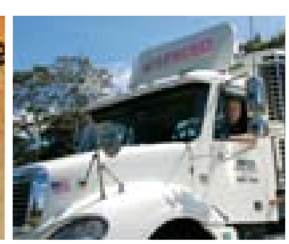
United Natural Foods, Inc.
ANNUAL REPORT
[2004]

Investment in the future

a commitment to sustainable growth

people • facilities • equipment • technology




Mission Statement

To excel in the distribution of natural and organic foods and wellness products by fulfilling the highest standards for quality, consistency, product assortments, dependability, value-added support services and integrity in our business and personal relationships. To exceed the needs and expectations of all our stakeholders: our customers, suppliers, employees, shareholders, communities, the environment and the planet.

To our customers

To create partnering relationships of trust, integrity, customer satisfaction and loyalty. To provide the widest selection of natural and organic products of the highest quality, consistently high in-stock levels, dependable on-time deliveries and highly competitive pricing, which allow our retailers to compete successfully and prosper.

To our suppliers

To build and sustain fair and honest relationships and be a trusted, dependable distribution resource supported by innovative and effective sales and marketing programs, which deliver measurable values to retailers and consumers.

To our employees

To create a nurturing work environment for our employees, by acknowledging the value of each person's contribution to our company, entrusting them with responsibility, facilitating personal and professional development, and by providing competitive, merit based compensation and benefits which rewards their good work and dedication.

To our shareholders

To exceed the expectations of our shareholders by delivering outstanding performance and commendable returns on their investments.

To our communities

To be an outstanding partner in the communities where we work, supporting them economically, being proactive and collaborative and making truly meaningful contributions to the quality of life.

To the environment and the planet

To use our strengths and leadership to support socially responsible initiatives that protect the environment and foster stewardship of the land.

[Financial Highlights 2004]

Consolidated Statement of Income Data (in thousands, except per share data)	Fiscal years ended July 31, 2004	2003	2002
Statement of Income Data:			
Net sales	$ 1,669,952	$1,379,893	$1,175,393
Gross profit excluding special items*	330,456	281,294	241,155
Total operating expenses excluding special items*	270,381	235,713	198,795
Operating income excluding special items*	60,045	45,581	42,360
Net income excluding special items*	$ 32,509	$ 20,220	$ 21,245
Diluted net income per share excluding special items*	$ 0.79	$ 0.59	$ 0.55

Consolidated Balance Sheet Data (in thousands)	2004	2003	2002
Working capital	$ 109,225	$ 64,299	$ 51,697
Total assets	508,767	430,099	354,457
Total long term debt and capital leases	44,115	39,119	8,672
Total stockholders' equity	234,929	187,563	160,387

* Special items include start-up and transition costs of the new Wild Oats Markets primary distributorship and a non-cash charge related to the change in fair value of interest rate swaps and related option agreements in fiscal 2004; a goodwill impairment charge, inventory write down and restructuring and asset impairment charges related to a subsidiary, moving and other costs related to the expansion of a distribution facility, costs related to the loss of a major customer and a non-cash charge related to the change in fair value of interest rate swaps and related option agreements in fiscal 2003; and a non-cash charge related to the change in fair value of interest rate swaps and related option agreements, relocation, asset impairment and redundant rent expense related to moving a distribution facility, incremental costs related to the startup of a distribution facility, such as labor, utilities and rent, and labor, utilities, rent and severance related to relocating a facility in fiscal 2002.

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A letter to all our constituencies

Our Customers, our Suppliers, our Associates and our Shareholders

We're unwavering in our focus to excel in the distribution of natural and organic foods and wellness products by fulfilling the highest standards for quality, consistency, product assortment, dependability, value-added support services and integrity in our business and personal relationships.

From both an operational and financial standpoint, fiscal 2004 was an excellent year for United Natural Foods (UNFI). The Company continued to capitalize on growing trends in the natural and organic food industry to realize record financial results and increased market share. Management completed the successful integration of our two 2003 acquisitions, Blooming Prairie and Northeast Co-operatives, into our distribution organization. We also welcomed the return of Wild Oats Markets to our growing base of customers. Focused on solidifying future success, the Company announced plans to "INVEST" more than $100 million into our organization over the next three years.

Our objective is to not only recap our achievements over the past twelve months but to outline UNFI's long-term vision for the future. The focal point of this vision is UNFI's continuing investment in our **people, facilities, equipment** and **technologies.**

FINANCIAL RESULTS

Fiscal 2004 was an exciting year for UNFI. Our Associates remained fixed on meeting the needs of our Company's diverse customer base. Financially and operationally, the organization achieved many major milestones.

We reported record revenue, achieving sales of $1.7 billion. Our rate of revenue growth—21% over the previous year—continues to be more than **double** that of the natural products industry and about **seven** times that of conventional supermarkets. The Company increased earnings, excluding special items, 39.0% to $32.5 million, or $0.79 per diluted share. Management continues to focus on improving operating margins. With this emphasis, the Company achieved operating margin growth of 30 basis points over 2003 levels. Free cash flow, excluding working capital, was also very strong, as the Company generated $24 million in free cash flow at year end.

We also solidified our balance sheet with the closing of a four-year $250 million revolving credit facility with a bank group that is led by Bank of America Business Capital. We also added long-term debt to the balance sheet and increased our overall liquidity to $125 million.

Operationally, we are happy to have re-established our primary distribution relationship with Wild Oats Markets by signing a five-year agreement worth approximately $1 billion. Our ability to reclaim this business is a testament to our Associates' hard work in servicing all of our customers' needs.

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During fiscal 2004, we also focused on entering new channels of business. We entered into business relationships with Sodexho and Aramark, allowing us to secure a foothold in the large Food Service channel. We have also initiated a significant effort to penetrate select global markets as well, starting with the Asian markets. Both of these channels are expected to expand over the next several years as we expand in these markets and prepare to enter others.

On March 29, 2004 the Board approved a two-for-one split of the Company's common stock, our first stock split as a public company. The split was paid in the form of a stock dividend in mid-April. This split creates an opportunity to broaden our shareholder base and increase the availability of our common stock for trading.

Our Vision... FOR THE FUTURE

Over twenty-five years ago, a group of visionary companies shared the unifying goal of providing healthier food, food grown and produced naturally, free of artificial colors and flavors, free of additives and preservatives. The principles on which UNFI was created **—to support environmental conservation, organic certification and sustainability in agriculture—still thrive and have never been more important than they are today.**

We're unwavering in our focus to excel in the distribution of natural and organic foods and wellness products by fulfilling the highest standards for quality, consistency, product assortment, dependability, value-added support services and integrity in our business and personal relationships. We aim to create enduring and partnering relationships with our customers and suppliers while providing a nourishing environment for all our Associates inside our company. We seek to be an outstanding partner in the communities where we work and have a long-standing dedication to use our strengths and resources to support socially responsible initiatives that protect the environment and foster stewardship of the land. We're committed to long-term sustainable growth and achieving superior financial performance, aligning our efforts with shareholders. In short, we strive to be an organization you can trust.

In short, we strive to be an organization you can trust.

To sustain this legacy and to secure our vision for the future, UNFI is committed to investing more than $100 million in its **people, facilities, equipment** and **technologies** over the next three years.

Focused on the future... LOOKING AHEAD

In 2005, we will once again focus on growing top line revenue while continuing the bottom line profit growth we have achieved in recent years. Management has operational initiatives in place which should deliver considerable benefits for our customers, suppliers and our Associates, and which, as a result, will create greater value for our shareholders.

We believe our future prospects are extremely bright and management is excited about the opportunities for fiscal 2005 and beyond. The industry continues to grow and our customer base continues to expand. We have established a leadership position in an expanding industry, our fundamentals are sound, and our management team is solid.

We would like to express our sincere appreciation to all our Associates for their dedication, pride and enthusiasm for our business, their hard work and their contributions to our organization's success.

In closing, I want to thank our shareholders, our customers, our suppliers and all of our Associates for their continued support. I would also like to extend my gratitude to our Board of Directors for their ongoing dedication and strategic guidance.

We look forward to reporting on our progress as we continue to build on our success both in fiscal 2005 and for many years to come.

Sincerely,

Steven Townsend
Chair of the Board, President
and Chief Executive Officer

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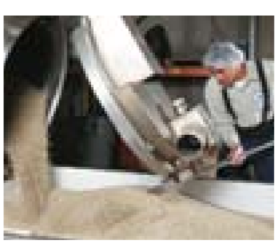
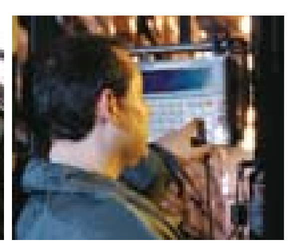
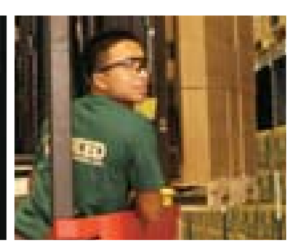


Focused on the Future

Investing in people, facilities, equipment and technology

Our vision for the future… **OUR ASSOCIATES**

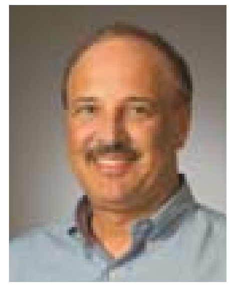
To continue to deliver consistent and sustainable excellence to our customers, we must be known for having superior Associates. Our objective is to be the employer of choice in each of our communities. The Company's culture of excellence allows us to recruit and retain high-caliber/seasoned Associates to enhance our leadership position. Focused on being the employer of choice, we have changed our compensation systems, benefits, internal communications, training and other critical areas that impact our ability to retain and attract strong performers to the organization. To this end, we have implemented a national companywide health care program that provides our Associates with higher quality care.

UNFI continues to assemble a senior management team to provide the organization with the talent and expertise to achieve our objectives. During the year we announced the appointments of **Rick Antonelli**, who moved from Eastern Region President to the position of President of United Distribution, **Michael Beaudry** to the new position of Vice President of Distribution and recruited **Di Ann Sanchez** to the newly created position of Vice President of Human Resources. We have also appointed **Gary Glenn** to the position of Vice President of Information Technologies. The Company's ability to both attract and retain top quality talent has been an important reason for the strong, long-term relationships UNFI has forged with customers and the Company's continuing progress in expanding business volume and market share. Strong Associates are key components to delivering the superior customer service that our customers demand.

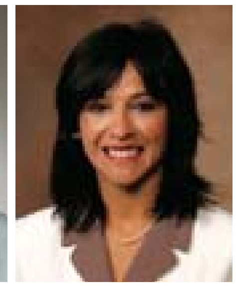
UNFI fosters a creative and highly cooperative culture that allows employees to maximize their potential. As part of our commitment to creating a corporate infrastructure that enhances UNFI's leadership role, we are building our human resources capabilities. Promoting from within is a key objective and we have initiated a succession planning process throughout the organization. We also recognize the importance of training and management development and we have made significant investments to both train and educate our workforce.

Finally, UNFI is an Employee Owned Company with approximately 9% of the stock being intentionally held in trust for our Associates.

[Rick Antonelli]



[Di Ann Sanchez]



[Michael Beaudry]

[Gary Glenn]

Our vision for the future… **OUR FACILITIES**

We have a history of meeting customer needs and remain committed to making it easier, faster and more convenient for our customers to do business with us. Continued growth has created the need for expansion of existing facilities to achieve maximum operating efficiencies and to assure adequate space to meet the growing demand.

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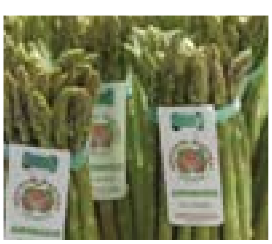


Our Iowa City, Iowa and Dayville, Connecticut facilities both went through major capacity expansion during the year. Each was brought on line with minimal issues and are both now functioning fully as expanded facilities. These expansions enable us to better service existing and new customers, provide more product diversity, and better balance products among our distribution centers across the country.

Looking ahead, we will continue to expand as well as drive process improvements in all our facilities. We expect to add a facility in the Midwest in fiscal 2005. This will alleviate capacity constraints in surrounding facilities and provide distribution points with adequate capacity for our larger customers as they expand throughout the country.

The ongoing investment in infrastructure and facilities also enables management to rapidly and efficiently integrate acquisitions. As an example, the expansion of our Chesterfield facility in 2003 allowed us to close two facilities that were part of the acquisition of the Northeast Co-op organization. This increased efficiency and profitability in the New England region and helped us realize the expected synergies from the acquisition.

Our vision for the future… **OUR EQUIPMENT**

UNFI is strongly committed to utilizing the best available equipment and sophisticated state-of-the-art systems to achieve operational efficiencies. A major component of our capital investments plan for this coming year, as well as the investments planned for the next few years, is dedicated to the enhancements of our facility equipment.

WOODSTOCK FARMS

NATURAL SEA

Grateful Harvest ORGANIC

Organic Baby™

United Natural Brands

A significantly growing segment of United Natural Foods revenues is the family of company owned brands, including Woodstock Farms, Natural Sea, Grateful Harvest and others. Given the high profit nature of these brands, as well as their brand equity-building potential, they will be an increasingly important part of UNFI's overall growth strategy.

We are very serious about safety in the workplace and we want all our distribution centers and equipment to be of high quality and superior reliability and function.

These investments allow UNFI to achieve continued, strong internal growth, by helping us remain competitive as the **low cost distributor.** We will continue to evaluate, analyze and seek out new ways of doing business that drive costs down and enhance the working experience for our Associates.

Our vision for the future… PROVEN TECHNOLOGIES

The Company will continue investing in proven technologies to ensure superior execution and customer service. We will increase our investments in technologies across all functional areas. There will be a concentration on logistics systems, warehouse and inventory management systems to create greater efficiencies and financial systems and business intelligence tools to provide more information in a timely manner to our sales, marketing, purchasing and management Associates.

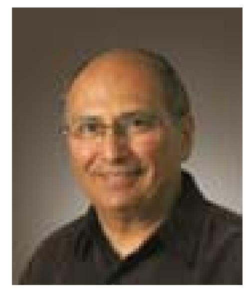
We have invested and will continue to dedicate resources to the upgrade of our networking hardware and software throughout the Company as we link the regions of the country together for voice and data transmission.

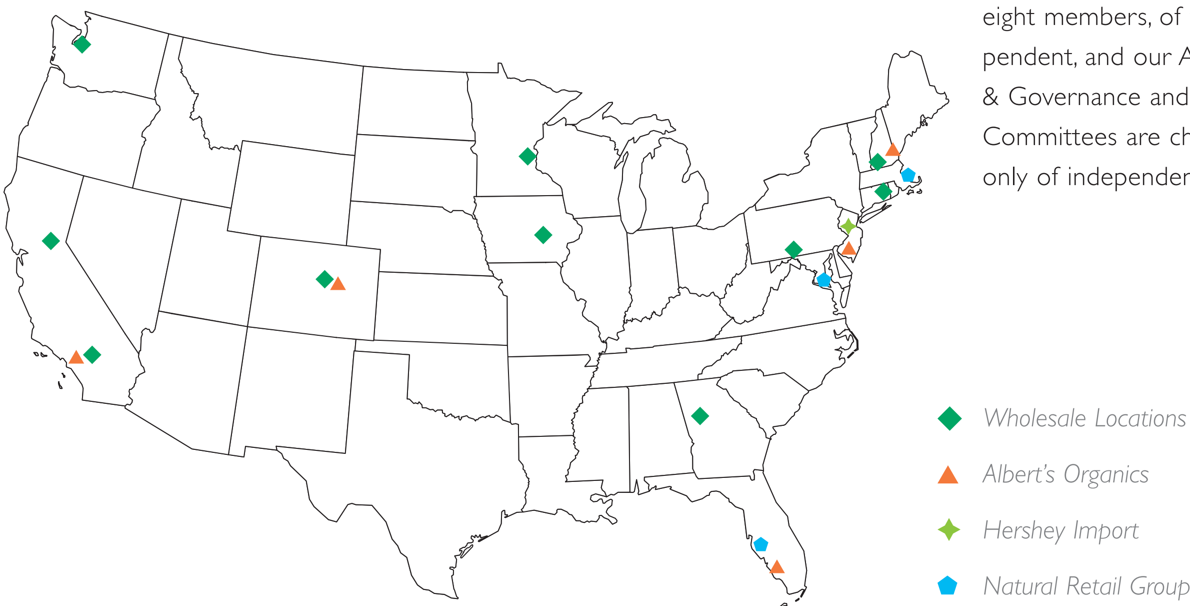
Additionally, we will develop new products and services that address customers' evolving needs. These offerings to our customers are important to the maintenance and development of our customer relationships.

CORPORATE GOVERNANCE

We remain committed to ensuring the highest level of standards in corporate governance. Towards this end, **Tom Simone,** Vice Chair of the Board of Directors, was elected to the additional position of Lead Independent Director. Tom is responsible for coordinating the activities of the Company's independent directors. Of note, our Board of Directors has eight members, of whom five are independent, and our Audit, Nominating & Governance and Compensation Committees are chaired by and consist only of independent directors.

[Tom Simone]





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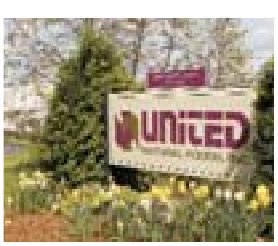
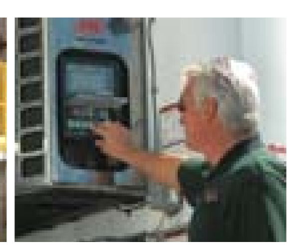
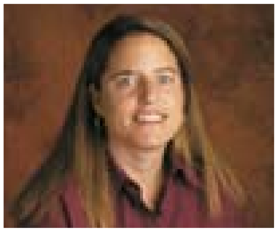




People Strategy

"Right" people are our most important asset.

Kate Tierney



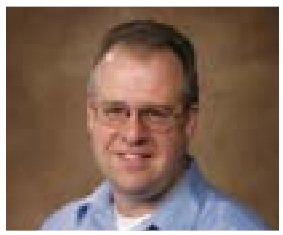
John Hochuli

Debbie Eddy

Nachelle Rantin

Jonathan Audette

Mark Shamber

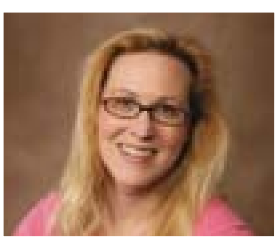


Alana Pilcher

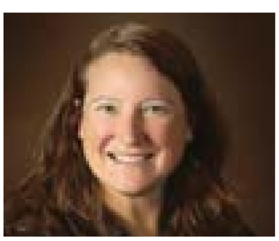
Kristen Flemming

John Ward

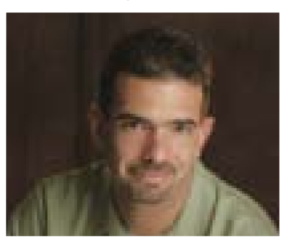
Nina Brouwer



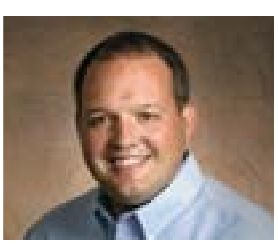
Chris Brown



Randy Xavier

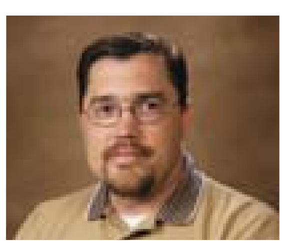


Shawn Mitchell



Laura Perkins

Chris Erklenz



"Right" people are our most important asset and UNFI fosters a creative and highly cooperative culture that allows employees to maximize their potential. Promoting from within is a key objective within our Human Resources group and we look to continually develop our Associates.

The pictures to the left are representative of some of the promotions and additions made within our Company this past year. We want to provide our Associates with additional opportunities in the coming years fueled by our growth resulting from a continual focus on our customers.

Directors & Officers

Steven Townsend
Chair of the Board and
Chief Executive Officer

Thomas B. Simone
Vice Chair of the Board and
Lead Independent Director

Richard Antonelli
President of United Distribution,
Assistant Secretary and Director

Gordon D. Barker
Director

Joseph M. Cianciolo
Director

Michael S. Funk
Director

Gail A. Graham
Director

James P. Heffernan
Director

Daniel V. Atwood
Senior Vice President and
Secretary

Rick D. Puckett
Vice President, Chief Financial
Officer and Treasurer

Michael Beaudry
Vice President of Operations

Di Ann Sanchez
Vice President of
Human Resources

CORPORATE

Tom Dziki
Vice President of Special Projects

Gary Glenn
Vice President of Information Technologies

Michael Kahn
Director of Global Market Development

Carl Koch
Director of Risk Management

Mark Shamber
Corporate Controller

UNITED DISTRIBUTION

Chris Erklenz
Director of Inbound Logistics

Alan Linder
Vice President of Mass Market Sales

Marketing

Nathan Crowell
Marketing Director,
United Natural Brands

Kevin DiStasio
National Director of Sales,
United Natural Brands

Debbie Eddy
Key Vendor Partnership Program Director

Ron Lautrup
Director of Purchasing and National
Commodities

Alana Pilcher
Marketing Director, National Vendor
Programs

Information Technology

Jonathan Audette
Director of Application Development

Larry Desjardins
Director of EDI and Data Warehouse

Ron Donohue
Director of Security and Production
Control

Ken Greene
Director of Project Development
and IT Logistics

Eastern Locations

Kristen Flemming
Director of Business Analysis

Jacqueline Hartwell
Vice President of Finance

Bill Lachapelle
Director of Information Technology

Shawn Mitchell
Director of Operations

Thomas Nunziata
Vice President of Purchasing and
Marketing

Steve Verde
Vice President of Sales

Western Locations

Jim Gallops
Director of Information Technology

Margaret Loew
Vice President of Customer Support

Steve Losleben
Vice President of Human Resources

Laura Perkins
Vice President of Purchasing and
Marketing

Kate Tierney
Vice President of Sales

John Ward
Vice President of Finance

Randy Xavier
Director of Operations

ALBERT'S ORGANICS

Barclay Hope
President

Jim Hagan
Vice President of Fresh Goods

Don Hessel
Vice President of Operations

Frank McCarthy
Vice President of Marketing

Melody Meyer
Vice President of Purchasing

Bob Paradise
Vice President of Finance

NATURAL RETAIL GROUP

Bud Mayberry
President

HERSHEY IMPORT

John Hochuli
General Manager and
Director of Plant Operations

United Natural Foods, Inc.
ANNUAL REPORT
[2004]

Form 10-K

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PART I.

ITEM 1. BUSINESS

OVERVIEW

We are a leading national distributor of natural and organic foods and related products in the United States. We believe that we are the primary distributor of natural and organic products to a majority of our customers. We carry more than 35,000 high-quality natural and organic products, consisting of national brand, regional brand, private label and master distribution products in six product categories consisting of grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements, bulk and food service products and personal care items. We serve more than 18,000 customers, including independently owned natural products retailers, supernatural chains, which are comprised of small and large chains of natural foods supermarkets, and conventional supermarkets located across the United States. Our other distribution channels include food service, international and buying clubs. We have been the primary distributor to the largest supernatural chain in the United States, Whole Foods Market, Inc. ("Whole Foods Market") for more than 10 years. During fiscal 2004, we also entered into and consummated a five year primary distribution agreement with Wild Oats Markets, Inc. ("Wild Oats Markets"). We had previously served as primary distributor for Wild Oats Markets through August 2002.

In recent years, our sales to existing and new customers have increased through the continued growth of the natural products industry in general, the acquisition of or merger with natural products distributors and the expansion of our existing distribution centers. 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. Through our subsidiary, the Natural Retail Group, Inc., we also own and operate 12 natural products retail stores located primarily in Florida. 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 addition, our subsidiary, Hershey Imports Company, Inc. ("Hershey"), specializes in the international importing, roasting and packaging of nuts, seeds, dried fruits and snack items.

Since our formation we have completed a number of acquisitions of distributors and suppliers, including Hershey, Albert's Organics, Inc. ("Albert's"), and 11 retail stores, all of which have expanded our distribution network, product offerings and customer base. During fiscal 2003, we acquired both Blooming Prairie Cooperative and Northeast Cooperative. Our operations are comprised of three principal divisions:

- our wholesale division, which includes our Eastern Region, Western Region and Albert's;
- our retail division, which consists of 12 retail stores; and
- our manufacturing division, which is comprised of Hershey.

NATURAL PRODUCTS INDUSTRY

Although most natural products are food products, including organic foods, the natural products industry encompasses a number of other categories, including 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 2004 issue of *The Natural Foods Merchandiser*, a leading trade publication for our industry, sales revenues for all types of natural products rose to $42.8 billion in 2003, an increase of approximately 8.1% over 2002. This increase in sales was driven primarily by growth in the following categories:

- packaged fresh produce;
- frozen and refrigerated meats, poultry and seafood;
- bread and baked goods;
- food supplements; and
- dairy products.

The fastest growing categories in organic products were personal care items, fresh meat and seafood, beer and wine, nutrition bars and pet products.

According to *The Natural Foods Merchandiser*, the continuing growth trend is driven by consumer desire for healthy, tasty and low-cost prepared food. More than half of American households represent "midlevel" organic customers, that is, they regularly purchase organic and natural products and want to learn more about nutrition as concerns continue to mount about health claims, food safety, irradiation and genetically modified organisms issues. *The Natural Foods Merchandiser* has also noted that 69% of natural products stores reported sales increases in 2003, while many other sectors of the economy continued to slump and unemployment increased.

COMPETITIVE ADVANTAGES

We benefit from a number of significant competitive advantages including:

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 supernatural chains. We believe we have significant advantages over smaller, regional natural products distributors as a result of our ability to:

- invest in people, facilities, equipment and technology;
- expand marketing and customer service programs across regions;
- expand national purchasing opportunities;
- consolidate systems applications among physical locations and regions;
- integrate administrative and accounting functions; and
- reduce geographic overlap between regions.

We were the first organic food distribution network in the United States to earn certification by Quality Assurance International, Inc. ("QAI"). This process involved a comprehensive review by QAI of our operating and purchasing systems and procedures. This certification comprises all of our distribution centers, except for our Iowa City, Iowa and Mounds View, Minnesota facilities, which are currently undergoing the certification process.

Low Cost Distributor

In addition to our volume purchasing opportunities, a critical component of our position as a low-cost provider is our management of warehouse and distribution costs. Our continued growth has created the need for expansion of existing facilities in order to achieve maximum operating efficiencies and to ensure that we possess adequate space for future needs. We completed the expansions of our Dayville, Connecticut and Iowa City, Iowa, distribution facilities in July 2004. As a result of these expansions, we now operate a 275,000 square foot facility in Iowa City, Iowa and a 353,000 square foot facility in Dayville, Connecticut. These expansions will allow us to increase our product diversity and to better serve customers in the Midwest and Northeast markets of our Eastern Region, while eliminating outside storage expenses. We expect the efficiencies created by expanding our Iowa City and Dayville facilities will take approximately nine months to fully manifest themselves in the form of lower expenses relative to sales. We have made considerable capital expenditures and incurred considerable expenses in connection with the expansion of our facilities, including the expansion of our facilities located in Auburn, California, Chesterfield, New Hampshire, New Oxford, Pennsylvania and Vernon, California, the expansion and relocation of our facility in Atlanta, Georgia, and the addition of our Fontana, California distribution facility. Having completed the Iowa City and Dayville facilities' expansion, we have now added approximately 1,266,000 square feet to our distribution centers in the last 5 years, which represents an 92% increase in our distribution capacity.

Customer Relationships

We serve more than 18,000 customers across the United States and internationally. We have developed long-standing customer relationships, which we believe are among the strongest in our industry. We have also been the primary supplier of natural and organic products to our industry's largest supernatural chain in the United States, Whole Foods Market, for more than ten years. Our current distribution arrangement with Whole Foods Market was extended through December 31, 2004 on July 28, 2004.

Our average service level for fiscal 2004 was approximately 97%, which we believe is the highest in our industry. 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 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 to ensure accurate fulfillment of orders, timely product delivery, low prices and a high level of product marketing support.

We carry more than 35,000 high-quality natural products, consisting of national brand, regional brand, private label and master distribution products in six product categories consisting of grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements, bulk and food service products and personal care items.

Experienced Management Team and Employees with Significant Equity Stake

Our management team has extensive experience in the natural products industry and has been successful in identifying, consummating and integrating multiple acquisitions. Since 1985, we have successfully completed 13 acquisitions of distributors and suppliers and 11 acquisitions of retail stores. In addition, our executive officers and directors and their affiliates, and the Employee Stock Ownership Trust, beneficially own in the aggregate approximately 8.6% of our Common Stock. Accordingly, senior management and employees have significant incentive to continue to generate strong growth in operating results in the future.

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 also distributes specialty food products, thereby diversifying its product offerings, 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 250 smaller regional and local distributors of ethnic, kosher, gourmet and other specialty foods, including Kehe Food Distributors, Inc. and Nature's Best, Inc., that focus on niche or regional markets. Additionally, we compete with national, regional and local distributors of conventional groceries and, to a lesser extent, companies that distribute to their own retail facilities.

We believe that distributors in the natural products industry primarily compete on product quality and depth of inventory selection, price and quality of customer service and 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.

GROWTH STRATEGY

Our growth strategy is to maintain and enhance our position as a leading national distributor to the natural products industry. Key elements of our strategy include:

Increase Market Share of the Growing Natural Products Industry

We intend to continue to increase our leading market share of the growing natural 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 Southern California and Midwest markets.

Expand Customer Base

We have expanded our number of customers served to more than 18,000 as of July 31, 2004. We plan to continue to expand our coverage of the highly fragmented natural 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.

Increase 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. We intend to continue to seek to become the primary supplier for a majority of our customers by offering the broadest product offerings in our industry at the most competitive prices. Since 1993, we have expanded our product offerings from approximately 14,000 to more than 35,000 individual products as of July 31, 2004. Additionally, we have launched a number of private label programs that present to us and our customers higher margins than many of our existing product offerings.

Continue to Expand and Penetrate into new Regions of Distribution

As discussed under "Competitive Advantages," we have made considerable capital expenditures and incurred considerable expenses in connection with the expansion of our facilities. We will continue to selectively evaluate opportunities to build new facilities or to acquire distributors to fulfill existing markets and expand into new markets.

Continue to Improve Efficiency of Nationwide Distribution Network

We continually seek to improve our operating results by integrating our nationwide network utilizing the best practices within our industry and within each of the regions, which have formed our foundation. This focus on achieving improved economies of scale in purchasing, warehousing, transportation and general and administrative functions has improved our operating margin.

Continue to Provide the Leading Distribution Solution

Our strategy is to continue to provide the leading distribution solution to the natural products industry through our national presence, regional responsiveness, high customer service focus and breadth of product offerings. We offer our customers a selection of inventory management, merchandising, marketing, promotional and event management services to increase sales and enhance customer satisfaction. The marketing services, many of which are supplier-sponsored, include monthly and thematic flyer programs, in-store signage and assistance in product display. We believe that our high service levels, which we believe to be the highest in our industry, are attributable to our experienced purchasing departments and sophisticated warehousing, inventory control and distribution systems. In 2002, we announced a strategic alliance with Living Naturally, the leading provider of marketing promotion and electronic ordering systems to the natural products industry. We provide our customers access to Living Naturally's suite of products at preferred prices and terms. These products 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.

PRODUCTS

Our extensive selection of high-quality natural 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 35,000 high-quality natural and organic products, consisting of national brand, regional brand, private label and master distribution products in six product categories consisting of grocery and general merchandise, produce, perishables and frozen, nutritional supplements, bulk and food service products and personal care items. Our private label products address certain preferences of customers, which are not otherwise being met by other suppliers.

We evaluate over 3,500 potential new products each year 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 which 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.

SUPPLIERS

We purchase our products from approximately 5,000 suppliers. The majority of our suppliers are based in the United States, but we source products from suppliers throughout Europe, Asia, South America, Africa and Australia. We believe the reason natural products suppliers seek distribution of their products through us is because we provide access to a large and growing 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 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 7.6% of our total purchases in fiscal 2004. 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. Generally, our purchases are made from the supplier's national price list at prices consistent with those paid by other customers. However, in other instances, we negotiate agreements with suppliers on the basis of volume and other considerations that may include discounted pricing or prompt payment discounts. The length of these agreements may vary. Furthermore, many of our agreements 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. We have commodity contracts with certain suppliers to purchase bulk items such as dried fruits, nuts, peas and beans. Our outstanding commitments for the purchase of inventory were approximately $13.8 million as of July 31, 2004.

We believe we are well positioned to respond to regional and local customer preferences for natural products by decentralizing the majority of our purchasing decisions for all products except bulk commodities. We believe that regional buyers are better suited to identify and to respond to local demands and preferences. Although each of our regions is responsible for placing its own orders and can select the products that it believes will most appeal to its customers, each region is required to participate in companywide purchasing programs that enable us to take advantage of our consolidated purchasing power. For example, we have positioned ourselves as the largest purchaser of organically grown bulk products in the natural products industry by centralizing our purchase of nuts, seeds, grains, flours and dried foods. In addition, we have implemented a number of national consumer flyer programs, which have resulted in incremental sales growth for our customers and ourselves.

Our purchasing staff works closely with suppliers to provide new and existing products. The suppliers assist in training our customer service representatives in marketing new products, identifying industry trends and coordinating advertising and other promotions.

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 certification to us before they are approved as a supplier. In 2003, we became the first organic food distribution network in the United States to gain organic certification coast-to-coast. This certification comprises all of our distribution centers, except for our Iowa City, Iowa and Mounds View, Minnesota facilities, which are currently undergoing the certification process.

CUSTOMERS

We market our products to more than 18,000 customers across the United States and internationally. We maintain long-standing customer relationships with independently owned natural products retailers and supernatural chains, and have continued to emphasize our relationships with new customers, such as conventional supermarkets, mass market outlets and gourmet stores, all of which are continually increasing their natural product offerings. Among our wholesale customers for the fiscal year ended July 31, 2004 were the following:

- leading supernatural chains, including Whole Foods Market, Inc. (including Harry's Farmers Market and Fresh & Wild), Wild Oats Markets, Inc., Wild Harvest, Earth Fare and Haggen, Inc.; and
- conventional supermarket chains, including Wegman's, Stop and Shop, Shaw's, Star Market, Quality Food Centers, Hannaford, Pathmark, Bashas', Rainbow, Lowe's and Publix.

Whole Foods Market accounted for approximately 26% and 24% of our net sales in fiscal 2004 and 2003, respectively. Our distribution agreement with Whole Foods Market has been extended through December 31, 2004. This agreement provides discounts to Whole Foods Market based on volume. We believe that we are the primary distributor of natural and organic products to the majority of Whole Foods Market's stores. No other customer accounted for more than 10% of our net sales in fiscal 2004 and 2003. The following table lists the percentage of sales by customer type for the fiscal years ended July 31, 2004 and 2003:

Customer type	**Percentage of Net Sales**	
	2004	**2003**
Independently owned natural products retailers	44%	46%
Supernatural chains	37%	34%
Conventional supermarkets	14%	14%
Other	5%	6%

The shift to supernatural chains sales from independently owned natural products retailers was the result of the implementation of the primary distribution agreement with Wild Oats Markets in the second half of fiscal 2004.

MARKETING

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, the majority of which do not have the resources necessary to conduct such marketing programs independently.

We offer multiple monthly, region-specific consumer flyer programs featuring the logo and address of the participating retailer imprinted on a flyer advertising approximately 200 sale items, which are sold by the retailer to its customers. The four-color flyers are designed by our in-house marketing department utilizing modern digital photography and contain detailed product descriptions and pricing information. Additionally, each flyer generally includes detailed information on selected suppliers, recipes, and product features. The monthly flyer programs are structured to pass through to the retailer the benefit of our negotiated discounts and advertising allowances. The program also provides retailers with posters, window banners and shelf tags to coincide with each month's promotions.

In addition, we have increased the number of national marketing programs we offer in order to maximize our national leverage and utilize our internal marketing resources. New programs, such as our key vendor partnership program, which helps build incremental, mutually profitable sales for vendors and ourselves, foster a sense of partnership. Other retailer initiative programs, such as our coupon booklet, allow us to explore new marketing avenues outside of our current practice.

We are in tune with the latest trends in the industry, and in addition, we conduct focus group sessions with certain key retailers so that we can ascertain their needs in order 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 assistance with store layout designs;
- provide product data information such as best seller lists, store usage reports and easy to use product catalogs;
- maintain a website domain for retailers to access various individual retailer specific reports and product information.

DISTRIBUTION

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 compared to competitors that seek to service their 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. Many of our competitors must employ outside consolidation services and pay higher carrier transportation fees to move products from other regions. Additionally, we can redistribute overstocks and inventory imbalances at one distribution center to another distribution center to ensure products are sold prior to their expiration date, thereby more appropriately balancing inventories.

Products are delivered to our distribution centers primarily by our leased fleet of 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 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.

TECHNOLOGY

We have made a significant investment in 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, computer-assisted order processing and slot locator/retrieval assignment systems. At the 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 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. Orders from multiple suppliers and multiple distribution centers are consolidated into single truckloads for efficient use of available vehicle capacity and return-haul trips.

RETAIL OPERATIONS

Our Natural Retail Group currently owns and operates 12 natural product retail stores located in Florida, Maryland and Massachusetts. Our retail operations are classified in the Other category for segment reporting purposes. Our retail strategy is to:

- selectively acquire existing stores that meet our strict criteria in categories such as sales and profitability, growth potential, merchandising and management; and
- open new stores in areas with favorable competitive climates and growth potential.

Generally, we will not purchase or open new stores that directly compete with primary retail customers of our distribution business. 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 our Natural Retail Group and the breadth of their 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 the retail marketplace which enables us to better serve our wholesale customers.

Additionally, as the primary natural products distributor to our retail locations, we expect to realize significant economies of scale and operating and buying efficiencies. As an operator of retail stores, we 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 are able to test new marketing and promotional programs within our stores prior to offering them to a broader customer base.

EMPLOYEES

As of July 31, 2004, we had approximately 3,900 full and part-time employees. An aggregate of approximately 400 of the employees at our Auburn, Washington, Iowa City, Iowa and Edison, New Jersey facilities are covered by collective bargaining agreements. These agreements expire in March 2006, June 2006 and June 2005, respectively. We have never experienced a work stoppage by our unionized employees and we believe that our relations with our employee are good.

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.

The Company has adopted a code of conduct and ethics for senior financial officers pursuant to section 406 of the Sarbanes-Oxley Act. A copy of our code of conduct and ethics is available free of charge by writing to United Natural Foods, Inc., 260 Lake Road, Dayville, CT 06241, Attn: Investor Relations.

ITEM 2. PROPERTIES

We maintained fifteen distribution centers at fiscal year end. These facilities consisted of an aggregate of approximately 2.6 million square feet of space, which represent the largest capacity of any distributor in the natural products industry.

Set forth below for each of our distribution facilities is its location, its current size (in square feet) and the date when our lease will expire for those distribution facilities that we do not own.

Location	Size (Square feet)	Lease Expiration
Atlanta, Georgia	327,500	Owned
Auburn, California	249,800	Owned
Auburn, Washington	204,700	March 2009
Aurora, Colorado	207,400	July 2013
Bridgeport, New Jersey	35,700	Owned
Chesterfield, New Hampshire	319,000	Owned
Dayville, Connecticut	352,900	Owned
Fontana, California	220,200	November 2011
Iowa City, Iowa	274,800	Owned
Kealakekua, Hawaii	16,300	December 2006
Mounds View, Minnesota	102,400	May 2007
New Oxford, Pennsylvania	271,200	Owned
Vernon, California	34,500	Owned
White Plains, Florida	13,800	July 2005
Winter Haven, Florida	13,500	October 2005
Total	2,643,700	

We rent facilities to operate twelve retail stores along the east coast with various lease expiration dates with 107,400 aggregate square feet. We also rent a 110,100 square foot processing and manufacturing facility in Edison, New Jersey with a lease expiration date of March 31, 2007.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in routine litigation that arises in the ordinary course of our business. There are no pending material legal proceedings to which we are a party or to which our property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended July 31, 2004.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are elected on an annual basis and serve at the discretion of our Board of Directors. Our executive officers and their ages as of October 1, 2004 are listed below:

Name Age	Position
Steven H. Townsend 51	Chief Executive Officer, President and Chair of the Board
Richard Antonelli 47	President of United Distribution
Rick D. Puckett 51	Vice President, Chief Financial Officer, and Treasurer
Daniel V. Atwood 46	Senior Vice President of Marketing and Secretary
Di Ann Sanchez 43	Vice President of Human Resources
Michael Beaudry 40	Vice President of Distribution

Steven H. Townsend has served as Chair of the Board of Directors since December 2003, as our Chief Executive Officer since January 2003 and as our President since April 2001. Mr. Townsend has served as a member of the Board of Directors since December 2000. He also served on the Board of Directors of our predecessor company, Cornucopia Natural Foods, Inc., from August 1988 until October 1996, as its Vice President of Finance and Administration from July 1983 until May 1995, and as its Chief Financial Officer from June 1995 until December 1997. Mr. Townsend was self-employed as a real estate developer from January 1998 to November 1999.

Richard Antonelli has served as a member of the Board of Directors since December 2003 and as President of United Distribution since October 2004. Mr. Antonelli served as President of our Western Region from January 2004 to October 2004 and as President of our Eastern Region from September 2002 to December 2003. Mr. Antonelli served as president of Fairfield Farm Kitchens, a Massachusetts-based custom food manufacturer from August 2001 until August 2002. Mr. Antonelli served as Director of Sales for United Natural Foods, and its predecessor company, from 1985 until July 2001.

Rick D. Puckett has served as our Vice President, Chief Financial Officer and Treasurer since January 2003. Mr. Puckett served in various executive positions at the Suntory Water Group, Inc. from December 1998 until December 2002, including Chief Financial Officer, Chief Information Officer, Vice President, Corporate Controller and Vice President, Business Development and Planning.

Daniel V. Atwood has served as our Senior Vice President of Marketing since October 2002 and as our Secretary since January 1998. Mr. Atwood served as our National Vice President of Marketing from April 2001 until October 2002. Mr. Atwood served on the Board of Directors of our predecessor company, Cornucopia Natural Foods, from August 1988 until October 1996 and served on our Board of Directors from November 1996 until December 1997. Mr. Atwood served as President of our Natural Retail Group from August 1995 until March 2001.

Di Ann Sanchez has served as our Vice President of Human Resources since October 2003. Ms. Sanchez served as a Human Resources Consultant at Resources Connection, Inc. from January 2003 to October 2003. Ms. Sanchez served as Vice President of Diversity and Talent Management at American Airlines, a division of AMR Corporation, from August 2001 to November 2002. Ms. Sanchez has also held executive Human Resources positions with Boeing Commercial Airplane Group from August 2000 to August 2001, and Delta Technology, a subsidiary of Delta Airlines, from August 1998 to August 2000.

Michael Beaudry has served as our Vice President of Distribution since August 2003. Mr. Beaudry served as our Vice President of Operations, Eastern Region, from December 2002 until August 2003, as our Director of Operations from December 2001 until December 2002 and as the Warehouse/Operations Manager of our Dayville, CT facility from December 1999 until December 2001.

PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the Nasdaq Stock Market® under the symbol "UNFI." Our Common Stock began trading on the Nasdaq Stock Market® on November 1, 1996. The following table sets forth, for the periods indicated, the high and low sale prices per share of our Common Stock on the Nasdaq Stock Market®, and has been adjusted to reflect our two-for-one stock split, effective April 20, 2004:

	High	Low
Fiscal 2003		
First Quarter	$12.495	$ 8.920
Second Quarter	13.160	10.200
Third Quarter	14.695	10.340
Fourth Quarter	15.610	12.370
Fiscal 2004		
First Quarter	$19.780	$13.655
Second Quarter	20.715	16.920
Third Quarter	26.800	19.505
Fourth Quarter	29.660	21.500
Fiscal 2005		
First Quarter (through October 4, 2004)	$29.150	$18.900

On October 4, 2004, we had 79 stockholders of record. The number of record holders may not be representative of the number of beneficial holders because depositories, brokers or other nominees hold many shares.

We have never declared or paid any cash dividends on our capital stock. We anticipate that all of our earnings in the foreseeable future will be retained to finance the continued growth and development of our business and we have no current intention to pay cash dividends. Our future dividend policy will depend on earnings, capital requirements and financial condition, requirements of the financing agreements to which we are then a party and other factors considered relevant by the Board of Directors. Our existing revolving line of credit agreement prohibits the declaration or payment of cash dividends to our stockholders without the written consent of the bank during the term of the credit agreement and until all of our obligations under the credit agreement have been met.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below under the caption Consolidated Statement of Income Data with respect to the fiscal years ended July 31, 2004, 2003, 2002, 2001, and 2000, and under the caption Consolidated Balance Sheet Data at July 31, 2004, 2003, 2002, 2001, and 2000, are derived from our consolidated financial statements, which have been audited by KPMG LLP, independent registered public accounting firm. Certain prior year amounts have been reclassified to conform to current year presentation. The historical results are not necessarily indicative of results to be expected for any future period. The following selected consolidated financial data should be read in conjunction with and are qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K. All share and per share amounts included in the following consolidated financial data have been retroactively adjusted to reflect our two-for-one stock split, effective April 20, 2004.

CONSOLIDATED STATEMENT OF INCOME DATA:

(In thousands, except per share data)	2004	2003	2002	2001	2000
Net sales	$1,669,952	$1,379,893	$1,175,393	$1,016,834	$908,688
Cost of sales	1,339,496	1,099,704	934,238	808,462	727,358
Gross profit	330,456	280,189	241,155	208,372	181,330
Operating expenses	270,666	236,784	200,586	176,903	173,988
Restructuring and asset impairment charges	-	2,126	424	801	2,420
Amortization of intangibles	1,306	463	180	1,036	1,070
Total operating expenses	271,972	239,373	201,190	178,740	177,478
Operating income	58,484	40,816	39,965	29,632	3,852
Other expense (income):					
Interest expense	7,265	7,795	7,233	6,939	6,412
Other, net	(1,217)	(386)	4,050	429	(527)
Total other expense	6,048	7,409	11,283	7,368	5,885
Income (loss) before income taxes	52,436	33,407	28,682	22,264	(2,033)
Income taxes (benefit)	20,450	13,187	11,473	8,906	(802)
Net income (loss)	$31,986	$20,220	$17,209	$13,358	$(1,231)
Per share data - Basic:					
Net income (loss)	$0.81	$0.53	$0.45	$0.36	$(0.03)
Weighted average basic shares of common stock	39,471	38,471	37,865	36,963	36,527
Per share data - Diluted:					
Net income (loss) per share	$0.78	$0.51	$0.45	$0.35	$(0.03)
Weighted average diluted shares of common stock	41,025	39,454	38,667	37,636	36,527

CONSOLIDATED BALANCE SHEET DATA:

(In thousands)	2004	2003	2002	2001	2000
Working capital	$ 109,225	$ 64,299	$ 51,697	$ 53,351	$ 65,812
Total assets	508,767	430,099	354,457	300,444	270,234
Total long term debt and capital leases	44,115	39,119	8,672	9,289	28,529
Total stockholders' equity	234,929	187,563	160,387	135,943	117,954

ITEM 7.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report.

We are a leading national distributor of natural and organic foods and related products in the United States. In recent years, our sales to existing and new customers have increased through the continued growth of the natural products industry in general, the acquisition of or merger with natural products distributors and the expansion of our existing distribution centers. 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. Through our subsidiary, the Natural Retail Group, Inc., we also own and operate 12 retail natural products stores located primarily in Florida. 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 addition, our subsidiary, Hershey Imports Company, Inc. ("Hershey"), specializes in the international trading, roasting and packaging of nuts, seeds, dried fruits and snack items. Our operations are comprised of three principal divisions:

- our wholesale division, which includes our Eastern Region, Western Region and Albert's;
- our retail division, which consists of our retail stores; and
- our manufacturing division, which is comprised of Hershey.

In order to maintain our market leadership and improve our operating efficiencies, we are continually:

- increasing our investment in our people, facilities, equipment and technology;
- expanding marketing and customer service programs across our regions;
- expanding national purchasing opportunities;
- consolidating systems applications among physical locations and regions;
- integrating administrative and accounting functions; and
- reducing geographic overlap between regions.

In addition, our continued growth has created the need for expansion of existing facilities in order to achieve maximum operating efficiencies and to ensure that we possess adequate space for future needs. We completed the expansions of our Dayville, Connecticut and Iowa City, Iowa distribution facilities in July 2004. As a result of these expansions, we now operate a 275,000 square foot facility in Iowa City, Iowa and a 353,000 square foot facility in Dayville, Connecticut. These expansions will allow us to increase our product diversity and to better serve customers in the Midwest and Northeast markets of our Eastern Region, while eliminating outside storage expenses. We expect the efficiencies created by expanding our Iowa City and Dayville facilities will take approximately nine months to fully manifest themselves in the form of lower expenses relative to sales. We have made considerable capital expenditures and incurred considerable expenses in connection with the expansion of our facilities, including the expansion of our facilities located in Auburn, California, Chesterfield, New Hampshire, New Oxford, Pennsylvania and Vernon, California, the expansion and relocation of our facility in Atlanta, Georgia, and the addition of our Fontana, California distribution facility. Having completed the Iowa City and Dayville facilities' expansion, we have now added approximately 1,266,000 square feet to our distribution centers in the last 5 years, which represents an 92% increase in our distribution capacity.

Our net sales consist primarily of sales of natural products to retailers adjusted for customer volume discounts, returns and allowances. The principal components of our cost of sales include the amount paid to manufacturers and growers for product sold, plus the cost of transportation necessary to bring the product to our distribution facilities. Operating expenses include salaries and wages, employee benefits (including payments under our Employee Stock Ownership Plan), warehousing and delivery, selling, occupancy, insurance, administrative, depreciation and amortization expense. Other expenses (income) include interest on outstanding indebtedness, interest income, and the change in fair value of financial instruments and miscellaneous income and expenses.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The U.S. Securities and Exchange Commission has defined critical accounting policies as those that are both most important to the portrayal of our financial condition and results and require our most difficult, complex or subjective judgments or estimates. Based on this definition, we believe our critical accounting policies include the following: (i) determining our allowance for doubtful accounts, (ii) determining our reserve for the self-insured portion of our workers' compensation, health insurance and automobile liabilities and (iii) valuing goodwill and intangible assets. For all financial statement periods presented, there have been no material modifications to the application of these critical accounting policies.

Allowance for doubtful accounts

We analyze customer creditworthiness, accounts receivable balances, payment history, payment terms and historical bad debt levels when evaluating the adequacy of our allowance for doubtful accounts. In instances where a reserve has been recorded for a particular customer, future sales to the customer are conducted using either cash-on-delivery terms, or the account is closely monitored so that as agreed upon payments are received, orders are released; a failure to pay results in held or cancelled orders. Our accounts receivable balance was $106.2 million and $90.1 million, net of the allowance for doubtful accounts of $5.6 million and $5.1 million, as of July 31, 2004 and 2003, respectively. Our notes receivable balances were $2.4 million and $1.8 million, net of the allowance of doubtful accounts of $4.2 million and $2.8 million, as of July 31, 2004 and 2003, respectively.

Insurance reserves

It is our policy to record the self-insured portion of our workers' compensation, health insurance and automobile liabilities based upon actuarial estimates of the future cost of claims and related expenses that have been reported but not settled, and that have been incurred but not yet reported. Any projection of losses concerning workers' compensation and automobile liability is subject to a considerable degree of variability. Among the causes of this variability are unpredictable external factors affecting litigation trends, benefit level changes and claim settlement patterns. If actual claims incurred are greater than those anticipated, our reserves may be insufficient and additional costs could be recorded in the consolidated financial statements.

Valuation of goodwill and intangible assets

SFAS No. 142, *"Goodwill and Other Intangible Assets"* requires that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have elected to perform our annual tests for indications of goodwill impairment as of July 31 of each year. Impairment losses are determined based upon the excess of carrying amounts over discounted expected future cash flows of the underlying business. The assessment of the recoverability of long-lived assets will be impacted if estimated future cash flows are not achieved. For reporting units that indicated potential impairment, we determined the implied fair value of that reporting unit using a discounted cash flow analysis and compared such values to the respective reporting units' carrying amounts. As of July 31, 2004, our annual assessment of each of our reporting units indicated that no impairment of goodwill existed. Total goodwill as of July 31, 2004 and 2003 was $57.2 million and $57.4 million, respectively.

RESULTS OF OPERATIONS

The following table presents, for the periods indicated, certain income and expense items expressed as a percentage of net sales:

	Year Ended July 31,					
	GAAP basis			Excluding Special Items		
	2004	2003	2002	2004	2003	2002
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	80.2%	79.7%	79.5%	80.2%	79.6%	79.5%
Gross profit	19.8%	20.3%	20.5%	19.8%	20.4%	20.5%
Operating expenses	16.2%	17.2%	17.1%	16.1%	17.1%	16.9%
Restructuring and asset impairment charges	0.0%	0.1%	0.0%	-	-	-
Amortization of intangibles	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Total operating expenses	16.3%	17.3%	17.1%	16.2%	17.1%	16.9%
Operating income	3.5%	3.0%	3.4%	3.6%	3.3%	3.6%
Other expense (income):						
Interest expense	0.4%	0.6%	0.6%	0.4%	0.6%	0.6%
Change in value of financial instruments	0.0%	0.1%	0.4%	-	-	-
Other, net	0.0%	-0.1%	0.0%	0.0%	-0.1%	0.0%
Total other expense	0.4%	0.6%	1.0%	0.4%	0.5%	0.6%
Income before income taxes	3.1%	2.4%	2.4%	3.2%	2.8%	3.0%
Income taxes	1.2%	1.0%	1.0%	1.2%	1.1%	1.2%
Net income	1.9%	1.5%*	1.5%*	1.9%*	1.7%	1.8%

** Total reflects rounding*

YEAR ENDED JULY 31, 2004 COMPARED TO YEAR ENDED JULY 31, 2003

Net Sales

Our net sales increased approximately 21.0%, or $290.1 million, to $1.67 billion for the year ended July 31, 2004 from $1.38 billion for the year ended July 31, 2003. This increase was due to our organic growth and the implementation of our primary distribution agreement with Wild Oats Markets, Inc. ("Wild Oats Markets") during the third quarter of fiscal 2004. Growth in the independently owned natural products retailers and mass market distribution channels was approximately 14.5% and 25.9%, respectively, compared to the same period in the prior year. Growth in the supernaturals distribution channel was approximately 30.5% compared to the same period in the prior year. Fiscal 2004 sales growth excluding the effect of sales to Wild Oats Markets was 13.4%. Sales to our largest customer, Whole Foods Market represented approximately 26% of net sales for the year ended July 31, 2004. Whole Foods Market represented approximately 24% of net sales for the year ended July 31, 2003. Our current distribution arrangement with Whole Foods Market was extended through December 31, 2004 on July 28, 2004. We are currently in discussions with Whole Foods Market to continue our relationship upon expiration of the existing agreement.

Gross Profit

Our gross profit increased approximately 17.9%, or $50.3 million, to $330.5 million for the year ended July 31, 2004 from $280.2 million for the year ended July 31, 2003. Our gross profit as a percentage of net sales was 19.8% and 20.3% for the years ended July 31, 2004 and 2003, respectively. This decrease in gross profit as a percentage of net sales was primarily the result of the change in our sales mix to supernaturals, as we implemented our primary distribution agreement with Wild Oats Markets during the second half of fiscal 2004.

Operating Expenses

Our total operating expenses, excluding special items, increased approximately 14.7%, or $34.7 million, to $270.4 million for the year ended July 31, 2004 from $235.7 million for the year ended July 31, 2003. Our total operating expenses, including special items, increased approximately 13.6%, or $32.6 million, to $272.0 million for the year ended July 31, 2004 from $239.4 million for the year ended July 31, 2003. As a percentage of net sales, operating expenses, excluding special items, decreased to 16.2% for the year ended July 31, 2004 from 17.1% for the year ended July 31, 2003. As a percentage of net sales, operating expenses, including special items, decreased from 17.3% for the year ended July 31, 2003 to 16.3% for the year ended July 31, 2004. Special items are discussed below.

The increase in operating expenses was due primarily to an increase in our infrastructure to support our continued growth. Operating expenses for the year ended July 31, 2004 included $1.5 million in special items related to start-up and transition costs for certain equipment rental and labor costs incurred in connection with the implementation of our primary distribution agreement with Wild Oats Markets. The primary drivers of the increase in operating expenses were compensation and benefit expenses due to the increase in headcount. Transportation, fuel expense and utilities costs continued to be incurred at levels consistent with the prior year as a percentage of sales. Operating expenses for the year ended July 31, 2003 included special items of $1.4 million related to a goodwill impairment charge to our Hershey subsidiary, $1.0 million in costs incurred related to the expansion of our Chesterfield, New Hampshire distribution center, $0.8 million in restructuring and asset impairment charges and $0.5 million in costs related to the loss of a major customer. We may incur additional special items as we increase our warehouse capacity.

Operating Income

Operating income, excluding the special items discussed below, increased approximately 31.7%, or $14.5 million, to $60.0 million for the year ended July 31, 2004 from $45.6 million for the year ended July 31, 2003. As a percentage of sales, operating income, excluding special items, increased to 3.6% for the year ended July 31, 2004 compared to 3.3% for the year ended July 31, 2003. Operating income, including special items, increased approximately 43.3%, or $17.7 million, to $58.5 million, or 3.5% of sales, for the year ended July 31, 2004 from $40.8 million, or 3.0% of sales, for the year ended July 31, 2003.

Other Expense (Income)

Other expense (income), excluding the change in fair value of financial instruments, decreased $0.1 million to $6.8 million for the year ended July 31, 2004 from $6.9 million for the year ended July 31, 2003. This decrease was the result of a $0.5 million decrease in interest expense partially offset by a $0.4 million decrease in other income. The decrease in interest expense was due to the novation of two of our interest rate swap agreements in December 2003, which served to lower our effective interest rate, partially offset by higher debt levels in fiscal 2004 as a result of our acquisitions of Blooming Prairie and Northeast Cooperative in fiscal 2003 and an increase in inventory levels to support the growth in our business.

Other expense (income), including the change in fair value of financial instruments, decreased 18.4% or $1.4 million to $6.0 million for the year ended July 31, 2004 from $7.4 million for the year ended July 31, 2003. This decrease was primarily due to the decrease in the change in the fair value on our interest rate swap agreements and related option agreements. On December 29, 2003, we assigned and transferred all of our obligations of our two "ineffective" interest rate swaps to a third party at a cost of $5.4 million plus accrued interest. As a result of this assignment, these "ineffective" swaps will no longer be included as a special item for future fiscal periods. These "ineffective" swaps were included as a special item through the second quarter of fiscal 2004.

Income Taxes

Our effective income tax rate was 39.0% and 39.5% for the years ended July 31, 2004 and 2003, respectively. The effective rates were higher than the federal statutory rate primarily due to state and local income taxes.

Net Income

As a result of the foregoing, net income, excluding special items, increased approximately 39.0%, or $9.1 million, to $32.5 million, or $0.79 per diluted share, for the year ended July 31, 2004, compared to $23.4 million, or $0.59 per diluted share, for the year ended July 31, 2003. Net income, including special items, increased approximately 58.2%, or $11.8 million, to $32.0 million, or $0.78 per diluted share, for the year ended July 31, 2004 compared to $20.2 million, or $0.51 per diluted share, for the year ended July 31, 2003. We expect earnings per diluted share in the range of $0.93 to $0.97 for fiscal 2005, excluding any potential special items.

Special Items

Special items for the year ended July 31, 2004 included: (i) the start-up and transition costs of the new Wild Oats Markets primary distributorship consisting of certain equipment rental and labor costs and (ii) the non-cash items from the change in fair value on interest rate swap agreements which were caused by favorable changes in interest rate yield curves. Special items for the year ended July 31, 2003 included: (i) a goodwill impairment charge, inventory write down and restructuring and asset impairment charges related to our subsidiary, Hershey, (ii) moving and other costs related to the expansion of our Chesterfield, New Hampshire distribution facility, (iii) costs related to the loss of a major customer and (iv) a non-cash charge related to the change in the fair value of interest rate swaps and related option agreements caused by unfavorable changes in yield curves.

On December 29, 2003, we assigned and transferred all of our obligations of our two "ineffective" interest rate swaps to a third party at a cost of $5.4 million plus accrued interest. As a result of this novation, these "ineffective" swaps will no longer be included as a special item for future fiscal periods. These "ineffective" swaps were included as a special item through the second quarter of fiscal 2004.

We entered into interest rate swap agreements in October 1998, August 2001 and May 2003. The October 1998 and August 2001 agreements were "ineffective" hedges as a result of the options held by the counter parties that could have extended the original term of the interest rate swap agreements. Applicable accounting treatment required that we record the changes in fair value of the October 1998 and August 2001 agreements in our consolidated statement of income, rather than within "other comprehensive income" in our statement of stockholders' equity. The changes in fair value were dependent upon the forward looking yield curves for each swap. The May 2003 agreement is an "effective" hedge and therefore does not require this treatment. We believe that our October 1998 and August 2001 agreements are special items that are excludable as non-recurring items. First, we only intend to enter into "effective" hedges going forward. This stated intention began with the May 2003 agreement. Second, we believe that the October 1998 and August 2001 agreements may distort and confuse investors if the change in fair value cannot be treated as a special item because their inclusion directly impacts our reported earnings per share. A change in fair value, whether positive or negative, can significantly increase or decrease our reported earnings per share. For example, we recorded a positive change in fair value for fiscal 2004 that increased our diluted earnings per share by $0.01, and in fiscal 2003 we recorded a negative change in fair value that decreased our diluted earnings per share by $0.01. If we were prohibited from excluding this item as a special item, it would artificially inflate/decrease our reported earnings per share and thereby mislead investors as to our results of operations and our financial condition.

The following table presents, for the periods indicated, a reconciliation of income and per share items excluding special items to income and per share items including special items:

Year Ended July 31, 2004

(In thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Net income, excluding special items:	$53,293	$32,509	$0.79
Special items – Income (Expense):			
Wild Oats Markets, Inc. primary distributorship transition related costs (included in operating expenses)	(1,561)	(952)	(0.02)
Interest rate swap and related option agreements (change in fair value of financial instruments)	704	429	0.01
Net income, including special items:	$52,436	$31,986	$0.78

Year Ended July 31, 2003

(In thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Net income, excluding special items:	$38,655	$23,395	$0.59
Special items – Income (Expense):			
Goodwill impairment charge	(1,353)	(819)	(0.02)
Inventory write down (cost of goods sold)	(1,104)	(668)	(0.02)
Moving and other costs (included in operating expenses)	(1,004)	(607)	(0.02)
Restructuring and asset impairment charges	(773)	(467)	(0.01)
Costs related to loss of major customer (included in operating expenses)	(530)	(321)	(0.01)
Interest rate swap and related option agreements (change in value of financial instruments)	(484)	(293)	(0.01)
Net income, including special items:	$33,407	$20,220	$0.51*

** Totals reflect rounding*

All non-GAAP numbers have been adjusted to exclude special charges. A reconciliation of specific adjustments to GAAP results for the year ended July 31, 2004 and the same period last year is included in the financial tables shown above. A description of our use of non-GAAP information is provided under "Use of Non-GAAP Results" below.

YEAR ENDED JULY 31, 2003 COMPARED TO YEAR ENDED JULY 31, 2002

Net Sales

Our net sales increased approximately 17.4%, or $204.5 million, to $1.38 billion for the year ended July 31, 2003 from $1.18 billion for the year ended July 31, 2002. The increase was primarily due to the effects of the acquired businesses, resulting in growth in the independently owned natural products retailers and mass market distribution channels of approximately 28% and 9%, respectively. We acquired Blooming Prairie, a distributor of natural foods and products in the Midwest region of the United States, in October 2002, and Northeast Cooperative, another natural food distributor, in December 2002. The decline in the percentage of sales to supernaturals over the prior year was the result of the expiration of our contract as primary distributor to Wild Oats Markets in August 2002. However, we continued to distribute to Wild Oats Markets in fiscal 2003 as a secondary supplier, and generated revenue from such distribution of approximately $30 million. Fiscal 2003 sales growth including acquisitions, but excluding the effect of sales to Wild Oats, was 32.5%. Sales to our largest customer, Whole Foods Market represented approximately 24% of net sales for the year ended July 31, 2003. Whole Foods Market and Wild Oats Markets represented approximately 19% and 14%, respectively, of net sales for the year ended July 31, 2002.

Gross Profit

Our gross profit increased approximately 16.2%, or $39.0 million, to $280.2 million for the year ended July 31, 2003 from $241.2 million for the year ended July 31, 2002. Our gross profit as a percentage of net sales was 20.3% and 20.5% for the years ended July 31, 2003 and 2002, respectively.

Operating Expenses

Our total operating expenses, excluding special items, increased approximately 18.6%, or $36.9 million, to $235.7 million for the year ended July 31, 2003 from $198.8 million for the year ended July 31, 2002. Our total operating expenses, including special items, increased approximately 19.0%, or $38.2 million, to $239.4 million for the year ended July 31, 2003 from $201.2 million for the year ended July 31, 2002. As a percentage of net sales, operating expenses, excluding special items, increased to 17.1% for the year ended July 31, 2003 from 16.9% for the year ended July 31, 2002. As a percentage of net sales, operating expenses, including special items, increased from 17.1% for the year ended July 31, 2002 to 17.3% for the year ended July 31, 2003. Special items are discussed below. The increase in operating expenses was due primarily to the effect of the acquired businesses and lower productivity caused by the transition of the Wild Oats Markets business. Transportation, warehouse labor, and utilities costs continued to be incurred at levels consistent with the prior year as a percentage of sales. Fuel expense, as a percentage of sales, increased approximately 6 basis points compared to the prior year, due primarily to the marked increase in average diesel prices during the year. The operating expense figures reflect the impact of the adoption of the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, which requires the reclassification of advertising income to cost of goods sold from operating expenses. These changes reduced cost of sales and also increased operating expenses by $11.4 million and $10.5 million in fiscal 2003 and 2002, respectively. This accounting change had no impact on reported operating income, net income or earnings per share.

Operating Income

Operating income, excluding the special items discussed below, increased approximately 7.6%, or $3.2 million, to $45.6 million for the year ended July 31, 2003 from $42.4 million for the year ended July 31, 2002. As a percentage of sales, operating income, excluding special items, decreased to 3.3% for the year ended July 31, 2003 compared to 3.6% for the year ended July 31, 2002. Operating income, including special items, increased approximately 2.1%, or $0.8 million, to $40.8 million, or 3.0% of sales, for the year ended July 31, 2003 from $40.0 million, or 3.4% of sales, for the year ended July 31, 2002.

Other Expense (Income)

Other expense, excluding the change in fair value of financial instruments, remained relatively flat at $7.0 million for the years ended July 31, 2003 and 2002. This consistency was primarily due to higher interest expense caused by a higher borrowing base, which was partially offset by lower interest rates and an increase in other income of $0.6 million. Other expense, including the change in fair value of financial instruments, decreased $3.9 million to $7.4 million for the year ended July 31, 2003 from $11.3 million for the year ended July 31, 2002. This decrease was primarily due to a smaller decline in the fair value of our interest rate swap agreements and related option agreements resulting from unfavorable changes in yield curves used to determine the change in fair value.

Income Taxes

Our effective income tax rate was 39.5% and 40.0% for the years ended July 31, 2003 and 2002, respectively. The effective rates were higher than the federal statutory rate primarily due to state and local income taxes.

Net Income

As a result of the foregoing, net income, excluding special items, increased approximately 10.1%, or $2.2 million, to $23.4 million, or $0.59 per diluted share, for the year ended July 31, 2003, compared to $21.2 million, or $0.55 per diluted share, for the year ended July 31, 2002. Net income, including special items, increased approximately 17.5%, or $3.0 million, to $20.2 million, or $0.51 per diluted share, for the year ended July 31, 2003 compared to $17.2 million, or $0.45 per diluted share, for the year ended July 31, 2002.

Special Items

The special items for the year ended July 31, 2003 included a goodwill impairment charge, inventory write down and restructuring and asset impairment charges related to our subsidiary, Hershey, and moving and other costs related to the expansion of our Chesterfield, New Hampshire distribution facility. In addition, the special items included costs related to the loss of a major customer and a non-cash charge related to the change in the fair value of interest rate swaps and related option agreements caused by unfavorable changes in yield curves. Special items for the year ended July 31, 2002 consisted of a non-cash charge related to the change in the fair value of interest rate swaps and related option agreements caused by unfavorable changes in yield curves as well as moving, asset impairment and redundant rent expense related to moving our Atlanta, Georgia distribution facility, incremental costs such as labor, utilities and rent related to the startup of our southern California distribution facility and labor, utilities, rent and severance related to relocating our subsidiary, Hershey. See disclosure above regarding our belief that our interest rate swap agreements are special items that should be excluded as non-recurring items.

The following table details the amounts and effects of these items:

Year Ended July 31, 2003

(In thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Net income, excluding special items:	$38,655	$23,395	$0.59
Special items – Income (Expense):			
Goodwill impairment charge	(1,353)	(819)	(0.02)
Inventory write down (included in cost of goods sold)	(1,104)	(668)	(0.02)
Moving and other costs (included in operating expenses)	(1,004)	(607)	(0.02)
Restructuring and asset impairment charges	(773)	(467)	(0.01)
Costs related to loss of major customer (included in operating expenses)	(530)	(321)	(0.01)
Interest rate swap agreements (change in value of financial instruments)	(484)	(293)	(0.01)
Net income, including special items:	$33,407	$20,220	$0.51*

** Total reflects rounding*

Year Ended July 31, 2002

(In thousands, except per share data)	Pretax Income	Net of Tax	Per diluted share
Net income, excluding special items:	$35,409	$21,245	$0.55
Special items – Income (Expense):			
Change in value of financial instruments	4,331	2,599	0.07
Relocation and startup costs (included in operating expenses)	1,972	1,183	0.03
Asset impairment charges	424	254	0.01
Net income, including special items:	$28,682	$17,209	$0.45*

** Total reflects rounding*

All non-GAAP numbers have been adjusted to exclude special charges. A reconciliation of specific adjustments to GAAP results for the year ended July 31, 2003 and the same period last year is included in the financial tables shown above. A description of our use of non-GAAP information is provided under "Use of Non-GAAP Results" below.

LIQUIDITY AND CAPITAL RESOURCES

We finance operations and growth primarily with cash flows from operations, borrowings under our credit facility, operating leases, trade payables, bank indebtedness and the sale of equity and debt securities. On April 30, 2004, we entered into an amended and restated four-year $250 million revolving credit facility with a bank group that was led by Bank of America Business Capital (formerly Fleet Capital Corporation) as the administrative agent. The amended and restated credit facility provides for improved terms and conditions that provide us with more financial and operational flexibility, reduced costs and increased liquidity. The new credit facility replaced an existing $150 million revolving credit facility. Our amended and restated secured revolving credit facility allows for borrowing up to $250 million, on which interest accrues at LIBOR plus 1.25%. The $250 million credit facility matures on March 31, 2008. This increased credit facility will support our working capital requirements in the ordinary course of business and provide capital to grow our business organically or through acquisitions. As of July 31, 2004, our borrowing base, based on accounts receivable and inventory levels, was $215.9 million, with remaining availability of $100.9 million. Additionally, in April 2003 we executed a term loan agreement in the principal amount of $30 million secured by the real property that was released in accordance with the aforementioned amendment. In December 2003, we amended this term loan agreement by increasing the principal amount by $10 million to $40 million, under the existing terms and conditions, to fund the expansion of our distribution centers in Iowa City, Iowa and Dayville, Connecticut. The $40 million term loan is repayable over seven years based on a fifteen-year amortization schedule. Interest on the term loan accrues at LIBOR plus 1.50%. Proceeds received from the term loan were used to reduce the outstanding balance on our former $150 million credit facility on which interest accrued at the New York Prime Rate or LIBOR plus 1.50%.

We believe that our capital requirements for fiscal 2005 will be in the $35 to $38 million range, and that we will finance these requirements with cash generated from operations and the use of our existing credit facilities. These projects will provide both new facilities and technology that will provide us with the capacity to continue to support the growth and expansion of our customers. We believe that our future capital requirements will be similar to our anticipated fiscal 2005 requirements, as we continue to invest in our growth by upgrading our infrastructure and expanding our facilities. Future investments in acquisitions will be financed through either equity or long term debt negotiated at the time of the potential acquisition.

Net cash provided by operations was $9.0 million for the year ended July 31, 2004 and was the result of our strong operating results and increases in payables, partially offset by investments in inventory and increased receivable levels due to our increased sales. The increase in inventory levels relates to supporting increased sales with wider product assortment combined with our ability to capture purchasing efficiency opportunities in excess of total carrying costs, as well as the our implementation of our primary distribution agreement with Wild Oats Markets. Days in inventory increased slightly to 51 days at July 31, 2004 compared to 50 days at July 31, 2003. Days sales outstanding was 24 days at both July 31, 2004 and 2003. Net cash provided by operations was $31.9 million for the year ended July 31, 2003 and was due to cash collected from customers net of cash paid to vendors, partially offset by investments in inventory. Working capital at July 31, 2004 was $109.2 million.

Net cash used in investing activities was $23.6 million for the year ended July 31, 2004 and was due primarily to the expansion of our Dayville, Connecticut and Iowa City, Iowa distribution facilities, compared to $63.5 million of net cash used for the same period last year that was due primarily to the purchase of substantially all the assets of Blooming Prairie Cooperative, the merger with privately held Northeast Cooperative, and the expansion of our Chesterfield, New Hampshire facility.

Net cash provided by financing activities was $24.6 million for the year ended July 31, 2004 due to net borrowings under our revolving credit facility, proceeds received from the issuance of long-term debt, and proceeds received from the exercise of stock options, partially offset by repayments on long-term debt. Net cash provided by financing activities was $24.1 million for the year ended July 31, 2003 due to proceeds from the issuance of a $30 million term loan agreement and proceeds from the exercise of stock options, partially offset by repayments of long-term debt and repayments on our $150 million secured revolving credit facility.

In October 1998, we entered into an interest rate swap agreement that provided for us to pay interest for a five-year period at a fixed rate of 5% on a notional principal amount of $60 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. This swap had been entered into as a hedge against LIBOR interest rate movements on current and anticipated variable rate indebtedness totaling $60 million at LIBOR plus 1.50%, thereby fixing the effective rate at 6.50%. In October 2003, the counter party exercised its option to extend the original five-year term of the swap agreement to seven years. The inclusion of this option prohibited accounting for the swap as an effective hedge under Statement of Financial Accounting Standards ("SFAS") No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*.

We entered into an additional interest rate swap agreement effective August 2001. The additional agreement provided for us to pay interest for a four-year period at a fixed rate of 4.81% on a notional principal amount of $30 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The four-year term of the swap agreement could have been extended to six years at the option of the counter party, which prohibited accounting for the swap as an effective hedge under SFAS 133. The swap had been entered into as a hedge against LIBOR interest rate movements on current and anticipated variable rate indebtedness totaling $30 million at LIBOR plus 1.50%, thereby fixing the effective rate on the notional amount at 6.31%. If LIBOR exceeded 6.0% in a given period, the agreement was suspended for that period.

On December 29, 2003, we assigned and transferred all of our obligations of our two "ineffective" interest rate swaps to a third party at a cost of $5.4 million plus accrued interest. As a result of this assignment, these "ineffective" swaps will no longer be included as a special item for future fiscal periods. These "ineffective" swaps were included as special items for the first two quarters of fiscal 2004.

In May 2003, we entered into an additional interest rate swap agreement. The agreement provides for us to pay interest for a seven-year period at a fixed rate of 3.68% on a notional principal amount of $30 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The swap has been entered into as a hedge against LIBOR interest rate movements on current variable rate indebtedness totaling $30 million at LIBOR plus 1.50%, thereby fixing our effective rate on the notional amount at 5.18%. LIBOR was 1.50% as of July 31, 2004. The swap agreement qualifies as an "effective" hedge under SFAS No. 133.

COMMITMENTS AND CONTINGENCIES

The following schedule summarizes our contractual obligations and commercial commitments as of July 31, 2004:

(in thousands)	Payments Due by Period				
	Total	Less than One Year	1–3 Years	4–5 Years	Thereafter
Notes payable	$107,004	$107,004	$ -	$ -	$ -
Long-term debt	48,744	4,766	11,596	6,077	26,305
Capital lease obligations	591	454	137	-	-
Long-term non-capitalized leases	56,681	13,495	19,837	12,087	11,262
Total	$213,020	$125,719	$31,570	$18,164	$37,567

The notes payable, long-term debt and capital lease obligations shown above exclude interest payments due. In addition, cash to be paid for income taxes is excluded from the table above.

Outstanding commitments as of July 31, 2004 for the purchase of inventory were approximately $13.8 million. We had outstanding letters of credit of approximately $8.2 million at July 31, 2004.

IMPACT OF INFLATION

Historically, we have been able to pass along inflation-related increases to our customers. Consequently, inflation has not had a material impact upon the results of our operations or profitability.

SEASONALITY

Generally, we do not experience any material seasonality. However, our sales and operating results may vary significantly from quarter to quarter due to factors such as changes in our operating expenses, management's ability to execute our operating and growth strategies, personnel changes, demand for natural products, supply shortages and general economic conditions.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

We have determined that there are no recently issued accounting standards that are expected to have a material impact on our consolidated financial position, results of operations or cash flows.

USE OF NON-GAAP RESULTS

Financial measures included in this Management's Discussion and Analysis of Financial Condition and Results of Operations that are not in accordance with generally accepted accounting principles (GAAP) are referred to as non-GAAP financial measures. To supplement our financial statements presented on a GAAP basis, we use non-GAAP additional measures of operating results, net earnings and earnings per share adjusted to exclude special charges. We believe that the use of these additional measures is appropriate to enhance an overall understanding of our past financial performance and also our prospects for the future as these special charges are not expected to be part of our ongoing business. The adjustments to our GAAP results are made with the intent of providing both management and investors with a more complete understanding of the underlying operational results and trends and its marketplace performance. For example, these adjusted non-GAAP results are among the primary indicators management uses as a basis for our planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net earnings or diluted earnings per share prepared in accordance with generally accepted accounting principles in the United States. A comparison and reconciliation from non-GAAP to GAAP results is included in the tables above.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

This Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K contain forward-looking statements that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would," or similar words. You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or of financial position or state other "forward-looking" information. The important factors listed below as well as any cautionary language in this Annual Report on Form 10-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations described in these forward–looking statements. You should be aware that the occurrence of the events described in the risk factors below and elsewhere in this Annual Report on Form 10-K could have an adverse effect on our business, results of operations and financial position.

Any forward-looking statements in this Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements, possibly materially. We do not undertake to update any information in the foregoing reports until the effective date of our future reports required by applicable laws. Any projections of future results of operations should not be construed in any manner as a guarantee that such results will in fact occur. These projections are subject to change and could differ materially from final reported results. We may from time to time update these publicly announced projections, but we are not obligated to do so.

Acquisitions

We continually evaluate opportunities to acquire other companies. 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 our acquisitions and mergers.

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

- maintaining the customer base;
- the optimization of delivery routes;
- coordination of administrative, distribution and finance functions; and
- the integration of management information systems and personnel.

The integration process has 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 addition, the process of combining companies has 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. There can be no assurance that we will realize any of the anticipated benefits of mergers.

We may have difficulty in 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 is limited in part by the size and location of our distribution centers. There can be no assurance 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. In addition, our growth strategy to expand our market presence includes possible additional acquisitions. To the extent our future growth includes acquisitions, there can be no assurance that we will successfully identify suitable acquisition candidates, consummate and integrate such potential acquisitions or expand into new markets. 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 information systems on a timely basis and to expand, train, motivate and manage our work force. There can be no assurance that our personnel, systems, procedures and controls will be adequate to support 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. There can be no assurance 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 us, may have substantially greater financial and other resources than us and may be better established in their markets. There can be no assurance that our current or potential competitors will not provide 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. There can be no assurance that we will be able to compete effectively against current and future competitors.

We depend heavily on our principal customer

Our current distribution arrangement with our largest customer, Whole Foods Market, was in effect through August 31, 2004. On July 28, 2004, we announced that our current distribution agreement with Whole Foods Markets had been extended through December 31, 2004, under the same terms as the existing agreement. Whole Foods Market accounted for approximately 26% and 24% of our net sales during the fiscal years ended July 31, 2004 and 2003, respectively. 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 its own facilities, could materially and adversely affect our business, financial condition or results of operations. We sell products under purchase orders, and we generally have no agreements with or commitments from our customers for the purchase of products. No assurance can be given 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. With the implementation of our primary distribution agreement with Wild Oats Markets during the second half of fiscal 2004, our sales to Whole Foods Markets as a percentage of our total sales may decline over the next twelve months, and our sales to Wild Oats Markets may increase as a percentage of our total net sales over the next twelve months.

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 operations are sensitive to economic downturns

The grocery industry is also sensitive to national and regional economic conditions and the demand for our products may be adversely affected from time to time by economic downturns. In addition, our operating results are particularly sensitive to, and may be materially adversely affected by:

- difficulties with the collectibility of accounts receivable;
- difficulties with inventory control;
- competitive pricing pressures; and
- unexpected increases in fuel or other transportation-related costs.

There can be no assurance that one or more of such factors will not materially adversely affect 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 Richard Antonelli, President of United Distribution, Daniel V. Atwood, Senior Vice President and Secretary, Rick D. Puckett, Chief Financial Officer and Treasurer, Steven H. Townsend, Chairman, President and Chief Executive Officer, and other 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.

Our operating results are subject to significant fluctuations

Our net sales and operating results may vary significantly from period to period due to:

- demand for natural products;
- changes in our operating expenses, including in fuel and insurance;
- management's ability to execute our business and growth strategies;
- changes in customer preferences and demands for natural products, including levels of enthusiasm for health, fitness and environmental issues;
- fluctuation of natural product prices due to competitive pressures;
- personnel changes;
- supply shortages;
- general economic conditions;
- lack of an adequate supply of high-quality agricultural products due to poor growing conditions, natural disasters or otherwise;
- 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.

Union-organizing activities could cause labor relations difficulties

As of July 31, 2004, we had approximately 3,900 full and part-time employees. An aggregate of approximately 400, or 10%, of the employees at our Auburn, Washington, Iowa City, Iowa and Edison, New Jersey facilities are covered by collective bargaining agreements. These agreements expire in March 2006, June 2006 and June 2005, 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, 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.

Access to capital and the cost of that capital

We have a secured revolving credit facility with available credit under it of $250 million at an interest rate of LIBOR plus 1.25% maturing on March 31, 2008. As of July 31, 2004, our borrowing base, based on accounts receivable and inventory levels, was $215.9 million, with remaining availability of $100.9 million. In April 2003, we executed a term loan agreement in the principal amount of $30 million secured by the real property that was released in accordance with an amendment to the loan and security agreement related to the revolving credit facility. The $30 million term loan is repayable over seven years based on a fifteen-year amortization schedule. Interest on the term loan accrues at LIBOR plus 1.50%. In December 2003, we amended this term loan agreement by increasing the principal amount from $30 million to $40 million under the existing terms and conditions.

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 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

We are exposed to interest rate fluctuations on our borrowings. As more fully described in the notes to the consolidated financial statements, we use interest rate swap agreements to modify variable rate obligations to fixed rate obligations.

Beginning in 1998, we began managing portions of our debt portfolio by using interest rate swaps to achieve a desired mix of fixed rates. At July 31, 2004, we had one interest rate swap relating to our $40 million term loan agreement. We account for our interest rate swap agreement entered into during May 2003 ("2003 swap") using hedge accounting treatment as the derivative has been determined to be highly effective in achieving offsetting changes in fair value of the hedged items. The agreement provides for us to pay interest for a seven-year period at a fixed rate of 3.68% on a notional principal amount of $30 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The 2003 swap has been entered into as a hedge against LIBOR interest rate movements on current variable rate indebtedness totaling $37.3 million at LIBOR plus 1.50%, thereby fixing our effective rate on the notional amount at 5.18%. Under this method of accounting, at July 31, 2004 and 2003, we recorded a $0.4 million asset representing gross unrealized gains on this derivative, and a corresponding credit to accumulated other comprehensive income in the statement of stockholders' equity. We do not enter into derivative agreements for trading purposes.

At July 31, 2004, the Company has long-term floating rate debt of $40.9 million and long-term fixed rate debt of $7.9 million, representing 84% and 16%, respectively, of total debt. At July 31, 2003, the Company has floating rate debt of $33.3 million and fixed rate debt of $9.7 million, representing 77% and 23%, respectively, of total debt. Holding other variables constant (such as swaps and debt levels), a 25 basis point decrease in interest rates would increase the unrealized fair market value of the fixed rate debt by approximately $67,000 and $88,000 at July 31, 2004 and 2003, respectively. At July 31, 2004 and 2003, the after-tax earnings and cash flows impact for next year resulting from 25 basis point increase in interest rates would be approximately $180,000 and $9,000, respectively, holding other variables constant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed below are filed as part of this Annual Report on Form 10-K.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
United Natural Foods, Inc.:

We have audited the accompanying consolidated balance sheets of United Natural Foods, Inc. and Subsidiaries as of July 31, 2004 and 2003 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Natural Foods, Inc. and Subsidiaries as of July 31, 2004 and 2003 and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Providence, Rhode Island
August 26, 2004

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

July 31, 2004 and 2003
(In thousands, except per share data)

ASSETS	2004	2003
Current assets:		
Cash and cash equivalents	$ 13,633	$ 3,645
Accounts receivable, net of allowance of $5,572 and $5,061, respectively	106,178	90,111
Notes receivable, trade, net of allowance of $351 and $177, respectively	772	585
Inventories	196,171	158,263
Prepaid expenses and other current assets	7,007	6,410
Deferred income taxes	7,610	6,455
Total current assets	331,371	265,469
Property & equipment, net	114,140	101,238
Goodwill	57,242	57,400
Notes receivable, trade, net of allowance of $3,810 and $2,618, respectively	1,601	1,261
Intangible assets, net of accumulated amortization of $146 and $516, respectively	154	1,014
Other, net	4,259	3,717
Total assets	$508,767	$430,099

LIABILITIES AND STOCKHOLDERS' EQUITY	2004	2003
Current liabilities:		
Notes payable	$107,004	$ 96,170
Current installments of long-term debt	4,766	4,459
Current installments of obligations under capital leases	454	903
Accounts payable	80,875	67,187
Accrued expenses and other current liabilities	29,047	26,347
Financial instruments	-	6,104
Total current liabilities	222,146	201,170
Long-term debt, excluding current installments	43,978	38,507
Deferred income taxes	7,730	2,247
Obligations under capital leases, excluding current installments	137	612
Total liabilities	273,991	242,536
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, authorized 5,000 shares; none issued or outstanding	-	-
Common stock, $.01 par value, authorized 50,000 shares; issued and outstanding 40,118 and 39,020 shares at July 31, 2004 and 2003, respectively	401	390
Additional paid-in capital	101,118	85,873
Unallocated shares of Employee Stock Ownership Plan	(1,768)	(1,931)
Accumulated other comprehensive income	240	432
Retained earnings	134,785	102,799
Total stockholders' equity	234,776	187,563
Total liabilities and stockholders' equity	$508,767	$430,099

See notes to consolidated financial statements.

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	YEARS ENDED JULY 31,		
	2004	**2003**	**2002**
Net sales	$1,669,952	$1,379,893	$1,175,393
Cost of sales	1,339,496	1,099,704	934,238
Gross profit	330,456	280,189	241,155
Operating expenses	270,666	236,784	200,586
Goodwill impairment charge	-	1,353	-
Restructuring and asset impairment charges	-	773	424
Amortization of intangibles	1,306	463	180
Total operating expenses	271,972	239,373	201,190
Operating income	58,484	40,816	39,965
Other expense (income):			
Interest expense	7,265	7,795	7,233
Change in value of financial instruments	(704)	484	4,331
Other, net	(513)	(870)	(281)
Total other expense	6,048	7,409	11,283
Income before income taxes	52,436	33,407	28,682
Income taxes	20,450	13,187	11,473
Net income	$ 31,986	$ 20,220	$ 17,209
Basic per share data:			
Net income	$0.81	$0.53	$0.45
Weighted average basic shares of common stock	39,471	38,471	37,865
Diluted per share data:			
Net income	$0.78	$0.51	$0.45
Weighted average diluted shares of common stock	41,025	39,454	38,667

See notes to consolidated financial statements.

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)	Outstanding Number of Shares	Common Stock	Accumulated Additional Paid in Capital	Unallocated Shares of ESOP	Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balances at July 31, 2001	37,307	$373	$ 72,458	$(2,258)	$ -	$ 65,370	$135,943
Allocation of shares to ESOP	-	-	-	164	-	-	164
Issuance of common stock, net	506	5	2,402	-	-	-	2,407
Tax effect of exercises of stock options	-	-	415	-	-	-	415
Issuance of common stock in connection with acquisition	399	4	4,245	-	-	-	4,249
Net income	-	-	-	-	-	17,209	17,209
Balances at July 31, 2002	38,212	382	79,520	(2,094)	-	82,579	160,387
Allocation of shares to ESOP	-	-	-	163	-	-	163
Issuance of common stock, net	808	8	5,403	-	-	-	5,411
Tax effect of exercises of stock options	-	-	950	-	-	-	950
Fair value of swap agreement	-	-	-	-	432	-	432
Net income	-	-	-	-	-	20,220	20,220
Total comprehensive income							20,652
Balances at July 31, 2003	39,020	390	85,873	(1,931)	432	102,799	187,563
Allocation of shares to ESOP	-	-	-	163	-	-	163
Issuance of common stock, net	1,098	11	9,032	-	-	-	9,043
Tax effect of exercises of stock options	-	-	6,213	-	-	-	6,213
Fair value of swap agreement	-	-	-	-	(192)	-	(192)
Net income	-	-	-	-	-	31,986	31,986
Total comprehensive income							31,794
Balances at July 31, 2004	40,118	$401	$101,118	$(1,768)	$240	$134,785	$234,776

See notes to consolidated financial statements.

UNITED NATURAL FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	YEARS ENDED JULY 31, 2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$31,986	$20,220	$17,209
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,660	10,330	8,206
Change in fair value of financial instruments	(704)	484	4,331
Goodwill impairment charge	-	1,353	-
(Gain) Loss on disposals of property & equipment	(95)	154	307
Deferred income taxes	3,724	1,667	(1,099)
Provision for doubtful accounts	3,586	2,622	1,806
Changes in assets and liabilities, net of acquired companies:			
Accounts receivable	(19,653)	(1,083)	(3,867)
Inventories	(37,801)	(3,861)	(21,091)
Prepaid expenses and other assets	(913)	(2,330)	301
Notes receivable, trade	(527)	87	266
Accounts payable	13,688	(496)	(692)
Accrued expenses	3,202	1,775	5,346
Financial instruments	(5,400)	-	-
Tax effect of stock option exercises	6,213	950	415
Net cash provided by operating activities	8,966	31,872	11,438
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(23,851)	(20,025)	(27,789)
Payments for purchases of subsidiaries, net of cash acquired	(6)	(43,723)	(16)
Proceeds from disposals of property and equipment	244	257	33
Net cash used in investing activities	(23,613)	(63,491)	(27,772)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under note payable	10,834	(9,939)	38,053
Repayments on long-term debt	(4,522)	(2,073)	(21,062)
Net proceeds from issuance of long-term debt	10,204	32,110	2,967
Principal payments of capital lease obligations	(924)	(1,429)	(1,240)
Proceeds from exercise of stock options	9,043	5,411	2,407
Net cash provided by financing activities	24,635	24,080	21,125
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,988	(7,539)	4,791
Cash and cash equivalents at beginning of period	3,645	11,184	6,393
Cash and cash equivalents at end of period	$13,633	$ 3,645	$11,184
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 7,074	$ 7,697	$ 7,089
Income taxes, net of refunds	$ 9,851	$ 7,999	$12,883

In 2004, 2003 and 2002, the Company incurred capital lease obligations of approximately $0, $912 and $667, respectively.
The fair value of common stock issued for an acquisition of a subsidiary in fiscal 2002 was $4,249.

See notes to consolidated financial statements.

UNITED NATURAL FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEARS ENDED JULY 31, 2004, 2003 AND 2002

(1) SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Business

United Natural Foods, Inc. and Subsidiaries (the "Company") is a distributor and retailer of natural and organic products. The Company sells its products primarily throughout the United States.

(b) Basis of Presentation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation.

On March 17, 2004, the Company's Board of Directors approved a two-for-one split of the Company's common stock that was payable in the form of a stock dividend. Stockholders received one additional share of the Company's common stock for each share of common stock held on the record date of March 29, 2004. The split became effective on April 20, 2004. The applicable share and per-share data for all periods included herein have been restated to give effect to this stock split. The par value of the common stock was not affected by the stock split and remains at $0.01 per share.

(c) Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

(d) Inventories and Cost of Sales

Inventories are stated at the lower of cost or market, with cost being determined using the first-in, first-out (FIFO) method. Allowances received from suppliers are recorded as reductions in cost of sales upon the sale of the related products.

(e) Property and Equipment

Property and equipment are stated at cost. Equipment under capital leases is stated at the lower of present value of minimum lease payments at the inception of the lease, or the fair value of the asset. Depreciation and amortization are principally provided using the straight-line method over the estimated useful lives.

(f) Income Taxes

The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(g) Intangible Assets and Other Long-Lived Assets

Intangible assets consist principally of goodwill and covenants not to compete. Goodwill represents the excess purchase price over fair value of net assets acquired in connection with purchase business combinations. Covenants not to compete are initially recorded at fair value and are amortized using the straight-line method over the lives of the respective agreements, generally five years.

Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, requires that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has elected to perform its annual tests for indications of goodwill impairment as of July 31 of each year. Impairment losses are determined based upon the excess of carrying amounts over discounted expected future cash flows of the underlying business. The assessment of the recoverability of long-lived assets will be impacted if estimated future cash flows are not achieved. For reporting units that indicated potential impairment, we determined the implied fair value of that reporting unit using a discounted cash flow analysis and compared such values to the respective reporting units' carrying amounts.

As of July 31, 2004, the Company's annual assessment of each of its reporting units indicated that no impairment of goodwill existed. The restructuring of the Hershey Imports Company ("Hershey") division during the fourth quarter of fiscal 2003 represented a triggering event that required the Company to evaluate Hershey's goodwill for potential impairment. The Company's testing and subsequent analysis indicated that goodwill for Hershey was impaired. Accordingly, the Company recognized an impairment charge of approximately $1.4 million on goodwill for the year ended July 31, 2003.

Total goodwill as of July 31, 2004 was $57.2 million. The Company recorded additional goodwill in the Wholesale operating segment of approximately $27.4 million during the year ended July 31, 2003 as a result of the acquisitions of Blooming Prairie Cooperative Warehouse ($13.8 million) and Northeast Cooperative ($13.6 million). As of July 31, 2003, the Company had goodwill of $57.4 million after recording the Hershey impairment charge of approximately $1.4 million.

Other intangibles consist of covenants not to compete and supply agreements with a weighted average amortization period of five years. The Company had other intangibles and related accumulated amortization of $0.2 million and $0.1 million at July 31, 2004, respectively, and $1.5 million and $0.5 million at July 31, 2003, respectively. Amortization expense was $0.9 million, $0.4 million and $0.1 million for the years ended July 31, 2004, 2003 and 2002, respectively. Estimated amortization expense for the next four fiscal years is as follows:

Years ended July 31	(In thousands)
2005	$ 61
2006	60
2007	30
2008	3
	$154

(h) Revenue Recognition and Concentration of Credit Risk

The Company records revenue upon delivery of products. Revenues are recorded net of applicable sales discounts and estimated sales returns. Sales incentives provided to customers are accounted for as reductions in revenue as the related revenue is recorded. The Company's sales are primarily with customers located throughout the United States. The Company had one customer in 2004 and 2003, Whole Foods Market, Inc. ("Whole Foods Markets"), which provided more than 10% of the Company's revenue. In 2002, two customers, Whole Foods Markets and Wild Oats Markets, Inc. ("Wild Oats Markets"), generated 10% or more of the Company's revenues. Net sales to Whole Foods Markets were approximately 26%, 24% and 19% of net sales in 2004, 2003 and 2002, respectively. Wild Oats Markets represented 14% of net sales net sales in 2002.

The Company analyzes customer creditworthiness, accounts receivable balances, payment history, payment terms and historical bad debt levels when evaluating the adequacy of its allowance for doubtful accounts. In instances where a reserve has been recorded for a particular customer, future sales to the customer are conducted using either cash-on-delivery terms, or the account is closely monitored so that as agreed upon payments are received, orders are released; a failure to pay results in held or cancelled orders.

(i) Advertising

Advertising costs are expensed as incurred. Advertising expense was $6.4 million, $6.6 million and $5.2 million for the years ended July 31, 2004, 2003 and 2002, respectively.

(j) Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments including cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments. The carrying value of notes receivable, long-term debt and capital lease obligations are based on the instruments' interest rate, terms, maturity date and collateral, if any, in comparison to the Company's incremental borrowing rate for similar financial instruments.

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

	July 31, 2004		July 31, 2003	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$ 13,633	$ 13,633	$ 3,645	$ 3,645
Liabilities:				
Notes payable	(107,004)	(107,004)	(96,170)	(96,170)
Long term debt, including current portion	(48,744)	(49,879)	(42,966)	(44,732)
Interest rate agreements:				
Interest rate swap and option agreements	393	393	(5,672)	(5,672)

(k) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(l) Notes Receivable, Trade

The Company issues notes receivable, trade to certain customers under two basic circumstances; inventory purchases for initial store openings and overdue accounts receivable. Initial store opening notes are generally receivable over a period not to exceed twelve months. The overdue accounts receivable notes may extend for periods greater than one year. All notes are issued at a market interest rate and contain certain guarantees and collateral assignments in favor of the Company.

(m) Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees and certain other individuals with exercise prices equal to the fair value of the shares at the dates of grant. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-based Compensation* ("SFAS 123"), and will continue to account for its stock option plans in accordance with the provisions of Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees.* In addition, the Company has made the appropriate disclosures as required under Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123* ("SFAS 148").

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS 123 and SFAS 148 to stock-based employee compensation:

	Years ended July 31,		
(In thousands)	**2004**	**2003**	**2002**
Net income – as reported	$31,986	$20,220	$17,209
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,150)	(2,839)	(2,786)
Net income – pro forma	$28,836	$17,381	$14,423
Basic earnings per share			
As reported	$0.81	$1.05	$0.91
Pro forma	$0.73	$0.90	$0.76
Diluted earnings per share			
As reported	$0.78	$1.02	$0.89
Pro forma	$0.70	$0.88	$0.75

The Company estimates the fair value of each option as of the date of grant using the Black-Scholes pricing model with the following weighted average assumptions used for grants in 2004, 2003 and 2002:

	Years ended July 31,		
	2004	**2003**	**2002**
Expected volatility	49.7%	60.5%	64.0%
Dividend yield	0.0%	0.0%	0.0%
Risk free interest rate	3.7%	3.3%	4.7%
Expected life	3.27 years	5 years	5 years

(n) Earnings Per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by adding the dilutive potential common shares to the weighted average number of common shares that were outstanding during the period. For purposes of the diluted earnings per share calculation, outstanding stock options are considered common stock equivalents, using the treasury stock method. A reconciliation of the weighted average number of shares outstanding used in the computation of the basic and diluted earnings per share for all periods presented follows:

	Years ended July 31,		
(In thousands)	**2004**	**2003**	**2002**
Basic weighted average shares outstanding	39,471	38,471	37,865
Net effect of dilutive stock options based upon the treasury stock method	1,554	983	802
Diluted weighted average shares outstanding	41,025	39,454	38,667
Antidilutive potential common shares excluded from the computation above	2	-	1,202

(o) Comprehensive Income

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Comprehensive income is comprised of net income and the net change in fair value of derivative instruments designated as cash flow hedges.

(p) Derivative Financial Instruments

The Company is exposed to market risks arising from changes in interest rates. The Company uses derivatives principally in the management of interest rate exposure. It does not utilize derivatives that contain leverage features. On the date on which the Company enters into a derivative transaction, the derivative is designated as a hedge of the identified exposure. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge transaction. In this documentation, the Company specifically identifies the asset, liability, firm commitment, forecasted transaction, or net investment that has been designated as the hedged item and states how the hedging instrument is expected to reduce the risks related to the hedged item. The Company measures effectiveness of its hedging relationships both at hedge inception and on an ongoing basis.

(q) New Accounting Pronouncements

The Company has determined that there are no recently issued accounting standards that are expected to have a material impact on its consolidated financial position, results of operations or cash flows.

(2) ACQUISITIONS

On December 31, 2002, the Company acquired by merger privately held Northeast Cooperative, a natural food distributor, headquartered in Brattleboro, Vermont, which services customers in the Northeast and Midwest regions of the United States, for cash consideration of $14.1 million. The acquisition was financed by proceeds from the Company's line of credit. The operating results of Northeast Cooperative have been included in the consolidated financial statements of the Company beginning with the acquisition date. The Company has recorded goodwill of $13.6 million related to this purchase acquisition, reflecting the cost of the acquisition and additional liabilities recorded.

On October 11, 2002, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of Blooming Prairie Cooperative ("Blooming Prairie"), a distributor of natural foods and related products in the Midwest region of the United States, for cash consideration of $29.6 million. The acquisition was financed by proceeds from the Company's line of credit. The operating results of Blooming Prairie have been included in the consolidated financial statements of the Company beginning with the acquisition date. The Company recorded goodwill of $13.8 million related to this purchase acquisition.

On November 6, 2001, the Company's wholly owned subsidiary, Albert's Organics, Inc., purchased the assets of Boulder Fruit Express, a distributor of high quality organic produce and perishables. In connection with the acquisition of Boulder Fruit Express, the Company issued 398,872 shares of common stock with a fair value of approximately $4.3 million, and paid cash of approximately $0.8 million. The operating results of Boulder Fruit Express have been included in the consolidated financial statements of the Company beginning with the acquisition date. This acquisition was accounted for as a purchase with goodwill of approximately $3.9 million.

The following presents the unaudited pro forma results assuming that the acquisitions discussed above had occurred as of the beginning of fiscal 2002. These pro forma results are not necessarily indicative of the results that will occur in future periods.

(In thousands, except per share data)	Years ended July 31 2003	2002
Net sales	$1,460,187	$1,426,709
Income before income taxes	$ 32,678	$ 22,268
Net income	$ 19,783	$ 13,327
Earnings per common share:		
Basic	$0.51	$0.35
Diluted	$0.50	$0.34

(3) STOCK OPTION PLAN

At July 31, 2004, the Company had two stock option plans, the 2002 Stock Incentive Plan, and the 1996 Stock Option Plan. The Board of Directors adopted, and the stockholders approved, the 2002 Stock Incentive Plan, which provides for grants of stock options to employees, officers, directors and others, on October 2, 2002 and December 3, 2002, respectively. These options are intended to either qualify as incentive stock options within the meaning of section 422 of the Internal Revenue Code or be "non-statutory stock options." At July 31, 2004, 108,800 shares were available for grant under the 1996 Stock Option Plan and 1,323,758 shares were available for grant under the 2002 Stock Incentive Plan.

The following table summarizes the stock option activity for the fiscal years ended July 31, 2004, 2003 and 2002:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,429,318	$ 9.65	3,385,616	$ 8.11	2,837,768	$ 6.13
Granted	782,000	$18.67	1,049,500	$12.44	1,188,000	$11.39
Exercised	(1,097,819)	$ 8.31	(808,648)	$ 6.70	(506,152)	$ 4.76
Forfeited	(169,850)	$11.79	(197,150)	$ 9.92	(134,000)	$ 7.89
Outstanding at end of year	2,943,649	$12.42	3,429,318	$ 9.65	3,385,616	$ 8.11
Options exercisable at year-end	919,948	$ 8.40	1,171,118	$ 7.02	1,234,492	$ 5.84
Weighted average fair value of options granted during the year:						
Exercise price equals stock price	$7.14		$6.89		$6.60	

The options for the purchase of 2,943,649 shares outstanding at July 31, 2004 had exercise prices and remaining contractual lives as follows:

Range of Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$ 3.19 –$ 5.06	190,150	2.3	$ 3.30	187,150	$ 3.27
$ 5.30 – $ 8.78	389,124	5.3	$ 6.94	254,250	$ 6.54
$ 9.99 – $14.35	1,606,375	7.5	$11.87	478,548	$11.38
$16.35 – $24.54	758,000	9.3	$18.71	–	$ –
$ 3.19 – $24.54	2,943,649	7.4	$12.42	919,948	$ 8.40

(4) GOODWILL IMPAIRMENT, RESTRUCTURING AND OTHER CHARGES

During the fourth quarter of fiscal 2003, the Company recorded special charges of approximately $3.3 million related to the Hershey division. The charges included $1.4 million related to the impairment of goodwill associated with the acquisition of Hershey, $1.1 million related to the writedown of inventory (included in cost of sales), severance and fringe benefit costs of $0.5 million related to cost reduction actions taken at Hershey, and $0.3 million primarily related to the abandonment of equipment and other charges at Hershey. The severance and fringe benefit costs were for 11 employees. All impacted employees had been notified of their status as of July 31, 2003. Approximately $0.5 million of the restructuring charge, related to severance and fringe benefit costs, remained as of July 31, 2003. During fiscal 2004, the remaining accruals related to the restructuring were utilized.

(5) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at July 31, 2004 and 2003:

(In thousands)	Estimated Useful Lives (Years)	2004	2003
Land		$ 5,912	$ 5,888
Buildings and improvements	20-40	84,545	71,912
Leasehold improvements	5-30	15,942	14,465
Warehouse equipment	5-20	27,770	23,058
Office equipment	3-10	29,106	24,130
Motor vehicles	3-5	6,428	6,542
Equipment under capital leases	3-5	5,965	6,262
Construction in progress		1,781	2,191
		177,449	154,448
Less accumulated depreciation and amortization		63,309	53,210
Net property and equipment		$114,140	$101,238

(6) NOTES PAYABLE

On April 30, 2004, the Company entered into an amended and restated four-year $250 million secured revolving credit facility with a bank group that was led by Bank of America Business Capital (formerly Fleet Capital Corporation) as the administrative agent (the "amended credit facility"). The amended credit facility increased the amount available for borrowing from $150 million to $250 million, on which interest accrues, at the Company's option, at the New York Prime Rate (4.25% at July 31, 2004 and 4.0% at July 31, 2003) or at the London Interbank Offered Rate ("LIBOR") plus 1.25%. The $250 million credit facility matures on March 31, 2008. The weighted average interest rate on the amended credit facility was 2.75% as of July 31, 2004. As of July 31, 2004, the Company's outstanding borrowings under the amended credit facility totaled $107.0 million with an availability of $100.9 million. As more fully discussed in Note 8, the Company entered into certain interest rate swap agreements to hedge this indebtedness which were assigned and transferred to a third party in December 2003.

The credit agreement contains certain restrictive covenants. The Company was in compliance with all restrictive covenants at July 31, 2004. The agreement also provides for the bank to syndicate the credit facility to other banks and lending institutions. The Company has pledged the majority of its accounts receivable and inventory for its obligations under the credit agreement.

(7) LONG-TERM DEBT

The Company entered into a $30 million term loan agreement with a financial institution effective April 30, 2003. The term loan is repayable over seven years based on a fifteen year amortization schedule. Interest accrues at 30 day LIBOR plus 1.50%. The Company has pledged certain real property as collateral for its obligations under the term loan agreement. In December 2003, the Company amended the term loan agreement with its bank, increasing the principal amount by $10 million to $40 million, under the existing terms and conditions. The proceeds were used for the expansion of its distribution facilities.

As of July 31, 2004 and 2003, the Company's long-term debt consisted on the following:

(In thousands)	July 31, 2004	July 31, 2003
Term loans payable to bank, secured by real estate, due monthly and mature in April 2010, at a rate of 30 day LIBOR plus 1.5% (3.00% at July 31, 2004)	$37,278	$29,667
Promissory note due October 2005, at a rate of 30 day LIBOR plus 1.25% (2.75% at July 31, 2004)	3,595	3,595
Equipment financing loans payable to bank, secured by the underlying assets, due monthly and maturing at various dates from March 2006 through July 2007, at rates ranging from 4.79% to 11.57%	3,652	5,279
Real estate term loans payable to bank and others, secured by building and other assets, due monthly and maturing at various dates from March 2005 through April 2015, at rates ranging from 7.50% to 8.60%	2,157	2,494
Term loan for employee stock ownership plan, secured by stock of the Company, due $14 monthly plus interest at 10.0%, balance due May 1, 2015	1,768	1,931
Other	294	–
	$48,744	$42,966
Less: current installments	4,766	4,459
Long-term debt, excluding current installments	$43,978	$38,507

Certain debt agreements contain restrictive covenants. The Company was in compliance with all of its restrictive covenants at July 31, 2004.

Aggregate maturities of long-term debt for the next five years and thereafter are as follows at July 31, 2004:

Year	(In thousands)
2005	$ 4,766
2006	7,897
2007	3,699
2008	3,181
2009	2,896
2010 and thereafter	26,305
	$48,744

(8) FINANCIAL INSTRUMENTS

In October 1998, the Company entered into an interest rate swap agreement that provided for it to pay interest for a five-year period at a fixed rate of 5% on a notional principal amount of $60 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. This swap had been entered into as a hedge against LIBOR interest rate movements on current and anticipated variable rate indebtedness totaling $60 million at LIBOR plus 1.50%, thereby fixing the effective rate at 6.50%. In October 2003, the counter party exercised its option to extend the original five-year term of the swap agreement to seven years. The inclusion of this option prohibited accounting for the swap as an effective hedge under Statement of Financial Accounting Standards ("SFAS") No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*.

The Company entered into an additional interest rate swap agreement effective August 2001. The additional agreement provided for it to pay interest for a four-year period at a fixed rate of 4.81% on a notional principal amount of $30 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The four-year term of the swap agreement could have been extended to six years at the option of the counter party, which prohibited accounting for the swap as an effective hedge under SFAS 133. The swap had been entered into as a hedge against LIBOR interest rate movements on current and anticipated variable rate indebtedness totaling $30 million at LIBOR plus 1.50%, thereby fixing the effective rate on the notional amount at 6.31%. If LIBOR exceeded 6.0% in a given period, the agreement was suspended for that period.

On December 29, 2003, the Company assigned and transferred all of its obligations of its two "ineffective" interest rate swaps to a third party at a cost of $5.4 million plus accrued interest. As a result of this assignment, these "ineffective" swaps will no longer be included as a special item for future fiscal periods. These "ineffective" swaps were included as special items for the first two quarters of fiscal 2004.

In May 2003, the Company entered into an additional interest rate swap agreement. The agreement provides for it to pay interest for a seven-year period at a fixed rate of 3.68% on a notional principal amount of $30 million while receiving interest for the same period at the LIBOR rate on the same notional principal amount. The swap has been entered into as a hedge against LIBOR interest rate movements on current variable rate indebtedness totaling $30 million at LIBOR plus 1.50%, thereby fixing our effective rate on the notional amount at 5.18%. LIBOR was 1.50% as of July 31, 2004. The swap agreement qualifies as an "effective" hedge under SFAS No. 133, and the Company recorded an asset of $0.4 million as of July 31, 2004 and 2003, and a corresponding credit to accumulated other comprehensive income in the statement of stockholders' equity.

(9) CAPITAL LEASES

The Company leases computer, office and warehouse equipment under capital leases expiring in various years through 2007. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the shorter of their related lease terms or their estimated productive lives. Total capital leased assets at July 31, 2004 and 2003 were $5,965, and $6,262, respectively, less accumulated depreciation of $4,558 and $4,106, respectively.

The remaining minimum future lease payments under capital leases as of July 31, 2004 are:

Years ended July 31	(In thousands)
2005	$ 493
2006	133
2007	6
Total minimum lease payments	632
Less: Amount representing interest	41
Present value of net minimum lease payments	591
Less: current installments	454
Capital lease obligations, excluding current installments	$ 137

(10) COMMITMENTS AND CONTINGENCIES

The Company leases various facilities under operating lease agreements with varying terms. Most of the leases contain renewal options and purchase options at several specific dates throughout the terms of the leases.

Rent and other lease expense for the years ended July 31, 2004, 2003 and 2002 totaled approximately $16.8 million, $16.4 million, and $14.3 million, respectively.

Future minimum annual fixed payments required under non-cancelable operating leases having an original term of more than one year as of July 31, 2004 are as follows:

Year	(In thousands)
2005	$13,495
2006	10,918
2007	8,919
2008	6,969
2009	5,118
Thereafter	11,262
	$56,681

Outstanding commitments as of July 31, 2004 for the purchase of inventory were approximately $13.8 million. The Company had outstanding letters of credit of approximately $8.2 million at July 31, 2004.

The Company may from time to time be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

(11) RETIREMENT PLAN

The Company has one defined contribution retirement plan, ("the 401(k) Plan"). During fiscal 2004, the Company merged the defined contribution plans of Blooming Prairie and Northeast Cooperatives into the 401(k) Plan. Under the 401(k) Plan, the employees may choose to reduce their compensation and have these amounts contributed to the 401(k) Plan on their behalf. In order to become a participant in the 401(k) Plan, employees must meet certain eligibility requirements as described in the respective 401(k) Plan's document. In addition to amounts contributed to the 401(k) Plan by employees, the Company makes contributions to the 401(k) Plan on behalf of the employees. The Company contributions to the 401(k) Plan were approximately $1.9 million, $1.6 million, and $1.3 million for the years ended July 31, 2004, 2003 and 2002, respectively.

(12) EMPLOYEE STOCK OWNERSHIP PLAN

The Company adopted the UNFI Employee Stock Ownership Plan (the "ESOP Plan") for the purpose of acquiring outstanding shares of the Company for the benefit of eligible employees. The ESOP Plan was effective as of November 1, 1988 and has received notice of qualification by the Internal Revenue Service.

In connection with the adoption of the ESOP Plan, a Trust was established to hold the shares acquired. On November 1, 1988, the Trust purchased 40% of the then outstanding Common Stock of the Company at a price of $4.1 million. The trustees funded this purchase by issuing promissory notes to the initial stockholders, with the Trust shares pledged as collateral. These notes bear interest at 10% and are payable through May 2015. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year.

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 93-6 ("SOP 93-6"), *Employers' Accounting for Employee Stock Ownership Plans*, in November 1993. The statement provides guidance on employers' accounting for ESOPs and is required to be applied to shares purchased by ESOPs after December 31, 1992, that have not been committed to be released as of the beginning of the year of adoption. In accordance with SOP 93-6, the Company elected not to adopt the guidance in SOP 93-6 for the shares held by the ESOP, all of which were purchased prior to December 31, 1992. The debt of the ESOP is recorded as debt and the shares pledged as collateral are reported as unearned ESOP shares in the Consolidated Balance Sheets. During each of 2004, 2003 and 2002 contributions totaling approximately $0.3 million, $0.4 million, and $0.4 million, respectively, were made to the Trust. Of these contributions, approximately $0.2 million represented interest in 2004, 2003 and 2002.

The ESOP shares were classified as follows:

	July 31	
(In thousands)	**2004**	**2003**
Allocated shares	2,332	2,156
Shares released for allocation	176	176
Shares distributed to employees	(1,180)	(982)
Unreleased shares	1,892	2,068
Total ESOP shares	3,220	3,418

The fair value of unreleased shares was approximately $41.0 million and $31.6 million at July 31, 2004 and 2003, respectively.

(13) INCOME TAXES

Total federal and state income tax (benefit) expense from continuing operations consists of the following:

(In thousands)	**Current**	**Deferred**	**Total**
Fiscal year ended July 31, 2004:			
U.S. Federal	$14,349	$ 3,246	$17,595
State and local	2,377	478	2,855
	$16,726	$ 3,724	$20,450
Fiscal year ended July 31, 2003:			
U.S. Federal	$ 9,526	$ 1,991	$11,517
State and local	1,194	476	1,670
	$10,720	$ 2,467	$13,187
Fiscal year ended July 31, 2002:			
U.S. Federal	$11,560	$(2,083)	$ 9,477
State and local	1,537	459	1,996
	$13,097	$(1,624)	$11,473

Total income tax expense (benefit) was different than the amounts computed using the United States statutory income tax rate (35%) applied to income before income taxes as a result of the following:

	Years ended July 31		
(In thousands)	**2004**	**2003**	**2002**
Computed "expected" tax expense	$18,351	$11,711	$10,039
State and local income tax, net of Federal income tax expense	1,528	1,086	1,307
Non-deductible expenses	318	257	177
General Business Credits	(135)	(138)	-
Increase in valuation allowance	328	182	642
Other, net	60	89	(692)
	$20,450	$13,187	$11,473

Total income tax expense (benefit) for the years ended July 31, 2004, 2003, and 2002 was allocated as follows:

(In thousands)	July 31, 2004	July 31, 2003	July 31, 2002
Income from continuing operations	$20,450	$ 13,187	$11,473
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial statement purposes	(6,213)	(950)	(415)
	$14,237	$ 12,237	$11,058

The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets and deferred tax liabilities at July 31, 2004 and 2003 are presented below:

(In thousands)	2004	2003
Deferred tax assets:		
Change in financial instruments	$ -	$2,410
Inventories, principally due to additional costs inventoried for tax purposes	2,560	2,147
Compensation and benefit related	1,408	1,274
Accounts receivable, principally due to allowances for uncollectible accounts	2,602	1,743
Accrued expenses	1,651	1,242
State net operating loss carryforward	1,073	956
Other	210	459
Total gross deferred tax assets	9,504	10,231
Less valuation allowance	1,152	824
Net deferred tax assets	8,352	9,407
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	5,680	3,558
Intangible assets	2,487	1,515
Other	305	126
Total deferred tax liabilities	8,472	5,199
Net deferred tax (liabilities) assets	$(120)	$4,208
Current deferred income tax assets	$7,610	$6,455
Non-current deferred income tax liabilities	(7,730)	(2,247)
	$(120)	$4,208

At July 31, 2004, the Company had net operating loss carryforwards of approximately $26 million for state income tax purposes that expire in years 2005 through 2024.

In assessing the recoverability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to the fact that the Company has sufficient taxable income in the federal carryback period and anticipates sufficient future taxable income over the periods which the deferred tax assets are deductible, the ultimate realization of deferred tax assets for, with the exception of certain state operating loss carryforwards, federal and state tax purposes appears more likely than not.

(14) BUSINESS SEGMENTS

The Company has several operating segments aggregated under the wholesale segment, which is the Company's only reportable segment. These operating segments have similar products and services, customer types, distribution methods and historical margins. The wholesale segment is engaged in national distribution of natural foods and related products in the United States. Other operating segments include the retail segment, which engages in the sale of natural foods and related products to the general public through retail storefronts on the east coast of the United States, and a segment engaging in trading, roasting and packaging of nuts, seeds, dried fruit and snack items. These other operating segments do not meet the quantitative thresholds for reportable segments and are therefore included in an "Other" caption in the segment information. The "Other" caption also includes corporate expenses that are not allocated to operating segments.

Following is business segment information for the periods indicated:

(In thousands)	Wholesale	Other	Eliminations	Unallocated Expenses	Consolidated
2004					
Revenue	$1,629,717	$70,637	$(30,402)		$1,669,952
Operating income	63,144	(4,667)	7		58,484
Interest expense				7,265	7,265
Other, net				(1,217)	(1,217)
Income before income taxes					52,436
Amortization and depreciation	10,484	1,176			11,660
Capital expenditures	23,303	548			23,851
Assets	657,411	39,852	(188,496)		508,767
2003					
Revenue	1,336,239	65,529	(21,875)		1,379,893
Operating income	50,382	(9,514)	(52)		40,816
Interest expense				7,795	7,795
Other, net				(386)	(386)
Income before income taxes					33,407
Amortization and depreciation	9,093	1,237			10,330
Capital expenditures	19,208	817			20,025
Assets	578,907	40,109	(188,917)		430,099
2002					
Revenue	1,133,678	62,918	(21,203)		1,175,393
Operating income	43,899	(3,978)	44		39,965
Interest expense				7,233	7,233
Other, net				4,050	4,050
Income before income taxes					28,682
Amortization and depreciation	7,097	1,109			8,206
Capital expenditures	25,465	2,324			27,789
Assets	459,997	42,984	(148,524)		354,457

(15) QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth certain key interim financial information for the years ended July 31, 2004 and 2003:

(In thousands except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2004					
Net sales	$381,382	$393,248	$448,900	$446,422	$1,669,952
Gross profit	76,173	78,785	87,577	87,922	330,456
Income before income taxes	11,110	11,544	14,105	15,677	52,436
Net income	6,777	7,042	8,604	6,114	31,986
Per common share income					
Basic:	$0.17	$0.18	$0.22	$0.24	$0.81
Diluted:	$0.17	$0.17	$0.21	$0.23	$0.78
Weighted average basic					
Shares outstanding	39,051	39,196	39,648	39,993	39,471
Weighted average diluted					
Shares outstanding	40,364	40,750	41,344	41,623	41,025
Market Price					
High	$19.78	$20.72	$26.80	$29.66	$29.66
Low	$13.66	$16.92	$19.51	$21.50	$13.66

	First	Second	Third	Fourth	Full Year
2003					
Net sales	$310,993	$338,447	$363,611	$366,843	$1,379,893
Gross profit	63,425	68,849	73,555	74,361	280,189
Income before income taxes	6,640	9,180	9,466	8,120	33,407
Net income	3,984	5,508	5,774	4,953	20,220
Per common share income					
Basic:	$0.10	$0.14	$0.15	$0.13	$0.53
Diluted:	$0.10	$0.14	$0.15	$0.12	$0.51
Weighted average basic					
Shares outstanding	38,213	38,238	38,483	38,949	38,471
Weighted average diluted					
Shares outstanding	38,869	39,052	39,500	40,049	39,454
Market Price					
High	$12.50	$13.16	$14.70	$15.61	$15.61
Low	$ 8.92	$10.20	$10.34	$12.37	$ 8.92

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) **Evaluation of disclosure controls and procedures.** We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended) as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in timely reporting material information required to be included in our periodic reports filed with the Securities and Exchange Commission.

(b) **Changes in internal controls.** Since the Evaluation Date, there have not been any significant changes to our internal controls or in other factors that could significantly affect those internal controls.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is contained in part in our Definitive Proxy Statement on Schedule 14A for our Annual Meeting of Stockholders to be held on December 1, 2004 (the "2004 Proxy Statement") under the captions "PROPOSAL 1 - ELECTION OF DIRECTORS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and is incorporated herein by this reference. Pursuant to Item 401(b) of Regulation S-K, our executive officers are reported in Part I of this annual report on Form 10-K.

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other finance organization employees. Our code of ethics is publicly available on our website at www.unfi.com. If we make any substantive amendments to our code of ethics or grant any waiver, including any implicit waiver, from a provision of the code of ethics to our Chief Executive Officer, Chief Financial Officer or Corporate Controller, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is contained in the 2004 Proxy Statement under the captions "Director Compensation," "Compensation of Executive Officers" and "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is contained in part in the 2004 Proxy Statement under the caption "Stock Ownership of Certain Beneficial Owners and Management" and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the 2004 Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is contained in the 2004 Proxy Statement under the caption "Fees Paid to KPMG LLP" and is incorporated herein by this reference.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as a part of this Form 10-K.

1. *Financial Statements.* The Financial Statements listed in the Index to Financial Statements in Item 8 hereof are filed as part of this Annual Report on Form 10-K.

2. *Financial Statement Schedules.* Schedule II Valuation and Qualifying Accounts. All other schedules have been omitted since they are either not required or the information required is included in the consolidated financial statements or the notes thereto.

3. *Exhibits.* The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K.

1. Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 4, 2004 announcing that Company entered into an amended and restated four-year $250 million revolving credit facility effective April 30, 2004.

2. Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 1, 2004, announcing the Company's financial results for the fiscal quarter ended April 30, 2004.

3. Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 28, 2004, announcing the amendment of the Company's stockholder rights plan to accelerate the final expiration date of the purchase rights issued thereunder.

4. Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 29, 2004, announcing that the Company has extended its primary distribution agreement with Whole Foods Market, Inc. through December 31, 2004.

5. Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 8, 2004, announcing the Company's earnings estimates for its fiscal year ending July 31, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED NATURAL FOODS, INC.

/s/ RICK D. PUCKETT
Rick D. Puckett
Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Dated: October 14, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name Title	Date
/s/ Steven H. Townsend Steven H. Townsend Chair of the Board, President, Chief Executive Officer, and Director (Principal Executive Officer)	October 14, 2004
/s/ Thomas B. Simone Thomas B. Simone Vice Chair of the Board, Lead Independent Director	October 14, 2004
/s/ Rick D. Puckett Rick D. Puckett Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)	October 14, 2004
/s/ Richard Antonelli Richard Antonelli President of United Distribution and Director	October 14, 2004
/s/ Gordon D. Barker Gordon D. Barker Director	October 14, 2004
/s/ Joseph M. Cianciolo Joseph M. Cianciolo Director	October 14, 2004
/s/ Michael S. Funk Michael S. Funk Director	October 14, 2004
/s/ Gail A. Graham Gail A. Graham Director	October 14, 2004
/s/ James P. Heffernan James P. Heffernan Director	October 14, 2004

CERTIFICATIONS

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven H. Townsend, in my capacity as the Chief Executive Officer of United Natural Foods, Inc. (the "Company"), hereby certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) for the Company and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (c) disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

1. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Steven H. Townsend
Steven H. Townsend
Chief Executive Officer

October 14, 2004

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rick D. Puckett, in my capacity as the Chief Financial Officer of United Natural Foods, Inc. (the "Company"), hereby certify that:

1. I have reviewed this annual report on Form 10-Q of the Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) for the Company and we have:

    (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    (b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

    (c) disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Rick D. Puckett
Rick D. Puckett
Chief Financial Officer

October 14, 2004

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, in his capacity as the Chief Executive Officer of United Natural Foods, Inc., a Delaware corporation (the "Company"), hereby certifies that the Annual Report of the Company on Form 10-K for the period ended July 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of the Company.

/s/ Steven H. Townsend
Steven H. Townsend
Chief Executive Officer

October 14, 2004

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, in his capacity as the Chief Financial Officer of United Natural Foods, Inc., a Delaware corporation (the "Company"), hereby certifies that the Annual Report of the Company on Form 10-K for the period ended July 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of the Company.

/s/ Rick D. Puckett
Rick D. Puckett
Chief Financial Officer

October 14, 2004

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Accounts Receivable and Notes Receivable Allowance for Doubtful Accounts

	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
Year ended July 31, 2004	$7,856	$3,586	$1,709	$9,733
Year ended July 31, 2003	$5,992	$2,622	$ 758	$ 7,85
Year ended July 31, 2002	$5,010	$1,806	$ 824	$5,992

[Stockholder Information]

FRONT ROW (l to r):
Joseph M. Cianciolo, James P. Heffernan, Steven H. Townsend, Thomas B. Simone, Gordon D. Barker, Gail A. Graham.

BACK ROW (l to r):
Richard Antonelli, Michael S. Funk

CORPORATE ADDRESS
United Natural Foods, Inc.
260 Lake Road
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17 Battery Place South
8th Floor
New York, NY 10004

GENERAL COUNSEL
Cameron & Mittleman
56 Exchange Terrace
Providence, RI 02903

SEC COUNSEL
Covington & Burling
1201 Pennsylvania Avenue NW
Washington, DC 20004

OTHER CONTACTS
Joseph Calabrese
Financial Relations Board
(212) 445-8434

Rick D. Puckett
Chief Financial Officer
United Natural Foods, Inc.
(860) 779-2800

Form 10-K/Investor Contact

A copy of United Natural Foods' Form 10-K as filed with the Securities and Exchange Commission is available without charge to stockholders upon written request. These requests, and other investor inquiries, should be directed to Brenda Fournier, Corporate Assistant Secretary, at the Company's corporate address above.

Annual Meeting

The annual meeting of stockholders of United Natural Foods, Inc. will be held at 11:00 a.m. EST on Wednesday, December 1, 2004 at our offices located at 260 Lake Road, Dayville, CT 06241. Stockholders of record as of October 4, 2004 will be entitled to vote at this meeting. The company is offering a live webcast of the annual meeting at the Investor Relations section of its website at **www.unfi.com**.

"To cherish what remains of **THE EARTH** and to foster its renewal is our only legitimate hope of survival"

-Wendell Berry

UNITED NATURAL FOODS, INC.
America's Premier Certified Organic Distributor

260 Lake Road
P.O. Box 999
Dayville, Connecticut 06241

www.unfi.com