

WILD OATS MARKETS INC  
Form 10-K  
March 01, 2006  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

Commission file number 0-21577

WILD OATS MARKETS, INC.

(Exact name of registrant as specified in its charter)

Delaware	84-1100630
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

3375 Mitchell Lane  
Boulder, Colorado 80301  
(Address of principal executive offices, including zip code)

(303) 440-5220

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

-

Title of Each Class

Common Stock, \$0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

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

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

Large Accelerated Filer ( )      Accelerated Filer ( **X** )      Non-Accelerated Filer ( )

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant based on the closing price at which such stock was sold as reported by NASDAQ National Market on July 1, 2005 was approximately \$162,254,139. For purposes of this calculation, executive officers, directors and 5% or greater stockholders are deemed to be affiliates of the registrant.

As of February 20, 2006, the registrant had outstanding 28,443,272 shares of common stock, par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on May 2, 2006, have been incorporated by reference into Part III of this report.

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**PART IV.**

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PART I.

## Item 1.

## BUSINESS

## Who We Are

Wild Oats Markets, Inc. ("Wild Oats", "we", "us" and "our") is one of the largest natural foods supermarket chains in North America. As of February 20, 2006, we operated 111 natural foods stores in 24 states and British Columbia, Canada under several names, including:

- ◆ Wild Oats Natural Marketplace (nationwide)
- ◆ Henry's Farmers Market (southern California and Phoenix, Arizona)
- ◆ Sun Harvest Farms (Texas)
- ◆ Capers Community Market (British Columbia, Canada)

We are dedicated to providing a broad selection of natural, organic and gourmet foods, environmentally friendly household products and natural vitamins, supplements, herbal and homeopathic remedies and body care products at competitive prices, in an inviting and educational store environment that emphasizes customer service. Our broad selection of natural and organic products appeals to health-conscious shoppers while offering virtually every product category found in a conventional supermarket, including dry grocery, produce, meat, poultry, seafood, dairy, frozen, prepared foods, bakery, vitamins and supplements, health and body care, and household items. We believe that industry data stating the natural products industry currently comprises less than 5% of the total grocery industry suggests significant potential for us to continue to expand our customer base.

Retail sales of natural products have grown from \$1.9 billion in 1980 to \$22.0 billion in 2004, and total sales of natural products (including natural product retailers, mass market retailers, multi-level marketers and through practitioners, internet and mail order) reached \$45.8 billion in 2004, a 6.9% increase over the prior year (*Natural Foods Merchandiser*, June 2005). We believe this growth reflects a broadening of the natural products consumer base, which is being propelled by several factors, including healthier eating patterns, increasing concern regarding food purity and safety, and greater environmental awareness. While natural products generally have higher costs of production and correspondingly higher retail prices, we believe that more of the population now attributes added value to natural products and is willing to pay a premium for such products. Despite the increase in natural foods sales within conventional supermarkets, we believe that conventional supermarkets still lack the concentration on a wide variety of natural and organic products and emphasis on service and consumer education that our stores offer.

### Operating Strategy

Our objective is to become the grocery store of choice both for natural foods shoppers and quality-conscious consumers in each of our markets by emphasizing the following key elements of our operating strategy:

**Destination format.** Our stores are one-stop, full-service supermarkets for customers seeking quality natural, organic and gourmet foods and related products. Our prototype stores range from 27,000 to 34,000 square feet, and offer a wide range of natural and organic foods products in virtually every product category found in a conventional supermarket.

**High product standards.** We seek to offer a broad range of products meeting our product standards throughout our merchandise categories, and emphasize unique products and brands not typically found in conventional supermarkets. We believe our product standards for natural and organic products free from artificial preservatives, colors or flavors, synthetic additives and hydrogenated oils, antibiotic and growth hormone-free meats, cruelty-free bodycare products and sustainable seafood are among the highest in the industry. We routinely conduct quality assurance checks of our manufacturers' facilities to verify compliance with our standards. Each of our stores tailors its product mix to meet the preference of its local market, and where cost of goods and distribution logistics allow, source produce from local growers. We also operate regional commissary kitchens and bakeries that provide our stores with fresh bakery items and an unique assortment of prepared foods for the quality- and health-conscious consumer.

**Educational and entertaining store environment.** Each store strives to create a fun, friendly and educational environment that makes grocery shopping enjoyable, encouraging shoppers to spend more time in the store and to purchase new products. In order to enhance our customers' understanding of natural foods and how to prepare them, we train our store staff to educate customers about the benefits and quality of our products and prominently feature

educational brochures, newsletters, and in-store demonstrations and product samplings, as well as other in-store consumer information resources. Computer kiosks offer access to our Web site and informational databases on health issues.

Extensive community involvement.

We seek to engender customer loyalty by our high degree of commitment to the local communities in which we operate. Each store makes significant monetary and in-kind contributions to local not-for-profit organizations through programs such as "5% Days," where a store donates 5% of its net sales from one day to a local not-for-profit group, a "Charity Work Benefit" where we pay employees for time spent volunteering for local charities, and cash register donation programs, which enlist the support of our customers to make donations. One such cash register program is our "wooden nickel" program where customers get wooden tokens, worth 5 cents each, for every bag they reuse. The customer then donates the wooden nickels to local charities. Oftentimes, we include a matching donation from the Company.

Multiple store formats.

We operate in one operating segment, retail grocery, with two store formats: natural foods supermarkets, which emphasize gourmet, natural and organic products and a higher level of service; and farmers market stores, which emphasize fresh produce and natural living products at a competitive price. While each format has the same core demographic customer profile, differing appeals of each of the formats allows us to operate successfully in a diverse set of markets, enabling us to reach a broader customer base, increase our market penetration and have greater flexibility with real estate selection.

Competitive pricing. We seek to offer products at prices that are competitive with those of other natural foods stores and conventional markets. Our "Wild Buy" program offers a large weekly selection of unadvertised, in-store specials, while our flyer continues to offer aggressive advertised specials on items that we believe our customers want most. We believe these pricing programs broaden our consumer appeal and encourage our customers to fulfill more of their shopping needs at our stores.

Products

Overview

. We offer our customers a broad selection of unique products that are natural and organic alternatives to those found in conventional supermarkets, as well as gourmet and ethnic foods. We generally do not offer well-known national conventional brands and focus instead on a comprehensive selection of natural and organic products within each

category. Although the core merchandise assortment is similar at each of our stores, individual stores adapt the product mix to reflect local and regional preferences. We regularly introduce new natural, organic, gourmet and locally grown products in our stores to differentiate our merchandise selection from products carried by conventional supermarkets. We continue to evaluate our product selection based not just on taste and price, but also in relation to our mission and values, which emphasize accountability and giving back to our communities as two key values of our business.

We intend to continue to expand and enhance our prepared foods, value-added items (such as marinated or stuffed meats and seafood) and in-store cafe environment. We believe that consumers are increasingly seeking convenient, healthy, "ready-to-eat" meals and that by increasing our commitment to this category we can provide an added service to our customers, broaden our customer base and further differentiate our stores from conventional supermarkets and traditional natural foods stores.

Quality standards.

We strive to offer products that taste great and meet the following standards:

- ◆ foods free of preservatives, artificial colors and flavors, synthetic additives and hydrogenated oils;
- ◆ meats that are humanely raised and contain no antibiotics or growth hormones;
- ◆ locally and organically grown produce, unique regional products; and
- ◆ natural personal care and household items that are not tested on animals.

Private label. The natural foods industry is highly fragmented and characterized by many small independent vendors. As a result, we believe that our customers do not have strong loyalty to particular brands of natural foods products. In contrast to conventional supermarkets whose private label products are intended to be low-cost alternatives to name-brand products, we developed our "Wild Oats<sup>(R)</sup> Organic", "Wild Oats<sup>(R)</sup> Natural", "Wild Oats<sup>(R)</sup> Living" and "Henry's<sup>(R)</sup>" private label programs around higher quality products in order to build brand loyalty to specific products based on our relationship with our customers and our reputation as a natural and organic foods authority.

Through this program, we have successfully introduced over a thousand high-quality natural and organic private label products, such as cereals, breads, salad dressings, chips, salsa, pretzels, cookies, juices, Italian sodas, French and Belgium chocolates, Italian pasta and pasta sauces, oils, tuna, and frozen products, such as pizza, veggie burgers and waffles. In fiscal 2005, we introduced almost 300 new and reformulated private label products, including barbeque sauces, specialty salsas, smoked salmon, crackers, olives, organic marinades, refrigerated lemonade, ready to eat burritos, and decadent frozen desserts. We also developed lines of imported products including spices, chocolates, cookies, cereals, hard candy, and frozen organic beef burgers. We continue to expand our private label product offerings and we plan to introduce approximately 300 additional private label products in 2006 including vinegars, frozen ethnic entrees, Italian spreads, cream cheese and fruit bars.



## Company Culture and Store Operations

Company culture. Our culture is embodied in our mission statement:

"Wild Oats was founded on the vision of enhancing the lives of our customers and our people with products and education that support health and well-being.

Wild Oats is committed to providing the highest quality, fresh and natural food, and health and wellness products in vibrant stores with people who are friendly, eager and ready to educate.

At Wild Oats, we sell food that remembers its roots." (R)

Our values of service, integrity, quality, giving back to our communities, increasing value for our stakeholders (which include our stockholders, our employees and our communities) and accountability were adopted to support our mission statement.

Management and employees. Our stores are organized into seven geographic regions, each of which has a regional director who is responsible for the store operations within his or her region and who reports to our senior management. The regional directors frequently visit their stores and are ultimately responsible for providing feedback on performance and ensuring adherence to our operating standards. We maintain a regional staff of department specialists for each store department who formulate and supervise execution of store-level merchandising,

## Purchasing and Distribution

We have centralized merchandising departments for each major product category. These departments identify and approve products and negotiate volume purchase discount arrangements with distributors and vendors. The wholesale segment of the natural foods industry provides a large and growing array of product choices across the full range of

grocery product categories.

We entered into a primary distribution agreement with United Natural Foods, Inc ("UNFI") in January 2004 that commenced effective April 1, 2004, and has a five-year term. Either party may terminate the agreement for defaults by the other party of certain provisions of the agreement. Under the terms of the UNFI agreement, we are obligated to purchase a majority of certain specified categories of goods for sale in our U.S. stores from UNFI, except in certain defined circumstances when such purchasing obligation is excused. We believe UNFI has sufficient warehouse capacity and distribution technology to service our existing stores' distribution needs for natural foods and products as well as the needs of new stores in the future. As part of our agreement with UNFI, we have received, and will continue to receive, a transition fee payable in certain years and subject to the Company meeting certain minimum purchase requirements, to offset a portion of the transition costs incurred during the transition of our primary distribution relationship to UNFI.

In February 2004, we brought on-line a 241,000 square foot distribution center ("DC") in Riverside, California to service our stores located in the western United States. We believe this facility improves the quality and freshness of the perishable products we sell in our stores by providing the appropriate ambient temperature from arrival at our docks to loading on outgoing trucks. We also distribute certain grocery items from the DC where cost effective. As we enter new markets, we will evaluate the need for additional warehouse and distribution facilities. The DC currently delivers produce, private label groceries, and selected other items to the majority of our stores west of the Mississippi River.

We operate commissary kitchens in Denver, Colorado; Portland, Oregon, and Vancouver, British Columbia, Canada. These facilities produce deli food, bakery products and certain fresh private label items for sale in our stores. Each kitchen can make deliveries to stores within a certain radius of the facility. We evaluate the need for new commissary kitchens as we expand into new markets. For stores outside the delivery area of our commissary kitchens, the individual stores' food service departments produce their own goods from standard recipes.

## Marketing

As a leading retailer of specialty foods with an emphasis on health and wellness, Wild Oats continues to build brand awareness and drive consumer traffic through various marketing vehicles. Mass media advertising, together with grassroots marketing, special events, online and direct marketing as well as alliance marketing with organizations and products in our space are used to educate new and existing customers about what the brand has to offer in terms of experience, values and products. In 2005, we launched a new website, expanded print advertising in newspapers and increased investments in grass roots marketing and special events.

Our farmers market format stores, Henry's and Sun Harvest, are specialty retailers targeted towards customers learning about and entering the health and wellness arena. In 2005, price was emphasized together with experience and product benefits through weekly flyers and some mass media advertising.

## Management Information Systems

Our management information systems have been designed to provide detailed corporate, regional and store-level merchandising, financial, marketing and operating data to regional directors and store directors and to our management at headquarters on a timely basis. We employ "state of the art" applications and infrastructure at our DC, including wireless networks and voice activated stock picking. We determined that our ability to continue controlling costs would be enhanced by continuous capital improvements in technology and software. In fiscal 2005, we completed several major initiatives, including:

- a systematic refresh of point-of-sale systems in older stores to reduce maintenance costs, improve cashier productivity, and customer service;
- relocation of the corporate data center to a third-party data center to avoid future building costs and ensure continuous operations of the Company's critical information applications;
- complete rollout of the back-door receiving program;
- implementation of store-level hand held ordering for products shipped from our DC,
- began replacement of home office personal computers with "thin client" technology to lower operating and support costs for information technology infrastructure, and
- deployment of Electronic Data Interchange ("EDI") invoicing at the DC to improve operating efficiency.

The 2006 management information plans will have a continued focus on lowering operating costs and improving margins at the stores and the home office. Key 2006 initiatives include:

- completion of the EDI invoicing and receiving initiative;
- development and testing of store-level perpetual inventory systems;
- development and testing of an automated store ordering system;
- upgrading our store data networks to add bandwidth and lower costs, and
- continued implementation of the "thin client" technology in our stores.

## Competition

Our competitors currently include other independent and multi-unit natural foods supermarkets, smaller traditional natural foods stores, conventional supermarkets and specialty grocery stores. While certain conventional supermarkets, smaller traditional natural foods stores and small specialty stores do not offer as complete a range of products as we do, they compete with us in one or more product categories. In recent years, several of the larger conventional grocers have added or expanded specialty sections in their stores devoted specifically to natural and organic foods and body care products, and have expanded their offerings of vitamins and supplements. We believe that these specialty sections do not offer the customer service, product selection and depth of product knowledge that we offer in our stores.

A number of other natural foods supermarkets offer a range of natural foods products similar to those offered in our stores. We believe that the principal competitive factors in the natural foods industry include customer service, quality and variety of selection, store location and convenience, price and store atmosphere. We directly compete with Whole Foods Markets, Inc. in 18 states and in British Columbia. We believe our natural foods supermarket concept is differentiated from that of Whole Foods through our higher product standards and more competitive pricing. Our stores are smaller in size and less expensive to build, which gives us access to markets that may not have the diversity believed necessary to support large stores.

#### Employees

As of February 20, 2006, we employed approximately 4,789 full-time individuals and 3,807 part-time individuals. Approximately 8,233 of our employees are engaged at the store-level and 363 are devoted to regional and corporate activities. We believe that we maintain a good relationship with our employees. However, based on past union organizing activities, we anticipate that in the future, one or more of our stores may be the subject of attempted organizational campaigns by labor unions representing grocery industry workers.

All of our managerial employees participate in an incentive program that provides periodic payments based on achieving certain performance targets and operations standards. In addition, we also seek to attract and retain enthusiastic and dedicated staff members through comprehensive benefits packages, including discounts on purchases, health and disability insurance, an employee stock purchase plan and an employer-matching 401(k) plan.

#### Available Information

Our corporate Internet Web site is <http://www.wildoats.com>, ("Internet Web site"), where we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities Exchange Commission ("SEC"). These reports are also maintained by the SEC on their Web site at <http://www.sec.gov>. Additionally, the public may read and copy any materials we file with the SEC at the SEC s

Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The Charter of the Board of Directors Nominating Committee and our Code of Ethics are also posted on our Internet Web site. We will post on our Internet Web site any waivers granted to the principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, that relate to any element of the Code of Ethics enumerated in Item 406(b) of Regulation S-K.

Item 1A.

### RISK FACTORS

You are cautioned that there are risks and uncertainties that could cause our actual results to be materially different from those suggested by forward-looking statements that we make from time to time, both verbally and in writing. You should carefully consider the risk factors discussed below and recognize that other risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. The cautionary statements below discuss important factors that could cause our business, financial condition, operating results and cash flows to be materially adversely affected. The Company does not undertake any obligation to update forward-looking statements.

Our results of operations have been, and will continue to be affected by, among other things:

- the successful opening and operating of new stores, and remodels/remerchandising of existing stores,
- fluctuations in quarterly results of operations and stock price,
- economic conditions,
- competition,
- labor issues,
- loss of key management,
- government regulations, and
- changes in and performance by suppliers, distributors and manufacturers.

The successful opening and operating of new stores, and remodels/remerchandising of existing stores. We plan to continue growing primarily through the opening of new stores. Achieving this goal is contingent on various conditions, and there is no assurance that our growth strategy will result in greater sales and profitability. New stores build their sales volumes and refine their merchandise selection gradually and, as a result, generally have lower gross margins and higher operating expenses as a percentage of sales than more mature stores. New stores opened experience operating losses for the first 12 to 18 months of operation, or possibly longer, in accordance with historical trends; although certain stores are projected to incur operating losses for six to 12 months.

Our plan is to continue to complete significant remodels and remerchandising of existing stores. Remodels and remerchandising typically cause short-term disruption in sales volume and related increases in certain expenses as a percentage of sales, such as payroll. We cannot predict whether sales disruptions and the related impact on earnings may be greater than projected in future remodeled or remerchandised stores. Changes in merchandising and marketing strategies may also impact an individual store and overall Company results.

The construction or acquisition of new stores, remodeling/remerchandising of existing stores, as well as completion of capital purchases of new technology systems required for efficient operation of our business require substantial capital expenditures. In the past, cash generated from operations, debt and equity financing proceeds have funded our capital expenditures. These sources of capital may not be available to us in the future. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.*"

Fluctuations in quarterly results of operations and stock price. Our quarterly results of operations may differ materially from quarter to quarter for a variety of reasons, including the timing and success of new store openings, overall store performance, changes in the economy, seasonality, uninsured losses, including loss of sales caused by natural disasters, the timing of holidays, significant increases or decreases in prices for, or availability of, goods and services, competitive pressure, labor disturbances, shrink and spoilage, fluctuations in profit margins for discontinued items, as well as other factors mentioned in this section.

Our stock price has been, and continues to be, fairly volatile. Our stock price is affected by our quarterly and year-end results, whether those results are consistent with the expectations of financial analysts and investors, financial results of our major competitors and suppliers, general market and economic conditions and publicity about our competitors, our vendors, our industry or us. Volatility in our stock price may affect our future ability to renegotiate our existing credit agreement or enter into a new borrowing relationship, or affect our ability to obtain new store sites on favorable economic terms.

Economic conditions. Downturns in general economic conditions in communities, states, regions or the nation as a whole can affect our results of operations. While purchases of food generally do not decrease in a slower economy, consumers may choose less expensive alternative sources for food purchases. Increases in fuel commodity prices may change consumer shopping habits and also increase the costs that we pay for construction and remodels, products, supplies, utilities and distribution, decreasing our net profits. In addition, downturns in the economy may make the disposition of excess properties, for which we continue to pay rent and other carrying costs, substantially more difficult as the markets become saturated with vacant space and market rents decrease below our contractual rent obligations.

Competition. We compete with multi-unit and independent natural foods, specialty and conventional grocers. As competition in certain markets intensifies, our results of operations may be negatively impacted through loss of sales, reduction in margin from competitive price modifications, competition for qualified employees and disruptions in our employee base.

Loss of key management. Our future direction and success is dependent in large part on the continued services of certain key executive officers. Loss of any key officer may have an adverse affect on current operations and future growth programs. Our continued success also is dependent on our ability to attract and retain qualified executives to meet our future growth needs.

Government regulations. We are subject to a myriad of laws, regulations and ordinances at the local, state and national level governing the operation of our stores and support facilities, and our ability to comply with these laws could negatively affect our store sales and operations, or could delay the opening of a new store. Such laws include the following: state and federal wage and hour laws, which may result in increased minimum wage levels, required payment of overtime to employees classified as salaried employees and increased benefit costs; National Organic Program regulations promulgated by the United States Department of Agriculture ("USDA"), which may require different handling of certain products or the exclusion of certain products from the definition of "organic", each of which could limit product supply, increase costs or reduce revenues; state and federal health and sanitation regulations, which may require substantial equipment or tenant improvement modifications at added expense or increase labor costs and costs of food handling or impact the ability to supply from commissaries across state lines; local and state laws restricting the availability of liquor licenses and liquor sales, which may reduce some stores sales; and land use and zoning regulations, which may impact hours of operation, hours when shipments may be received and the ability to provide certain services or products, which may reduce revenues or increase direct store operating costs. Implementation of and changes to such laws can have a material impact on our sales volume, costs of goods and direct store expenses. In addition, from time to time we are audited by various governmental agencies for compliance with existing laws, and we could be subject to fines or operational modifications as a result of noncompliance.

Changes in and performance by suppliers, distributors and manufacturers. In January of 2004, we executed a five-year primary distribution agreement with UNFI. We purchase approximately one third of our total products from UNFI, and the remainder from small vendors and secondary and tertiary distributors. In addition, in 2004 we opened the DC in Riverside, California. At the end of fiscal 2005, the majority of our stores west of the Mississippi River were receiving substantially all of their produce, private label groceries, and selected other items from our DC. Significant disruptions in operations of our distributors or at our DC could materially impact our operations by disrupting store-level merchandise selection, resulting in reduced sales. Also, from time to time, we may experience product shortages due to the impact of adverse weather conditions, such as drought or flood, or disruptions in the supply chain from competition for products from other retailers, product shortages and transportation disruptions. These shortages may result in decreased product selection and increased out-of-stock conditions, as well as higher product costs, which result in decreased sales or margins.

Item 1B.

UNRESOLVED STAFF COMMENTS

None.

Item 2.

PROPERTIES

We currently lease approximately 54,000 square feet for our corporate headquarters in Boulder, Colorado. The primary lease expiration is August 31, 2006, with one three-year renewal option. In July 2005, we signed a ten-year lease for approximately 82,500 square feet for our new corporate headquarters location in Boulder, Colorado. We anticipate occupancy in the new building in the fourth quarter of 2006.

We lease all of our stores, including operating, closed and under construction locations. Our leases typically provide for a 10 to 15-year base term and generally have several renewal periods. The rental payments are generally fixed base rates, although many of our older leases call for payment of minimum base rent with additional rent calculated on a percentage of sales over a certain break point. We strive to negotiate our leases on a turnkey basis, whenever possible, in order to reduce our capital expenditures, with modest increases in long-term rent. However, as we move into denser markets with less available land for development, we anticipate that many of our leases will include a delivery of a building shell plus some kind of tenant improvement allowance.

Store Locations

The following map and store list show, as of February 20, 2006, the number of natural foods grocery stores that we operate in each state and Canadian province and the cities in which our stores are located.

Arizona: Tucson (2), metro Phoenix (6), Scottsdale

Arkansas: Little Rock



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California: Chino Hills, Corona, Costa Mesa, Escondido, Fullerton, Hemet, Laguna Beach, Laguna Niguel, Long Beach, Mission Viejo, Pasadena, San Diego (11), Santa Monica (2), Yorba Linda, Rancho Cucamonga, Temecula

Colorado: Boulder (3), Colorado Springs, metro Denver (9), Fort Collins

Connecticut: West Hartford, Westport