

UNITED NATURAL FOODS INC

Form 10-Q

March 06, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 27, 2007

OR

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

Commission File Number: 000-21531

UNITED NATURAL FOODS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

05-0376157

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

260 Lake Road Dayville, CT

(Address of Principal Executive Offices)

06241

(Zip Code)

Registrant's Telephone Number, Including Area Code **(860) 779-2800**

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:

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Yes No

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 Non-accelerated Filer

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

As of March 2, 2007, there were 42,801,528 shares of the Registrant's Common Stock, \$0.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****UNITED NATURAL FOODS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)***(In thousands, except per share amounts)*

	January 27, 2007	July 29, 2006
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 17,066	\$ 20,054
Accounts receivable, net	162,954	147,686
Notes receivable, trade, net	1,290	1,254
Inventories	288,989	257,259
Prepaid expenses and other current assets	18,546	12,596
Deferred income taxes	10,911	10,911
Total current assets	499,756	449,760
Property & equipment, net	161,476	163,247
Other assets:		
Goodwill	78,044	78,016
Notes receivable, trade, net	2,620	2,760
Intangible assets, net	187	251
Other	10,340	6,561
Total assets	\$ 752,423	\$ 700,595
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Notes payable	\$ 123,000	\$ 125,005
Accounts payable	116,272	102,146
Accrued expenses and other current liabilities	34,375	34,245
Current portion of long-term debt	5,552	5,433
Total current liabilities	279,199	266,829
Long-term debt, excluding current portion	66,666	59,716
Deferred income taxes	8,827	9,693
Other long-term liabilities	858	883
Total liabilities	355,550	337,121
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 5,000 shares at January 27, 2007 and July 29, 2006, none issued and outstanding		
Common stock, \$0.01 par value, authorized 100,000 shares; 43,013 issued and 42,785 outstanding shares at January 27, 2007; 42,477 issued and 42,248 outstanding shares at July 29, 2006	430	425
Additional paid-in capital	161,212	149,840
Treasury stock	(6,092)	(6,092)
Unallocated shares of Employee Stock Ownership Plan	(1,298)	(1,380)
Accumulated other comprehensive (loss) income	(338)	1,047
Retained earnings	242,959	219,634
Total stockholders' equity	396,873	363,474
Total liabilities and stockholders' equity	\$ 752,423	\$ 700,595

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The accompanying notes are an integral part of the condensed consolidated financial statements.

UNITED NATURAL FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share data)

	Three months ended		Six months ended	
	January 27, 2007	January 28, 2006	January 27, 2007	January 28, 2006
Net sales	\$ 668,545	\$ 601,082	\$ 1,314,978	\$ 1,176,722
Cost of sales	544,477	484,677	1,067,339	950,051
Gross profit	124,068	116,405	247,639	226,671
Operating expenses	101,739	96,057	202,018	191,570
Impairment on assets held for sale	756		756	
Amortization of intangibles	138	142	289	286
Total operating expenses	102,633	96,199	203,063	191,856
Operating income	21,435	20,206	44,576	34,815
Other expense (income):				
Interest expense	3,350	3,195	6,261	5,562
Interest income	(180)	(73)	(294)	(141)
Other, net	399	(63)	371	(123)
Total other expense	3,569	3,059	6,338	5,298
Income before income taxes	17,866	17,147	38,238	29,517
Provision for income taxes	6,968	6,516	14,913	11,216
Net income	\$ 10,898	\$ 10,631	\$ 23,325	\$ 18,301
Per share data (basic):				
Net income	\$ 0.26	\$ 0.26	\$ 0.55	\$ 0.44
Weighted average shares of common stock	42,438	41,406	42,299	41,395
Per share data (diluted):				
Net income	\$ 0.25	\$ 0.25	\$ 0.55	\$ 0.43
Weighted average shares of common stock	42,848	41,952	42,733	42,076

The accompanying notes are an integral part of the condensed consolidated financial statements.

UNITED NATURAL FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

Six months ended

The accompanying notes are an integral part of the condensed consolidated financial statements.

UNITED NATURAL FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

January 27, 2007 (Unaudited)

1. BASIS OF PRESENTATION

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

The accompanying unaudited consolidated 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.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission for interim financial information, including the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally required in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. In our opinion, these financial statements include all adjustments necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for interim periods, however, may not be indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended July 29, 2006.

Net sales consist primarily of sales of natural and organic products to retailers adjusted for customer volume discounts, returns and allowances. Net sales also consist of amounts due to the Company from customers for shipping and handling and fuel surcharges. The principal components of cost of sales include the amounts paid to manufacturers and growers for product sold, plus the cost of transportation necessary to bring the product to the Company's distribution facilities. Cost of sales also includes amounts incurred by the Company for shipping and handling, depreciation for manufacturing equipment at the Company's manufacturing segment, Hershey Import Company, Inc. (Hershey Imports), and consideration received from suppliers in connection with the purchase or promotion of the suppliers' products. Operating expenses include salaries and wages, employee benefits (including payments under the Company's Employee Stock Ownership Plan), warehousing and delivery, selling, occupancy, insurance, administrative, share-based compensation and amortization expense. Operating expenses also includes depreciation expense related to our wholesale and retail divisions. Other expenses (income) include interest on outstanding indebtedness, interest income, and miscellaneous income and expenses.

2. SHARE-BASED COMPENSATION

The Company has a share-based compensation program that provides our Board of Directors broad discretion in creating employee equity incentives. This program includes incentive and non-statutory stock options and nonvested stock awards (also known as restricted stock). These awards to employees are granted under various plans which are stockholder approved. Stock options are generally time-based, vesting 25% on each annual anniversary of the grant date over four years and generally expire ten years from the grant date. Nonvested stock awards to employees are generally time-based and vest 25% on each annual anniversary of the grant date over four years. As of January 27, 2007, we had approximately 1.1 million shares of common stock reserved for future issuance under our stock option plans.

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Effective August 1, 2005, the Company adopted the fair value recognition provisions of the Financial Accounting Standards Board (the FASB) Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) *Share-Based Payment* (SFAS 123(R)), using the modified-prospective transition method. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS No. 123, are recognized in net earnings in the periods after the date of adoption. The Company recognizes share-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. The Company recognized share-based compensation expense for the three months ended January 27, 2007 and January 28, 2006 of \$1.0 million and \$0.9 million, respectively. In the six months ended January 27, 2007 and January 28, 2006, the Company recognized \$2.0 million and \$3.5 million, respectively, of share-based

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compensation expense. During the six months ended January 28, 2006, certain options were accelerated pursuant to the employment transition agreement the Company entered into during the first quarter of fiscal 2006 with Steven H. Townsend, former President and Chief Executive Officer. This acceleration resulted in \$1.0 million of share-based compensation expense for the quarter ended October 29, 2005. The Company recorded related tax benefits for the six months ended January 27, 2007 and January 28, 2006 of \$2.7 million and \$2.9 million, respectively. The effect on net income from recognizing share-based compensation for each of the three months ended January 27, 2007 and January 28, 2006 was \$0.6 million, or \$0.01 per basic and diluted share.

As of January 27, 2007, there was \$10.1 million of total unrecognized compensation cost related to outstanding share-based compensation arrangements (including stock option and nonvested share awards). This cost is expected to be recognized over a weighted-average period of 1.7 years.

The fair value of stock option awards was estimated using the Black-Scholes model with the following weighted-average assumptions for the three months and six months ended January 27, 2007 and January 28, 2006, respectively:

	Three months ended		Six months ended	
	January 27, 2007	January 28, 2006	January 27, 2007	January 28, 2006
Expected volatility	34.6%	36.7%	34.6%	36.7%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk free interest rate	4.5%	4.4%	4.5%	4.4%
Expected life	3.0 years	3.0 years	3.0 years	3.0 years

Our computation of expected volatility for the quarter ended January 27, 2007 is based on a combination of historical and market-based implied volatility. Our computation of expected life is based on historical exercise patterns. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted average grant-date fair value of options granted during the six months ended January 27, 2007 and January 28, 2006 was \$10.55 and \$7.65, respectively.

Stock option activity for the six months ended January 27, 2007, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 30, 2006	1,531,943	\$20.42		
Granted	315,540	\$36.49		
Exercised	(400,807)	\$16.98		
Canceled	(50,025)	\$25.23		
Outstanding at January 27, 2007	1,396,651	\$24.99	7.7	\$34,907,000
Exercisable at January 27, 2007	832,528	\$21.26	6.8	\$17,701,000

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The following table summarizes our nonvested stock activity for the six months ended January 27, 2007:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at July 30, 2006	113,276	\$26.34
Granted	146,928	\$35.90
Vested	(40,456)	\$28.14
Canceled	(7,350)	\$25.37
Nonvested at January 27, 2007	212,398	\$32.57

The total fair value of shares vested during the six months ended January 27, 2007 was \$1.1 million.

3. EARNINGS PER SHARE