Richard J. Martin
Executive Vice President, Finance & Administration, and Chief Financial Officer

October 30, 2003

Via E-mail and FedEx

Director, TA&I- FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Comments on Proposed FSP 150-c

We respectfully request that the Board delay the effective date of Statement of Financial Accounting Standards No. 150 ("Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity") ("SFAS 150") to the first fiscal period beginning after December 15, 2004 for those entities (an "SEC reporting company") required to file reports with the Securities and Exchange Commission (the "SEC") under Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but whose debt and equity securities are not traded on a stock exchange or in the over-the-counter market.

Background

Unified Western Grocers ("Unified") is a grocery wholesaler serving supermarket operators in the western United States and various foreign countries. Unified was organized in 1922 and operates as a cooperative for tax purposes. Unified does business primarily with customers that meet stringent membership qualifications and have been accepted as "member-patrons" by the Board of Directors. Unified sells a wide variety of grocery products and also provides support services to its members, including finance, merchandising services and insurance. Unified members are primarily independent grocers.

To be able to receive the benefits of membership in the cooperative, member-patrons are required to meet specific member capitalization requirements.

Each member-patron is required to hold a specified number of Class A Shares. The holders of Class A Shares are entitled to elect 80% of the directors.

Each member-patron is required to maintain a deposit, the amount of which is based on its average purchases. No interest is paid on required deposits and deposits are subordinated to any senior indebtedness. Member-patrons must satisfy the deposit requirement

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through a combination of cash and ownership of Class B Shares. The holders of Class B Shares are entitled to elect 20% of the directors. Patronage dividends are paid in the form of Class B Shares to the extent the member-patron does not hold the required number of Class B Shares. To the extent the member-patron still does not hold the required number of Class B Shares after payment of patronage dividends, then additional Class B Shares must be purchased. All purchases and sales of stock are based on book value and not driven by outside market forces.

The Company's Bylaws provide that patronage dividends may be distributed in cash or in any other form that constitutes a written notice of allocation under Section 1388 of the Internal Revenue Code. For fiscal 2002, the Board of Directors adopted an equity enhancement plan whereby patronage dividends would be paid in the form of subordinated patronage dividend certificates to the extent the members' Class B Share requirements were first satisfied. Such patronage certificates have a term of five years and bear an interest rate adjusted annually.

Commencing in 2003, as part of an equity enhancement plan approved by the Board of Directors and ratified by the shareholders, any patronage dividend remaining after the issuance of Class B Shares will be payable to member-patrons in the form of Class E Shares. Class E Shares have a stated value of $100 per share, and are non-voting, non-dividend bearing and transferable only with the consent of the Company's Board of Directors.

Due to the Company's member capitalization requirements, the Company's lenders and shareholders view the combination of Class A Shares, Class B Shares, Class E Shares, required deposits, and subordinated patronage dividend certificates, as total member capitalization of Unified.

Unified's capital stock may only be held by member-patrons, may not be transferred without the consent of the Board of Directors and is subject to redemption as specified in the Articles of Incorporation and Bylaws. Accordingly, Unified's capital stock cannot be publicly traded and has limited liquidity.

During the 1980's, the staff of the SEC generally concurred with the determination of a typical purchasing cooperative that the various common forms of member capitalization were not "securities" for purposes of the Securities Act of 1933 (the "Securities Act") or the Exchange Act and, accordingly, that the cooperative (i) could offer and sell such member interests without registration or exemption under the Securities Act and (ii) was not required to file reports under Section 13(a) or 15(d) of the Exchange Act. See Associated Grocers, Inc. (February 12, 1988); Affiliated of Florida, Inc. (September 15, 1987); Associated Wholesalers, Inc. (April 24, 1986).

In 1995, Unified requested that the SEC staff concur with Unified's determination that its various forms of member capitalization likewise did not constitute "securities" under the Securities Act and the Exchange Act. The staff advised Unified that it would no longer grant any such request. As a result of this change in the staff's position, Unified believes that it is the only

purchasing cooperative for retail grocers, and one of only a few cooperatives generally, without publicly traded debt or equity securities, required to register the offer and sale of its member capitalization under the Securities Act and to file reports under the Exchange Act.

We appreciate the opportunity to submit written comments on proposed FASB Staff Position No. 150-c (the "FSP"). As the primary wholesaler serving independent grocers in the western United States, we are concerned that the application of SFAS 150 to any period commencing before December 15, 2004 could impose a significant and adverse burden without providing adequate opportunity to explain to our various constituencies, including our vendors, that any change in presentation that may be required by SFAS 150, or subsequent pronouncements, should not change their evaluation of Unified's credit worthiness.

Summary

We respectfully submit that:

- As drafted, the FSP does not accomplish the goal of the FASB staff to treat "SEC registrants" consistently;[1]
- Such quest for consistency is itself inconsistent with the SEC's own regulations which treat various types of SEC reporting companies differently where warranted; and
- The fundamental accounting consideration which led the Board to delay the effective date of SFAS 150 for certain nonpublic entities also requires that such delay be afforded to SEC reporting companies without publicly traded debt or equity securities.

Discussion

SFAS 150 provides generally that a mandatorily redeemable financial instrument will be classified as a liability. A financial instrument issued in the form of shares is mandatorily redeemable if it embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date(s) or upon an event certain to happen. The statement provides that it will be effective at the beginning of the first interim period beginning after June 15, 2003, except for instruments of a "nonpublic entity" for which the statement will be effective at the beginning of the first fiscal period beginning after December 15, 2003.

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[1] It should be noted in passing that the term "SEC registrant" is not technically appropriate in this context. There are numerous companies required to file reports with the SEC under Section 15(d) of the Exchange Act, but which do not have a class of securities registered under the act.

A "nonpublic entity" is defined to be any entity other than one:

- Whose equity securities trade ***in a public market*** either on a stock exchange or in the over-the-counter market; or
- That makes a filing with a regulatory agency in preparation for the sale of any class of equity securities ***in a public market***; or
- That is controlled by one of the foregoing entities.

Under this definition, Unified is a "nonpublic entity" because its equity securities do not trade on a stock exchange or in the over-the-counter market. Accordingly, SFAS 150 by its express terms is first effective for the quarterly period beginning on December 28, 2003.

At its meeting on August 27, 2003, the Board directed the FASB staff to issue for comment an FSP (i) delaying the effectiveness of SFAS 150 for mandatorily redeemable financial instruments of nonpublic entities for one year (i.e., to the first fiscal period beginning after December 15, 2004) and (ii) resolving, in consultation with the SEC staff, whether the effective date should be delayed for nonpublic entities that are "SEC registrants."

On October 1, 2003, the FASB staff published for comment the FSP which provides in pertinent part as follows:

- Instruments issued by "SEC registrants" are not eligible for the deferred effective date, even if the entity meets the definition of a "nonpublic entity" contained in SFAS 150;
- Those entities shall follow the effective dates required by SFAS 150; and
- ***For the purposes of this FSP,*** "SEC registrants" are entities that either:
  - have issued securities traded in a public market (a domestic or foreign stock exchange or an over-the-counter market); or
  - are required to file financial statements with the SEC; or
  - provide financial statements for the purpose of issuing any class of securities in a public market.

SFAS 150, as literally amended by the FSP, would establish at least three categories of entities for purposes of determining the effective date:

- Those entities which are "SEC registrants" and whose debt or equity securities trade on a domestic or foreign stock exchange or in the

over-the-counter market, for whom the effective date would be the first interim period beginning after June 15, 2003;

- Those entities which are "SEC registrants" (including those required to file financial statements with the SEC), but whose debt and equity securities do not trade in such a public market, for whom the effective date would be the first fiscal period beginning after December 15, 2003; and

- Those entities which are not "SEC registrants," for whom the effective date would be the first fiscal period beginning after December 15, 2004.

As a result, inconsistent reporting will result for SEC reporting companies.

For the reasons set forth below, **we respectfully submit that the Board should treat SEC reporting companies whose debt and equity securities are not traded in a public market in the same manner as other nonpublic entities, rather than as a distinct class with an intermediate effective date.**

First, although we understand that, at first blush, consistency among SEC reporting companies may appear desirable, we note that, where appropriate, the SEC's own regulations apply differently to different types of reporting companies depending on many factors, including size and whether their securities are traded on a stock exchange or only in the over-the-counter market. For example:

- Section 15(d) reporting companies are not subject to any requirement of the Exchange Act that depends on registration under Section 12, other than the requirement to file periodic reports under Section 13(a), including Section 14 (proxy solicitation), Section 16 (insider trading and reporting), Section 13(d) (reporting of beneficial ownership of officers, directors and 5% shareholders), Section 13(e) (going private) and Section 14(d) (tender offers).

- Certain requirements of the Sarbanes-Oxley Act of 2002, and the rules adopted by the SEC thereunder, apply only to entities whose securities are traded on a stock exchange, and not to entities whose securities are traded only in the over-the-counter market, including Section 301 (public company audit committees) and Section 403 (disclosures of transactions involving management and principal stockholders).

- "Small business issuers" (i.e., issuers with revenues and public floats of less than $25 million) may use simplified forms, including Forms SB-1, SB-2, 10-SB, 10-QSB and 10-KSB.

- The accelerated filing dates for reports under the Exchange Act have been postponed for issuers with a public float of less than $75 million.

Second, the delayed effective date accorded to nonpublic entities is based upon the lack of liquidity available to shareholders of such entities. This fundamental accounting consideration applies equally to the small, family-owned business and the SEC reporting company whose debt and equity securities are not publicly traded. Indeed, it is the rare family-owned business that competes with a publicly traded SEC reporting company for investors, lenders, vendors and customers and that would, therefore, be adversely affected by the early effectiveness of SFAS 150. It is precisely the SEC reporting company whose debt and equity securities are not publicly traded that will be required to compete for scarce financial and business resources with a balance sheet that may be changed by the implementation of SFAS 150. Although the purpose of this letter is not to dispute the Board's decision to apply SFAS 150 to such SEC reporting companies, we do believe that an appropriate period must be provided for such entities to educate their investors, lenders, vendors and customers concerning the impact of SFAS 150. We believe an effective date of SFAS 150 of the first fiscal period beginning after December 15, 2004 would be adequate.

If consistency is an objective, we submit that SEC reporting companies whose debt and equity securities are not publicly traded (and whose shareholders share with the shareholders of private companies the lack of liquidity) should be afforded the same delayed effective date as private companies.

It also should be noted that the number of SEC reporting companies whose debt and equity securities are not publicly traded is relatively small, and the benefit to such entities of a delayed effective date would be considerable.

While not specifically requested for comment as part of FSP 150-c, we would like to respectfully submit that the general reclassification of mandatorily redeemable financial instruments to liability will bifurcate a cooperative's member capitalization. As previously identified, cooperative's member capitalization is comprised of several financial instruments, which a cooperative's lenders and shareholders need to be able to easily identify on the statement of financial position. The Company also believes this change in presentation will create confusion and not be as clear to users as prior accounting practice has provided. We respectfully request that the Board, in any future pronouncements, give consideration to maintaining the long established presentation methodology of a "mezzanine" area for equity instruments that may have features that preclude treatment as permanent equity as now defined by SFAS 150, and whose shareholders and lenders view as capitalization of the organization, such as total member capitalization for cooperatives.

If you have any questions concerning any aspect of the foregoing, please do not hesitate to contact the undersigned directly at (323) 264-5200 (ext. 4281).

Very truly yours,

Richard J. Martin,
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and Chief Financial Officer

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