,200
Repayment of long-term liabilities:			
Revolving bank lines of credit	(499,918,520)	(522,001,080)	(430,400,000)
Mortgages and notes	(10,893,362)	(5,809,105)	(2,716,889)
Redeemable notes and certificates	(18,745,800)	(13,957,700)	(10,744,000)
Net cash provided by financing activities	8,211,128	3,707,684	22,723,728
Net increase (decrease) in cash and cash equivalents	416,638	(2,930,173)	(295,085)
Cash and cash equivalents, beginning of year	18,390,835	21,321,008	21,616,093
Cash and cash equivalents, end of year	\$18,807,473	\$18,390,835	\$21,321,008

</TABLE>

The accompanying notes are an integral part of this financial statement.

#### UNITED GROCERS, INC., AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE YEARS ENDED OCTOBER 1, 1993

#### 1. Summary of significant accounting policies

##### a. Reporting year

United Grocers, Inc. and subsidiaries (the Company) reports on a fiscal year of 52 or 53 weeks which is the fiscal year of the distribution segment. The Company's fiscal closing date is the Friday nearest September 30. The fiscal year of the subsidiaries involved in the insurance segment is September 30.

##### b. Organization

As a cooperative, the Company's stock is owned by its member customers. Sales to stockholders are approximately 80% of wholesale grocery sales.

##### c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Grocers Insurance Group, Inc., Grocers Insurance Agency, Inc., UGIC, Ltd., United Employers Insurance Co., United Workplace Consultants, Inc., Western Passage Express, Inc., United Store Development Ltd., Northwest Process, Inc., UG Resources, Inc., United Resources, Inc., Affiliated General Agency, Inc., Employee Management Services, Inc., Western Security Services, Inc. and BAT Enterprises, Inc. All intercompany balances and transactions have been eliminated upon consolidation. Investment in the common stock of Western Family Holding Company is stated at cost plus the Company's share of undistributed earnings since acquisition



(see Note 16).

d. Inventories and cost of sales

Inventories are valued at the lower of cost or market. The cost of all inventories is determined under the first-in, first-out (FIFO) method. See Note 4 for change in accounting for inventories.

Cost of sales includes the cost of distribution and insurance operations. The distribution operation costs include the purchases of product, the net of allowances paid and received on purchases, less the net advertising department margins, plus the handling allowances made to members based upon the cost of servicing their accounts. The insurance operation costs include losses reported, a provision for losses incurred but not reported and premium refunds.

e. Investments

Investments are primarily in non-equity securities and as such are carried at cost. The market value of these investments at October 1, 1993 and October 2, 1992 is \$36,464,552 and \$31,441,399, respectively. The Company, effective September 28, 1991 changed its method of accounting for investments. Previously, investments were considered to be long term as the investments were in long term bonds being held until maturity. Only those bonds that were to mature within the next year were classified as current assets. Under the new method, the same investments are all classified as current assets regardless of the maturity date. The Company's reason for this change is to more appropriately match the current assets with the current liabilities. In this case, the investments should be matched with the insurance reserves which are current liabilities. The effect of this change is to increase the current assets at October 2, 1992 by \$26,684,291 with a corresponding decrease in non-current assets.

f. Property, plant and equipment

Property, plant and equipment is carried at cost and includes expenditures for new facilities and those which substantially increase the useful lives of the existing plant and equipment. The Company

capitalizes interest as a component of the cost of significant construction projects. During the years ended October 1, 1993 and October 2, 1992, interest was capitalized in the amount of \$64,929 and \$578,611, respectively out of a total interest of \$8,281,946 and \$9,303,377 which resulted in an increase in the net income of approximately \$49,000 and \$410,000. No interest was capitalized during the year ended September 27, 1991.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives are generally as follows:

<TABLE>

<CAPTION>

<S>	<C>
Buildings . . . . .	40-75 years
Building improvements . . . . .	Balance of building life
Warehouse equipment . . . . .	5-20 years
Truck equipment . . . . .	3-8 years
Office equipment. . . . .	5-10 years

</TABLE>

g. Amortization

Long-term liability loan costs, software costs, and non-competition agreements are being amortized on a straight-line basis over five to twenty years.

h. Income taxes

The Company and its subsidiaries file a consolidated federal income tax return. The Company operates and is taxed as a cooperative. Accordingly, amounts distributed as patronage dividends are not included in its taxable income but are instead taxed to the individual members receiving the patronage dividends. Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end. No valuation allowances were considered necessary to reduce deferred tax assets to the amount expected to be realized. See Note 8 for details of timing differences and Note 7 for change in accounting method.

i. Earnings per common share

The Company's policy is to distribute earnings only in the form of patronage dividends. No dividends have ever been declared on the common stock of the Company, and all earnings not distributed as patronage dividends have been retained. Earnings per common share are not shown because no earnings are available for the purpose of paying dividends on the common stock.

j. Treasury stock

The Company uses the par value method of accounting for treasury stock. Under Oregon corporation law, treasury stock must be cancelled upon redemption.

k. Statement of cash flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

l. Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year classification.

## 2. INVESTMENTS

The amortized cost and estimated market value of investments in debt securities and other investments are as follows:

<TABLE>

<CAPTION>

Name of issuer and title of each issue	Number of shares or units	Carrying amount and amortized cost of each issue	Market value of each issue
<S>	<C>	<C>	<C>
1993:			
United States Government and its agencies	16,010,000	\$16,634,109	\$17,824,552
Any state of the United			

States and its agencies	2,275,000	2,375,434	2,480,717
Political subdivision of a state of the United States and its agencies	8,320,000	8,691,136	9,076,131
Corporate bonds	6,160,000	6,218,187	6,598,802
Subtotal - debt securities		33,918,866	35,980,202
Corporate stocks	271	1,481	7,114
Real estate mortgage	--	477,236	477,236
Total		\$34,397,583	\$36,464,552

1992:

United States Government and its agencies	14,500,000	\$14,708,874	\$15,499,176
Any state of the United States and its agencies	2,015,000	2,127,450	2,189,623
Political subdivision of a state of the United States and its agencies	6,350,000	6,776,902	6,830,069
Corporate bonds	6,060,000	6,120,495	6,437,438
Subtotal - debt securities		29,733,721	30,956,306
Corporate stocks	181	1,483	4,842
Real estate mortgage	--	480,251	480,251
Total		\$30,215,455	\$31,441,399

</TABLE>

The amortized cost and estimated market value of debt securities at October 1, 1993, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<TABLE>

<CAPTION>

	Amortized cost	Market value
<S>	<C>	<C>
Due in one year or less	\$ 3,546,086	\$ 3,645,477
Due after one year through five years	19,073,123	20,498,132
Due after five years through ten years	9,852,844	10,323,560
Due after ten years	1,446,813	1,513,033
Total	\$33,918,866	\$35,980,202

</TABLE>

### 3. ACCOUNTS AND NOTES RECEIVABLE

These consisted of the following as of:

<TABLE>

<CAPTION>

<S>	1993 <C>	1992 <C>
Accounts receivable (due principally from members)	\$38,057,797	\$38,980,811
Less allowance for doubtful accounts	(1,283,681)	(1,434,097)
Net accounts receivable	36,774,116	37,546,714
Notes receivable from members - current portion	3,788,864	3,782,549
Less allowance for doubtful accounts	(48,964)	(54,639)
Net current notes receivable	3,739,900	3,727,910
Net current accounts and notes receivable	\$40,514,016	\$41,274,624
Notes receivable from members - non-current portion	\$33,577,706	\$25,332,056
Less allowance for doubtful accounts	(327,144)	(365,530)
Net non-current notes receivable	\$33,250,562	\$24,966,526

</TABLE>

### 4. CHANGE IN ACCOUNTING FOR INVENTORIES

Effective October 3, 1992, the Company changed its method of accounting for the cost of the general wholesale grocery category of inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The Company believes that the use of the FIFO method better matches current costs with current revenues and more appropriately reflects its financial condition. This change has also been made for income tax purposes.

The change in the method of valuing inventories has been applied retroactively and comparative amounts for prior periods have been restated. The effect of this change on retained earnings and net income for the restated periods is as follows:

<TABLE>

<CAPTION>

<S>	1991-92 <C>	1990-91 <C>
Change in beginning retained earnings:		
Balance as previously reported	\$13,311,329	\$13,537,166
LIFO inventory adjustment	958,912	835,000
Less tax effect	(296,303)	(251,641)
Net adjustment	662,609	583,359
As restated beginning of year	\$13,973,938	\$14,120,525
Change in net income:		
As previously reported	\$ 3,275,772	\$ 1,632,828
LIFO inventory adjustment	(780,878)	125,000
Less tax effect	228,016	(45,750)
Net adjustment	(552,862)	79,250

As restated	\$ 2,722,910	\$ 1,712,078
Cumulative effect on ending retained earnings October 2, 1992:		
As previously reported	\$14,924,706	
LIFO inventory adjustment	178,034	
Less tax effect	(68,287)	
Net adjustment	109,747	
As restated	\$15,034,453	

</TABLE>

5. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Covenant not to compete - net of accumulated amortization of \$518,059 in 1993 and \$219,564 in 1992	\$ 1,014,338	\$ 1,180,833
Software - net of accumulated amortization of \$730,587 in 1993 and \$300,289 in 1992	1,559,449	1,448,389
Loan fees - net of accumulated amortization of \$490,814 in 1993 and \$461,796 in 1992	322,630	301,573
Other	259,884	134,683
Total	\$ 3,156,301	\$ 3,065,478

/TABLE

6. PROPERTY, PLANT AND EQUIPMENT (AT COST)

Property, plant and equipment consists of the following:

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Land	\$ 3,032,145	\$ 3,222,969
Buildings and improvements	50,265,721	42,321,030
Warehouse and truck equipment	32,212,528	32,939,197
Office equipment	7,515,498	6,517,247
Construction in progress	4,366,038	5,614,110
Total property, plant and equipment	97,391,930	90,614,553
Less accumulated depreciation and amortization	(37,890,574)	(35,856,759)
Net property, plant and equipment	\$59,501,356	\$54,757,794

</TABLE>

#### 7. CHANGE IN ACCOUNTING FOR INCOME TAXES

The Company adopted, effective September 28, 1991, the Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, issued in February, 1992. Under the liability method specified by SFAS No. 109, the deferred tax liability is determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in the liability for deferred taxes. The principal types of differences between assets and liabilities for financial statement and tax return purposes are accumulated depreciation, insurance loss reserves, allowance for doubtful accounts, and capitalized costs in inventory.

The deferred method, used in the years prior to 1992, required the Company to provide for deferred tax expense based on certain items of income and expense which were reported in different years in the financial statements and the tax returns as measured by the tax rate in effect for the year the difference occurred.

As allowed by SFAS No. 109, the Company did not restate the years prior to the year ended October 2, 1992 and, accordingly, the cumulative effect of the accounting change on the prior years of \$526,314 is included in the earnings for the year ended October 2, 1992.

#### 8. INCOME TAXES

The provision for income taxes for the three years consists of the following:

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Current payable (refund):			
Federal	\$ 162,758	\$ 624,516	\$1,282,555
State	72,468	(16,158)	107,696
Deferred (credit)	341,209	298,332	(402,863)
Total	\$ 576,435	\$ 906,690	\$ 987,388

</TABLE>

The effective income tax rate for the three years ended October 1, 1993 does not correspond with the Federal tax rate. The reconciliation of this rate to the effective income tax rate is as follows:

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Statutory income tax rate (34%)	\$ 778,878	\$1,055,117	\$ 917,818
State income taxes, net of Federal income tax benefit	47,829	(10,664)	71,079

Tax exempt interest	(133,080)	(104,537)	(16,960)
Refunds as a result of carrybacks	(184,980)	--	--
Other	67,788	(33,226)	15,451
Income tax expense	\$ 576,435	\$ 906,690	\$ 987,388
Effective income tax rate	25.2 %	29.2 %	36.6%

</TABLE>

The significant components of the deferred income taxes - asset and liability as of October 1, 1993 and October 2, 1992 are as follows:

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Deferred income taxes - asset:		
Insurance reserves	\$1,230,094	\$1,138,494
Inventories	712,212	647,577
Unearned insurance premiums	496,405	498,461
Allowance for doubtful accounts	478,866	564,400
Other	(93,748)	132,644
Total	\$2,823,829	\$2,981,576

/TABLE

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Deferred income taxes - liability:		
Accumulated depreciation and amortization	\$4,173,575	\$3,583,794
Deferred income	(230,325)	(262,325)
Other	(246,090)	(223,795)
Alternative minimum tax (AMT) credit	(416,025)	--
Total	\$3,281,135	\$3,097,674

</TABLE>

The significant components of deferred income tax expense for 1993 and 1992 are as follows:

<TABLE>

<CAPTION>

	1993	1992
<S>	<C>	<C>
Decrease (increase) in deferred income taxes - asset	\$ 157,747	\$ (273,942)
Increase in deferred income taxes - liability after applying AMT credit	183,462	572,274
Total	\$ 341,209	\$ 298,332

</TABLE>

The sources of deferred income tax expense timing differences (prior to SFAS No. 109) for the year ended September 27, 1991 are as follows:

<TABLE>	
<CAPTION>	
<S>	<C>
Excess of tax over (under) financial statement:	
Depreciation, net of basis adjustments on sales	\$ 637,776
Pension expense	(216,498)
Excess of financial statement over tax:	
Loss reserves and other items	(294,872)
Bad debt expense	(295,766)
Vacation pay	(69,786)
Capitalization of certain costs under uniform capitalization rules	(163,717)
Net credit	\$ (402,863)

The Company has net operating loss carryovers and unused energy tax credits for state income tax purposes to apply against future years state income taxes.

#### 9. MEMBERS' PATRONAGE DIVIDENDS

The Company's net income from sales to members, before income taxes and patronage dividends, is available, at the discretion of the Board of Directors, to be returned to the members in the form of patronage dividends.

As of year end, the Board of Directors voted to distribute the following in patronage dividends:

<TABLE>			
<CAPTION>			
<S>	1993	1992	1991
	<C>	<C>	<C>
Payable in cash and shown as a current liability	\$ 7,584,177	\$ 7,960,456	\$ 6,532,408
Distributable in the form of common stock	1,415,823	2,250,544	3,894,592
Total	\$ 9,000,000	\$10,211,000	\$10,427,000

The amounts allocated between cash and common stock for 1992 have been restated because the actual distribution was significantly different due to certain members not being required to invest in additional common stock as originally computed. The restatement had the following effect on 1992 amounts:

<TABLE>



<CAPTION>

<S>	As originally reported <C>	Adjustment <C>	As restated <C>
Patronage dividends distributable in the form of common stock	\$ 3,104,571	\$ (854,027)	\$ 2,250,544
Common stock	\$ 3,543,850	\$ (79,115)	*\$ 3,464,735
Additional paid-in capital	21,417,040	(774,912)	20,642,128
Total	\$24,960,890	\$ (854,027)	\$24,106,863

\* 15,823 shares

</TABLE>

#### 10. NOTES PAYABLE - BANK

Notes payable - bank consists of borrowings on bank lines of credit at an average interest rate of 3.95% at October 1, 1993 and 3.94% at October 2, 1992.

At October 1, 1993 and October 2, 1992, the Company had unused lines of credit totaling \$10,300,000 and \$15,500,000, respectively.

In April of 1993, the Company entered into a three year reverse interest swap agreement with a bank. Under the agreement, the Company receives a fixed rate of 4.40% on \$20 million (notional amount) and pays a floating rate based on LIBOR, as determined in six month intervals. The transaction effectively changes a portion of the Company's interest rate exposure from a fixed rate to a floating rate basis. This swap agreement has been entered into with a major financial institution which is expected to fully perform under the terms of the agreement thereby further mitigating the risk from the transaction.

#### 11. LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

<TABLE>

<CAPTION>

<S>	1993 <C>	1992 <C>
Notes payable - bank:		
Credit agreement notes maturing on April 30, 1995 with interest rates of 3.98% per annum at October 1, 1993 and 3.95% per annum at October 2, 1992. The interest rates ranged from 3.94% to 4.78% in 1993 and from 3.95% to 6.31% in 1992.	\$ 25,000,000	\$ 30,000,000

Notes payable - insurance companies:

Senior notes payable to six insurance companies with an interest rate of 9.15% per annum. Interest payable monthly. Principal repayments annually commencing

October 1, 1992 in the amount of \$3,336,000 and each October 1 thereafter in the amount of \$3,333,000, maturing in full October 2, 2000.	23,331,000	26,664,000
--	------------	------------

Notes payable - other:

Capital stock residual notes, payable in twenty quarterly installments with a variable interest rate based on the current capital investment note rate.	2,878,311	2,386,209
--	-----------	-----------

Three notes with interest at 9.25% per annum payable in monthly installments of \$50,660 beginning January 21, 1988 (secured by equipment).	715,022	1,230,610
--	---------	-----------

A real property contract for the purchase of an office building, payable in 180 monthly installments of \$2,346 including interest at 12.5% per annum until 1999 (secured by real property).	116,171	128,920
Other notes payable	55,000	9,688

Mortgage notes (secured by real property):

A note payable in monthly installments of \$41,449 including interest at 9% until 1996.	\$ 1,276,922	\$ 1,641,377
---	--------------	--------------

A note payable in monthly installments of \$43,721 including interest at 10.30% per annum until 1995.	909,026	1,316,937
---	---------	-----------

A note payable in monthly installments of \$31,615 including interest at 7.25% until 2013.	4,000,000	--
--	-----------	----

A note payable in monthly installments of \$34,140 including interest at 10.875% per annum until 1993.	--	291,243
--	----	---------

Redeemable notes and certificates:

Capital investment notes (subordinated), interest ranging from 5.75% to 8%. Maturity ranges from 1993 to 2003 which is ten years from dates of issue.	50,395,400	43,624,300
---	------------	------------

Registered redeemable building notes (subordinated), interest at 8%. No fixed maturity date.	3,615,600	3,808,600
--	-----------	-----------

Redeemable transferable notes, (subordinated), interest at 5.75%. No fixed maturity.	61,000	62,800
Total	112,353,452	111,164,684
Less current installments	(6,814,221)	(6,519,491)
Total long-term liabilities	\$105,539,231	\$104,645,193

</TABLE>

<TABLE>  
<CAPTION>

Total maturities of long-term liabilities in each of the next five fiscal years are:

<S>	<C>
1994	\$ 6,814,221
1995	31,446,877
1996	6,040,992
1997	6,681,018
1998	5,120,090

</TABLE>

The Company's bank loan agreements require the maintenance of certain financial ratios and a minimum amount of capital and subordinated debt. The Company was in compliance with these requirements as of October 1, 1993 and October 2, 1992.

## 12. SEGMENT REPORTING

The Company has two operating segments which are located primarily in the Pacific Northwest. The distribution segment includes all operations relating to wholesale grocery and related product sales, retail grocery sales, service department revenues, and financing income and fees. The insurance segment includes all operations relating to insurance underwriting, commissions, and reinsurance primarily to provide workers' compensation and property-casualty coverage.

A summary of information about the Company's operations by segment before inter-segment eliminations is as follows:

<TABLE>  
<CAPTION>

	October 1, 1993	October 2, 1992	September 27, 1991
<S>	<C>	<C>	<C>
Net sales and operating income:			
Distribution	\$857,439,871	\$878,146,111	\$866,552,769
Insurance	20,525,392	19,555,963	17,993,010
Total	\$877,965,263	\$897,702,074	\$884,545,779
Net income before allowances, dividends, income taxes and accounting change:			

Distribution	\$ 18,162,132	\$ 17,860,059	\$ 18,215,380
Insurance	2,485,571	2,889,394	2,027,910
Total	\$ 20,647,703	\$ 20,749,453	\$ 20,243,290
Total assets at year end:			
Distribution	\$226,346,768	\$209,063,967	\$203,401,231
Insurance	59,849,620	55,677,996	48,428,350
Total	\$286,196,388	\$264,741,963	\$251,829,581

</TABLE>

<TABLE>

<CAPTION>

	October 1, 1993	October 2, 1992	September 27, 1991
<S>	<C>	<C>	<C>
Depreciation and amortization expense:			
Distribution	\$ 4,643,401	\$ 4,163,138	\$ 3,963,071
Insurance	94,000	127,405	117,359
Total	\$ 4,737,401	\$ 4,290,543	\$ 4,080,430

Capital expenditures:

Distribution	\$ 11,310,048	\$ 19,922,924	\$ 9,089,909
Insurance	680,933	557,017	120,458
Total	\$ 11,990,981	\$ 20,479,941	\$ 9,210,367

</TABLE>

For net sales and operating income, wholesale grocery sales during the three years ended October 1, 1993 accounted for approximately 93%, 95% and 96%, respectively, of the distribution total. Premium revenue accounted for approximately 90%, 86% and 89%, respectively, of the insurance total.

The change in the method of accounting for inventories (Note 4) related to and affected only the distribution segment.

### 13. PENSION PLANS

The Company has a Company-sponsored pension plan that covers substantially all of its salaried employees. The Company also has separate Company-sponsored 401(k) plans for salaried and union employees. The Company has made annual contributions to the plans equal to the amount accrued for pension expense. The Company's funding policy is to satisfy the funding requirements of the Employees' Retirement Income Security Act.

The Company also participates in several multi-employer pension plans for the benefit of its employees who are union members. The data available from administrators of the multi-employer plans is not sufficient to determine the accumulated benefit obligation, nor the net assets attributable to the multi-employer plans in which the Company union employees participate.

The financial statements include pension expense for the Company sponsored pension plan as determined using Statement of Financial Accounting Standards No. 87 (SFAS 87). The effect of SFAS 87 was a decrease of pension expense in the amount of \$484,020 for 1993 and \$317,193 for 1992 and an increase of pension expense in the amount of \$188,587 for 1991. The Company's unrecognized net asset resulting from the initial application of SFAS 87 is being amortized over eighteen years.

In determining the actuarial present value of the projected benefit obligation, a discount rate of 8% and a future maximum compensation increase rate of 4% were used. The expected long-term rate of return on assets was 8%.

Pension costs for all plans for the three years consist of the following:

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Company-sponsored:			
Service costs of benefits earned	\$ 910,214	\$ 832,866	\$ 784,320
Interest cost on the projected benefit obligation	1,339,393	1,102,517	1,126,884
Expected return on plan assets	(1,443,513)	(1,199,657)	(1,131,786)
Net amortization of unrecognized net asset	(168,168)	(154,154)	(168,168)
Unrecognized net losses	--	--	24,239
Unrecognized prior service cost	73,760	1,164	1,270
Net salaried pension cost	711,686	582,736	636,759
Multi-employer plan costs	2,176,159	2,183,086	2,163,804
Matching costs of 401(k) plans	441,534	395,731	506,662
Total pension expense	\$ 3,329,379	\$ 3,161,553	\$ 3,307,225

</TABLE>

The following table sets forth the Company-sponsored plan's funded status as of year end:

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Actuarial present value of benefit obligations:			
Vested	\$12,397,747	\$10,951,935	\$10,329,561
Non-vested	819,479	675,609	577,831
Accumulated benefit obligation	13,217,226	11,627,544	10,907,392
Effect of projected future compensation levels	4,501,814	4,237,333	3,955,631
Projected benefit obligation	17,719,040	15,864,877	14,863,023
Plan assets at fair value, primarily listed stocks, fixed income, and bond and equity funds	21,056,267	17,981,115	16,509,901
Excess of plan assets over projected benefit obligation	3,337,227	2,116,238	1,646,878
Unrecognized prior service cost	1,031,162	14,965	16,129
Unrecognized net (gain) loss	(2,273,777)	(273,680)	87,044
Unrecognized net asset, net of amortization	(2,065,671)	(2,233,839)	(2,387,993)
Prepaid (accrued) pension cost	\$ 28,941	\$ (376,316)	\$ (637,942)

</TABLE>

In addition to pension benefits, the Company provides health benefits for certain retired salaried employees. The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106,

"Employer's Accounting for Post Retirement Benefits Other Than Pensions." This statement will require accrual of such benefits during the years an employee provides services. The costs of these benefits are currently expensed on a pay-as-you-go basis. The cost of this retiree health care is funded out of current operations and was approximately \$282,000 in 1993, \$257,000 in 1992 and \$200,000 in 1991. The impact of this new standard has not been fully determined, but the change likely will result in greater expense being recognized for these benefits. The Company plans to adopt this Statement in 1995.

#### 14. LEASES

The Company is obligated under one hundred and seventeen significant leases in 1993. Forty of these leases are for twenty to twenty-five years with renewal options and involve supermarket properties which are subleased to members. Fifteen of these leases are subleased to affiliated companies. The leases expire at various dates, the last expiring in 2013. Rental expense for the three years consists of the following:

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Minimum rentals	\$14,082,104	\$12,447,688	\$10,133,371
Less sublease income	(6,554,855)	(6,355,385)	(5,258,992)
Net rental expense	\$ 7,527,249	\$ 6,092,303	\$ 4,874,379

</TABLE>

The following is a schedule by years showing future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of October 1, 1993:

<TABLE>

<CAPTION>

Fiscal year	Minimum payments (A)	Minimum receipts (B)	Net minimum
<S>	<C>	<C>	<C>
1993-1994	\$ 14,036,472	\$ 5,550,288	\$ 8,486,184
1994-1995	13,667,159	5,603,161	8,063,998
1995-1996	12,234,841	5,555,337	6,679,504
1996-1997	10,566,829	5,001,660	5,565,169
1997-1998	8,901,347	3,959,493	4,941,854
Later years	80,242,271	37,966,494	42,275,777
Total	\$139,648,919	\$63,636,433	\$76,012,486

Summary:

Building leases	\$127,289,174	\$61,119,240	\$66,169,934
Equipment leases	12,359,745	2,517,193	9,842,552

Total	\$139,648,919	\$63,636,433	\$76,012,486
-------	---------------	--------------	--------------

</TABLE>

(A) Minimum payments are those required by the Company over the terms of the significant leases.

(B) Minimum receipts are those to be received by the Company from sublease agreements.

Nineteen of the subleases as of October 1, 1993, are insured by the Company's foreign subsidiary, UGIC, Ltd. The annual rental for these leases is approximately \$2,042,000. The total minimum payments over the lease term for these same leases is approximately \$35,700,000.

In 1992 and 1991, the Company entered into sale-leaseback transactions for three cash and carry outlets. The sales resulted in deferred gains of approximately \$800,000 which are being amortized over the leaseback period of fifteen years. The total lease commitments are approximately \$2,500,000 over fifteen years with an annual rental of approximately \$155,000 for each of the first five years.

#### 15. SUPPLEMENTAL CASH FLOW INFORMATION

<TABLE>  
<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$ 8,292,247	\$ 8,952,346	\$ 9,028,722
Income taxes	647,836	982,169	1,284,614
Supplemental schedule of noncash investing and financing activities:			
Patronage dividends payable in common stock	1,415,823	2,250,544	3,894,592

</TABLE>

#### 16. INVESTMENT IN AND TRANSACTIONS WITH AFFILIATE

The Company owns 22.42% of the outstanding common stock of Western Family Holding Company (the Affiliate). The amount of consolidated retained earnings represented by undistributed earnings of the Affiliate as of October 1, 1993 is \$1,654,629, and \$1,653,857 as of October 2, 1992.

An officer of the Company is a director of the Affiliate. The Company and certain other retailer owned grocery wholesalers located primarily in the Pacific Northwest organized the Affiliate to provide a source for the Affiliate private label brand.

An approximate summary of transactions with this affiliate for the three years is as follows:

<TABLE>  
<CAPTION>

1993	1992	1991
------	------	------

<S>	<C>	<C>	<C>
Purchases	\$70,334,000	\$71,994,000	\$72,371,000
Volume incentive rebate	1,231,000	1,260,000	1,086,000
Open accounts payable	5,150,000	4,000,000	3,700,000

</TABLE>

#### 17. CONCENTRATION OF CREDIT RISK

The Company holds its cash and cash equivalents in several banks located in the Pacific Northwest and a zero balance bank account located in the Midwest. Each bank is covered by FDIC insurance; balances in excess of coverage are not insured.

As a cooperative, the majority of the Company's accounts receivable represent sales to its members who are located throughout the Pacific Northwest. These accounts are not generally secured by collateral but each member has stock holdings in the Company as well as patronage rebates which the Company could apply against account balances.

The Company makes store financing loans to members from time to time mainly to finance the acquisition of grocery store properties and equipment. These loans are represented by notes receivable which are secured by collateral consisting of personal property, securities and guarantees.

The insurance subsidiaries have investments primarily in federal securities and state municipal bonds which are backed by the full faith and credit of the respective governmental agency.

#### 18. COMMITMENTS AND CONTINGENCIES

a. During 1991 and 1990, the Company entered into agreements under which it sold and continues to sell certain of its notes receivable from members subject to limited recourse provisions. These are secured by collateral which usually consists of personal property, securities and guarantees. The Company is responsible for collection of the notes, for which it receives a collection fee, and remits the net proceeds to the purchaser on a monthly basis. In 1993, 1992 and 1991, the Company sold notes totaling approximately \$900,000, \$5,800,000 and \$5,650,000, respectively. The balances of transferred notes that were outstanding and subject to recourse provisions were \$13,441,000, \$20,934,000 and \$24,482,000 at October 1, 1993, October 2, 1992 and September 27, 1991, respectively.

b. In connection with its loan activities to members, the Company has approved loan applications totaling approximately \$13,000,000 for which funds have been committed, but not disbursed, as of October 1, 1993.

c. The Company is guarantor of a covenant by a member as of October 1, 1993 totaling \$400,000 with annual principal payments of approximately \$50,000.

d. The Company is a party to various litigation and claims arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Company expects that the outcome of these matters will not result in a material adverse effect on the Company's consolidated financial position or results of operations.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

##### OVERVIEW

During 1993, net sales and operations decreased 2.2% to \$877.0 million. This



compares to a 1.6% increase in 1992 to \$896.6 million. Net income before member rebates, allowances, and taxes decreased \$0.1 million to \$20.6 million (2.35% of sales). This compares to \$20.7 million (2.31% of sales) and \$20.2 million (2.29% of sales) in 1992 and 1991, respectively.

During 1993, the decrease in net sales and operations was primarily attributable to a 52 week accounting period, lower warehouse unit sales, and lower levels of store financing interest income, offset by increased service income, insurance segment written premiums, and sales from retail store operations. The Company enjoyed increased profits in 1993 within the distribution segment's Cash & Carry and service income areas. Within the insurance segment, United Employers Insurance increased its profitability due to premium volume, increased investment income, and reduced operating expenses. These profit improvements were offset by increased member allowance payments and operating losses in retail store operations.

In 1992, the gain in net sales and operations resulted primarily from the 53 week accounting period. For a 52 week period comparable to 1991, most operations had no gains or slight declines in sales due to reduced unit volumes. Equipment sales were also lower in 1992 reflecting a lower level of member new store openings and remodels. Net sales and operations reflected an increase in revenue from retail stores owned by the Company in 1992. During 1992, the Company's profits improved due to improved earnings at the Cash & Carry division and improved insurance subsidiary earnings. These profitability improvements were offset by nonrecurring expenses associated with the Company's Portland facility expansion, increased operating losses in retail store operations, and a higher provision for bad debts.

#### NET SALES AND OPERATIONS

The Company's warehouse and Cash & Carry distribution segment sales recorded a 3.6% decrease in sales to \$822.0 million for the 52 week period ending October 1, 1993, compared to sales of \$852.9 million for the 53 week period ending October 2, 1992. When compared to a 52 week period comparable to 1992, 1993 sales declined 1.9%. Inflation during 1993 added approximately 0.8% to warehouse sales.

Member distribution sales were negatively impacted by continuing consumer trends toward lower cost items, more private label products, and reduced retail store development. The trend in retail store development is expected to reverse in 1994, as several new member stores plan to open throughout the year. Cash & Carry sales increased slightly to \$155.6 million from last year's comparable 52 week sales of \$154.5 million, reflecting sales from new stores. Distribution segment interest income declined \$0.6 million to \$2.3 million reflecting lower interest rate levels.

Sales at retail stores increased \$16.1 million to \$40.9 million in 1993, continuing a recent trend of increasing retail store sales. During the year, the Company disposed of two stores, and acquired an additional four stores, increasing the number of retail stores to seven.

In 1993, the insurance segment's net insurance premiums, commissions, and fees increased by \$0.9 million to \$20.5 million from \$19.6 million in 1992. This increase was due to increases in policy volume and rehabilitation service fees, offset by lower commissions earned and increased reinsurance premiums paid.

#### GROSS OPERATING INCOME

Gross operating income increased to \$127.5 million (14.5% of sales) from

\$123.7 million (13.8% of sales) and \$114.1 million (12.9% of sales) in 1992 and 1991, respectively. The increase in gross operating income occurred due to improved gross margins in Cash & Carry operations, and a shift in distribution segment's sales mix in favor of retail store and Cash & Carry operations. Further, the impact of changes in member volume allowance program shifted the member sales mix away from grocery sales towards produce and perishable sales.

These trends were partially offset by an increase in claims losses and loss adjustment expenses in the insurance segment. In 1993, loss and loss adjustment expenses were 83.3% of total premium income, compared to 75.5% and 79.6% in 1992 and 1991, respectively.

#### COSTS AND EXPENSES

1993 operating, selling and administrative expenses were \$97.5 million (11.1% of sales). These expenses amounted to \$93.5 million (10.4% of sales) and \$84.8 million (9.6% of sales) in 1992 and 1991, respectively. The components of these expenses are summarized below.

<TABLE>

<CAPTION>

#### Percent of Total Sales

	1993	1992	1991
<S>	<C>	<C>	<C>
Salaries & Wages	6.3	5.9	5.5
Rents, Maintenance, and Repairs	1.6	1.6	1.5
Taxes, Other Than Income	0.9	0.8	0.8
Utilities, Supplies and Services	1.5	1.5	1.3
Other Expenses	0.5	0.4	0.3
Provision for Doubtful Accounts	0.3	0.2	0.2
Total	11.1	10.4	9.6

</TABLE>

In 1993, operating, selling and administrative expense as a percent of sales increased primarily due to increased volume in retail store operations. The benefits of increased labor productivity only partially offset 1993 bargaining unit contract increases and the effect of lower unit volume in warehouse operations.

These expense trends in the distribution segment were partially offset by improved efficiencies in the insurance segment. For 1993, insurance operating and administrative expenses were 26.4% of segment sales, compared to 28.1% of sales in 1992.

Provision for doubtful accounts was \$2.1 million in 1993, unchanged from 1992. Interest expense decreased primarily due to lower short term interest rates and average borrowings, offset by increases in subordinated debt levels.

#### MEMBER ALLOWANCES AND DIVIDENDS

In 1993, total member allowances and dividends increased 4.0% to \$18.4

million. In 1992, total allowances and dividends increased 0.6% to \$17.6 million from \$17.5 million in 1991. Lower patronage dividends were offset by the increased cost of the Company's new partnership incentive volume allowance program.

Total member allowances and dividends as a percent of member sales were 2.75%, compared to 2.53% and 2.57% in 1992 and 1991, respectively.

The associated costs of the new allowance program totalled \$2.1 million in 1993. The Company expects that incremental costs of the new member allowance program in 1994 could potentially be as much as \$1.9 million.

#### NET INCOME AND INCOME TAXES

In 1993, net income before taxes was \$2.3 million (0.3% of sales) compared to \$3.1 million (0.3% of sales) and \$2.7 million (0.3% of sales) in 1992 and 1991, respectively.

The Company's effective tax rate decreased to 25.2% from 29.2% in 1992 and 36.6% in 1991. The reduction in effective rate was primarily caused by depreciation deductions and a shift in the investment portfolio toward tax exempt investments. In 1993, net income after tax decreased to \$1.7 million (0.2% of sales) from \$2.7 million (0.3% of sales) and \$1.7 million (0.2% of sales) in 1992 and 1991, respectively.

#### LIQUIDITY AND CAPITAL SOURCES

##### CASH FLOW FROM OPERATIONS

In 1993, the Company provided \$17.2 million in cash from its operating activities. Increased insurance reserves due to increased policy volume, improvements in accounts payable management, and reductions in accounts receivable offset increases in distribution segment inventories and lower after tax profits. The Company's operating cash flow was reduced on account of the payment of a greater portion of member dividends in cash, and a smaller portion issued in stock.

##### CASH FLOW FROM INVESTING ACTIVITIES

In 1993, the Company used \$24.9 million in its investing activities, a decrease of \$1.4 million from the \$26.3 million used in 1992. Total Company capital expenditures fell as the Portland facility expansion was completed. The volume of member finance notes sold to the banks decreased \$4.9 million in 1993, as the Company funded its store finance operations with its bank agreements while its member note purchase program was being updated. The updated member note purchase program should be in place in 1994, and the Company intends to finance the majority of its member note activity through this program.

In fiscal year 1994, anticipated capital expenditures will approximate \$7.5 million, representing \$3.5 million in replacement assets, \$2.0 million for new Cash & Carry units, and \$2.0 million in investments for upgraded operations software.

##### CASH FLOW FROM FINANCING ACTIVITIES

In 1993, the Company provided \$8.2 million from its financing activities. The Company continued its present funding policies favoring the use of subordinated debt in its capital structure. Subordinated debt increased by \$6.6 million, while senior term debt decreased \$5.4 million.

#### CAPITAL STRUCTURE AND RESOURCES

The following table summarizes the Company's capital structure for the last two years.

<TABLE>  
<CAPTION>

	Year Ended			
	October 1, 1993		October 2, 1992	
	\$ 000	%	\$ 000	%
<S>	<C>	<C>	<C>	<C>
Average Short Term Borrowings During the Year	17,000	10.1	23,231	13.4
End of Year Amounts				
Senior Term Debt	58,342	34.6	63,732	36.7
Subordinated Debt	54,011	32.1	47,433	27.3
Equity	39,112	23.2	39,141	22.6
Total	\$168,465	100.0	\$173,537	100.0

</TABLE>

In 1993, the Company's capital structure continued to shift toward a greater reliance upon subordinated debt and equity. This trend reflects the Company's strategic funding plan to emphasize subordinated debt and equity in its capital structure.

The Company's working capital was \$41.8 million in 1993, a decrease of \$11.5 million from \$53.3 million in 1992. This decrease is principally attributable to the financing of member store notes under the Company's short term bank agreement in anticipation of the completion of its updated member note purchase program in 1994.

The Company's main sources of funds include earnings, bank borrowings, private placement debt, note purchase programs, capital investment notes, and member capital stock. As of October 1, 1993, the Company had \$10.3 million in unused credit lines available. Management believes that current funding sources are adequate to meet present Company needs.

United Employers Insurance Co. investments are held to support the payment of claims. These investments are not available to the Company to meet its capital needs due to restrictions imposed by insurance regulators regarding intercompany loans and advances.

#### BOARD OF DIRECTORS

Pictured above seated  
from left to right:

JAMES C. VICKERS  
J.C. Market, Inc. - term expires  
January 1996  
Member: UGPAC

ARNIE L. ATKINS  
CHAIRMAN  
Arlind, Ltd. - term expires January

Pictured above standing  
from left to right:

CRAIG T. DANIELSON  
Dan Inc. Oregon - term expires  
January 1996  
Chairperson: Compensation Committee  
Member: Executive Finance Committee

K. MICHAEL OWEN  
Owen's Sentry Market, Inc. - term  
expires January 1994

1994  
Chairperson: Executive Finance  
Committee, Audit Committee  
Member: Compensation Committee, UGPAC

Chairperson: Facility Planning  
Committee

MARLIN A. SMYTHE  
VICE-CHAIRMAN  
MCS Management Company -  
term expires January 1995  
Chairperson: Bylaw Committee  
Member: Executive Finance Committee,  
Compensation Committee

BERT G. BABB  
West Lane Thriftway - term expires  
January 1994  
Chairperson: Nominating Committee  
Member: Executive Finance  
Committee, Audit Committee, UGPAC

H. LARRY MONTGOMERY  
Larry's Market, Inc. - term expires  
January 1995  
Member: Audit Committee, Facility  
Committee

DENNIS K. BLASINGAME  
DA Boys Market - term expires  
January 1996  
Member: Facility Planning  
Committee

#### MANAGEMENT

ALAN C. JONES - President & CEO  
RONALD E. DOVE - Director of Operations  
GEORGE P. FLEMING - Assistant Secretary - President of  
United Resources, Inc.  
ROSS E. DWINELL - President of Grocers Insurance Group, Inc.  
RALPH P. MATILE III - Medford Division Manager  
KEITH A. MILLER - Director of Purchasing & Marketing  
JAMES E. ROBINSON - President, Thriftway Stores, Inc.  
SUSAN D. WEBER - Director of Human Resources  
JOHN W. WHITE - Vice President & CFO  
JOHN M. WILLIS - Director of Foodservice  
R. DAVID MAY - Director of Retail Services

CONSENT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference of (i) our report dated November 24, 1993, with respect to the financial statements of United Grocers, Inc., and (ii) our report dated November 24, 1993, with respect to the financial statement schedules, both of which are included in the annual report on Form 10-K of United Grocers, Inc., for the year ended October 1, 1993, into the prospectus constituting part of the Registration Statements on Form S-2 (Nos. 33-49450 and 33-57272) of United Grocers, Inc.

DeLAP, WHITE & RAISH  
Certified Public Accountants

Portland, Oregon  
January 5, 1994