

UNITED NATURAL FOODS INC
Form 10-K
October 01, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended August 2, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 0-21531

UNITED NATURAL FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

05-0376157

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

260 Lake Road Dayville, CT 06241

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code:

(860) 779-2800

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting
company)

Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: UNITED NATURAL FOODS INC - Form 10-K

The aggregate market value of the common stock held by non-affiliates of the registrant was \$1,028,862,216 based upon the closing price of the registrant's common stock on the Nasdaq Global Select Market® on January 25, 2008. The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of September 25, 2008 was 42,902,697.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on December 4, 2008 are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

UNITED NATURAL FOODS, INC.

FORM 10-K

TABLE OF CONTENTS

Section	Page
<u>Part I</u>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	16
Item 2. <u>Properties</u>	17
Item 3. <u>Legal Proceedings</u>	17
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	18
<u>Executive Officers of the Registrant</u>	18
<u>Part II</u>	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
Item 6. <u>Selected Consolidated Financial Data</u>	22
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 8. <u>Financial Statements and Supplementary Data</u>	38
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	67
Item 9A. <u>Controls and Procedures</u>	67
Item 9B. <u>Other Information</u>	69
<u>Part III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	70
Item 11. <u>Executive Compensation</u>	70
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	70
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	70
Item 14. <u>Principal Accounting Fees and Services</u>	70

Part IV

Item 15. Exhibits, Financial Statement Schedules

71

Signatures

72

Table of Contents

PART I.

ITEM 1. BUSINESS

Overview

We are a leading national distributor of natural, organic and specialty foods and non-food products in the United States. We carry more than 60,000 high-quality natural, organic and specialty foods and non-food products, consisting of national brand, regional brand, private label and master distribution products, in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements, bulk and food service products and personal care items. We serve more than 17,000 customers primarily located across the United States, the majority of which can be classified into one of the following categories: independently owned natural products retailers; supernatural chains, which consists of Whole Foods Market, Inc. ("Whole Foods Market"); and conventional supermarkets. Our other distribution channels include food service, international and buying clubs.

We were the first organic food distribution network in the United States designated as a "Certified Organic Distributor" by Quality Assurance International, Inc. ("QAI"). This process involved a comprehensive review by QAI of our operating and purchasing systems and procedures. This certification covers all of our broadline distribution centers, except for our specialty distribution centers.

We have been the primary distributor to Whole Foods Market, for more than 10 years. Our relationship with Whole Foods Market was expanded to cover the former Wild Oats Markets, Inc. ("Wild Oats Market") stores retained by Whole Foods Market following Whole Foods Market's merger with Wild Oats Markets in August 2007. We had served as the primary distributor of natural and organic foods and non-food products to Wild Oats Market prior to the merger. The Henry's and Sun Harvest stores divested by Whole Foods Market, and acquired by a subsidiary of Smart & Final, Inc., remain our customers.

On November 2, 2007, we acquired Distribution Holdings, Inc. ("DHI") and its wholly-owned subsidiary Millbrook Distribution Services, Inc. ("Millbrook"), which we now refer to as UNFI Specialty Distribution. Through UNFI Specialty Distribution, we distribute specialty food items (including ethnic, kosher, gourmet, organic and natural foods), health and beauty care items and other non-food items to more than 9,000 retail locations. We believe that the acquisition of DHI and Millbrook accomplishes certain of our strategic objectives, including accelerating our expansion into a number of high-growth business segments and establishing immediate market share in the fast-growing specialty foods market. We believe that UNFI Specialty Distribution's customer base enhances our conventional supermarket business channel and that the organizations' complementary product lines present opportunities for cross-selling. See " Our Operating Structure Wholesale Division" for further information regarding this acquisition and our new specialty distribution business.

In recent years, our sales to existing and new customers have increased through the continued growth of the natural products industry in general, increased market share as a result of our high-quality service and broader product selection, the acquisition of, or merger with, natural and specialty products distributors, the expansion of our existing distribution centers, the construction of new distribution centers and the development of our own line of natural and organic branded products. Through these efforts, we believe that we have been able to broaden our geographic penetration, expand our customer base, enhance and diversify our product selections and increase our market share. We also own and operate 13 natural products retail stores, located primarily in Florida (with two locations in Maryland and one in Massachusetts), through our subsidiary, Natural Retail Group, Inc. ("NRG"). We believe that our retail business serves as a natural complement to our distribution business because it enables us to develop new marketing programs and improve customer service. In

Table of Contents

addition, our subsidiary Hershey Imports Company, Inc. ("Hershey Imports") specializes in the international importation, roasting and packaging of nuts, seeds, dried fruits and snack items.

We are a Delaware corporation based in Dayville, Connecticut and we conduct business through our various wholly owned subsidiaries. We operated twenty distribution centers at 2008 fiscal year end. We believe that our distribution centers provide us with the largest capacity of any distributor in the natural, organic and specialty products industry. In the past six years, we have invested over \$175 million in distribution capacity and infrastructure improvements. We have increased our distribution capacity to approximately 5.8 million square feet.

Unless otherwise specified, references to "United Natural Foods," "we," "us," "our" or "the Company" in this Annual Report on Form 10-K include our consolidated subsidiaries. We operate in one reportable segment, the wholesale segment. See the financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data" of this Report for information regarding our financial performance.

The Natural Products Industry

The natural products industry encompasses a wide range of products in addition to food products (including organic foods). These other product categories include nutritional, herbal and sports supplements; toiletries and personal care items; naturally-based cosmetics; natural/homeopathic medicines; pet products and cleaning agents. According to the June 2008 issue of *The Natural Foods Merchandiser*, a leading trade publication for the natural products industry, sales revenues for all types of natural products rose to \$62.4 billion in 2007, an increase of approximately 9.8% over 2006. According to *The Natural Foods Merchandiser*, this increase in sales, from a total dollar perspective, was driven primarily by growth in the following categories:

personal care products;

packaged grocery;

fresh produce;

dairy products; and

pet products.

The fastest growing categories, although not necessarily the largest dollar volume categories, in the natural products industry were pet products, housewares, books, fresh meat/seafood and beer/wine.

According to *The Natural Foods Merchandiser*, the continuing growth trend is driven by consumer demand for a healthy lifestyle, food safety concerns and concerns about sustainability. More than half of American households represent "mid-level" organic customers; that is, they regularly purchase organic and natural products and want to learn more about nutrition as concerns about health claims, food safety, irradiation and genetically modified organisms continue to mount.

Our Operating Structure

Our operations are comprised of three principal operating divisions. These operating divisions are:

our wholesale division, which includes our broadline distribution business; our specialty distribution business; Albert's Organics, Inc. ("Albert's"), a distributor of organically grown produce and perishable items; and Select Nutrition, which distributes vitamins, minerals and supplements;

our retail division, consisting of NRG, which operates our 13 retail stores; and

Table of Contents

our manufacturing division, which is comprised of Hershey Imports, one of the leading importers, processors, packagers, and wholesale distributors of nuts, dried fruit, seeds, trail mixes, natural and organic products, and confections in the United States, and our branded product lines.

Wholesale Division

Our broadline distribution business is organized into two regions our Eastern Region and our Western Region. We distribute natural and organic products in all of our product categories to customers in the Eastern and Midwestern portions of the United States through our Eastern Region and to customers in the western and central portions of the United States through our Western Region. Seven of our twenty distribution centers at 2008 fiscal year end, which provide approximately 2.6 million square feet of warehouse space, were operated in our Eastern Region, and five of our distribution centers, which provide approximately 1.5 million square feet of warehouse space, were operated in our Western Region.

We acquired our specialty distribution business through our acquisition of DHI and Millbrook on November 2, 2007. Our UNFI Specialty Distribution division operates distribution centers located in Massachusetts, New Jersey, and Arkansas, with customers throughout the United States. Through our specialty distribution division's three distribution centers, which provide approximately 1.6 million square feet of warehouse space, we distribute specialty food items (including ethnic, kosher, gourmet, organic and natural foods), health and beauty care items and other non-food items.

Through Albert's, we distribute organically grown produce and non-produce perishables, such as organic milk, dressings, eggs, juices, poultry and various other refrigerated specialty items. Albert's operates out of six distribution centers strategically located in all regions of the United States, and is designated as a "Certified Organic Distributor" by QAI.

Through Select Nutrition, we distribute more than 14,000 health and beauty aids, vitamins, minerals and supplements from distribution centers in California and Pennsylvania.

Certain of our distribution centers are shared by multiple operations in our wholesale division.

Retail Division

We own and operate 13 natural products retail stores, located primarily in Florida (with two locations in Maryland and one in Massachusetts), through NRG. We believe that our retail business serves as a natural complement to our distribution business because it enables us to develop new marketing programs and improve customer service.

We believe our retail stores have a number of advantages over their competitors, including our financial strength and marketing expertise, the purchasing power resulting from group purchasing by stores within NRG and the breadth of our product selection.

We believe that we benefit from certain advantages in acting as a distributor to our retail stores, including our ability to:

control the purchases made by these stores;

expand the number of high-growth, high-margin product categories, such as produce and prepared foods, within these stores; and

keep current with the demands of and trends in the retail marketplace, which enables us to better anticipate and serve the needs of our wholesale customers.

Additionally, as the primary natural products distributor to our retail locations, we realize significant economies of scale and operating and buying efficiencies. As an operator of retail stores, we

Table of Contents

also have the ability to test market select products prior to offering them nationally. We can then evaluate consumer reaction to the product without incurring significant inventory risk. We also are able to test new marketing and promotional programs within our stores prior to offering them to our broader customer base.

Manufacturing Division

Our subsidiary Hershey Imports specializes in the international importation, roasting and packaging of nuts, seeds, dried fruits and snack items. We sell these items in bulk in our own packaged snack lines, EXPRESSnacks, Woodfield Farms and Woodstock Farms, and through private label packaging arrangements we have established with large health food, supermarket and convenience store chains. We operate our manufacturing operations out of packaging, roasting, and processing facilities in New Jersey and a warehouse in Los Angeles, California.

Our branded product lines address certain needs or preferences of customers of our wholesale division, which are not otherwise being met by other suppliers. We carry over 20 brand names, representing over 700 unique products.

Our Competitive Advantages

We believe that we benefit from a number of significant competitive advantages, including the following.

We are a market leader with a nationwide presence.

We are one of the few distributors capable of serving local and regional customers as well as the rapidly growing national supernatural and supermarket chains. We believe we have significant advantages over smaller, regional natural, organic and specialty products distributors as a result of our ability to:

- expand marketing and customer service programs across regions;
- expand national purchasing opportunities;
- offer a broader product selection;
- consolidate systems applications among physical locations and regions;
- invest in people, facilities, equipment and technology; and
- reduce geographic overlap between regions.

We are an efficient distributor.

In addition to our volume purchasing opportunities, a critical component of being an efficient distributor is our management of warehouse and distribution costs. Our continued growth has created the need to expand our existing facilities and open new facilities to achieve maximum operating efficiencies, including by reducing fuel and other transportation costs, and to assure adequate space for future needs. We have made significant capital expenditures and have incurred considerable expenses in connection with the opening and expansion of distribution facilities, and we expect to continue to do so. In August 2005, we expanded our Midwest operations by opening a 311,000 square foot distribution center in Greenwood, Indiana, which serves as a distribution hub for our customers in Illinois, Indiana, Ohio and other Midwest states. In October 2005, we opened our Rocklin, California distribution center and moved our Auburn, California operations to this facility. The Rocklin distribution center is 487,000 square feet in size and serves as a distribution hub for customers in California and surrounding states. Our new 237,000 square foot distribution center in Ridgefield, Washington commenced operations in

Table of Contents

December 2007 and serves as a regional distribution hub for customers in Portland, Oregon and other Northwest markets. We opened our Sarasota, Florida warehouse in the first quarter of fiscal 2008 in order to reduce the geographic area served by our Atlanta, Georgia facility. Our new, 613,000 square foot distribution center in Moreno Valley, California commenced operations in September 2008 and serves our customers in Southern California, Arizona, Southern Nevada, Southern Utah, and Hawaii. Finally, in April 2008, we announced plans to lease a new 675,000 square foot distribution center in York, Pennsylvania to serve our customers in New York, New Jersey, Pennsylvania, Delaware, Maryland, Ohio, Virginia and West Virginia. Operations are scheduled to commence in January 2009.

We have extensive and long-standing customer relationships and provide superior service.

We serve more than 17,000 customers primarily located across the United States. We have developed long-standing customer relationships, which we believe are among the strongest in our industry. In particular, we have been the primary supplier of natural and organic products to the largest supernatural chain in the United States, Whole Foods Market, for more than ten years.

Our average distribution service level for fiscal 2008 was approximately 97%, which we believe is the highest in our industry. Distribution service levels refer to the percentage of items ordered by customers that are delivered by the requested delivery date, excluding manufacturers' "out of stocks." We believe that our high distribution service levels are attributable to our experienced purchasing departments and sophisticated warehousing, inventory control and distribution systems. We offer next-day delivery service to a majority of our active customers and offer multiple deliveries each week to our largest customers. We believe that customer loyalty is dependent upon excellent customer service, including accurate fulfillment of orders, timely product delivery, low prices and a high level of product marketing support.

We have an experienced management team and our employees are incentivized to perform through equity ownership.

Our management team has extensive experience in the natural and specialty products industries and has been successful in identifying, consummating and integrating multiple acquisitions. Since 2000, we have successfully completed seven acquisitions of distributors, manufacturers and suppliers, two acquisitions of retail stores and eight acquisitions of branded product lines. In addition, our executive officers and directors, and our Employee Stock Ownership Trust, beneficially own in the aggregate approximately 6.7% of our common stock. Accordingly, our senior management and employees have a significant incentive to continue to generate strong growth in operating results in the future.

Our Growth Strategy

Our growth strategy is to maintain and enhance our position as a leading national distributor to the natural and organic industry and to increase our market share in the specialty products industry. Since our formation, we have grown our business through the acquisition of a number of distributors and suppliers, which has expanded our distribution network, product selection and customer base. For example, we acquired our Albert's, NRG and Hershey Imports businesses and, during fiscal 2008, we acquired DHI and Millbrook, which comprise our specialty distribution business, and three branded product lines.

To implement our growth strategy, we intend to continue to increase our leading market share of the growing natural and organic products industry by expanding our customer base, increasing our share of existing customers' business and continuing to expand and further penetrate new distribution territories, particularly in the Mid-Atlantic, Southern Pennsylvania and South Central United States markets. We plan to expand our presence within the specialty industry by offering new and existing

Table of Contents

customers a single wholesale distributor capable of meeting their specialty, natural and organic product needs on a national or regional basis. Key elements of our strategy include:

Expanding Our Customer Base

As of August 2, 2008, we served more than 17,000 customers primarily located throughout the United States. We plan to continue expanding our coverage of the highly fragmented natural and organic products industry by cultivating new customer relationships within the industry and by further developing other channels of distribution, such as traditional supermarkets, mass market outlets, institutional food service providers, international, buying clubs, hotels and gourmet stores.

Increasing Our Market Share of Existing Customers' Business

We believe that we are the primary distributor of natural and organic products to the majority of our natural products customer base, including to Whole Foods Market, our largest customer. We intend to maintain our position as the primary supplier for a majority of our customers, and add to the number of customers to which we serve as primary supplier, by offering the broadest product selection in our industry at competitive prices. With the acquisition of UNFI Specialty Distribution, we further believe that we have the ability to meet our customers' needs for specialty foods and products as well as certain general merchandise. We believe this represents an opportunity to accelerate our sales growth within the supermarket channel and potentially our supernatural and independent channels.

Continuing to Expand Our Branded Products Business

We have launched a number of private label or branded product lines in order to provide our customers with a broader selection of product offerings. In fiscal 2008, our branded product revenues were approximately 3.3% of our overall net sales. We plan to increase our branded product business through organic growth and through brand acquisitions. We believe this initiative differentiates us from other distributors within our industry, enables us to build long-term brand equity for the Company and allows us to generate higher gross margins, as branded product revenues generally yield higher margins than do third party branded product revenues.

Expanding into Other Distribution Channels

We believe that we will be successful in expanding into the food service channel as well as further enhancing our presence in the international channel. We will continue to develop regional relationships and alliances with companies such as Aramark Corporation, the Compass Group North America, and Sodexo Inc. in the food service channel and seek other alliances in the international channel.

Continuing to Expand into and Penetrate New Regions of Distribution and Improve the Efficiency of Our Nationwide Distribution Network

As discussed under " Our Competitive Advantages" above, we have made significant capital expenditures and incurred considerable expenses in connection with the construction of new or the expansion of existing distribution facilities. We will continue to selectively evaluate opportunities to build new facilities or to acquire distributors to better serve existing markets and expand into new markets. Further, we will maintain our focus on integrating these new or acquired facilities into our nationwide distribution network in order to improve our economies of scale in purchasing, warehousing, transportation and general and administrative functions, which we believe will lead to continued improvements in our operating margin.

Table of Contents

Continuing to Provide the Leading Distribution Solution

We believe that we provide the leading distribution solution to the natural, organic and specialty products industry through our national presence, regional responsiveness, focus on customer service and breadth of product offerings. Our service levels, which we believe to be the highest in our industry, are attributable to our experienced purchasing departments and our sophisticated warehousing, inventory control and distribution systems. See " Our Focus on Technology" below for more information regarding our use of technology in our warehousing, inventory control and distribution systems.

Among the benefits we provide to our customers is access, at preferred rates and terms, to the suite of products developed by Living Naturally, LLC, a leading provider of marketing promotion and electronic ordering systems to the natural and organic products industry. We have maintained a strategic alliance with Living Naturally since 2002. The products provided by Living Naturally include an intelligent electronic ordering system and turnkey retailer website services, which create new opportunities for our retailers to increase their inventory turns, reduce their costs and enhance their profits. We also offer our customers a selection of inventory management, merchandising, marketing, promotional and event management services designed to increase sales and enhance customer satisfaction. These marketing services, which primarily are utilized by customers in our independently owned natural products retailers channel and many of which are co-sponsored with suppliers, include monthly and thematic circular programs, in-store signage and assistance in product display.

Our Customers

We maintain long-standing customer relationships with independently-owned natural products retailers, supernatural chains and supermarket chains. In addition, we emphasize our relationships with new customers, such as national conventional supermarkets, mass market outlets and gourmet stores, which are continually increasing their natural product offerings. The following were included among our wholesale customers for fiscal 2008:

Whole Foods Market, the largest supernatural chain in the United States;

conventional supermarket chains, including Kroger, Wegman's, Haggen's, Stop and Shop, Giant, Peapod, Quality Food Centers, Hannaford, Food Lion, Bashas', Lunds, Byerly's, Rainbow, Lowe's, Publix, Fred Meyer and United Supermarkets;
and

mass market chains, including BJ's Wholesale Club and Costco.

On a combined basis and excluding sales to Henry's and Sun Harvest store locations (which remain our customers), Whole Foods Market and Wild Oats Markets accounted for approximately 31.0% of our net sales in fiscal 2008. In October 2006, we announced a seven-year distribution agreement with Whole Foods Market, which commenced on September 26, 2006, under which we serve as the primary U.S. distributor to Whole Foods Market in the regions where we previously served. In January 2007, we expanded our Whole Foods Market relationship in the Southern Pacific region of the United States. Our relationship with Whole Foods Market was further expanded in August 2007, when Whole Foods Market completed its merger with Wild Oats Markets. We had served as the primary distributor of natural and organic foods and non-food products to Wild Oats Markets prior to the merger, and we continue to serve the former Wild Oats Markets stores retained by Whole Foods Market under our distribution arrangement with Whole Foods Market. We also continue to serve as a primary distributor to the Henry's and Sun Harvest store locations previously owned by Wild Oats Markets and sold by Whole Foods Market to a subsidiary of Smart & Final Inc. on September 30, 2007.

Table of Contents

The following table lists the percentage of sales by customer type for the years ended August 2, 2008 and July 28, 2007:

Customer Type	Percentage of Net Sales	
	2008	2007
Independently owned natural products retailers	42%	45%
Supernatural chains	31%	35%
Conventional supermarkets	23%	16%
Other	4%	4%

Sales to Henry's and Sun Harvest store locations have been reclassified from our supernatural channel into our supermarket channel in both fiscal years 2008 and 2007 and will continue in this classification going forward. This reclassification resulted in an increase in sales in the supermarket channel of 1.7% and a decrease in sales in the supernatural channel of 1.7% for the year ended July 28, 2007. In addition, sales by channel have been adjusted to reflect changes in customer types resulting from a review of our customer lists. As a result of this adjustment, sales to the independents sales channel increased 0.9% for the year ended July 28, 2007 and sales to the supermarket sales channel decreased 0.9% for the year ended July 28, 2007.

We distribute natural, organic and specialty foods and non-food products to customers internationally, as well as to customers located in the United States. Our sales to international customers represent a de minimis portion of our business.

Our Marketing Services

We have developed a variety of supplier-sponsored marketing services, which cater to a broad range of retail formats. These programs are designed to educate consumers, profile suppliers and increase sales for retailers, many of which do not have the resources necessary to conduct such marketing programs independently

Our marketing programs include:

multiple, monthly, region-specific, consumer circular programs, which feature the logo and address of the participating retailer imprinted on a circular that advertises products sold by the retailer to its customers. The monthly circular programs are structured to pass through to the retailer the benefit of our negotiated discounts and advertising allowances, and also provide retailers with posters, window banners and shelf tags to coincide with each month's promotions;

our supplier-focused Most Valued Partner program, which we believe helps build incremental, mutually profitable sales for suppliers and us, while fostering a sense of partnership;

other retailer initiative programs, such as a coupon booklet and separate supplement and personal care product-themed sales and educational brochures we offer to independent retailers, which allow us to explore new marketing avenues;

an information-sharing program that helps our suppliers better understand our customers' businesses, in order to generate mutually beneficial incremental sales in an efficient manner; and

a truck advertising program that allows our suppliers to purchase ad space on the sides of our hundreds of trailers nationally, which we believe increases their potential consumer ad impressions;

Table of Contents

We keep current with the latest trends in the industry. Periodically, we conduct focus group sessions with certain key retailers and suppliers in order to ascertain their needs and allow us to better service them. We also:

offer in-store signage and promotional materials, including shopping bags and end-cap displays;

provide assistance with planning and setting up product displays;

provide shelf tags for products;

provide assistance with store layout designs;

provide product data information such as best seller lists, store usage reports and easy-to-use product catalogs; and

maintain a website on which retailers can access various individual retailer-specific reports and product information.

Our Products

Our extensive selection of high-quality natural, organic and specialty products enables us to provide a primary source of supply to a diverse base of customers whose product needs vary significantly. We carry more than 60,000 high-quality natural, organic and specialty products, consisting of national brand, regional brand, private label and master distribution products, in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements, bulk and food service products and personal care items. Our branded product lines address certain needs or preferences of our customers, which are not otherwise being met by other suppliers.

We continuously evaluate potential new private branded and other products based on both existing and anticipated trends in consumer preferences and buying patterns. Our buyers regularly attend regional and national natural, organic, specialty, ethnic and gourmet product shows to review the latest products that are likely to be of interest to retailers and consumers. We also actively solicit suggestions for new products from our customers. We make the majority of our new product decisions at the regional level. We believe that our decentralized purchasing practices allow our regional buyers to react quickly to changing consumer preferences and to evaluate new products and new product categories regionally. Additionally, many of the new products that we offer are marketed on a regional basis or in our own retail stores prior to being offered nationally, which enables us to evaluate local consumer reaction to the products without incurring significant inventory risk. Furthermore, by exchanging regional product sales information between our regions, we are able to make more informed and timely new product decisions in each region.

We maintain a comprehensive quality assurance program. All of the products we sell that are represented as "organic" are required to be certified as such by an independent third-party agency. We maintain current certification affidavits on all organic commodities and produce in order to verify the authenticity of the product. All potential suppliers of organic products are required to provide such third-party certifications to us before they are approved as suppliers.

Our Suppliers

We purchase our products from approximately 4,300 suppliers. The majority of our suppliers are based in the United States, but we also source products from suppliers throughout Europe, Asia, South America, Africa and Australia. We believe the reason suppliers of natural and organic products seek to distribute their products through us is because we provide access to a large and growing national customer base, distribute the majority of the suppliers' products and offer a wide variety of marketing programs to our customers to help sell the suppliers' products. Substantially all product categories that

Table of Contents

we distribute are available from a number of suppliers and, therefore, we are not dependent on any single source of supply for any product category. Our largest supplier, Hain Celestial Group, Inc. ("Hain"), accounted for approximately 7.5% of our total purchases in fiscal 2008. However, the product categories we purchase from Hain can be purchased from a number of other suppliers. In addition, although we have exclusive distribution arrangements and vendor support programs with several suppliers, none of these suppliers accounts for more than 10% of our total purchases.

We have positioned ourselves as the largest purchaser of organically grown bulk products in the natural and organic products industry by centralizing our purchase of nuts, seeds, grains, flours and dried foods. As a result, we are able to negotiate purchases from suppliers on the basis of volume and other considerations that may include discounted pricing or prompt payment discounts. Furthermore, many of our purchase arrangements include the right of return to the supplier with respect to products that we are not able to sell in a certain period of time. As described under "Our Products" above, each region is responsible for placing its own orders and can select the products that it believes will most appeal to its customers, although each region is able to participate in our company-wide purchasing programs. Our outstanding commitments for the purchase of inventory were approximately \$31.8 million as of August 2, 2008.

Our Distribution System

We have carefully chosen the sites for our distribution centers to provide direct access to our regional markets. This proximity allows us to reduce our transportation costs relative to those of our competitors that seek to service these customers from locations that are often hundreds of miles away. We believe that we incur lower inbound freight expense than our regional competitors, because our national presence allows us to buy full and partial truckloads of products. Whenever possible, we backhaul between our distribution centers and satellite staging facilities using our own trucks. Additionally, we generally can redistribute overstocks and inventory imbalances between distribution centers, which helps us ensure products are sold prior to their expiration date and more appropriately balance inventories.

Products are delivered to our distribution centers primarily by our fleet of leased trucks, contract carriers and the suppliers themselves. We lease our trucks from national leasing companies such as Ryder Truck Leasing and Penske Truck Leasing, which in some cases maintain facilities on our premises for the maintenance and service of these vehicles. Other trucks are leased from regional firms that offer competitive services.

We ship certain orders for supplements or for items that are destined for areas outside of regular delivery routes through United Parcel Service and other independent carriers. Deliveries to areas outside the continental United States are shipped by ocean-going containers on a weekly basis.

Our Focus on Technology

We have made a significant investment in distribution, financial, information and warehouse management systems. We continually evaluate and upgrade our management information systems at our regional operations based on the best practices in the distribution industry in order to make the systems more efficient, cost-effective and responsive to customer needs. These systems include functionality in radio frequency inventory control, pick-to-voice systems, pick-to-light systems, computer-assisted order processing and slot locator/retrieval assignment systems. At our receiving docks, warehouse associates attach computer-generated, preprinted locator tags to inbound products. These tags contain the expiration date, locations, quantity, lot number and other information about the products in bar code format. Customer returns are processed by scanning the UPC bar codes. We also employ a management information system that enables us to lower our inbound transportation costs by making optimum use of our own fleet of trucks or by consolidating deliveries into full truckloads.

Table of Contents

Orders from multiple suppliers and multiple distribution centers are consolidated into single truckloads for efficient use of available vehicle capacity and return-haul trips. In addition, we utilize route efficiency software that assists us in developing the most efficient routes for our trucks.

Competition

Our major national competitor is Tree of Life Distribution, Inc. (a subsidiary of Koninklijke Wessanen N.V.) ("Tree of Life"). In addition to its natural and organic products, Tree of Life distributes specialty food products, thereby diversifying its product selection, and markets its own private label program. Tree of Life has also earned QAI certification and has a European presence. We also compete with over 200 smaller regional and local distributors of natural, ethnic, kosher, gourmet and other specialty foods that focus on niche or regional markets, and with national, regional and local distributors of conventional groceries and companies that distribute to their own retail facilities.

We believe that distributors in the natural and specialty products industries primarily compete on distribution service levels, product quality, depth of inventory selection, price and quality of customer service. We believe that we currently compete effectively with respect to each of these factors.

Our retail stores compete against other natural products outlets, conventional supermarkets and specialty stores. We believe that retailers of natural products compete principally on product quality and selection, price, customer service, knowledge of personnel and convenience of location. We believe that we currently compete effectively with respect to each of these factors.

Government Regulation

Our operations and products are subject to regulation by state and local health departments, the U.S. Department of Agriculture and the Food and Drug Administration, which generally impose standards for product quality and sanitation and are responsible for the administration of recent bioterrorism legislation. Our facilities generally are inspected at least once annually by state or federal authorities.

The Surface Transportation Board and the Federal Highway Administration regulate our trucking operations. In addition, interstate motor carrier operations are subject to safety requirements prescribed by the U.S. Department of Transportation and other relevant federal and state agencies. Such matters as weight and dimension of equipment are also subject to federal and state regulations.

We generally are not subject to many of the federal, state and local laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. However, certain of our distribution facilities have above-ground storage tanks for diesel fuel and other petroleum products, which are subject to laws regulating such storage tanks.

We believe that we are in material compliance with all federal, state and local laws applicable to our operations.

Employees

As of August 2, 2008, we had approximately 6,300 full and part-time employees. An aggregate of approximately 6.6% of our total employees, or approximately 415 of the employees at our Auburn, Washington, East Brunswick, New Jersey, Edison, New Jersey, Iowa City, Iowa and Leicester, Massachusetts facilities, are covered by collective bargaining agreements. The Edison, New Jersey, Auburn, Washington, East Brunswick, New Jersey, Leicester, Massachusetts and Iowa City, Iowa agreements expire in June 2011, February 2009, June 2009, March 2013 and July 2009, respectively. We have never experienced a work stoppage by our unionized employees and we believe that our relations with our employees are good.

Table of Contents

Available Information

Our internet address is <http://www.unfi.com>. The contents of our website are not part of this Annual Report on Form 10-K, and our internet address is included in this document as an inactive textual reference only. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports available free of charge through our website as soon as reasonably practicable after we file such reports with, or furnish such reports to, the Securities and Exchange Commission.

We have adopted a code of conduct and ethics for certain employees pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. A copy of our code of conduct and ethics is posted on our website, and is available free of charge by writing to United Natural Foods, Inc., 260 Lake Road, Dayville, Connecticut 06241, Attn: Investor Relations.

ITEM 1A. RISK FACTORS

Our business, financial condition and results of operations are subject to various risks and uncertainties, including those described below and elsewhere in this Annual Report on Form 10-K. This section discusses factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties applicable to our business. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements."

We depend heavily on our principal customer

Our ability to maintain a close, mutually beneficial relationship with our largest customer, Whole Foods Market, is an important element to our continued growth. In October 2006, we announced a seven-year distribution agreement with Whole Foods Market, which commenced on September 26, 2006, under which we serve as the primary U.S. distributor to Whole Foods Market in the regions where we previously served. In January 2007, we expanded our Whole Foods Market relationship in the Southern Pacific region of the United States. In August 2007, Whole Foods Market and Wild Oats Markets completed their merger, as a result of which, Wild Oats Markets became a wholly-owned subsidiary of Whole Foods Market. We service all of the stores previously owned by Wild Oats Markets and now owned by Whole Foods Market under the terms of our distribution agreement with Whole Foods Market. On a combined basis, and excluding sales to Wild Oats Markets' former Henry's and Sun Harvest store locations (which were sold by Whole Foods Market to a subsidiary of Smart & Final Inc. on September 30, 2007), Whole Foods Market and Wild Oats Markets accounted for approximately 31.0% of our net sales in fiscal 2008. As a result of this concentration of our customer base, the loss or cancellation of business from Whole Foods Market, including from increased distribution to their own facilities or closures of stores previously owned by Wild Oats Markets, could materially and adversely affect our business, financial condition or results of operations.

Our customers generally are not obligated to continue purchasing products from us

We generally sell products under purchase orders, and we generally do not have agreements with or commitments from our customers for the purchase of products. We cannot assure you that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales

Table of Contents

volumes or orders for products supplied by us may have an adverse affect on our business, financial condition or results of operations.

Our profit margins may decrease due to consolidation in the grocery industry

The grocery distribution industry generally is characterized by relatively high volume with relatively low profit margins. The continuing consolidation of retailers in the natural products industry and the growth of supernatural chains may reduce our profit margins in the future as more customers qualify for greater volume discounts, and we experience pricing pressures from both ends of the supply chain.

Our acquisition strategy may adversely affect our business

We continually evaluate opportunities to acquire other companies. To the extent that our future growth includes acquisitions, we cannot assure you that we will successfully identify suitable acquisition candidates, consummate such potential acquisitions, integrate any acquired entities or successfully expand into new markets as a result of our acquisitions. We believe that there are risks related to acquiring companies, including overpaying for acquisitions, losing key employees of acquired companies and failing to achieve potential synergies. Additionally, our business could be adversely affected if we are unable to integrate the companies acquired in our acquisitions and mergers.

A significant portion of our past growth has been achieved through acquisitions of or mergers with other distributors of natural products. The successful integration of any acquired entity is critical to our future operating and financial performance. Integration requires, among other things:

maintaining the customer base;

optimizing delivery routes;

coordinating administrative, distribution and finance functions; and

integrating management information systems and personnel.

The integration process has diverted and could divert the attention of management and any difficulties or problems encountered in the transition process could have a material adverse effect on our business, financial condition or results of operations. In particular, the integration process may temporarily redirect resources previously focused on reducing product cost, resulting in lower gross profits in relation to sales. In addition, the process of combining companies has caused and could cause the interruption of, or a loss of momentum in, the activities of the respective businesses, which could have an adverse effect on their combined operations. For example, our acquisition of Millbrook has diverted the attention of management away from our core business, not yet produced the purchasing efficiencies and other synergies we expect to result from the acquisition and negatively affected our operating expenses. Although we expect to achieve efficiencies from this acquisition in future periods, we cannot assure you that we will realize any of the anticipated benefits of this or other mergers.

We may have difficulty managing our growth

The growth in the size of our business and operations has placed, and is expected to continue to place, a significant strain on our management. Our future growth may be limited by our inability to acquire new distribution facilities or expand our existing distribution facilities, make acquisitions, successfully integrate acquired entities, implement information systems or adequately manage our personnel. Our future growth is limited in part by the size and location of our distribution centers. We cannot assure you that we will be able to successfully expand our existing distribution facilities or open new distribution facilities in new or existing markets to facilitate growth. Even if we are able to expand our distribution network, our ability to compete effectively and to manage future growth, if any, will depend on our ability to continue to implement and improve operational, financial and management

Table of Contents

information systems on a timely basis and to expand, train, motivate and manage our work force. We cannot assure you that our existing personnel, systems, procedures and controls will be adequate to support the future growth of our operations. Our inability to manage our growth effectively could have a material adverse effect on our business, financial condition or results of operations.

We have significant competition from a variety of sources

We operate in competitive markets and our future success will be largely dependent on our ability to provide quality products and services at competitive prices. Our competition comes from a variety of sources, including other distributors of natural products as well as specialty grocery and mass market grocery distributors. We cannot assure you that mass market grocery distributors will not increase their emphasis on natural products and more directly compete with us or that new competitors will not enter the market. These distributors may have been in business longer than we have, may have substantially greater financial and other resources than we have and may be better established in their markets. We cannot assure you that our current or potential competitors will not provide products or services comparable or superior to those provided by us or adapt more quickly than we do to evolving industry trends or changing market requirements. It is also possible that alliances among competitors may develop and rapidly acquire significant market share or that certain of our customers will increase distribution to their own retail facilities. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect our business, financial condition or results of operations. We cannot assure you that we will be able to compete effectively against current and future competitors.

Our operations are sensitive to economic downturns

The grocery industry is sensitive to national and regional economic conditions and the demand for our products may be adversely affected from time to time by economic downturns that impact consumer spending, including discretionary spending. Future economic conditions such as employment levels, business conditions, interest rates, energy and fuel costs and tax rates could reduce consumer spending or change consumer purchasing habits. Among these changes could be a reduction in the number of organic products that consumers purchase where there are non-organic (or "conventional") alternatives, given that many organic products, and particularly organic foods, often have higher retail prices than do their conventional counterparts.

In addition, our operating results are particularly sensitive to, and may be materially adversely affected by:

difficulties with the collectability of accounts receivable;

difficulties with inventory control;

competitive pricing pressures; and

unexpected increases in fuel or other transportation-related costs.

We cannot assure you that one or more of such factors will not materially adversely affect our business, financial condition or results of operations.

Increased fuel costs may adversely affect our results of operations

Increased fuel costs may have a negative impact on our results of operations. The high cost of diesel fuel can increase the price we pay for products as well as the costs we incur to deliver products to our customers. These factors, in turn, may negatively impact our net sales, margins, operating expenses and operating results. To manage this risk, we have in the past periodically entered, and may in the future periodically enter, into heating oil derivative contracts to hedge a portion of our projected

Table of Contents

diesel fuel requirements. Heating crude oil prices have a highly correlated relationship to fuel prices, making these derivatives effective in offsetting changes in the cost of diesel fuel. We are not party to any commodity swap agreements and, as a result, our exposure to volatility in the price of diesel fuel has increased relative to our exposure to volatility in prior periods in which we had outstanding heating oil derivative contracts. We do not enter into fuel hedge contracts for speculative purposes. We also have maintained a fuel surcharge program since fiscal 2005 which allows us to pass some of our higher fuel costs through to our customers. We cannot guarantee that we will continue to be able to pass a comparable proportion or any of our higher fuel costs to our customers in the future.

The cost of the capital available to us and any limitations on our ability to access additional capital may have a material adverse effect on our business, financial condition or results of operations

We have a \$400 million secured revolving credit facility, which matures on November 27, 2012, and under which borrowings accrue interest, at our option, at either (i) the base rate (the applicable prime lending rate of Bank of America Business Capital, as announced from time to time) plus, during the period from June 1, 2008 through the date on which we demonstrate compliance with the fixed charge coverage ratio covenant thereunder (the "Credit Facility Noncompliance Period"), 0.25%, or (ii) the one-month London Interbank Offered Rate ("LIBOR") plus 1.0% during the Credit Facility Noncompliance Period and one-month LIBOR plus 0.75% thereafter. As of August 2, 2008, our borrowing base, based on accounts receivable and inventory levels, was \$370.9 million, with remaining availability of \$65.0 million. We have a term loan agreement in the principal amount of \$75 million secured by certain real property. The term loan is repayable over seven years based on a fifteen-year amortization schedule. Interest on the term loan accrues at one-month LIBOR plus 1.25% during the period from June 1, 2008 through the date on which we demonstrate compliance with the fixed charge coverage ratio covenant under the term loan agreement and one-month LIBOR plus 1.0% thereafter. As of August 2, 2008, \$61.2 million was outstanding under the term loan agreement.

In order to maintain our profit margins, we rely on strategic investment buying initiatives, such as discounted bulk purchases, which require spending significant amounts of working capital. In the event that our cost of capital increases, such as during the period in which we are not in compliance with the fixed charge coverage ratio covenants under our revolving credit facility and our term loan agreement, or our ability to borrow funds or raise equity capital is limited, we could suffer reduced profit margins and be unable to grow our business organically or through acquisitions, which could have a material adverse effect on our business, financial condition or results of operations.

Our operating results are subject to significant fluctuations

Our operating results may vary significantly from period to period due to:

demand for natural products;

changes in our operating expenses, including fuel and insurance expenses;

management's ability to execute our business and growth strategies;

changes in customer preferences, including levels of enthusiasm for health, fitness and environmental issues;

fluctuation of natural product prices due to competitive pressures;

personnel changes;

general economic conditions;

supply shortages, including a lack of an adequate supply of high-quality agricultural products due to poor growing conditions, natural disasters or otherwise;

Table of Contents

volatility in prices of high-quality agricultural products resulting from poor growing conditions, natural disasters or otherwise; and

future acquisitions, particularly in periods immediately following the consummation of such acquisition transactions while the operations of the acquired businesses are being integrated into our operations.

Due to the foregoing factors, we believe that period-to-period comparisons of our operating results may not necessarily be meaningful and that such comparisons cannot be relied upon as indicators of future performance.

We are subject to significant governmental regulation

Our business is highly regulated at the federal, state and local levels and our products and distribution operations require various licenses, permits and approvals. In particular:

our products are subject to inspection by the U.S. Food and Drug Administration;

our warehouse and distribution facilities are subject to inspection by the U.S. Department of Agriculture and state health authorities; and

the U.S. Department of Transportation and the U.S. Federal Highway Administration regulate our trucking operations.

The loss or revocation of any existing licenses, permits or approvals or the failure to obtain any additional licenses, permits or approvals in new jurisdictions where we intend to do business could have a material adverse effect on our business, financial condition or results of operations.

We are dependent on a number of key executives

Management of our business is substantially dependent upon the services of certain key management employees. Loss of the services of any officers or any other key management employee could have a material adverse effect on our business, financial condition or results of operations.

Union-organizing activities could cause labor relations difficulties

As of August 2, 2008, we had approximately 6,300 full and part-time employees. An aggregate of approximately 6.6% of our total employees, or approximately 415 of the employees at our Auburn, Washington, East Brunswick, New Jersey, Edison, New Jersey, Iowa City, Iowa and Leicester, Massachusetts facilities, are covered by collective bargaining agreements. The Edison, New Jersey, Auburn, Washington, East Brunswick, New Jersey, Leicester, Massachusetts and Iowa City, Iowa agreements expire in June 2011, February 2009, June 2009, March 2013 and July 2009, respectively. We have in the past been the focus of union-organizing efforts. As we increase our employee base and broaden our distribution operations to new geographic markets, our increased visibility could result in increased or expanded union-organizing efforts. Although we have not experienced a work stoppage to date, if additional employees were to unionize or we are not successful in reaching agreement with these employees, we could be subject to work stoppages and increases in labor costs, either of which could materially adversely affect our business, financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents**ITEM 2. PROPERTIES**

We maintained twenty distribution centers at fiscal year end which were utilized by our wholesale division. These facilities, including offsite storage space, consisted of an aggregate of approximately 5.8 million square feet of space, which represents the largest capacity of any distributor in the natural, organic and specialty products industry.

Set forth below for each of our distribution facilities is its location and the date on which our lease will expire for those distribution facilities that we do not own.

Location	Lease Expiration
Atlanta, Georgia	Owned
Auburn, California	Owned
Auburn, Washington	March 2009
Aurora, Colorado	January 2013
Bridgeport, New Jersey	Owned
Chesterfield, New Hampshire	Owned
Dayville, Connecticut	Owned
East Brunswick, New Jersey	March 2009
Fontana, California	February 2012
Greenwood, Indiana	Owned
Harrison, Arkansas	Owned
Iowa City, Iowa	Owned
Leicester, Massachusetts	November 2011
Mounds View, Minnesota	November 2011
New Oxford, Pennsylvania	Owned
Philadelphia, Pennsylvania	January 2014
Ridgefield, Washington	Owned