UNITED NATURAL FOODS INC
Form 10-K
September 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended July 28, 2012

or

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

For the transition period from to
Commission File Number: 0-21531

UNITED NATURAL FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**05-0376157**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

313 Iron Horse Way, Providence, RI 02908
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code:
(401) 528-8634
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	NASDAQ Global Select Market

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

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

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 o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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 o

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

Large Accelerated Filer ý	Accelerated Filer o
Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $2,172,850,421 based upon the closing price of the registrant's common stock on the Nasdaq Global Select Market® on January 27, 2012. The number of shares of the registrant's common stock, par value $0.01 per share, outstanding as of September 6, 2012 was 49,015,833.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on December 12, 2012 are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

UNITED NATURAL FOODS, INC.

FORM 10-K

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PART I.

ITEM 1. BUSINESS

Unless otherwise specified, references to "United Natural Foods," "we," "us," "our" or "the Company" in this Annual Report on Form 10-K ("Annual Report" or "Report") mean United Natural Foods, Inc. and all entities included in our consolidated financial statements. See the consolidated financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data" of this Report for information regarding our financial performance.

Overview

We believe we are the leading distributor based on sales of natural, organic and specialty foods and non-food products in the United States and Canada, and that our twenty-six distribution centers, representing approximately 6.2 million square feet of warehouse space, provide us with the largest capacity of any North American-based distributor in the natural, organic and specialty products industry. We offer more than 65,000 high-quality natural, organic and specialty foods and non-food products, consisting of national, regional and private label brands in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements and sports nutrition, bulk and foodservice products and personal care items. We serve more than 23,000 customer locations primarily located across the United States and Canada which can be classified as follows:

- independently owned natural products retailers, which include buying clubs;
- supernatural chains, which consist solely of Whole Foods Market, Inc. ("Whole Foods Market");
- conventional supermarkets and mass market chains; and
- other, which includes foodservice and international customers outside of Canada.

We were the first organic food distribution network in the United States designated as a "Certified Organic Distributor" by Quality Assurance International, Inc. ("QAI"), an organic certifying agency accredited by the United States Department of Agriculture ("USDA"). This process involved a comprehensive review by QAI of our operating and purchasing systems and procedures. This certification covers all of our broadline distribution centers in the United States, except our primarily specialty products distribution center in Leicester, Massachusetts. Four of our Canadian distribution centers are certified organic by either QAI or Ecocert Canada, while the remaining Canadian distribution center sells only Kosher foods and is therefore not certified organic.

Since the formation of our predecessor in 1976, we have grown our business both organically and through acquisitions which have expanded our distribution network, product selection and customer base. Since fiscal 2002, our net sales have increased at a compounded annual growth rate ("CAGR") of 16.1%. In recent years, our sales to existing and new customers have increased through the continued growth of the natural and organic products industry in general; our efforts to increase the number of conventional supermarket customers to whom we distribute products; increased market share through our high-quality service and broader product selection, including specialty products, and the acquisition of, or merger with, natural organic, and specialty product distributors; the expansion of our existing distribution centers; the construction of new distribution centers; the introduction of new products and the development of our own line of natural and organic branded products. Through these efforts, we believe that we have broadened our geographic penetration, expanded our customer base, enhanced and diversified our product selection and increased our market share.

We have been the primary distributor to Whole Foods Market for more than fourteen years. Effective June 2010, we amended our distribution agreement with Whole Foods Market to extend the term of the agreement for an additional seven years. Under the terms of the amended agreement, we will continue to serve as the primary wholesale natural grocery distributor to Whole Foods Market in

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its United States regions where we were serving as the primary distributor at the time of the amendment. The amendment extended the expiration date of the agreement from September 25, 2013 to September 25, 2020. On July 28, 2010, we announced that we had entered into an asset purchase agreement under which we agreed to acquire certain assets of Whole Foods Market Distribution, Inc. ("Whole Foods Distribution"), a wholly owned subsidiary of Whole Foods Market, previously used for their self-distribution of non-perishables in their Rocky Mountain and Southwest regions, and to become the primary distributor in these regions. We closed this transaction in late September 2010 in the case of the Southwest region and early October 2010 in the case of the Rocky Mountain region. We now serve as the primary distributor to Whole Foods Market in all of its regions in the United States, and have amended our distribution agreement with Whole Foods Market effective October 11, 2010 to include these regions.

In June 2010, we acquired certain Canadian food distribution assets (the "SDG assets") of the SunOpta Distribution Group business ("SDG") of SunOpta Inc. ("SunOpta"), through our wholly-owned subsidiary, UNFI Canada, Inc. ("UNFI Canada") for cash consideration of $65.8 million. With the acquisition, we became the largest distributor of natural, organic and specialty foods, including kosher foods, in Canada. This was a strategic acquisition as UNFI Canada provided us with an immediate platform for growth in the Canadian market. During fiscal 2012, we utilized our UNFI Canada platform to further expand in the Canadian market, including through our acquisition of substantially all of the assets of a specialty food distribution business in the Ontario market in November 2011.

The ability to distribute specialty food items (including ethnic, kosher and gourmet) has accelerated our expansion into a number of high-growth business markets and allowed us to establish immediate market share in the fast-growing specialty foods market. We have now integrated specialty food products and natural and organic specialty non-food items into most of our broadline distribution centers across the United States and Canada. Due to our expansion into specialty foods, over the past three fiscal years we have been awarded new business with a number of conventional supermarkets that previously had not done business with us because we did not distribute specialty products. We believe that the distribution of these products enhances our conventional supermarket business channel and that our complementary product lines continue to present opportunities for cross-selling.

On June 9, 2011, we entered into an asset purchase agreement with L&R Distributors, Inc. ("L&R Distributors") pursuant to which we agreed to sell our conventional non-foods and general merchandise lines of business, including certain inventory related to these product lines. This divestiture was completed in the first quarter of fiscal 2012 and has allowed us to concentrate on our core business of the distribution of natural, organic, and specialty foods and non-food products. As a result of this divestiture, we recognized a non-cash impairment charge of $5.8 million related to land, building and equipment at our Harrison, Arkansas facility during the fourth quarter of fiscal 2011. During fiscal 2012, we recognized severance and other expenses related to this divestiture of approximately $5.1 million. In the fourth quarter of fiscal 2012, we sold the Harrison, Arkansas facility to a third party. See "Our Operating Structure Wholesale Division" for further information regarding our distribution business.

We operate thirteen natural products retail stores within the United States, located primarily in Florida (with two locations in Maryland and one in Massachusetts), through our subsidiary doing business as Earth Origins Market ("Earth Origins"). We also operate one natural products retail store, Drive Organics, in Vancouver, British Columbia. 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 doing business as Woodstock Farms Manufacturing specializes in the international importation, roasting, packaging and distribution of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections.

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We are a Delaware corporation based in Providence, Rhode Island, and we conduct business through our various wholly owned subsidiaries. We operated twenty-six distribution centers at 2012 fiscal year end, and we believe that our approximately 6.2 million square feet of distribution space provide us with the largest capacity of any distributor of natural, organic and specialty products in the United States or Canada. In April 2012, we entered into a lease for a new 535,000 square foot facility in Aurora, Colorado to replace our two existing broadline distribution centers and an Albert's Organics, Inc. ("Albert's") distribution center.

The Natural Products Industry

The natural products industry encompasses a wide range of products including organic and non-organic foods, nutritional, herbal and sports supplements, toiletries and personal care items, naturally-based cosmetics, natural/homeopathic medicines, pet products and cleaning agents. According to *The Natural Foods Merchandiser*, a leading natural products industry trade publication, sales for all types of natural products were $90.8 billion in calendar 2011, a growth of $8.2 billion or approximately 9.9% from 2010. According to the *National Association for the Specialty Food Trade*, a leading specialty food industry trade publication, sales in calendar 2011 were $75.1 billion. We believe the growth rate of the natural products industry has outpaced the growth of the overall food-at-home industry as a result of the increasing demand by consumers for a healthy lifestyle, food safety and environmental sustainability.

Our Operating Structure

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

- our wholesale division, which includes our broadline natural, organic and specialty distribution business in the United States; UNFI Canada, which is our natural, organic and specialty business in Canada; Albert's, which is a leading distributor within the United States of organically grown produce and non-produce perishable items; and Select Nutrition, which distributes vitamins, minerals and supplements;

- our retail division, consisting of Earth Origins, which operates our thirteen natural products retail stores within the United States; and

- our manufacturing division, consisting of Woodstock Farms Manufacturing, which specializes in the international importation, roasting, packaging and distribution of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections, and our Blue Marble Brands product lines.

Wholesale Division

Our broadline distribution business is organized into three regions our Eastern Region, our Western Region and our Canadian region. We distribute natural, organic and specialty products in all of our product categories to customers in the Eastern and Midwestern portions of the United States through our Eastern Region and to customers in the Western and Central portions of the United States through our Western Region. Our Canadian Region distributes natural, organic and specialty products in all of our product categories to all of our customers in Canada. As of our 2012 fiscal year end, our Eastern Region operated eight distribution centers, which provided approximately 3.1 million square feet of warehouse space, our Western Region operated nine distribution centers, which provided approximately 2.5 million square feet of warehouse space and our Canadian Region operated five distribution centers, which provided approximately 0.3 million square feet of warehouse space.

Through Albert's, we distribute organically grown produce and non-produce perishables, such as organic milk, dressings, eggs, juices, poultry and various other refrigerated specialty items. Albert's operates out of seven distribution centers providing approximately 0.2 million square feet of warehouse space, strategically located in all regions of the United States, and is designated as a "Certified Organic Distributor" by QAI.

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

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

Retail Division

We operate thirteen natural products retail stores through Earth Origins within the United States, nine of which are located in Florida, two in Maryland and one in Massachusetts. We also operate a natural products retail store in Vancouver, British Columbia that is reflected within our wholesale division. We believe that our retail business serves as a natural complement to our distribution business because it enables us to develop new marketing programs and improve customer service.

We believe our natural products 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 Earth Origins and the breadth of our product selection.

We believe that we benefit from certain advantages in acting as a distributor to our natural products 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
- stay abreast of the trends in the retail marketplace, which enables us to better anticipate and serve the needs of our wholesale customers.

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

Manufacturing Division

Our subsidiary, Woodstock Farms Manufacturing, specializes in the international importation, roasting, packaging and distribution of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections. We sell these items in bulk and through private label packaging arrangements with large health food, supermarket and convenience store chains and independent owners. We operate an organic (USDA and QAI) and kosher (Circle K) certified packaging, roasting, and processing facility in New Jersey.

Our Blue Marble Brands product lines address certain needs or preferences of customers of our wholesale division, which are not otherwise being met by other suppliers. We carry over 15 brand names, representing over 600 unique products. Our Blue Marble Brands products are sold through our wholesale division, through third-party distributors in the natural, organic and specialty industry and directly to retailers. Our Field Day® brand is only sold to customers in our independent natural products retailer channel (or "independent retailers"), and is meant to serve as a private label brand for independent retailers to allow them to compete with conventional supermarkets which often have their own private label store brands.

Our Competitive Strengths

We believe we distinguish ourselves from our competitors through the following strengths:

We are the market leader with a nationwide presence in the United States and Canada.

We believe that we are the largest distributor of natural, organic and specialty foods and non-food products by sales in the United States and Canada, and one of the few distributors capable of meeting the natural, organic and specialty product needs of local and regional customers, conventional supermarket chains, and the rapidly growing supernatural chain. The opening of our facility in Lancaster, Texas in September 2010 marked the extension of our distribution presence to a nation-wide level. We believe that our network of twenty-six distribution centers (including five in Canada) creates significant advantages over smaller and regional distributors. Our nationwide presence across the United States and Canada allows us to offer marketing and customer service programs across regions, offer a broader product selection and provide operational excellence with high service levels and same day or next day on-time deliveries.

We are an efficient distributor.

We believe that our scale affords us significant benefits within a highly fragmented industry including volume purchasing opportunities and warehouse and distribution efficiencies. Our continued growth has allowed us to expand our existing facilities and open new facilities as we seek to achieve maximum operating efficiencies, including reduced fuel and other transportation costs, and has created sufficient capacity for future growth. Recent efficiency improvements include the centralization of general and administrative functions, the consolidation of systems applications among physical locations and regions and the optimization of customer distribution routes, all of which reduced expenses. We have made significant investments in our people, facilities, equipment and technology to broaden our footprint and enhance the efficiency of our operations. Key examples in the last three years include the following:

In September 2009, we commenced operations of a new facility in Charlotte, North Carolina serving Albert's customers in North Carolina, South Carolina, Georgia, Tennessee and Virginia.

In connection with the acquisition of the SDG assets in June 2010, we acquired five distribution centers which provided a nationwide presence in Canada with approximately 286,000 square feet of distribution space and the ability to serve all major markets in Canada.

In September 2010, we commenced operations at a new facility in Lancaster, Texas serving customers throughout the Southwestern United States, including Texas, Oklahoma, New Mexico, Arkansas and Louisiana.

In October 2010 we began operating the former Whole Foods Distribution center in Aurora, Colorado.

During July 2011 we completed the integration of specialty food products into our nationwide platform.

Finally, in April 2012 we signed the lease for a new 535,000 square foot facility in Aurora, Colorado in order to consolidate all Aurora operations into one building, which is expected to become operational in the summer of 2013.

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

Throughout the 36 years of our, and our predecessors' operations, we have developed long-standing customer relationships, which we believe are among the strongest in our industry. In particular, we have been the primary supplier of natural and organic products to the largest supernatural chain in the United States, Whole Foods Market, for more than 14 years. A key driver of our strong customer loyalty is our superior service levels, which include accurate fulfillment of orders, timely product delivery, competitive prices and a high level of product marketing support. Our average distribution in-stock service level for fiscal 2012, measured as the percentage of items ordered by customers that are delivered by the requested delivery date (excluding manufacturer out-of-stocks and discontinued items), was approximately 98%. We believe that our high distribution service levels are attributable to our experienced purchasing departments and sophisticated warehousing, inventory control and distribution systems. Furthermore, we offer next-day delivery service to a majority of our active customers and offer multiple deliveries each week to our largest customers, which we believe differentiates us from many of our competitors.

We have an experienced, motivated management team and employee base.

Our management team has extensive experience in the retail and distribution business, including the natural, organic and specialty product industries. On average, each of our eleven executive officers has over nineteen years of experience in the retail, natural products or food distribution industry. In addition, we believe our employee base is highly motivated as our Employee Stock Ownership Trust beneficially owns approximately 4.2% of our outstanding common stock. Furthermore, a significant portion of our management-level employees' compensation is equity based or performance based, and, therefore, there is a substantial incentive to continue to generate strong growth in operating results in the future.

Our Growth Strategy

We seek to maintain and enhance our position within the natural and organic industry in the United States and Canada and to increase our market share in the specialty products industry. Since our formation, we have grown our business organically and through the acquisition of a number of distributors and suppliers, which has expanded our distribution network, product selection and customer base. For example, we acquired our Albert's, Earth Origins, Woodstock Farms Manufacturing, and specialty businesses, and during fiscal 2010, we acquired the assets that comprise UNFI Canada.

Beginning in fiscal 2009, our strategic plan has focused on increasing market share, particularly in our conventional supermarket channel. This channel typically generates lower gross margins than our independent retailer channel, but also typically has lower operating expenses. Our strategic plan also includes the roll-out of a national warehouse management and procurement system upgrade, which was launched in our Lancaster, Texas distribution center in September 2010 and subsequently implemented in our Ridgefield, Washington distribution center in July 2012. We expect this system to be rolled out in all of our distribution centers by the end of fiscal 2015. These steps and others are intended to promote operational efficiencies and further reduce our operating expenses to offset the lower gross margins associated with increased sales to the conventional supermarket and supernatural channels.

To implement our growth strategy, we intend to continue increasing our leading market share of the growing natural and organic products industry by expanding our customer base, increasing our share of existing customers' business and continuing to expand and further penetrate new distribution territories. We plan to expand our presence within the specialty industry by offering new and existing customers a single wholesale distributor capable of meeting their specialty and natural and organic product needs on a national or regional basis. Key elements of our strategy include:

Expanding Our Customer Base

As of July 28, 2012, we served more than 23,000 customer locations primarily in the United States and Canada. We plan to expand our coverage of the highly fragmented natural and organic and specialty products industry by cultivating new customer relationships within the industry and by further developing our existing channels of distribution, such as independent natural products retailers, conventional supermarkets, mass market outlets, institutional foodservice providers, buying clubs and gourmet stores. With the coordinated distribution of our specialty products with our natural and organic products, which commenced with the integration of our York, Pennsylvania facility in April 2009, we believe that we have the opportunity to continue gaining market share in the conventional supermarket channel as the result of our ability to offer an integrated and efficient distribution solution for our customers. In fiscal 2010 we gained new business from a number of conventional supermarket customers, including Giant-Landover, Shop-Rite and Kings, partially as a result of our complementary product selection. In part as a result of our product breadth, in fiscal 2011 we were awarded new business from several other conventional supermarket customers, including Giant Eagle and Safeway. We began shipping to Safeway nationally in October 2011.

Increasing Our Market Share of Existing Customers' Business

We believe that we are the primary distributor of natural and organic products to the majority of our natural products customer base, including to Whole Foods Market, our largest customer. We intend to maintain our position as the primary supplier for a majority of our customers, and to add to the number of customers for which we serve as primary supplier by offering the broadest product selection in our industry at competitive prices. With the expansion of specialty product offerings, we believe that we have the ability to further meet our existing customers' needs for specialty foods and non-food products, representing an opportunity to accelerate our sales growth within the conventional supermarket, supernatural and independent channels.

Continuing to Improve the Efficiency of Our Nationwide Distribution Network

We have invested approximately $211 million in our distribution network and infrastructure over the past five fiscal years. We achieved a nationwide footprint in September 2010 with the opening of our facility in Lancaster, Texas. Our Lancaster facility was the first facility to use our national supply chain platform and warehouse management system and our Ridgefield, Washington facility began using this system in July 2012. We plan to implement this system throughout our network by the end of fiscal 2015 which we believe will further enhance the efficiency of our network. Although our distribution network services all markets in the United States and Canada, we intend to continue to selectively evaluate opportunities to build or lease new facilities or to acquire distributors to better serve existing markets, such as our new lease for a 535,000 square foot facility in Aurora, Colorado which is expected to become operational in the summer of 2013 and will consolidate three existing distribution centers.

Further, we will strive to continue to maintain our focus on realizing efficiencies and economies of scale in purchasing, warehousing, transportation and general and administrative functions, which, combined with incremental fixed cost leverage, should lead to continued improvements in our operating margin.

Expanding into Other Distribution Channels and Geographic Markets

We believe that we will be successful in expanding into the foodservice channel as well as further enhancing our presence outside of the United States and Canada. We will continue to seek to develop regional relationships and alliances with companies such as Aramark Corporation, the Compass Group North America, and Sodexho Inc. in the foodservice channel and seek other alliances outside the United States and Canada.

Continuing to Selectively Pursue Opportunistic Acquisitions

Throughout our history, we have successfully identified, consummated and integrated multiple acquisitions. Since 2000, we have successfully completed ten acquisitions of distributors, manufacturers

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and suppliers, two acquisitions of natural products retail stores and eleven acquisitions of branded product lines as of July 28, 2012. Subsequent to the end of the 2012 fiscal year, we completed three additional acquisitions of small distributors, which will be folded into our existing operations. We intend to continue to selectively pursue opportunistic acquisitions to expand the breadth of our distribution network, increase our efficiency or add additional products and capabilities.

Continuing to Provide the Leading Distribution Solution

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

We also offer our customers a selection of inventory management, merchandising, marketing, promotional and event management services designed to increase sales and enhance customer satisfaction. These marketing services, which primarily are utilized by customers in our independently owned natural products retailers channel and many of which are co-sponsored with suppliers, include monthly and thematic circular programs, in-store signage and assistance in product display.

Our Customers

We maintain long-standing customer relationships with independently-owned natural products retailers, supernatural chains and supermarket chains. In addition, we emphasize our relationships with new customers, such as conventional supermarkets, mass market outlets and gourmet stores, which are continually increasing their natural product offerings. The following were included among our wholesale customers for fiscal 2012:

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

- conventional supermarket chains, including Safeway, Kroger, Wegmans, Haggen, Stop & Shop, Giant-Landover, Giant Eagle, Hannaford, Food Lion, Bashas', Shop-Rite, Rainbow, Lowe's, Kings, Publix and Fred Meyer.

Whole Foods Market is our only customer that represented more than 10% of total net sales in fiscal 2012, and accounted for approximately 36% of our net sales. In October 2006, we announced a seven-year distribution agreement with Whole Foods Market, which commenced on September 26, 2006. In June 2010 we amended our distribution agreement with Whole Foods Market to extend the term of the agreement for an additional seven years. Under the terms of the amended agreement, we will continue to serve as the primary wholesale natural grocery distributor to Whole Foods Market in its United States regions where we currently serve as the primary distributor. The amendment extended the expiration date of the agreement from September 25, 2013 to September 25, 2020.

On July 28, 2010, we announced that we had entered into an asset purchase agreement under which we agreed to acquire certain assets of Whole Foods Distribution previously used for their self-distribution of non-perishables in their Rocky Mountain and Southwest regions, and to become the primary distributor in these regions. We closed this transaction in late September 2010 in the case of the Southwest region and early October 2010 in the case of the Rocky Mountain region. We now serve as the primary distributor to Whole Foods Market in all of its regions in the United States, and have amended our distribution agreement with Whole Foods Market effective October 11, 2010 to include these regions.

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The following table lists the percentage of sales by customer type for the fiscal years ended July 28, 2012, July 30, 2011 and July 31, 2010:

	Percentage of Net Sales		
Customer Type	**2012**	**2011**	**2010**
Independently owned natural products retailers	35%	37%	40%
Supernatural chains	36%	36%	35%
Conventional supermarkets and mass market chains	24%	22%	21%
Other	5%	5%	4%

We distribute natural, organic and specialty foods and non-food products to customers located in the United States and Canada, as well as to customers located in other foreign countries. Our total international sales, including those by UNFI Canada, represented approximately five percent of our business in both fiscal 2012 and 2011. We believe that our sales outside the United States, as a percentage of our total sales, will expand as we seek to grow our Canadian operations.

Our Marketing Services

We offer a variety of marketing services designed to increase sales for our customers and suppliers, including consumer and trade marketing programs, as well as programs to support suppliers in understanding our markets. Trade and consumer marketing programs are supplier-sponsored programs which cater to a broad range of retail formats. These programs are designed to educate consumers, profile suppliers and increase sales for retailers, many of which do not have the resources necessary to conduct such marketing programs independently.

Our consumer marketing programs include:

- multiple monthly, region-specific, consumer circular programs, which feature the logo and address of the participating retailer imprinted on a circular that advertises products sold by the retailer to its customers. The monthly circular programs are structured to pass through the benefit of our negotiated discounts and advertising allowances to the retailer, and also provide retailers with posters and shelf tags to coincide with each month's promotions. We also offer a web-based tool which retailers can use to produce highly customized circulars and other marketing materials for their stores.

- quarterly coupon programs featuring supplier sponsored coupons, for display and distribution by participating retailers.

- themed "Celebration" sales and educational brochures to drive sales and educate consumers. Brochures are imprinted with participating retailers' store logo and information.

- a truck advertising program that allows our suppliers to purchase ad space on the sides of our hundreds of trailers traveling throughout the United States and Canada, increasing brand exposure to consumers.

Our trade marketing programs include:

- wholesale tri-annual catalogs, which serve as a primary reference guide and ordering tool for retailers.

- a website for retailers with category management tools, retail staff development resources and other resources designed to help our customers succeed.

- a variety of programs designed to feature suppliers and generate volume sales.

- monthly specials catalogs that highlight promotions and new product introductions.

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specialized catalogs for holiday promotions and to serve other customer needs.

Our supplier marketing programs include:

- SIS, an information-sharing program that helps our suppliers better understand our customers' businesses, in order to generate mutually beneficial incremental sales in an efficient manner.
- ClearVue, an information sharing program designed to improve the transparency of information and drive efficiency within the supply chain. With the availability of in-depth data and tailored reporting tools, participants are able to reduce inventory balances with the elimination of forward buys, while improving service levels.
- Growth Incentive programs, supplier-focused high-level sales and marketing support for selected brands, which foster our partnership by building incremental, mutually profitable sales for suppliers and us.

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

- produce a quarterly report of trends in the natural and organic industry;
- offer in-store signage and promotional materials, including shopping bags and end-cap displays;
- provide assistance with planning and setting up product displays;
- provide shelf tags for products;
- provide assistance with store layout designs; new store design and equipment procurement;
- provide planogramming, shelf and category management support;
- provide product data information such as best seller lists, store usage reports and easy-to-use product catalogs; and
- provide a website on which retailers can access various individual retailer-specific reports and product information.

Our Products

Our extensive selection of high-quality natural, organic and specialty foods and non-food products enables us to provide a primary source of supply to a diverse base of customers whose product needs vary significantly. We offer more than 65,000 high-quality natural, organic and specialty foods and non-food products, consisting of national brand, regional brand, private label and master distribution products, in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements and sports nutrition, bulk and food service products and personal care items. Our branded product lines address certain needs or preferences of our customers, which in certain cases are not otherwise being met by other suppliers.

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

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

Our Suppliers

We purchase our products from more than 4,800 suppliers. The majority of our suppliers are based in the United States and Canada, but we also source products from suppliers throughout Europe, Asia, Central America, South America, Africa and Australia. We believe suppliers of natural and organic products seek to distribute their products through us because we provide access to a large and growing customer base across the United States and Canada, 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 6% of our total purchases in fiscal 2012. 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 our suppliers account for more than 10% of our total purchases.

We have positioned ourselves as the largest purchaser of organically grown bulk products in the natural and organic products industry by centralizing our purchase of nuts, seeds, grains, flours and dried foods. As a result, we are able to negotiate purchases from suppliers on the basis of volume and other considerations that may include discounted pricing or prompt payment discounts. Furthermore, many of our purchase arrangements include the right of return to the supplier with respect to products that we do not sell in a certain period of time. As described under "Our Products" above, each region is responsible for placing its own orders and can select the products that it believes will most appeal to its customers, although each region is able to participate in our company-wide purchasing programs. Our outstanding commitments for the purchase of inventory were approximately $24.0 million as of July 28, 2012.

Our Distribution System

We have carefully chosen the sites for our distribution centers to provide direct access to our regional markets. This proximity allows us to reduce our transportation costs relative to those of our competitors that seek to service these customers from locations that are often several hundreds of miles away. The opening of our Lancaster, Texas distribution center significantly reduced the miles driven associated with servicing the customers of that facility as many of those customers were previously serviced from our Aurora, Colorado facility. We believe that we incur lower inbound freight expense than our regional competitors, because our scale allows us to buy full and partial truckloads of products. When financially advantageous, we backhaul between our distribution centers and satellite, staging facilities using our own trucks. Additionally, we generally can redistribute overstocks and inventory imbalances between distribution centers if needed, which helps ensure products are sold prior to their expiration date.

Products are delivered to our distribution centers primarily by our fleet of leased trucks, contract carriers and the suppliers themselves. We lease our trucks from national leasing companies such as

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Ryder Truck Leasing and Penske Truck Leasing, which in some cases maintain facilities on our premises for the maintenance and service of these vehicles. Other trucks are leased from regional firms that offer competitive services.

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

Our Focus on Technology

We have made a significant investment in distribution, financial, information and warehouse management systems. We continually evaluate and upgrade our management information systems at our regional operations based on the best practices in the distribution industry to make the systems more efficient, cost-effective and responsive to customer needs. These systems include functionality in radio frequency inventory control, pick-to-voice systems, pick-to-light systems, computer-assisted order processing and slot locator/retrieval assignment systems. At our receiving docks, warehouse associates attach computer-generated, preprinted locator tags to inbound products. These tags contain the expiration date, locations, quantity, lot number and other information about the products in bar code format. Customer returns are processed by scanning the UPC bar codes. We also employ a management information system that enables us to lower our inbound transportation costs by making optimum use of our own fleet of trucks or by consolidating deliveries into full truckloads. Orders from multiple suppliers and multiple distribution centers are consolidated into single truckloads for efficient use of available vehicle capacity and return-haul trips. In addition, we utilize route efficiency software that assists us in developing the most efficient routes for our trucks. We will continue the roll-out of our new national supply chain platform and warehouse management system, which was first launched in our new Lancaster, Texas facility and is now being implemented distribution center by distribution center. Most recently, we launched our national supply chain platform and warehouse management system in our Ridgefield, Washington facility in July 2012. We expect to complete this roll-out by the end of fiscal 2015.

Intellectual Property

We do not own or have the right to use any patent, trademark, trade name, license, franchise, or concession which upon loss would have a material adverse effect on our results of operations or financial condition.

Competition

Our largest competition comes from direct distribution, whereby a customer reaches a product volume level that justifies distribution directly from the manufacturer. Our major wholesale distribution competitor in both the United States and Canada is KeHE Distributors, LLC ("Kehe"), which acquired Tree of Life Distribution, Inc. ("Tree of Life") in January 2010. In addition to its natural and organic products, Kehe distributes specialty food products and markets its own private label program. Kehe's subsidiary, Tree of Life has also earned QAI certification. We also compete in the United States with over 200 smaller regional and local distributors of natural, ethnic, kosher, gourmet and other specialty foods that focus on niche or regional markets, and with national, regional and local distributors of conventional groceries and companies that distribute to their own retail facilities.

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

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

Government Regulation

Our operations and many of the products that we distribute in the United States are subject to regulation by state and local health departments, the USDA and the United States Food and Drug Administration, which generally impose standards for product quality and sanitation and are responsible for the administration of bioterrorism legislation. In the United States, our facilities generally are inspected at least once annually by state or federal authorities.

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

Our operations do not generally subject us to federal, provincial, state and local environmental laws and regulations. However, certain of our distribution centers have above-ground storage tanks for hydrogen fuel, diesel fuel and other petroleum products, which are subject to laws regulating such storage tanks.

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

Employees

As of July 28, 2012, we had approximately 7,000 full and part-time employees, 434 of whom (approximately 6.2%) are covered by collective bargaining agreements at our Edison, New Jersey, Leicester, Massachusetts, Iowa City, Iowa and Dayville, Connecticut facilities. The Edison, New Jersey, Leicester, Massachusetts, Iowa City, Iowa and Dayville, Connecticut agreements expire in June 2014, March 2014, June 2014 and July 2014, respectively. We are currently in mediation with our Auburn, Washington employees in an effort to enter into a new collective bargaining agreement. The employees in this location have authorized a work stoppage in the event we are unable to come to an agreement; however, we are unable to predict whether or not a work stoppage will occur. We have never experienced a work stoppage by our unionized employees, and we believe that our relations with our employees are good, despite the current lack of an agreement with employees in our Auburn, Washington facility.

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.

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 Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to

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Section 13(a) or 15(d) of the Exchange Act available free of charge through our website as soon as reasonably practicable after we file such reports with, or furnish such reports to, the Securities and Exchange Commission.

We have adopted a code of conduct and ethics for certain employees pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. A copy of our code of conduct and ethics is posted on our website, and is available free of charge by writing to United Natural Foods, Inc., 313 Iron Horse Way, Providence, Rhode Island, 02908, Attn: Investor Relations.

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 September 26, 2012 are listed below:

Name	Age	Position
Steven L. Spinner	52	President and Chief Executive Officer
Mark E. Shamber	43	Senior Vice President, Chief Financial Officer and Treasurer
Joseph J. Traficanti	61	Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary
Sean Griffin	53	Senior Vice President, Group President, Supply Chain, Distribution and National Sales
Eric A. Dorne	51	Senior Vice President and Chief Information Officer
Thomas A. Dziki	51	Senior Vice President, Chief Human Resource and Sustainability Officer
Craig H. Smith	53	President of the Eastern Region
Donald P. McIntyre	57	President of the Western Region
David A. Matthews	47	Senior Vice President, National Sales and President of UNFI International
Thomas Grillea	56	President of Select Nutrition Distributors and Earth Origins Market
Christopher P. Testa	42	President of Blue Marble Brands and Woodstock Farms Manufacturing

Steven L. Spinner has served as our President and Chief Executive Officer and as a member of our Board of Directors since September 2008. Mr. Spinner served as the Interim President of our Eastern Region, after David Matthews became President of UNFI International in September 2010 and prior to the hiring of Craig H. Smith in December 2010. Prior to joining us in September 2008, Mr. Spinner served as a director and as Chief Executive Officer of Performance Food Group Company ("PFG") from October 2006 to May 2008, when PFG was acquired by affiliates of The Blackstone Group and Wellspring Capital Management. Mr. Spinner previously had served as PFG's President and Chief Operating Officer beginning in May 2005. Mr. Spinner served as PFG's Senior Vice President and Chief Executive Officer Broadline Division from February 2002 to May 2005 and as PFG's Broadline Division President from August 2001 to February 2002.

Mark E. Shamber has served as Senior Vice President, Chief Financial Officer and Treasurer since October 2006. Mr. Shamber previously served as our Vice President, Chief Accounting Officer and Acting Chief Financial Officer and Treasurer from January 2006 until October 2006, as Vice President and Corporate Controller from August 2005 to October 2006 and as our Corporate Controller from June 2003 until August 2005. From February 1995 until June 2003, Mr. Shamber served in various positions of increasing responsibility up to and including senior manager within the assurance and advisory business systems practice at the international accounting firm of Ernst & Young LLP.

Joseph J. Traficanti has served as our Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary since April 2009. Prior to joining us, Mr. Traficanti served as Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary of PFG from November 2004 until April 2009.

Sean Griffin has served as our Senior Vice President, Group President for Supply Chain, Distribution and National Sales since June 2012, and as our Senior Vice President, National Distribution from January 2010 to June 2012. Prior to joining us, Mr. Griffin was East Region Broadline President of PFG. In this role he managed over ten divisions and $2 billion in sales. Previously he served as President of PFG Springfield, MA from 2003 until 2008. He began his career with Sysco Corporation in 1986 and has held various leadership positions in the foodservice distribution industry with U.S. Foodservice, Alliant Foodservice and Sysco Corporation.

Eric Dorne has served as our Senior Vice President and Chief Information Officer since September 2011. Prior to joining us, Mr. Dorne was Senior Vice President and Chief Information Officer for The Great Atlantic & Pacific Tea Company, Inc., the parent company of the A&P, Pathmark, SuperFresh, Food Emporium and Waldbaum's supermarket chains located in the Eastern United States from January 2011 to August 2011, and Vice President and Chief Information Officer from August 2005 to January 2011. In his more than thirty years at The Great Atlantic & Pacific Tea Company, Mr. Dorne held various executive positions including Vice President of Enterprise IT Application Management and Development, Vice President of Store Operations Systems and Director of Retail Support Services.

Thomas A. Dziki has served as our Senior Vice President, Chief Human Resource and Sustainability Officer since August 2010. Prior to August 2010, Mr. Dziki served as our Senior Vice President of Sustainable Development since January 2010, as our Vice President of Sustainable Development since June 2009, and as National Vice President of Real Estate and Construction since August 2006. Prior to that time, Mr. Dziki had served as President of Woodstock Farms Manufacturing and Select Nutrition from December 2004 until August 2006, Corporate Vice President of Special Projects from December 2003 to November 2004 and as our Manager of Special Projects from May 2002 to December 2003. Prior to joining us, Mr. Dziki served as a private consultant to our company, our subsidiaries, Woodstock Farms Manufacturing, Earth Origins, Albert's, and our predecessor company, Cornucopia Natural Foods, Inc., from 1995 to May 2002.

Craig H. Smith has served as our President of the Eastern Region since December 2010. Prior to joining us, Mr. Smith was Atlantic Region President of U.S. Foodservice, a leading broadline foodservice distributor of national, private label, and signature brand items in the United States from May 2008 to December 2010. In his seventeen years at U.S. Foodservice, Mr. Smith held various executive positions including SVP Street Sales, North Region Zone President, Detroit Market President and Boston Market President. Prior to U.S. Foodservice, Mr. Smith held several positions at food service industry manufacturer and distributor Rykoff-Sexton, Inc. from 1982 until 1993.

Donald P. McIntyre has served as our President of the Western Region since July 2012. Prior to joining us, Mr. McIntyre served as President and CEO of Claridge Foods from March 2006 to January 2012. Mr. McIntyre also held several senior positions within subsidiaries of Sara Lee Corporation, including President and CEO of Sara Lee Coffee & Tea from April 2004 to March 2006, and CFO of Sara Lee Coffee & Tea from August 2002 to March 2004.

David A. Matthews has served as our Senior Vice President, National Sales since July 2012, and President of UNFI International with responsibility for our Canadian and other international operations since September 2010. From June 2009 to September 2010 he was our President of the Eastern Region. Prior to joining us, Mr. Matthews served as President and CEO of Progressive Group Alliance ("ProGroup"), a wholly owned subsidiary of PFG from January 2007 to May 2009, as Chief Financial Officer of ProGroup from December 2004 to January 2007, and as Senior Vice President of Finance and Technology of ProGroup from July 2000 to December 2004.

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Thomas Grillea has served as our President of Earth Origins Market since May 2008 and President of Select Nutrition Distributors since September 2007. Mr. Grillea also served as our President of Woodstock Farms Manufacturing from May 2009 to September 2012. Mr. Grillea served as our General Manager for Select Nutrition Distributors from September 2006 to September 2007. Prior to joining us, Mr. Grillea served in a management capacity for Whole Foods Market from 2004 through 2005, and in various management capacities for American Health and Diet Centers and the Vitamin Shoppe from 1998 through 2003.

Christopher P. Testa has served as our President of Woodstock Farms Manufacturing since September 2012 and President of Blue Marble Brands since August 2009. Prior to joining us, Mr. Testa served as Vice President of Marketing for Cadbury Schweppes Americas Beverages from August 2002 to May 2005 and as CEO of Wild Waters, Inc. from May 2005 to August 2009.

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ITEM 1A. RISK FACTORS

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

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

We depend heavily on our principal customer and our success is heavily dependent on our principal customer's ability to grow its business.

Whole Foods Market accounted for approximately 36% of our net sales in fiscal 2012. We serve as the primary distributor of natural, organic and specialty non-perishable products to Whole Foods Market in all of its regions in the United States under the terms of our amended distribution agreement which expires on September 25, 2020. Our ability to maintain a close mutually beneficial relationship with Whole Foods Market is an important element to our continued growth.

The loss or cancellation of business from Whole Foods Market, including from increased distribution to their own facilities or closures of stores, could materially and adversely affect our business, financial condition or results of operations. Similarly, if Whole Foods Market is not able to grow its business, including as a result of a reduction in the level of discretionary spending by its customers, our business, financial condition or results of operations may be materially and adversely affected.

Our operations are sensitive to economic downturns.

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

Our business is a low margin business and our profit margins may decrease due to consolidation in the grocery industry.

The grocery distribution industry generally is characterized by relatively high volume of sales 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 suppliers and retailers. Over the last two fiscal years, we have increased our sales to our supernatural chain and conventional supermarket customers in relation to our total sales. In the fourth quarter of fiscal 2011, we announced that we had entered into a three-year distribution arrangement to supply Safeway with nonproprietary natural, organic and specialty products, which will further increase the percentage of our total sales to conventional supermarkets. Sales to these customers within our supernatural chain and conventional supermarket channels generate a lower gross margin than do sales to our independent customers. Many of these customers, including our largest customer, have agreements with us that include volume discounts. As the amounts these customers purchase from us increase, the price that they pay for the products they purchase is reduced, putting downward pressure on our gross margins on these sales. To compensate for these lower gross margins, we must reduce the expenses we incur to service these customers. If we are unable to reduce our expenses, including our expenses related to servicing this lower gross margin business, our business, financial condition or results of operations could be adversely impacted.

Our business may be sensitive to inflationary and deflationary pressures.

Many of our sales are at prices that are based on our product cost plus a percentage markup. As a result, volatile food costs have a direct impact upon our profitability. Prolonged periods of product cost inflation may have a negative impact on our profit margins and results of operations to the extent that we are unable to pass on all or a portion of such product cost increases to our customers. In addition, product cost inflation may negatively impact the consumer discretionary spending trends of our customers' customers, which could adversely affect our sales. Conversely, because many of our sales are at prices that are based upon product cost plus a percentage markup, our profit levels may be negatively impacted during periods of product cost deflation even though our gross profit as a percentage of net sales may remain relatively constant. To compensate for lower gross margins, we, in turn, must reduce expenses that we incur to service our customers.

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

Many of our customers buy from us under purchase orders, and we generally do not have agreements with or commitments from these customers for the purchase of products. We cannot assure you that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales volumes or orders for products supplied by us may 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. Bidding for contracts or arrangements with customers, particularly within the supernatural chain and conventional supermarket channels, is highly competitive and distributors may market their services to a particular customer over a long period of time before they are invited to bid. Our competition comes from a variety of sources, including other distributors of natural products as well as specialty grocery and mass market grocery distributors and retail customers that have their own distribution channels. We cannot assure you that mass market grocery distributors will not increase their emphasis on natural products and more directly compete with us including through self-distribution of particular items or purchases of particular items directly from suppliers or that new competitors will not enter the market. These distributors may have been in business longer than we have, may have substantially greater financial and other resources than we have and may be better established in their markets. We cannot assure you that our current or potential competitors will not provide products or services comparable or superior to those provided by us or adapt more quickly than we do to evolving industry trends or changing market requirements. It is also possible that alliances among competitors may develop and rapidly acquire significant market share or that certain of our customers will increase distribution to their own retail facilities. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially and adversely affect our business, financial condition or results of operations.

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We cannot assure you that we will be able to compete effectively against current and future competitors.

Our investment in information technology may not result in the anticipated benefits.

Much of our sales growth is occurring in our lower gross margin supernatural and conventional supermarket channels. In our attempt to reduce operating expenses and increase operating efficiencies, we have aggressively invested in the development and implementation of new information technology. Following the start-up inefficiencies associated with the initial implementation of our technological initiatives in our Lancaster, Texas distribution center during fiscal 2011, we revised the timeline for the broader implementation of our proposed technological developments and now expect to complete the roll-out by the end of fiscal 2015. While we currently believe this revised timeline will be met, we may not be able to implement these technological changes in the time frame that we have planned and delays in implementation could negatively impact our business, financial condition or results of operations. In addition, the costs to make these changes may exceed our estimates and will exceed the benefits during the early stages of implementation. Even if we are able to implement the changes in accordance with our revised plans, and within our current cost estimates, we may not be able to achieve the expected efficiencies and cost savings from this investment, which could have an adverse effect on our business, financial condition or results of operations.

Failure by us to develop and operate a reliable technology platform could negatively impact our business.

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology platform. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks and to monitor and manage our business on a day-to-day basis. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs negatively affecting our business, financial condition or results of operations.

We have experienced losses due to the uncollectability of accounts receivable in the past and could experience increases in such losses in the future if our customers are unable to timely pay their debts to us.

Certain of our customers have from time to time experienced bankruptcy, insolvency and/or an inability to pay their debts to us as they come due. If our customers suffer significant financial difficulty, they may be unable to pay their debts to us timely or at all, which could have a material adverse effect on our results of operations. It is possible that customers may reject their contractual obligations to us under bankruptcy laws or otherwise. Significant customer bankruptcies could further adversely affect our revenues and increase our operating expenses by requiring larger provisions for bad debt. In addition, even when our contracts with these customers are not rejected, if customers are unable to meet their obligations on a timely basis, it could adversely affect our ability to collect receivables. Further, we may have to negotiate significant discounts and/or extended financing terms with these customers in such a situation, each of which could have material adverse effect on our business, financial condition, results of operations or cash flows. During periods of economic weakness, like those we experienced during fiscal 2009 and the first half of fiscal 2010, small to medium-sized businesses, like many of our independently owned natural products retailer customers, may be impacted more severely and more quickly than larger businesses. Consequently, the ability of such businesses to repay their obligations to us may deteriorate, and in some cases this deterioration may occur quickly, which could adversely impact our business, financial condition or results of operations.

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Our acquisition strategy may adversely affect our business.

A significant portion of our past growth has been achieved through acquisitions of, or mergers with, other distributors of natural, organic and specialty products. We also continually evaluate opportunities to acquire other companies. We believe that there are risks related to acquiring companies, including an inability to successfully identify suitable acquisition candidates or consummate such potential acquisitions. To the extent that our future growth includes acquisitions, we cannot assure you that we will not overpay for acquisitions, lose key employees of acquired companies, or fail to achieve potential synergies or expansion into new markets as a result of our acquisitions. Therefore, future acquisitions, if any, may have a material adverse effect on our results of operations, particularly in periods immediately following the consummation of those transactions while the operations of the acquired business are being integrated with our operations. Achieving the benefits of acquisitions depends on timely, efficient and successful execution of a number of post-acquisition events, including, among other things:

- maintaining the customer and supplier base;
- optimizing delivery routes;
- coordinating administrative, distribution and finance functions; and
- integrating management information systems and personnel.

The integration process could divert the attention of management and any difficulties or problems encountered in the transition process could have a material adverse effect on our business, financial condition or results of operations. In particular, the integration process may temporarily redirect resources previously focused on reducing product cost, resulting in lower gross profits in relation to sales. In addition, the process of combining companies 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.

In connection with acquisitions of businesses in the future, if any, we may decide to consolidate the operations of any acquired business with our existing operations or make other changes with respect to the acquired business, which could result in special charges or other expenses. Our results of operations also may be adversely affected by expenses we incur in making acquisitions, by amortization of acquisition-related intangible assets with definite lives and by additional depreciation attributable to acquired assets. Any of the businesses we acquire may also have liabilities or adverse operating issues, including some that we fail to discover before the acquisition, and our indemnity for such liabilities may also be limited. Additionally, our ability to make any future acquisitions may depend upon obtaining additional financing. We may not be able to obtain additional financing on acceptable terms or at all. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

We may have difficulty managing our growth.

The growth in the size of our business and operations has placed, and is expected to continue to place, a significant strain on our management. Our future growth may be limited by our inability to acquire new distribution centers or expand our existing distribution centers, make acquisitions, successfully integrate acquired entities or significant new customers, implement information systems initiatives or adequately manage our personnel. Our future growth is limited in part by the size and location of our distribution centers. As we near maximum utilization of a given facility or maximize our processing capacity, operations may be constrained and inefficiencies have been and may be created, which could adversely affect our results of operations unless the facility is expanded, volume is shifted to another facility or additional processing capacity is added. Conversely, as we add additional facilities or expand existing operations or facilities, excess capacity may be created. Any excess capacity may also create inefficiencies and adversely affect our results of operations. We cannot assure you that we will be able to successfully expand our existing distribution centers or open new distribution centers in new or existing markets as needed to accommodate or facilitate growth. Even if we are able to expand our distribution network, our ability to compete effectively and to manage future growth, if any, will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our work force. We cannot assure you that our existing personnel, systems, procedures and controls will be adequate to support the future growth of our operations. Our inability to manage our growth effectively could have a material adverse effect on our business, financial condition or results of operations.

Increased fuel costs may adversely affect our results of operations.

Increased fuel costs may have a negative impact on our results of operations. The high cost of diesel fuel can increase the price we pay for products as well as the costs we incur to deliver products to our customers. These factors, in turn, may negatively impact our net sales, margins, operating expenses and operating results. To manage this risk, we have in the past periodically entered, and may in the future periodically enter, into heating oil derivative contracts to hedge a portion of our projected diesel fuel requirements. Heating crude oil prices have a highly correlated relationship to fuel prices, making these derivatives effective in offsetting changes in the cost of diesel fuel. We are not party to any commodity swap agreements and, as a result, our exposure to volatility in the price of diesel fuel has increased relative to our exposure to volatility in prior periods in which we had outstanding heating oil derivative contracts. We do not enter into fuel hedge contracts for speculative purposes. We have in the past, and may in the future, periodically enter into forward purchase commitments for a portion of our projected monthly diesel fuel requirements at fixed prices. As of July 28, 2012, we had forward diesel fuel commitments totaling approximately $16 million through July 2013. Our commitments through July 2013 were entered into at prevailing rates during June 2012. If fuel prices decrease significantly, these forward purchases may prove ineffective and result in us paying higher than the then market costs for a portion of our diesel fuel. We also maintain a fuel surcharge program which allows us to pass some of our higher fuel costs through to our customers. We cannot guarantee that we will continue to be able to pass a comparable proportion or any of our higher fuel costs to our customers in the future, which may adversely affect our business, financial condition or results of operations.

Disruption of our distribution network could adversely affect our business.

Damage or disruption to our distribution capabilities due to weather, natural disaster, fire, terrorism, pandemic, strikes, the financial and/or operational instability of key suppliers, or other reasons could impair our ability to distribute our products. To the extent that we are unable, or it is not financially feasible, to mitigate the likelihood or potential impact of such events, or to manage effectively such events if they occur, there could be an adverse effect on our business financial condition or results of operations.

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

In May 2012, we amended and restated our revolving credit facility pursuant to which we now have a $500 million secured revolving credit facility which matures on May 24, 2017; of which up to $450.0 million is available to our U.S. subsidiaries and up to $50.0 million is available to UNFI Canada. The borrowings of the US portion of the credit facility accrue interest, at our option, at either (i) a base rate (generally defined as the highest of (x) the Bank of America Business Capital prime rate, (y) the average overnight federal funds effective rate plus one-half percent (0.50%) per annum and (z) one-month LIBOR plus one percent (1%) per annum plus an initial margin of 0.50%, or (ii) the London Interbank Offered Rate ("LIBOR") for one, two, three or six months or, if approved by all

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affected lenders, nine months plus an initial margin of 1.50%. The borrowings on the Canadian portion of the credit facility for Canadian swing-line loans, Canadian over advance loans or Canadian protective advances accrue interest, at our option, at either (i) a prime rate (generally defined as the highest of (x) 0.50% over 30-day Reuters Canadian Deposit Offering Rate for bankers' acceptances, (y) the prime rate of Bank of America, N.A.'s Canada branch, and (z) a bankers' acceptance equivalent rate for a one month interest period plus 1.00% plus an initial margin of 0.50%, or (ii) a bankers' acceptance equivalent rate of the rate of interest per annum equal to the annual rates applicable to Canadian Dollar bankers' acceptances on the "CDOR Page" of Reuter Monitor Money Rates Service, plus five basis points, and an initial margin of 1.50% (the "CDOR rate"). All other borrowings on the Canadian portion of the credit facility must exclusively accrue interest under the CDOR rate plus the applicable margin.

As of July 28, 2012, our borrowing base, based on accounts receivable and inventory levels and described more completely below under "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Revenues," was $483.7 million, with remaining availability of $341.8 million. During fiscal 2012, we used borrowings under our amended and restated revolving credit facility to pay off our term loan and refinance existing indebtedness under the predecessor revolving credit facility.

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 up front to purchase products that we will sell over a multi-month time period. In the event that our cost of capital increases, such as during a period in which we are not in compliance with the fixed charge coverage ratio covenants under our revolving credit facility, or our ability to borrow funds or raise equity capital is limited, we could suffer reduced profit margins and be unable to grow our business organically or through acquisitions, which could have a material adverse effect on our business, financial condition or results of operations.

Our debt agreements contain restrictive covenants that may limit our operating flexibility.

Our debt agreements contain financial covenants and other restrictions that limit our operating flexibility, limit our flexibility in planning for or reacting to changes in our business and make us more vulnerable to economic downturns and competitive pressures. Our indebtedness could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our flexibility in planning for or reacting to changes in our business and the industry in which we compete; and
- placing us at a competitive disadvantage compared to competitors with less leverage or better access to capital resources.

In addition, our revolving credit facility requires that we comply with various financial tests and imposes certain restrictions on us, including among other things, restrictions on our ability to incur additional indebtedness, create liens on assets, make loans or investments or pay dividends. Failure to comply with these covenants could have an adverse effect on our business, financial condition or results of operations.

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Our operating results are subject to significant fluctuations.

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

- demand for our products; including as a result of seasonal fluctuations;
- changes in our operating expenses, including fuel and insurance expenses;
- management's ability to execute our business and growth strategies;
- changes in customer preferences, including levels of enthusiasm for health, fitness and environmental issues;
- public perception of the benefits of natural and organic products when compared to similar conventional products;
- fluctuation of natural product prices due to competitive pressures;
- personnel changes;
- general economic conditions including inflation;
- supply shortages, including a lack of an adequate supply of high-quality agricultural products due to poor growing conditions, water shortages, natural disasters or otherwise;
- volatility in prices of high-quality agricultural products resulting from poor growing conditions, water shortages, 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.

Conditions beyond our control can interrupt our supplies and increase our product costs.

We offer more than 65,000 high-quality natural, organic and specialty foods and non-food products, which we purchase from more than 4,800 suppliers. The majority of our suppliers are based in the United States and Canada, but we also source products from suppliers throughout Europe, Asia, Central America, South America, Africa and Australia. For the most part, we do not have long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide benefits when dealing with suppliers, suppliers may not provide the products needed by us in the quantities and at the prices requested. We are also subject to delays caused by interruption in production and increases in product costs based on conditions outside of our control. These conditions include work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, short-term weather conditions or more prolonged climate change, crop conditions, product recalls, water shortages, transportation interruptions, unavailability of fuel or increases in fuel costs, competitive demands and natural disasters or other catastrophic events (including, but not limited to food-borne illnesses). Further, increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain or impact demand for our products. In the summer months of 2012, certain agricultural areas of the United States and Mexico have experienced severe drought. The impact of this drought is uncertain and could result in volatile input costs. Input costs could increase at any point in time for a large portion of the products that we sell for a prolonged period. Our inability to obtain adequate products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

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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:

- the products that we distribute in the United States are subject to inspection by the United States Food and Drug Administration;
- our warehouse and distribution centers are subject to inspection by the USDA and state health authorities; and
- the United States Department of Transportation and the United States Federal Highway Administration regulate our United States trucking operations.

Our Canadian operations are similarly subject to extensive regulation, including the English and French dual labeling requirements applicable to products that we distribute in Canada. 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. In addition, as a distributor and manufacturer of natural, organic, and specialty foods, we are subject to increasing governmental scrutiny of and public awareness regarding food safety and the sale, packaging and marketing of natural and organic products. Compliance with these laws may impose a significant burden on our operations. If we were to manufacture or distribute foods that are or are perceived to be contaminated, any resulting product recalls could have an adverse effect on our business, financial condition or results of operations. Additionally, concern over climate change, including the impact of global warming, has led to significant United States and international legislative and regulatory efforts to limit greenhouse gas emissions. Increased regulation regarding greenhouse gas emissions, especially diesel engine emissions, could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our vehicles prematurely. Until the timing, scope and extent of such regulation becomes known, we cannot predict its effect on our results of operations. It is reasonably possible, however, that it could impose material costs on us which we may be unable to pass on to our customers.

Product liability claims could have an adverse effect on our business.

We face an inherent risk of exposure to product liability claims if the products we manufacture or sell cause injury or illness. We may be subject to liability, which could be substantial, because of actual or alleged contamination in products manufactured or sold by us, including products sold by companies before we acquired them. We have, and the companies we have acquired have had, liability insurance with respect to product liability claims. This insurance may not continue to be available at a reasonable cost or at all, and may not be adequate to cover product liability claims against us or against companies we have acquired. We generally seek contractual indemnification from manufacturers, but any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If we or any of our acquired companies do not have adequate insurance or contractual indemnification available, product liability claims and costs associated with product recalls, including a loss of business, could have a material adverse effect on our business, financial condition or results of operations.

We are dependent on a number of key executives.

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

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Union-organizing activities could cause labor relations difficulties.

As of July 28, 2012 we had approximately 7,000 full and part-time employees, 434 of whom (approximately 6.2%) are covered by collective bargaining agreements at our Edison, New Jersey, Auburn, Washington, Leicester, Massachusetts, Iowa City, Iowa and Dayville, Connecticut facilities. The Edison, New Jersey, Leicester, Massachusetts, Iowa City, Iowa and Dayville, Connecticut agreements expire in June 2014, March 2014, June 2014 and July 2014, respectively. We have in the past been the focus of union-organizing efforts, and it is likely that we will be the focus of similar efforts in the future.

As we increase our employee base and broaden our distribution operations to new geographic markets, our increased visibility could result in increased or expanded union-organizing efforts. Although we have not experienced a work stoppage to date, if additional employees were to unionize or we are not successful in reaching agreement with our union employees when their agreements expire (like is the case currently in our Auburn, Washington location), we could be subject to work stoppages and increases in labor costs, either of which could have a material adverse effect on our business, financial condition or results of operations.

Our collective bargaining agreement with our employees at our Auburn, Washington facility expired in August 2012, and to date we have been unsuccessful in negotiating a new agreement with these employees, despite employing the services of the Federal Mediation Service. If we are unable to reach an agreement with these employees, it is possible that the employees could strike as the union employees have authorized a work stoppage. In that event, it would be necessary for us to hire replacement workers to continue to meet our obligations to our customers. The costs to hire replacement workers would negatively impact the profitability of our Auburn, Washington facility, and depending on the length of time that we are required to employ replacement workers these costs could be significant.

We may fail to establish sufficient insurance reserves and adequately estimate for future workers' compensation and automobile liabilities.

We are primarily self-insured for workers' compensation and automobile liability insurance. We believe that our workers' compensation and automobile insurance coverage is customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure. These losses, should they occur, could have a material and adverse effect on our business, financial condition or results of operations. In addition, the cost of workers' compensation insurance and automobile insurance fluctuates based upon our historical trends, market conditions and availability.

Any projection of losses concerning workers' compensation and automobile insurance 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 losses incurred are greater than those anticipated, our reserves may be insufficient and additional costs could be recorded in our consolidated financial statements. If we suffer a substantial loss that is not covered by our self-insurance reserves, the loss and attendant expenses could harm our business and operating results. We have purchased stop loss coverage from third parties, which limits our exposure above the amounts we have self-insured.

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The market price for our common stock may be volatile.

At times, there has been significant volatility in the market price of our common stock. In addition, the market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other distributors of organic or natural food and non-food products and of supernatural chains and conventional supermarkets and other of our customers;
- changes in general conditions in the economy, the financial markets or the organic or natural food and non-food product distribution industries;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- announcements by us or our competitors of significant acquisitions;
- increases in labor, energy, fuel costs or the costs of food products;
- natural disasters, severe weather conditions or other developments affecting us or our competitors;
- publication of research reports about us, the benefits of organic and natural products, or the organic or natural food and non-food product distribution industries generally;
- changes in market valuations of similar companies;
- additions or departures of key management personnel;
- actions by institutional stockholders; and
- speculation in the press or investment community.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We maintained twenty-six distribution centers at July 28, 2012 which were utilized by our wholesale division. These facilities, including offsite storage space, consisted of an aggregate of approximately 6.2 million square feet of storage space, which we believe represents the largest capacity of any distributor within the United States in the natural, organic and specialty products industry.

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Set forth below for each of our distribution centers is its location and the expiration of leases as of July 28, 2012 for those distribution centers that we do not own.

Location	Lease Expiration
Atlanta, Georgia	Owned
Auburn, California	Owned
Auburn, Washington	August 2019
Aurora, Colorado	October 2012
Aurora, Colorado	January 2013
Aurora, Colorado	July 2015
Bridgeport, New Jersey	Owned
Burnaby, British Columbia	October 2013
Charlotte, North Carolina	September 2019
Chesterfield, New Hampshire	Owned
Concord, Ontario	December 2014
Dayville, Connecticut	Owned
Greenwood, Indiana	Owned
Iowa City, Iowa	Owned
Lancaster, Texas	July 2020
Leicester, Massachusetts	May 2013
Moreno Valley, California	July 2023
Mounds View, Minnesota	November 2015
New Oxford, Pennsylvania	Owned
Philadelphia, Pennsylvania	January 2014
Richmond, British Columbia	August 2022
Ridgefield, Washington	Owned
Rocklin, California	Owned
Sarasota, Florida	July 2017
Scotstown, Quebec	Owned
St. Laurent, Quebec	August 2012
Vernon, California	Owned
York, Pennsylvania	May 2020

We lease facilities to operate thirteen natural products retail stores through our Earth Origins division in Florida, Maryland and Massachusetts and one retail store through our UNFI Canada division, each with various lease expiration dates. We also lease a processing and manufacturing facility in Edison, New Jersey with a lease expiration date of March 31, 2013.

We lease office space in Santa Cruz, California, Chesterfield, New Hampshire, Uniondale, New York, Richmond, Virginia, and Providence, Rhode Island, the site of our corporate headquarters. Our leases have been entered into upon terms that we believe to be reasonable and customary. We own office space in Dayville, Connecticut.

We also lease a warehouse facility in Minneapolis, Minnesota that we acquired in connection with our acquisition of Roots & Fruits Produce Cooperative in 2005. This facility is currently being subleased under an agreement that expires concurrently with our lease termination in November 2016. We also lease offsite storage space near certain of our distribution facilities. We have also entered into a lease that expires July 2028 for a property in Aurora, Colorado which will become our new distribution center. We expect this distribution center to become operational in the summer of 2013.

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. MINE SAFETY DISCLOSURES

Not applicable.

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PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select 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 fiscal periods indicated, the high and low sale prices per share of our common stock on the Nasdaq Global Select Market®:

Fiscal 2012	**High**	**Low**
First Quarter	$ 42.53	$ 35.07
Second Quarter	44.68	32.83
Third Quarter	50.37	43.81
Fourth Quarter	55.86	47.98
Fiscal 2011		
First Quarter	$ 37.48	$ 32.65
Second Quarter	39.85	34.78
Third Quarter	46.05	36.71
Fourth Quarter	45.34	39.52

On July 28, 2012, we had 86 stockholders of record. The number of record holders may not be representative of the number of beneficial holders of our common stock 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 our earnings, capital requirements and financial condition, requirements of the financing agreements to which we are then a party and other factors considered relevant by our Board of Directors. Additionally, the terms of our existing revolving credit facility restrict us from making any cash dividends unless certain conditions and financial tests are met.

We did not repurchase any shares during the fourth quarter ended July 28, 2012.

Comparative Stock Performance

The graph below compares the cumulative total stockholder return on our common stock for the last five fiscal years with the cumulative total return on (i) an index of Food Service Distributors and Grocery Wholesalers and (ii) The NASDAQ Composite Index. The comparison assumes the investment of $100 on July 28, 2007 in our common stock and in each of the indices and, in each case, assumes reinvestment of all dividends. The stock price performance shown below is not necessarily indicative of future performance.

The index of Food Distributors and Wholesalers (referred to below as the "Peer Group") includes Nash Finch Company, SuperValu, Inc. and SYSCO Corporation. PFG was removed from the Peer Group in 2008 following its acquisition by another company.

This performance graph shall not be deemed "soliciting material" or be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by

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reference into any of our filings under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among United Natural Foods, Inc., the NASDAQ Composite Index,
and Index of Food Distributors and Wholesalers

*

$100 invested on 7/28/07 in stock or 7/31/07 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below are derived from our consolidated financial statements, which have been audited by KPMG LLP, our independent registered public accounting firm. 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 is qualified by reference to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

Consolidated Statement of Income Data:(1)	**July 28, 2012**	**July 30, 2011**	**July 31, 2010**	**August 1, 2009**	**August 2, 2008**
					(53 weeks)
			(In thousands, except per share data)		
Net sales	$ 5,236,021	$ 4,530,015	$ 3,757,139	$ 3,454,900	$ 3,365,857
Cost of sales	4,320,018	3,705,205	3,060,208	2,794,419	2,731,965
Gross profit	916,003	824,810	696,931	660,481	633,892
Operating expenses	755,744	688,859	582,029	550,560	541,413
Restructuring and asset impairment expense	5,101	6,270			
Total operating expenses	760,845	695,129	582,029	550,560	541,413
Operating income	155,158	129,681	114,902	109,921	92,479
Other expense (income):					
Interest expense	4,734	5,000	5,845	9,914	16,133
Interest income	(715)	(1,226)	(247)	(450)	(768)
Other, net	356	(528)	(2,698)	275	(82)
Total other expense	4,375	3,246	2,900	9,739	15,283
Income before income taxes	150,783	126,435	112,002	100,182	77,196
Provision for income taxes	59,441	49,762	43,681	40,998	28,717
Net income	$ 91,342	$ 76,673	$ 68,321	$ 59,184	$ 48,479
Per share data Basic:					
Net income	$ 1.87	$ 1.62	$ 1.58	$ 1.38	$ 1.14
Weighted average basic shares of common stock	48,766	47,459	43,184	42,849	42,690
Per share data Diluted:					
Net income	$ 1.86	$ 1.60	$ 1.57	$ 1.38	$ 1.13
Weighted average diluted shares of common stock	49,100	47,815	43,425	42,993	42,855

Consolidated Balance Sheet Data:	**July 28, 2012**	**July 30, 2011**	**July 31, 2010**	**August 1, 2009**	**August 2, 2008**
			(In thousands)		
Working capital	$ 612,700	$ 381,071	$ 194,190	$ 169,053	$ 110,897
Total assets	1,493,946	1,400,988	1,250,799	1,058,550	1,084,483
Total long-term debt and capital leases, excluding current portion	635	986	48,433	53,858	58,485
Total stockholders' equity	$ 978,716	$ 869,667	$ 630,447	$ 544,472	$ 480,050

(1) Includes the effect of acquisitions from the date of acquisition.

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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 on Form 10-K.

Forward-Looking Statements

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 within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act 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," "plans," "seek," "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 positions or state other "forward-looking" information.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned not to place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- our dependence on principal customers;
- our sensitivity to general economic conditions, including the current economic environment, changes in disposable income levels and consumer spending trends;
- our ability to reduce our expenses in amounts sufficient to offset our increased focus on sales to conventional supermarkets and the resulting lower gross margins on the sales;
- our reliance on the continued growth in sales of natural and organic foods and non-food products in comparison to conventional products;
- our ability to timely and successfully deploy our new warehouse management system throughout our distribution centers;
- increased fuel costs;
- our sensitivity to inflationary and deflationary pressures;
- the relatively low margins and economic sensitivity of our business;
- the potential for disruptions in our supply chain by circumstances beyond our control;
- the ability to identify and successfully complete acquisitions of other natural, organic and specialty food and non-food products distributors; and
- management's allocation of capital and the timing of capital expenditures.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. You should carefully review the risks described under "Part I. Item 1A. Risk Factors," as well as any other cautionary language in this Annual Report on Form 10-K, as the occurrence of any of these events could have an adverse effect on our business, results of operation and financial condition.

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Overview

We believe we are the leading national distributor based on sales of natural, organic and specialty foods and non-food products in the United States and Canada and that our twenty-six distribution centers, representing approximately 6.2 million square feet of warehouse space, provide us with the largest capacity of any North American-based distributor in the natural, organic and specialty products industry. We offer more than 65,000 high-quality natural, organic and specialty foods and non-food products, consisting of national brands, regional brands, private label and master distribution products, in six product categories: grocery and general merchandise, produce, perishables and frozen foods, nutritional supplements and sports nutrition, bulk and food service products and personal care items. We serve more than 23,000 customer locations primarily located across the United States and Canada, the majority of which can be classified into one of the following categories: independently owned natural products retailers, which include buying clubs; supernatural chains, which consist solely of Whole Foods Market; conventional supermarkets, which include mass market chains; and other which includes foodservice and international customers outside of Canada.

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

- our wholesale division, which includes our broadline natural, organic and specialty distribution business in the United States, UNFI Canada, which is our natural, organic and specialty distribution business in Canada, Albert's, which is a leading distributor of organically grown produce and non-produce perishable items within the United States, and Select Nutrition, which distributes vitamins, minerals and supplements;

- our retail division, consisting of Earth Origins, which operates our thirteen natural products retail stores within the United States; and

- our manufacturing division, consisting of Woodstock Farms Manufacturing, which specializes in the international importation, roasting, packaging and distribution of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items, and confections, and our Blue Marble Brands product lines.

In recent years, our sales to existing and new customers have increased through the continued growth of the natural and organic products industry in general, increased market share as a result of our high quality service and a broader product selection, including specialty products, and the acquisition of, or merger with, natural and specialty products distributors, the expansion of our existing distribution centers; the construction of new distribution centers; the introduction of new products and the development of our own line of natural and organic branded products. Through these efforts, we believe that we have been able to broaden our geographic penetration, expand our customer base, enhance and diversify our product selections and increase our market share.

We have been the primary distributor to Whole Foods Market for more than fourteen years. Effective June 2010, we amended our distribution agreement with Whole Foods Market to extend the term of the agreement for an additional seven years. Under the terms of the amended agreement, we will continue to serve as the primary wholesale natural grocery distributor to Whole Foods Market in its United States regions where we were serving as the primary distributor at the time of the amendment. The amendment extended the expiration date of the agreement from September 25, 2013 to September 25, 2020. On July 28, 2010, we announced that we had entered into an asset purchase agreement under which we agreed to acquire certain assets of Whole Foods Distribution previously used for their self-distribution of non-perishables in their Rocky Mountain and Southwest regions and to become their primary distributor in these regions. We closed this transaction in late September 2010 in the case of the Southwest region and early October 2010 in the case of the Rocky Mountain region. We now serve as the primary distributor to Whole Foods Market in all of its regions in the United States and have amended our distribution agreement with Whole Foods Market effective

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October 2010 to include these regions. Whole Foods Market accounted for approximately 36% of our net sales for the years ended July 28, 2012 and July 30, 2011.

In June 2010, we acquired the SDG assets of SunOpta through our wholly-owned subsidiary, UNFI Canada for cash consideration of $65.8 million. With the acquisition, we became the largest distributor of natural, organic and specialty foods, including kosher foods, in Canada. This was a strategic acquisition as UNFI Canada provides us with an immediate platform for growth in the Canadian market. During fiscal 2012, we utilized our UNFI Canada platform to further expand in the Canadian market, including through our purchase of substantially all of the assets of a specialty food distribution business in the Ontario market in November 2011.

The ability to distribute specialty food items (including ethnic, kosher and gourmet) has accelerated our expansion into a number of high-growth business markets and allowed us to establish immediate market share in the fast-growing specialty foods market. We have now integrated specialty food products and natural and organic specialty non-food products into most of our broadline distribution centers across the United States and Canada. Due to our expansion into specialty foods, we were awarded new business with a number of conventional supermarkets since fiscal 2010 that we previously had not done business with because we did not distribute specialty products. We believe that distribution of these products enhances our conventional supermarket business channel and that our complementary product lines continue to present opportunities for cross-selling. On June 9, 2011, we entered into an asset purchase agreement with L&R Distributors pursuant to which we agreed to sell our conventional non-foods and general merchandise lines of business, including certain inventory related to these product lines. This divestiture was completed in the first quarter of fiscal 2012, and has allowed us to concentrate on our core business of the distribution of natural, organic, and specialty foods and non-food products.

To maintain our market leadership and improve our operating efficiencies, we seek to continually:

- expand our marketing and customer service programs across regions;
- expand our national purchasing opportunities;
- offer a broader product selection;
- offer operational excellence with high service levels and a higher percentage of on-time deliveries than our competitors;
- centralize general and administrative functions to reduce expenses;
- consolidate systems applications among physical locations and regions;
- increase our investment in people, facilities, equipment and technology;
- integrate administrative and accounting functions; and
- reduce the geographic overlap between regions.

Our continued growth has allowed us to expand our existing facilities and open new facilities in an effort to achieve increasing operating efficiencies. We have made significant capital expenditures and incurred considerable expenses in connection with the opening and expansion of our facilities. At July 28, 2012, our distribution capacity totaled approximately 6.2 million square feet. In September 2009, we commenced operations of a new facility in Charlotte, North Carolina serving Albert's customers in North Carolina, South Carolina, Georgia, Tennessee and Virginia. In connection with the acquisition of the SDG assets in June 2010, we acquired five distribution centers which provided nationwide presence in Canada with approximately 286,000 square feet of distribution space and the ability to serve all major markets in Canada. In September 2010, we began shipping products from our distribution center in Lancaster, Texas, which serves customers throughout the Southwestern United

States, including Texas, Oklahoma, New Mexico, Arkansas and Louisiana. In October 2010, in connection with the acquisition of the Rocky Mountain distribution business of Whole Foods Distribution, we took over the operations, including the assumption of an operating lease at a distribution center in Aurora, Colorado, augmenting our existing Aurora, Colorado distribution center, which was at capacity, in serving customers in Colorado, Utah, Arizona and New Mexico. In April 2012, we leased a new 535,000 square foot distribution center in Aurora, Colorado which is expected to become operational in the summer of 2013 and will replace our existing two broadline distribution centers, an Albert's distribution center and an off-site storage location.

Our net sales consist primarily of sales of natural, organic and specialty products to retailers, adjusted for customer volume discounts, returns and allowances. Net sales also consist of amounts charged by us to customers for shipping and handling and fuel surcharges. The principal components of our 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 our distribution centers. Cost of sales also includes amounts incurred by us at our manufacturing subsidiary, Woodstock Farms Manufacturing, for inbound transportation costs and depreciation for manufacturing equipment, offset by consideration received from suppliers in connection with the purchase or promotion of the suppliers' products. Our gross margin may not be comparable to other similar companies within our industry that may include all costs related to their distribution network in their costs of sales rather than as operating expenses. We include purchasing and outbound transportation expenses within our operating expenses rather than in our cost of sales. Total operating expenses include salaries and wages, employee benefits (including payments under our Employee Stock Ownership Plan), warehousing and delivery, selling, occupancy, insurance, administrative, share-based compensation, depreciation and amortization expense. Other expenses (income) include interest on our outstanding indebtedness, interest income and miscellaneous income and expenses.

Critical Accounting Policies and Estimates

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 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 are: (i) determining our allowance for doubtful accounts, (ii) determining our reserves for the self-insured portions of our workers' compensation 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 $305.2 million and $257.1 million, net of the allowance for doubtful accounts of $6.2 million and $4.5 million, as of July 28, 2012 and July 30, 2011, respectively. Our notes receivable balances were $3.7 million and $5.0 million, net of the allowance for doubtful accounts of $0.7 million and $1.3 million, as of July 28, 2012 and July 30, 2011, respectively.

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Insurance reserves

We are primarily self-insured for workers' compensation, and general and automobile liability insurance. It is our policy to record the self-insured portions of our workers' compensation and automobile liabilities based upon actuarial methods of estimating 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 our consolidated financial statements. Accruals for workers' compensation and automobile liabilities totaled $19.5 million and $17.5 million as of July 28, 2012 and July 30, 2011, respectively.

Valuation of goodwill and intangible assets

We are required to 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 during the fourth quarter of each fiscal year. We test for goodwill impairment at the reporting unit level, which are at or one level below the operating segment level. Beginning in fiscal 2012, the first step in our annual assessment of each of our reporting units is a qualitative assessment as allowed under ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ("ASU 2011-08"), unless we believe it is more likely than not that a reporting unit's fair value is less than the carrying value. In order to qualify for an exclusion from the quantitative two-step goodwill test, the thresholds used by the Company for this determination are that a reporting unit must (1) have passed its previous two-step test with a margin of calculated fair value versus carrying value of at least 10%, (2) have had no significant changes to its working capital structure, and (3) have current year income streams which are at least 85% of prior year amounts. For reporting units which do not meet this exclusion, the quantitative goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. Each reporting unit regularly prepares discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analysis. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess.

During the first quarter of the 2011 fiscal year, we performed a test for goodwill impairment as a result of the expected change in future cash flows for certain of our branded product lines within our Blue Marble Brands reporting unit, and determined that no impairment existed. As of July 28, 2012, our annual assessment of each of our reporting units indicated that no impairment of goodwill existed. Approximately 91% of our goodwill is within our wholesale reporting unit. Both our wholesale distribution reporting unit and our Earth Origins Market reporting unit were evaluated under the

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qualitative guidelines described above and did not require the quantitative two-step test. Our Blue Marble Brands and Woodstock Farms Manufacturing reporting units were subject to the two-step quantitative test, and each exceeded their carrying values by more than 10%, and were not considered at risk of failing the first step of the goodwill impairment test. We believe that these projected results are achievable, though these assumptions are based upon our current business model and may be negatively affected if we attempt to dispose of any of our brands, stores or facilities or substantially change how we market and sell our products. For all of our assessments, the weighted average cost of capital used in calculating the present value of future cash flows was 12.0%. Total goodwill as of July 28, 2012 and July 30, 2011 was $193.7 million and $191.9 million, respectively.

Intangible assets with indefinite lives are tested for impairment at least annually and between annual tests if events occur or circumstances change that would indicate that the value of the asset may be impaired. Impairment is measured as the difference between the fair value of the asset and its carrying value. As of our most recent annual impairment test, the fair value of our indefinite lived intangible assets was in excess of their carrying value. The fair value of our indefinite-lived intangible assets related to our branded product lines was more than 100% in excess of its carrying value. During fiscal 2012, our long-term plans related to the trade name of a portion of our Canadian wholesale distribution business evolved, and we decided to phase out this trade name. As a result, we will begin amortizing this trade name over a period of ten years. As the underlying business will not be changing significantly but rather we will simply be phasing out the trade name, it was not tested for impairment. The projections used in the impairment assessment for the branded product line asset group assume sales growth of approximately 10% per year, with gross margin and operating expenses which on average approximate current levels as a percentage of sales. We believe these projections are reasonable based on our historical trends and expectation of future results. Total indefinite lived intangible assets as of July 28, 2012 and July 30, 2011 were $28.2 million and $28.9 million, respectively.

Intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Cash flows expected to be generated by the related assets are estimated over the asset's useful life based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow model. There have been no events or changes in circumstances indicating that the carrying value of our finite-lived intangibles are not recoverable during 2012. Total finite-lived intangible assets as of July 28, 2012 and July 30, 2011 were $24.3 million and $29.5 million, respectively.

The assessment of the recoverability of goodwill and intangible assets will be impacted if estimated future cash flows are not achieved.

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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 28, 2012	July 30, 2011	July 31, 2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	82.5%	81.8%	81.5%
Gross profit	17.5%	18.2%	18.5%
Operating expenses	14.4%	15.2%	15.4%
Restructuring and asset impairment expenses	0.1%	0.1%	0.0%
Total operating expenses	14.5%	15.3%	15.4%
Operating income	3.0%	2.9%	3.1%
Other expense (income):			
Interest expense	0.1%	0.1%	0.2%
Interest income	0.0%	0.0%	0.0%
Other, net	0.0%	0.0%	(0.1%)
Total other expense	0.1%	0.1%	0.1%
Income before income taxes	2.9%	2.8%	3.0%
Provision for income taxes	1.1%	1.1%	1.2%
Net income	1.8%	1.7%	1.8%

Fiscal year ended July 28, 2012 compared to fiscal year ended July 30, 2011

Net Sales

Our net sales for the fiscal year ended July 28, 2012 increased approximately 15.6%, or $706.0 million, to a record $5.2 billion for the year ended July 28, 2012 from $4.5 billion for the year ended July 30, 2011. This increase was primarily due to growth in our wholesale segment of $702.8 million, which includes net sales from a national conventional supermarket customer that began shipping in October 2011 and the strong performance of our UNFI Canada division. Our organic growth (sales growth excluding the impact of acquisitions) is due to the continued growth of the natural and organic products industry in general, increased market share as a result of our focus on service and value added services, and a broader selection of products, including specialty foods. We believe that the integration of our specialty business has allowed us to attract customers that we would not have been able to attract without that business as many customers seek a single source for their natural, organic and specialty products. Our net sales for the fiscal year ended July 28, 2012 were also favorably impacted by moderate price inflation.

In addition to net sales growth attributable to our organic growth, we also benefited from the inclusion of $25.4 million in incremental net sales resulting from expanded distribution to Whole Foods Market during fiscal 2012 following the acquisition of Whole Foods Distributions's Southwest and Rocky Mountain distribution business and expanded distribution agreement with Whole Foods Market in the first quarter of fiscal 2011 and approximately $4.2 million in sales resulting from our acquisition of substantially all of the assets of a specialty food distribution business in the Ontario market in November 2011.

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Our net sales by customer type for the years ended July 28, 2012 and July 30, 2011 were as follows (in millions):

Customer Type	2012 Net Sales	% of Total Net Sales	2011 Net Sales	% of Total Net Sales
Independently owned natural products retailers	$ 1,847	35%	$ 1,693	37%
Supernatural chains	1,883	36%	1,627	36%
Conventional supermarkets	1,246	24%	991	22%
Other	260	5%	219	5%
Total	$ 5,236	100%	$ 4,530	100%

Net sales to our independent retailer channel increased by approximately $154 million, or 9.1% during the year ended July 28, 2012 compared to the year ended July 30, 2011. While net sales in this channel have increased, they have grown at a slower rate than net sales in our supernatural and conventional supermarket channels, and therefore represent a lower percentage of our total net sales compared to the prior year.

Whole Foods Market is our only supernatural chain customer, and net sales to Whole Foods Market for the year ended July 28, 2012 increased by approximately $256 million or 15.8% over the prior year and accounted for approximately 36% of our total net sales for the years ended July 28, 2012 and July 30, 2011. The increase in sales to Whole Foods Market is primarily due to the increases in same-store sales, and to a lesser extent, the expanded primary distribution agreement noted above.

Net sales to conventional supermarkets for the year ended July 28, 2012 increased by approximately $255 million, or 25.7% from fiscal 2011 and represented approximately 24% of total net sales in fiscal 2012 compared to 22% in fiscal 2011. The increase in net sales to conventional supermarkets is primarily due to a large national customer which we began servicing during the first quarter of fiscal 2012, as part of our strategy to be the sole supplier of natural, organic and specialty products to our conventional supermarket customers.

Other net sales, which include sales to foodservice and sales from the United States to countries other than Canada, as well as sales through our retail division, manufacturing division, and our branded product lines, increased by approximately $41 million or 18.7% during the fiscal year ended July 28, 2012 over the prior fiscal year and accounted for approximately 5% of total net sales in fiscal 2012 and fiscal 2011.

As we continue to aggressively pursue new customers and as economic conditions continue to stabilize, we expect net sales for fiscal 2013 to grow over fiscal 2012. We believe that the integration of our specialty business into our national platform has allowed us to attract customers that we would not have been able to attract without that business and will continue to allow us to pursue a broader array of customers as many customers seek a single source for their natural, organic and specialty products. We believe that our projected sales growth will come from both sales to new customers and an increase in the number of products that we sell to existing customers. We expect that most of this sales growth will occur in our lower gross margin supernatural and conventional supermarket channels. Although sales to these customers typically generate lower gross margins than sales to customers within our independent retailer channel, they also typically carry a lower average cost to serve than sales to our independent customers. We also believe that food price inflation similar to the levels experienced in the second half of fiscal 2012 will contribute to our projected net sales growth in fiscal 2013.

Gross Profit

Our gross profit increased approximately 11.1%, or $91.2 million, to $916.0 million for the year ended July 28, 2012, from $824.8 million for the year ended July 30, 2011. Our gross profit as a percentage of net sales was 17.5% for the year ended July 28, 2012 and 18.2% for the year ended July 30, 2011. The change in gross profit as a percentage of net sales is primarily due to the change in the mix of net sales by channel that began during the second quarter of fiscal 2010 as well as higher inventory shrink related to perishable items and improper storage of products in certain categories, and use of third parties for inbound freight during fiscal 2012, partially offset by higher fuel surcharge revenue during the year ended July 28, 2012.

Our gross profits are generally higher on net sales to independently owned retailers and lower on net sales in the conventional supermarket and the supernatural channels. For the year ended July 28, 2012 approximately $512 million of our total net sales growth of $706 million was from increased net sales in the conventional supermarket and supernatural channels. As a result, approximately 60% of our total net sales in fiscal 2012 were to the conventional supermarket and supernatural channels compared to approximately 58% in fiscal 2011. This change in sales mix from 2011 to 2012 resulted in lower gross profits as a percentage of sales during fiscal 2012. We anticipate net sales growth in the conventional supermarket and supernatural channels will continue to outpace growth in the independent and other channels.

We expect that our growth with Whole Foods Market and our opportunities in the conventional supermarket channel will continue to generate lower gross profit percentages than our historical rates, particularly during the time period when we are on-boarding new business and incurring costs of hiring and training additional associates and increasing inventory levels before a new customer has reached expected purchasing levels. We will seek to fully offset these reductions in gross profit percentages by reducing our operating expenses as a percentage of net sales primarily through improved efficiencies in our supply chain and improvements to our information technology infrastructure.

Operating Expenses

Our total operating expenses increased approximately 9.5%, or $65.7 million, to $760.8 million for the year ended July 28, 2012, from $695.1 million for the year ended July 30, 2011. The increase in total operating expenses for the year ended July 28, 2012 was primarily due to higher sales volume, $5.1 million of severance and other restructuring expenses associated with the divestiture of our conventional non-food and general merchandise lines of business and $1.6 million in start-up expenses incurred in connection with onboarding a large national conventional supermarket customer. Operating expenses for the year ended July 30, 2011 included $6.3 million in restructuring and asset impairment charges associated with the divestiture of our conventional non-foods and general merchandise lines of business.

Total operating expenses for fiscal 2012 include share-based compensation expense of $11.4 million, compared to $9.2 million in fiscal 2011. Share-based compensation expense for the years ended July 28, 2012 and July 30, 2011 includes approximately $1.7 million and $0.7 million, respectively, in expense related to performance share-based awards granted to our Chief Executive Officer related to certain financial goals for those various periods ended July 28, 2012 and July 30, 2011. During fiscal 2012, $0.4 million was recognized related to a new performance-based equity compensation arrangement with a 2-year performance-based vesting component that was established for members of our executive leadership team. See Note 3 "Equity Plans" to our Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

As a percentage of net sales, total operating expenses decreased to approximately 14.5% for the year ended July 28, 2012, from approximately 15.3% for the year ended July 30, 2011. The decrease in total operating expenses as a percentage of net sales was primarily attributable to the growth in the supernatural and conventional supermarket channels which in general have lower operating expenses, higher fixed cost coverage due to higher sales, as well as expense control programs across all of our divisions. We were able to manage our fuel costs despite rising prices by locking in the price of a portion of our expected fuel usage, updating and revising existing routes to reduce miles traveled, reducing idle times and other similar measures. Our expansion into Lancaster, Texas, where our facility began servicing customers in late September 2010, has helped to further reduce our fuel costs as a percentage of net sales as we are able to reduce the number of miles traveled to serve our customers in Texas, Oklahoma, New Mexico, Arkansas and Louisiana who were previously primarily served from our facility in Denver, Colorado. These improvements in our operating expenses were offset in part by higher health insurance costs, higher workers' compensation costs and the above described higher share-based compensation costs. We expect that we will be able to continue to reduce our operating expenses as we continue the roll-out of our supply chain initiatives including a national warehouse management and procurement system, which was first launched in the Lancaster, Texas facility in September 2010, launched in the Ridgefield, Washington facility in July 2012 and is expected to be rolled out in all of our distribution centers by the end of fiscal 2015.

Operating Income

Operating income increased approximately 19.7%, or $25.5 million, to $155.2 million for the year ended July 28, 2012, from $129.7 million for the year ended July 30, 2011. As a percentage of net sales, operating income was 3.0% for the year ended July 28, 2012 compared to 2.9% for the year ended July 30, 2011. The increase in operating income is primarily attributable to sales growth and lower operating expenses as a percentage of net sales during fiscal 2012 compared to fiscal 2011.

Other Expense (Income)

Other expense (income) increased $1.2 million to $4.4 million for the year ended July 28, 2012, from $3.2 million for the year ended July 30, 2011. Interest expense for the year ended July 28, 2012 decreased to $4.7 million from $5.0 million in the year ended July 30, 2011, but was negatively impacted by $0.3 million related to the settlement in the fourth quarter of fiscal 2012 of the interest rate swap that we entered into in July 2005 in connection with our term loan that we paid off in May 2012. The decrease in interest expense was due primarily to lower average debt levels during the year. Interest income for the year ended July 28, 2012 decreased to $0.7 million from $1.2 million in the year ended July 30, 2011, primarily as a result of lower average cash balances during the year.

Provision for Income Taxes

Our effective income tax rate was 39.4% for the years ended July 28, 2012 and July 30, 2011. Our effective income tax rate in both fiscal years was primarily affected by state taxes in the states in which we operate.

Net Income

Reflecting the factors described in more detail above, net income increased $14.7 million to $91.3 million, or $1.86 per diluted share, for the year ended July 28, 2012, compared to $76.7 million, or $1.60 per diluted share on a lower share base, for the year ended July 30, 2011.

Fiscal year ended July 30, 2011 compared to fiscal year ended July 31, 2010

Net Sales

Our net sales for the fiscal year ended July 30, 2011 increased approximately 20.6%, or $772.9 million, to a record $4.5 billion for the year ended July 30, 2011 from $3.8 billion for the year ended July 31, 2010. This increase was primarily due to growth in our wholesale segment of $774.3 million, which includes the growth resulting from our entrance into the Canadian market in June 2010 and the expansion of our primary distribution agreement with Whole Foods Market in

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October 2010. Our organic growth is due to the continued growth of the natural products industry in general, increased market share as a result of our focus on service and value added services, and the breadth of our product selection. In addition, we believe that the integration of our specialty business has allowed us to attract customers that we would not have been able to attract without that business as many customers seek a single source for their natural, organic and specialty products. Our net sales for the fiscal year ended July 30, 2011 were also favorably impacted by moderate price inflation.

In addition to net sales growth attributable to our organic growth, we also benefited from the inclusion of $200.7 million in sales from UNFI Canada, which includes the SDG assets acquired during the fourth quarter of fiscal 2010, and approximately $131.6 million in incremental sales to Whole Foods Market due to the acquisition of Whole Foods Distribution's Southwest and Rocky Mountain distribution business in the first quarter of fiscal 2011 and our expanded distribution agreement in October 2010.

Our net sales by customer type for the years ended July 30, 2011 and July 31, 2010 were as follows (in millions):

Customer Type	2011 Net Sales	% of Total Net Sales	2010 Net Sales	% of Total Net Sales
Independently owned natural products retailers	$ 1,693	37%	$ 1,506	40%
Supernatural chains	$ 1,627	36%	$ 1,317	35%
Conventional supermarkets	$ 991	22%	$ 771	21%
Other	$ 219	5%	$ 163	4%
Total	$ 4,530	100%	$ 3,757	100%

Net sales to our independent retailer channel increased by approximately $187 million, or 12.4% during the year ended July 30, 2011 compared to the year ended July 31, 2010. While net sales in this channel have increased, they have grown at a slower rate than net sales in our supernatural and conventional supermarket channels, and therefore represent a lower percentage of our total net sales compared to the prior year.

Whole Foods Market is our only supernatural chain customer, and net sales to Whole Foods Market for the year ended July 30, 2011 increased by approximately $310 million or 23.6% over the prior year and accounted for approximately 36% and 35% of our total net sales for the years ended July 30, 2011 and July 31, 2010, respectively. The increase in sales to Whole Foods Market is primarily due to the increases in same-store sales, as well as the expanded primary distribution agreement noted above.

Net sales to conventional supermarkets for the year ended July 30, 2011 increased by approximately $220 million, or 28.5% from fiscal 2010 and represented approximately 22% of total net sales in fiscal 2011 compared to 21% in fiscal 2010. The increase in net sales to conventional supermarkets is primarily due to several large new customers won during the year based on our consolidated market strategy of natural, organic and specialty from one supplier, as well as $92.5 million of net sales to conventional supermarkets by UNFI Canada.

Other net sales, which include sales to foodservice and sales from the United States to countries other than Canada, increased by approximately $56 million or 34.3% during the fiscal year ended July 30, 2011 over the prior fiscal year and accounted for approximately 5% of total net sales in fiscal 2011 compared to 4% of total net sales for the fiscal year ended July 31, 2010.

The decrease in sales percentage to the independent channel is the result of the higher growth rate in our supernatural chain as a result of an increase in Whole Foods Market business, and in our conventional supermarkets.

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Gross Profit

Our gross profit increased approximately 18.3%, or $127.9 million, to $824.8 million for the year ended July 30, 2011, from $696.9 million for the year ended July 31, 2010. Our gross profit as a percentage of net sales was 18.2% for the year ended July 30, 2011 and 18.5% for the year ended July 31, 2010. The change in gross profit as a percentage of net sales is primarily due to the change in the mix of net sales by channel that began during the second fiscal quarter of 2010 and start up costs related to inventory issues and incremental freight and service costs incurred during the first half of fiscal 2011 in connection with the initial period of operations of our Lancaster, Texas distribution center, partially offset by higher fuel surcharge revenue during the year ended July 30, 2011.

Our gross profits are generally higher on net sales to independently owned retailers and lower on net sales in the conventional supermarket and the supernatural channels. For the year ended July 30, 2011 approximately $530 million of our total net sales growth was from increased net sales in the conventional supermarket and supernatural channels, while net sales growth from the independent and other channels was approximately $243 million. As a result, approximately 58% of our total net sales in fiscal 2011 were to the conventional supermarket and supernatural channels compared to approximately 56% in fiscal 2010. This change in sales mix from 2010 to 2011 resulted in lower gross profits as a percentage of sales during fiscal 2011.

Operating Expenses

Our total operating expenses increased approximately 19.4%, or $113.1 million, to $695.1 million for the year ended July 30, 2011, from $582.0 million for the year ended July 31, 2010. The increase in total operating expenses for the year ended July 30, 2011 was primarily due to higher sales volume including sales through our UNFI Canada subsidiary, $4.4 million of labor and other expenses associated with the September 2010 opening of our Lancaster, Texas facility and incremental start up inefficiencies which continued through January 2011, $0.6 million for severance payments for former executives and $6.3 million in restructuring and asset impairment charges associated with the divestiture of our conventional non-foods and general merchandise lines of business.

Unallocated corporate expenses have increased $2.0 million during the year ended July 30, 2011 compared to the year ended July 31, 2010, primarily due to the continued development of a national platform across many functional areas including warehouse management, inbound logistics and category management.

Total operating expenses for fiscal 2011 include share-based compensation expense of $9.2 million, compared to $8.1 million in fiscal 2010. Share-based compensation expense for the years ended July 30, 2011 and July 31, 2010 includes approximately $0.7 million and $1.0 million, respectively, in expense related to the performance share-based awards granted to our Chief Executive Officer related to certain financial goals for those various periods ended July 30, 2011 and July 31, 2010. See Note 3 "Equity Plans" to our Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

As a percentage of net sales, total operating expenses decreased to approximately 15.3% for the year ended July 30, 2011, from approximately 15.5% for the year ended July 31, 2010. The decrease in total operating expenses as a percentage of net sales was primarily attributable to the growth in the supernatural and conventional supermarket channels which in general have lower operating expenses, as well as expense control programs across all of our divisions. We were able to manage our fuel costs despite rising prices by locking in the price of a portion of our expected fuel usage, updating and revising existing routes to reduce miles traveled, reducing idle times and other similar measures. Our expansion into Lancaster, Texas, where our new leased facility began servicing customers in late September 2010, has helped to further reduce our fuel costs as a percentage of net sales as we are able to reduce the number of miles traveled to serve our customers in Texas, Oklahoma, New Mexico,

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Arkansas and Louisiana who were previously primarily served from our facility in Denver, Colorado. These improvements in our operating expenses were offset in part by higher health insurance costs, higher workers' compensation costs and the above described higher incentive compensation costs.

Operating Income

Operating income increased approximately 12.9%, or $14.8 million, to $129.7 million for the year ended July 30, 2011, from $114.9 million for the year ended July 31, 2010. As a percentage of net sales, operating income was 2.9% for the year ended July 30, 2011 compared to 3.1% for the year ended July 31, 2010. The decrease in operating income is primarily attributable to the increase in total operating expenses during fiscal 2011, including the $6.3 million recognized for restructuring and asset impairment expenses, compared to fiscal 2010.

Other Expense (Income)

Other expense (income) increased $0.3 million to $3.2 million for the year ended July 30, 2011, from $2.9 million for the year ended July 31, 2010. Interest expense for the year ended July 30, 2011 decreased to $5.0 million from $5.8 million in the year ended July 31, 2010. The decrease in interest expense was due primarily to lower average debt levels during the year as we used a portion of the $138.3 million in proceeds from our secondary public offering completed in October 2010 to pay down our debt balances which had increased significantly in the fourth quarter of fiscal 2010 as we financed our purchase of the SDG assets from SunOpta with borrowings under our revolving credit facility. In connection with the expected purchase of the SDG assets, we entered into a forward contract to swap United States dollars for Canadian dollars. During the fourth quarter of fiscal 2010, we recognized a gain of $2.8 million, which was recorded in other income, upon settlement of the contract. Interest income for the year ended July 30, 2011 increased to $1.2 million from $0.2 million in the year ended July 31, 2010, primarily as a result of higher average cash balances during the year.

Provision for Income Taxes

Our effective income tax rate was 39.4% and 39.0% for the years ended July 30, 2011 and July 31, 2010, respectively. The increase in the effective income tax rate for the year ended July 30, 2011 is primarily due to increases in effective state tax rates. Our effective income tax rate in both fiscal years was also affected by share-based compensation for incentive stock options and the timing of disqualifying dispositions of certain share-based compensation awards. Certain incentive stock option expenses are not deductible for tax purposes unless a disqualifying disposition occurs. A disqualifying disposition occurs when the option holder sells shares within one year of exercising an incentive stock option and within two years of original grant. We receive a tax benefit in the period that the disqualifying disposition occurs. Our effective income tax rate will continue to be effected by the tax impact related to incentive stock options and the timing of tax benefits related to disqualifying dispositions.

Net Income

Reflecting the factors described in more detail above, net income increased $8.4 million to $76.7 million, or $1.60 per diluted share, for the year ended July 30, 2011, compared to $68.3 million, or $1.57 per diluted share on a lower share base, for the year ended July 31, 2010.

Liquidity and Capital Resources

In October 2010, we completed a secondary public offering of our common stock. As a result, 4,427,500 shares of common stock, including shares issued to cover the underwriters' overallotment option, were issued at a price of $33.00 per share. The net proceeds of approximately $138.3 million were used to repay a portion of our outstanding borrowings under our then existing revolving credit facility.

We finance our day to day operations and growth primarily with cash flows from operations, borrowings under our credit facility, operating leases, trade payables and bank indebtedness. In addition, from time to time, we may issue equity and debt securities to finance our operations and acquisitions. We believe that our cash on hand and available credit through our amended and restated revolving credit facility as discussed below is sufficient for our operations and planned capital expenditures over the next twelve months. We expect to generate an average of $70 million to $100 million in cash flow from operations per year for the 2013 and 2014 fiscal years. We intend to continue to utilize this cash generated from operations to pay down our debt levels, and fund working capital and capital expenditure needs. We intend to manage capital expenditures to no more than approximately 1.3% of net sales for fiscal 2013.

In May 2012, we amended and restated our revolving credit facility, pursuant to which we now have a $500 million revolving credit facility which matures on May 24, 2017, of which up to $450.0 million is available to the Company's U.S. subsidiaries and up to $50.0 million is available to UNFI Canada. This credit facility also provides a one-time option, subject to approval by the lenders under the revolving credit facility, to increase the borrowing base by up to an additional $100 million. The borrowings of the US portion of the credit facility accrue interest, at our option, at either (i) a base rate (generally defined as the highest of (x) the Bank of America Business Capital prime rate, (y) the average overnight federal funds effective rate plus one-half percent (0.50%) per annum and (z) one-month LIBOR plus one percent (1%) per annum plus an initial margin of 0.50%, or (ii) LIBOR for one, two, three or six months or, if approved by all affected lenders, nine months plus an initial margin of 1.50%. The borrowings on the Canadian portion of the credit facility for Canadian swing-line loans, Canadian overadvance loans or Canadian protective advances accrue interest, at our option, at either (i) a prime rate (generally defined as the highest of (x) 0.50% over 30-day Reuters Canadian Deposit Offering Rate for bankers' acceptances, (y) the prime rate of Bank of America, N.A.'s Canada branch, and (z) a bankers' acceptance equivalent rate for a one month interest period plus 1.00% plus an initial margin of 0.50%, or (ii) the CDOR rate, and an initial margin of 1.50%. All other borrowings on the Canadian portion of the credit facility must exclusively accrue interest under the CDOR rate plus the applicable margin. The revolving credit facility supports our working capital requirements in the ordinary course of business and provides capital to grow our business organically or through acquisitions. Our borrowing base is determined as the lesser of (1) $500 million or (2) the fixed percentages of our previous fiscal month-end eligible accounts receivable and inventory levels. As of July 28, 2012, our borrowing base, which was calculated based on our eligible accounts receivable and inventory levels, was $483.7 million. As of July 28, 2012, we had $115.0 million outstanding under our credit facility, $24.0 million in letter of credit commitments and $2.9 million in reserves which reduces our available borrowing capacity under our revolving credit facility on a dollar for dollar basis. Our resulting remaining availability was $341.8 million as of July 28, 2012. The revolving credit facility, as amended and restated, subjects us to a springing minimum fixed charge coverage ratio (as defined in the underlying credit agreement) of 1.0 to 1.0 calculated at the end of each of our fiscal quarters on a rolling four quarter basis when aggregate availability (as defined in the underlying credit agreement) is less than the greater of (i) $35.0 million and (ii) 10% of the aggregate borrowing base. We were not subject to fixed charge coverage ratio covenants as of the fiscal year ended July 28, 2012.

Our amended and restated revolving credit facility includes borrowing rates that are approximately 50 to 100 basis points higher than our prior revolving credit facility, depending on remaining availability. However, we do not expect our overall interest expense to increase significantly if rates remain relatively stable as we have terminated our higher fixed rate interest rate swap, which covered our term loan.

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In connection with the amended and restated revolving credit facility above, we used a portion of our availability to pay off our term loan agreement, which was maturing on July 28, 2012. At that time, our interest rate swap entered into in July 2005 was settled concurrently with a payment of $0.3 million which is reflected within interest expense during the fiscal year ended July 28, 2012.

Our capital expenditures for the 2012 fiscal year were $31.5 million, compared to $40.8 million for fiscal 2011. The decrease was partially due to a decision to delay certain construction related projects until fiscal 2013. We believe that our capital requirements for fiscal 2013 will be between $70 and $80 million. We expect to finance these requirements with cash generated from operations and borrowings under our revolving credit facility. Our planned capital projects will provide both additional warehouse space (including through the build out of our new Aurora, Colorado facility) and technology that we believe will provide us with increased efficiency and the capacity to continue to support the growth of our customer base. We believe that our future capital requirements after fiscal 2013 will be marginally lower than our anticipated fiscal 2013 requirements, as a percentage of net sales, although we plan to continue to invest in technology and expand our facilities. Future investments and acquisitions will be financed through our revolving credit facility, or with the issuance of equity or long-term debt, negotiated at the time of the potential acquisition.

Net cash provided by operations was $66.2 million for the year ended July 28, 2012, an increase of $16.4 million from the $49.8 million provided by operations for the year ended July 30, 2011. The primary reasons for the increase in cash flows from operations for the year ended July 28, 2012 were net income of $91.3 million, partially offset by an increase in inventories of $62.8 million and an increase in accounts receivable of $51.2 million due to our sales growth during the year, and in the case of accounts receivable, in part due to the longer credit terms typically granted to conventional supermarket and Canadian customers. Net cash provided by operations of $66.1 million for the year ended July 31, 2010 was primarily the result of an increase in net income, partially offset by changes in working capital. Days in inventory was 50 days at July 28, 2012, compared to 51 days at July 30, 2011. Days sales outstanding remained at 22 days at July 28, 2012 and July 30, 2011. Working capital increased by $231.6 million, or 60.8%, to $612.7 million at July 28, 2012, compared to working capital of $381.1 million at July 30, 2011, primarily as a result of the refinance of our revolving credit facility which is now reflected as a long-term liability.

Net cash used in investing activities decreased $28.2 million to $34.5 million for the year ended July 28, 2012, compared to $62.7 million for the year ended July 30, 2011. The decrease from the fiscal year ended July 30, 2011 was primarily due to the purchase of the Rocky Mountain and Southwest distribution business of Whole Foods Distribution, a wholly owned subsidiary of Whole Foods Market, during the year ended July 30, 2011. Net cash used in investing activities was $118.7 million for the year ended July 31, 2010, primarily as a result of the purchase of the SDG assets from SunOpta, as well as capital expenditures related to our Lancaster, Texas facility including the supply chain initiatives related to warehouse management software which went live with that facility.

Net cash used in financing activities was $32.8 million for the year ended July 28, 2012, primarily due to repayments on long-term debt of $47.4 million as we paid off our term loan with availability under our amended and restated revolving credit facility. Net cash provided by financing activities was $16.3 million for the year ended July 30, 2011, primarily due to net proceeds from our secondary equity offering of $138.3 million, partially offset by repayments on borrowings on notes payable of $127.6 million. Net cash provided by financing activities was $56.0 million for the year ended July 31, 2010, primarily due to borrowings under notes payable of $42.6 million.

On December 1, 2004, our Board of Directors authorized the repurchase of up to $50 million of common stock from time to time in the open market or in privately negotiated transactions. As part of the stock repurchase program, we purchased 228,800 shares of our common stock for our treasury during the year ended July 29, 2006 at an aggregate cost of approximately $6.1 million. All shares were

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purchased at prevailing market prices. No such purchases were made subsequent to the 2006 fiscal year, and the authorization to repurchase has expired. In an effort to reduce the treasury share balance, we decided in the fourth quarter of fiscal 2010 to issue treasury shares to satisfy certain share requirements related to exercises of stock options and vesting of restricted stock units and awards under our equity incentive plans. During the fiscal year ended July 31, 2010, we reissued 201,814 shares from treasury related to stock option exercises and the vesting of restricted stock units and awards. During the fiscal year ended July 28, 2012, we reissued 26,986 shares from treasury related to stock option exercises.

We may from time to time enter into commodity swap agreements to reduce price risk associated with our anticipated purchases of diesel fuel. These commodity swap agreements hedge a portion of our expected fuel usage for the periods set forth in the agreements. We monitor the commodity (NYMEX #2 Heating oil) used in our swap agreements to determine that the correlation between the commodity and diesel fuel is deemed to be "highly effective." During the fiscal years ended July 28, 2012 and July 30, 2011, we had no outstanding commodity swap agreements.

In addition to the previously discussed interest rate and commodity swap agreements, from time-to-time we enter into fixed price fuel supply agreements. As of July 28, 2012, we had entered into agreements which required us to purchase a total of approximately 4.3 million gallons of diesel fuel at prices ranging from $3.33 to $3.91 per gallon through July 2013. As of July 30, 2011, we had not entered into any agreements requiring us to purchase diesel fuel. These fixed price fuel agreements qualified for the "normal purchase" exception under ASC 815, *Derivatives and Hedging* as physical deliveries will occur rather than net settlements, therefore the fuel purchases under these contracts will be expensed as incurred and included within operating expenses.

Commitments and Contingencies

The following schedule summarizes our contractual obligations and commercial commitments as of July 28, 2012:

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Dividend Payout Ratio	82.35	58.33
Average Tangible Equity	$237,363	238,972
Per Share Data:		
Reported EPS (Diluted)	$0.17	$0.24
Cash Dividends Paid Per Share	0.14	0.14
Stated Book Value	7.91	7.92
Tangible Book Value	6.54	6.52
Asset Quality Summary:		

Net Charge-offs (Recoveries)	$(2)	$11
Non-performing Loans	2,878	365
Non-performing Loans/Total Loans	0.11%	0.01%
Non-performing Assets/Total Assets	0.09	0.01
Allowance for Loan Loss/Total Loans	0.57	0.59
Allowance for Loan Loss/Non-performing Loans	540.58	4,309.04
Regulatory Capital Ratios (Bank Only):		
Tangible Capital	8.81%	9.04%
Leverage Capital	8.81	9.04
Total Risk-based Capital	12.45	12.90
Earnings to Fixed Charges Ratios (1)		
Including Interest on Deposits	1.33x	1.62x
Excluding Interest on Deposits	1.99	2.36

	For the Three Months Ended March 31,	
	2007	2006
	(Dollars in Thousands Except Per Share Amounts)	
Non-GAAP Disclosures - Core Earnings Reconciliation and Ratios (2)		
Net income	$5,817	$8,408
Net pre-tax gain on sale of other assets	-	(478)
Net pre-tax income on borrowings restructuring	-	(43)
Tax effect of adjustments	-	190
After tax effect of adjustments to core earnings	-	(331)
Core Earnings	$5,817	$8,077
Core Return on Average Assets	0.72%	1.04%
Core Return on Average Stockholders' Equity	8.12	11.09
Core EPS (Diluted)	$0.17	$0.23
Dividend payout ratio (based upon core earnings)	82.35%	60.87%

(1) Interest on unrecognized tax benefits totaling $512 and $183, respectively, is included in the calculation of fixed charges for the three months ended March 31, 2007 and 2006.

(2) Core earnings and related data are "Non-GAAP Disclosures." These disclosures provide information which management considers useful to the readers of this report since they present a measure of the results of the Company's ongoing operations (exclusive of significant non-recurring items such as gains or losses on sales of investments, MBS or investment properties and income or expense associated with borrowing restructurings) during the period.

Critical Accounting Policies

Various elements of the Company's accounting policies are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. The Company's policies with respect to the methodologies it uses to determine the allowance for loan losses, the valuation of mortgage servicing rights ("MSR"), asset impairments (including the valuation of goodwill and other intangible assets, realization of deferred tax assets and other than temporary declines in the valuation of securities), and loan income recognition are its most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations, involve a significant degree of complexity and require management to make difficult and subjective judgments which often necessitate assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material variations in the Company's results of operations or financial condition.

The following are descriptions of the Company's critical accounting policies and explanations of the methods and assumptions underlying their application. These policies and their application are reviewed periodically with the Audit Committees of the Holding Company and Bank.

Allowance for Loan Losses. Accounting principles generally accepted in the United States *("*GAAP") requires the Bank to maintain an appropriate allowance for loan losses. Management uses available information to estimate losses on loans and believes that the Bank maintains its allowance for loan losses at appropriate levels. Adjustments may be necessary, however, if future economic, market or other conditions differ from the current operating environment.

Although the Bank believes it utilizes the most reliable information available, the level of the allowance for loan losses remains an estimate subject to significant judgment. These evaluations are inherently subjective because, although based upon objective data, it is management's interpretation of the data that determines the amount of the appropriate allowance. The Company, therefore, periodically reviews the actual performance and charge-offs of its portfolio and compares them to the previously determined allowance coverage percentages. In so doing, the Company evaluates the impact that the variables discussed below may have on the portfolio to determine whether or not changes should be made to the assumptions and analyses.

The Bank's loan loss reserve methodology consists of several components, including a review of the two elements of its loan portfolio: problem loans [*i.e.,* classified loans, non-performing loans and impaired loans under Statement of Financial Accounting Standards No. 114, "Accounting By Creditors for Impairment of a Loan," as amended by SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures an amendment of FASB Statement No. 114" ("Amended SFAS 114")] and performing loans.

Performing Loans

At March 31, 2007, the majority of the allowance for loan losses was allocated to performing loans, which represented the overwhelming majority of the Bank's loan portfolio. Performing loans are reviewed at least quarterly based upon the premise that there are losses inherent within the loan portfolio that have not been identified as of the review date. The Bank thus calculates an allowance for loan losses related to its performing loans by deriving an expected loan loss percentage and applying it to its performing loans. In deriving the expected loan loss percentage, the Bank generally considers, among others, the following criteria: the Bank's historical loss experience; the age and payment history of the loans (commonly referred to as their "seasoned quality"); the type of loan (*i.e.*, one- to four-family, multifamily residential, commercial real estate, cooperative apartment, construction or consumer); the underwriting history of the loan (*i.e.*, whether it was underwritten by the Bank or a predecessor institution acquired by the Bank and, therefore, originally subjected to different underwriting criteria); both the current condition and recent history of the overall local real estate market (in order to determine the accuracy of utilizing recent historical charge-off data to derive the expected loan loss percentages); the level of, and trend in, non-performing loans; the level and composition of new loan activity; and the existence of geographic loan concentrations (as the overwhelming majority of the Bank's loans are secured by real estate located in the New York City metropolitan area) or specific industry conditions within the portfolio segments. Since these criteria affect the expected loan loss percentages that are applied to performing loans, changes in any of them may affect the amount of the allowance and the provision for loan losses. The Bank applied the process of determining the allowance for loan losses consistently throughout the three month periods ended March 31, 2007 and 2006.

Problem Loans

Office of Thrift Supervision *("*OTS") regulations and Bank policy require that loans possessing certain weaknesses be classified as Substandard, Doubtful or Loss assets. Assets that do not expose the Bank to risk sufficient to justify classification in one of these categories, however, which possess potential weaknesses that deserve management's attention, are designated Special Mention. Loans classified as Special Mention, Substandard or Doubtful are reviewed individually on a quarterly basis by the Bank's Loan Loss Reserve Committee to determine the level of possible loss, if any, that should be provided for within the Bank's allowance for loan losses.

The Bank's policy is to charge-off immediately all balances classified as "Loss" and record a reduction of the allowance for loan losses for the full amount of the outstanding loan balance. The Bank applied this process consistently throughout the three month periods ended March 31, 2007 and 2006.

Under the guidance established by Amended SFAS 114, loans determined to be impaired (generally, non-performing one- to four-family loans in excess of $417,000 and non-performing and troubled-debt restructured multifamily residential and commercial real estate loans) are evaluated at least quarterly in order to establish impairment, *i.e.,* whether the estimated fair value of the underlying collateral determined based upon an independent appraisal is sufficient to satisfy the existing debt. For each loan that the Bank determines to be impaired, impairment is measured by the amount that the carrying balance of the loan, including all accrued interest, exceeds the estimated fair value of the collateral. A specific reserve is established on all impaired loans to the extent of impairment and comprises a portion of the allowance for loan losses.

Valuation of MSR. The estimated origination and servicing costs of mortgage loans sold with servicing rights retained by the Bank are allocated between the loans and the servicing rights based on their estimated fair values at the time of the loan sale. MSR are carried at the lower of cost or fair value and are amortized in proportion to, and over the period of, net servicing income. The estimated fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, using estimated prepayment, default, servicing cost and discount rate assumptions. All estimates and assumptions utilized in the valuation of MSR are derived based upon actual historical results for the Bank, and in the absence of such historical data for the Bank, from historical results for the Bank's peers.

The fair value of MSR is sensitive to changes in assumptions. Fluctuations in prepayment speed assumptions have the most significant impact on the estimated fair value of MSR. In the event that loan prepayment activities exceed the assumed amount due to increased loan refinancing, the fair value of MSR would likely decline. In the event that loan prepayment activities fall below the assumed amount due to a decline in loan refinancing, the fair value of MSR would likely increase. Any measurement of the value of MSR is limited by the existing conditions and assumptions utilized at a particular point in time, and would not necessarily be appropriate if applied at a different point in time.

Assumptions utilized in measuring the fair value of capitalized MSR for the purpose of evaluating impairment additionally include the stratification based on predominant risk characteristics of the underlying loans. Increases in the risk characteristics of the underlying loans from the assumed amounts would result in a decline in the fair value of the MSR. A

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valuation allowance is established in the event the recorded value of an individual stratum exceeds its fair value for the full amount of the difference.

Asset Impairment Adjustments. Certain assets are carried in the Company's consolidated statements of financial condition at fair value or at the lower of cost or fair value. Management periodically performs analyses to test for impairment of these assets. Two significant impairment analyses relate to the value of goodwill and other than temporary declines in the value of the Company's securities. In the event that an impairment of goodwill or an other than temporary decline in the value of the Company's securities is determined to exist, it is recognized as a charge to earnings.

Goodwill is accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 eliminates amortization of goodwill and instead requires performance of an annual impairment test at the reporting unit level. As of March 31, 2007, the Company had goodwill totaling $55.6 million.

The Company identified a single reporting unit for purposes of its goodwill impairment testing. The impairment test is therefore performed on a consolidated basis and compares the Holding Company's market capitalization (reporting unit fair value) to its outstanding equity (reporting unit carrying value). The Holding Company utilizes its closing stock price as reported on the Nasdaq National Market on the date of the impairment test in order to compute market capitalization. The Company has designated the last day of its fiscal year as the annual date for impairment testing. The Company performed its annual impairment test as of December 31, 2006 and concluded that no potential impairment of goodwill existed since the fair value of the Company's reporting unit exceeded its carrying value. No events occurred, nor circumstances changed, subsequent to December 31, 2006 that would reduce the fair value of the Company's reporting unit below its carrying value. Such events or changes in circumstances would require an immediate impairment test to be performed in accordance with SFAS 142. Differences in the identification of reporting units or the use of valuation techniques can result in materially different evaluations of impairment.

Available-for-sale debt and equity securities that have readily determinable fair values are carried at fair value. All of the Company's available for sale securities have readily determinable fair values, and such fair values are based on published or securities dealers' market values.

Debt securities are classified as held-to-maturity, and carried at amortized cost, only if the Company has a positive intent and ability to hold them to maturity. Unrealized holding gains or losses on debt securities classified as held-to-maturity are disclosed, but are not recognized in the Company's consolidated statement of financial condition or results of operations.

Debt securities that are not classified as held-to-maturity, along with all equity securities, are classified as either securities available-for-sale or trading securities. Neither the Holding Company nor the Bank owned any securities classified as trading securities during the three months ended March 31, 2007, nor do they presently anticipate establishing a trading portfolio.

The Company conducts a periodic review and evaluation of its securities portfolio, taking into account the severity and duration of each unrealized loss as well as management's intent and ability to hold the security until the unrealized loss is substantially eliminated, in order to determine if a decline in market value of any security below its carrying value is either temporary or other than temporary. Unrealized holding gains or losses on debt and equity securities available-for-sale that are deemed temporary are excluded from net income and reported net of income taxes as other comprehensive income or loss. Unrealized losses that are deemed other than temporary are recognized immediately as a reduction of the carrying amount of the security and a charge is recorded in the Company's consolidated statement of operations. For the three months ended March 31, 2007 and 2006, there were no other than temporary impairments in the securities portfolio.

Loan Income Recognition. Interest income on loans is recorded using the level yield method. Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms.

Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. Any interest accrued to income in the year when interest accruals are discontinued is reversed. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a minimum of twelve months. Payments on nonaccrual loans are generally applied to principal.

Liquidity and Capital Resources

The Bank's primary sources of funding for its lending and investment activities include deposits, loan and MBS payments, investment security maturities and redemptions, advances from the Federal Home Loan Bank of New York ("FHLBNY"), and borrowings in the form of securities sold under agreement to repurchase ("REPOs") entered into with various financial institutions, including the FHLBNY. The Bank also sells selected multifamily residential and mixed use loans to the Federal National Mortgage Association ("FNMA'), and long-term, one- to four-family residential real estate loans to either FNMA or the State of New York Mortgage Agency. The Company may additionally issue debt under appropriate circumstances. Although maturities and scheduled amortization of loans and MBS are predictable sources of funds, deposits flows and prepayments of mortgage loans and MBS are influenced by interest rates, economic conditions and competition.

The Bank gathers deposits in direct competition with commercial banks, savings banks, Internet banks and brokerage firms, many among the largest in the nation. It must additionally compete for deposit monies against the stock and bond markets, especially during periods of strong performance in those arenas. The Bank's deposit flows are affected primarily by the pricing and marketing of its deposit products compared to its competitors, as well as the market performance of depositor investment alternatives such as the U.S. bond or equity markets. To the extent that the Bank is responsive to general market increases or declines in interest rates, its deposit flows should not be materially impacted. However, favorable performance of the equity or bond markets could adversely impact the Bank’s deposit flows.

Deposits increased $160.5 million during the three months ended March 31, 2007, compared to an increase of $32.0 million during the three months ended March 31, 2006. During the three months ended March 31, 2007, the Company experienced increases of $102.5 million in money markets and $52.1 million in certificates of deposit ("CDs"), respectively, due to successful promotional campaigns. During the three months ended March 31, 2006, the Company experienced an increase of $34.4 million in CDs, due primarily to successful promotional campaigns.

During the three months ended March 31, 2007, principal repayments totaled $71.4 million on real estate loans and $8.0 million on MBS. During the three months ended March 31, 2006, principal repayments totaled $63.0 million on real estate loans and $10.6 million on MBS. The increase in principal repayments on loans resulted from an increase in the average balance of real estate loans coupled with higher loan prepayment activity during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The increase in loan prepayment activity during the three months ended March 31, 2007 reflected the settlement of a few larger loans in connections with the sale of the respective underlying collateral, and did not reflect a particular market trend. The decline in the level of principal repayments of MBS during the comparative period reflected a decrease of $33.8 million in their balance from March 31, 2006 to March 31, 2007, reflecting both regular principal repayments and no new MBS purchases from January 1, 2006 through March 31, 2007.

Since December 2002, the Bank has originated and sold multifamily residential and mixed use mortgage loans in the secondary market to FNMA, while retaining servicing and generating fee income while it services the loans. The Bank underwrites these loans using its customary underwriting standards, funds the loans, and sells them to FNMA at agreed upon pricing. Typically, the Bank seeks to sell loans with terms to maturity or repricing in excess of seven years from the origination date since it does not desire to retain such loans in portfolio as a result of their heightened interest rate risk. Under the terms of the sales program, the Bank retains a portion of the associated credit risk. The aggregate amount of the retained risk continues to increase as long as the Bank continues to sell loans to FNMA under the program. The Bank retains this exposure until the portfolio of loans sold to FNMA is satisfied in its entirety or the Bank funds claims by FNMA for the maximum loss exposure. During the three months ended March 31, 2007 and 2006, the Bank sold FNMA $20.2 million and $27.1 million of loans, respectively, pursuant to this program.

Due in part to the growth in deposit funding during the three month periods ended both March 31, 2007 and 2006, the Company was able to reduce its overall level of borrowings in each period. During the three months ended March 31, 2007 and 2006, borrowings declined by $65.0 million and $50.0 million, respectively, as the Company utilized deposit inflows and liquidity from its investment and MBS portfolios to fund loan growth.

During the three months ended March 31, 2006, the Company restructured $145.0 million of its borrowings in order to lower their average cost. Borrowings with a weighted average cost of 4.46% and a weighted average term to maturity of one year were replaced with borrowings having a weighted average cost of 4.17% and a final maturity of ten years, callable after year one. Since portions of the original borrowings were satisfied at a discount, the Company recorded a non-recurring reduction of $43,200 in interest expense related to the prepayment.

An additional source of funds is available to the Bank through use of its borrowing line at the FHLBNY. At March 31, 2007, the Bank had an additional potential borrowing capacity of $477.5 million available provided it owned the minimum required level of FHLBNY common stock (*i.e.*, 4.5% of its outstanding FHLBNY borrowings). The Holding Company additionally has a $15.0 million line of credit agreement with a reputable financial institution in the event that it requires further liquidity.

The Bank is subject to minimum regulatory capital requirements imposed by the OTS, which, as a general matter, are based on the amount and composition of an institution's assets. At March 31, 2007, the Bank was in compliance with all applicable regulatory capital requirements and was considered "well-capitalized" for all regulatory purposes.

The Bank uses its liquidity and capital resources primarily to fund the origination of real estate loans and/or the purchase of mortgage-backed and other securities. During the three months ended March 31, 2007 and 2006, real estate loan originations totaled $123.3 million and $130.1 million, respectively. There were no purchases of investment securities or MBS during the three months ended March 31, 2007 and 2006, as the Company elected to retain excess funds in federal funds sold and other short-term investments while short-term rates equaled or exceeded medium and long-term rates.

During the three months ended March 31, 2007, the Holding Company repurchased 425,458 shares of its common stock into treasury. All shares repurchased were recorded at the acquisition cost, which totaled $5.6 million during the period. As of March 31, 2007, up to 1,261,152 shares remained available for purchase under authorized share purchase programs. Based upon the $13.23 per share closing price of its common stock as of March 30, 2007, the Holding Company would utilize $16.7 million in order to purchase all of the remaining authorized shares. For the Holding Company to complete these share purchases, it would likely require dividend distributions from the Bank.

Contractual Obligations

The Bank is obligated for rental payments under leases on certain of its branches and equipment and for minimum monthly payments under its current data systems contract. As discussed in Note 9 of the condensed consolidated financial statements, the Company had a reserve recorded related to unrecognized income tax benefits totaling $2.4 million at March 31, 2007. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") liabilities that have not been paid have been excluded from the tabular disclosure of contractual obligations.

The Bank generally has outstanding at any time significant borrowings in the form of FHLBNY advances and/or REPOs. The Holding Company has an outstanding $25.0 million non-callable subordinated note payable due to mature in 2010, and $72.2 million of trust preferred borrowings from third parties due to mature in April 2034, which are callable at any time after April 2009. The obligation related to these amounts were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and did not change materially during the three months ended March 31, 2007.

Off-Balance Sheet Arrangements

The Bank implemented a program in December 2002 to originate and sell multifamily residential and mixed use mortgage loans in the secondary market to FNMA while retaining servicing. The Bank retains a recourse obligation on all loans sold under this program, which will remain in effect until either the entire portfolio of loans sold to FNMA is satisfied or the Bank funds claims by FNMA for the full balance of the recourse obligation.

In addition, as part of its loan origination business, the Bank has outstanding commitments to extend credit to third parties, which are subject to strict credit control assessments. Since many of these loan commitments expire prior to funding, in whole or in part, the contract amounts are not estimates of future cash flows. The following chart represents off balance sheet commitments for which the Company is obligated as of March 31, 2007:

	Less than One Year	One Year to Three Years	Over Three Years	Over Five Years	Total at March 31,

		to Five Years			2007
		(Dollars in thousands)			
Credit Commitments:					
Available lines of credit	$69,914	$-	$-	$-	$69,914
Other loan commitments	60,160	-	-	-	60,160
Other Commitments:					
Recourse obligation on loans sold to FNMA	18,891	-	-	-	18,891
Total Commitments	$148,965	$-	$-	$-	$148,965

Asset Quality

Non-performing loans (*i.e.*, delinquent loans for which interest accruals have ceased in accordance with the Bank's policy discussed below) totaled $2.9 million and $3.6 million at March 31, 2007 and December 31, 2006, respectively. The decrease resulted primarily from the removal of 3 loans totaling $728,000 from nonaccrual status during the period.

Pursuant to Bank policy, accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes 90 days past due as to principal or interest. Any interest accrued to income in the year when interest accruals are discontinued is reversed. Loans are returned to accrual status once the doubt concerning collectibility has been removed and the borrower has demonstrated performance in accordance with the loan terms and conditions for a minimum of twelve months. Payments on nonaccrual loans are generally applied to principal.

The Bank had real estate and consumer loans totaling $122,000 delinquent 60-89 days at March 31, 2007, compared to a total of $258,000 at December 31, 2006. The decline resulted primarily from a $192,000 decrease in delinquent real estate and home equity loans during the period. The 60-89 day delinquency levels fluctuate monthly, and are generally considered a less accurate indicator of credit quality trends than non-performing loans.

GAAP requires the Bank to account for certain loan modifications or restructurings as "troubled-debt restructurings." In general, the modification or restructuring of a loan constitutes a troubled-debt restructuring if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Current OTS regulations require that troubled-debt restructurings remain classified as such until the loan is either repaid or returns to its original terms. The Bank had no loans classified as troubled-debt restructurings at March 31, 2007 or December 31, 2006.

The recorded investment in loans deemed impaired pursuant to Amended SFAS 114 was $2.8 million, consisting of four loans, at March 31, 2007, compared to $3.5 million, consisting of six loans, at December 31, 2006. The decline resulted from the removal of two loans totaling $668,000 from impaired status during the three months ended March 31, 2007. The average total balance of impaired loans was approximately $3.2 million and $192,000 during the three months ended March 31, 2007 and 2006, respectively. The increase in the average balance of impaired loans during the comparative period resulted primarily from the addition of six impaired loans totaling $3.5 million during the period. There were $285,000 and $351,000 of reserves allocated within the allowance for loan losses for impaired loans at March 31, 2007 and December 31, 2006, respectively. At March 31, 2007, non-performing loans exceeded impaired loans by $32,000, due to $32,000 of one- to four-family and consumer loans, which, while on non-performing status, were not deemed impaired since they each had individual outstanding balances less than $417,000.

See "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Allowance for Loan Losses - Problem Loans" for a discussion of impairment and reserves.

Other Real Estate Owned ("OREO"). Property acquired by the Bank as a result of foreclosure on a mortgage loan or a deed in lieu of foreclosure is classified as OREO and recorded at the lower of the recorded investment in the related loan or the fair value of the property on the date of acquisition, with any resulting write down charged to the allowance for loan losses. The Bank obtains a current appraisal on OREO property as soon as practicable after it takes possession of the realty and generally reappraises its value at least annually thereafter. There were no OREO properties as of March 31, 2007 and December 31, 2006.

The following table sets forth information regarding non-performing loans, non-performing assets, impaired loans and troubled-debt restructurings at the dates indicated:

	At March 31, 2007	At December 31, 2006
	(Dollars in thousands)	
Non-Performing Loans		
One- to four-family	$-	$60
Multifamily residential	987	1,655
Commercial	1,859	1,859
Cooperative apartment	26	26
Other	6	6
Total non-performing loans	2,878	3,606
OREO	-	-
Total non-performing assets	2,878	3,606
Troubled-debt restructurings	-	-
Total non-performing assets and troubled-debt restructurings	$2,878	$3,606
Impaired loans	$2,846	$3,514
Ratios:		
Total non-performing loans to total loans	0.11%	0.13%
Total non-performing loans and troubled-debt restructurings to total loans	0.11	0.13
Total non-performing assets to total assets	0.09	0.11
Total non-performing assets and troubled-debt restructurings to total assets	0.09	0.11

Allowance for Loan Losses

The allowance for loan losses was $15.6 million at March 31, 2007 compared to $15.5 million at December 31, 2006. During the three months ended March 31, 2007, the Bank recorded a provision of $60,000 to the allowance for loan losses to provide for additional inherent losses in the portfolio. During the same period, the Bank also recorded net recoveries of approximately $2,000, virtually all of which related to consumer loans. (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Allowance for Loan Losses" for a further discussion).

Comparison of Financial Condition at March 31, 2007 and December 31, 2006

Assets. Assets totaled $3.30 billion at March 31, 2007, an increase of $126.2 million from total assets of $3.17 billion at December 31, 2006.

Federal funds sold and other short-term assets increased $104.4 million during the comparative period as cash flows from deposits, maturing investment securities and principal repayments on MBS were reinvested in short-term securities and federal funds sold, since the flattened yield curve provided benefits to retaining the funds in short-term investments. Real estate loans increased $31.0 million during the three months ended March 31, 2007 due primarily to originations of $123.3 million during the period (as interest rates offered on new loans continued to stimulate origination activity), that were partially offset by amortization of $71.4 million and sales to FNMA of $20.2 million.

Partially offsetting the increases in real estate loans and federal funds sold and other short-term assets were declines in MBS available-for-sale and FHLBNY capital stock of $6.9 million and $2.9 million, respectively, during the three months ended March 31, 2007. The decline in MBS available-for-sale resulted from principal repayments of $8.0 million that were partially offset by an increase of $1.1 million in their market value. The decrease in FHLBNY capital stock reflected the redemption of $2.9 million due to a reduction in the Bank's borrowings from the FHLBNY. (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

Liabilities. During the three months ended March 31, 2007, total liabilities increased $131.6 million, reflecting an increase of $160.5 million in deposits and $33.6 million in escrow and other deposits during the period (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of deposit activity). The increase in escrow and other deposits during the three months ended March 31, 2007, resulted from the Bank's accumulation of escrow balances during the period that it did not hold in the previous quarter to be used for semi-annual real estate tax payments that will be made on behalf of borrowers during the three months ending June 30, 2007. Partially offsetting these increases was a decline in FHLBNY advances of $65.0 million. (See "Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations - Liquidity and Capital Resources" for a discussion of borrowing activity).

Stockholders' Equity. Stockholders' equity decreased $5.5 million during the three months ended March 31, 2007, due to treasury stock repurchases of $5.6 million, cash dividends on the Holding Company's common stock of $4.9 million and a reduction to equity of $1.7 million related to an additional reserve that the Company recorded upon adoption of FIN 48.

Partially offsetting these items were increases to equity resulting from the following: (i) net income of $5.8 million, (ii) $575,000 related to a decline in the after-tax unrealized loss on the Company's investment securities and MBS classified as available for sale, and (iii) $325,000 related to amortization of the Employee Stock Ownership Plan of Dime Community Bancshares, Inc. and Certain Affiliates ("ESOP") and restricted stock awards issued under other stock benefit plans. The ESOP and restricted stock awards are initially recorded as reductions in stockholders' equity ("Contra Equity Balances"). As compensation expense is recognized on the ESOP and restricted stock awards, the Contra Equity Balances are reduced in a corresponding amount, resulting in an increase to their respective equity balances. This increase to equity offsets the decline in the Company's retained earnings related to the periodic recorded ESOP and restricted stock award expenses. The decline in the after-tax unrealized loss on the investment securities and MBS available for sale reflected their reduction in remaining term to maturity during the three months ended March 31, 2007.

Comparison of Operating Results for the Three Months Ended March 31, 2007 and 2006

General. Net income was $5.8 million during the three months ended March 31, 2007, a decrease of $2.6 million from net income of $8.4 million during the three months ended March 31, 2006. During the comparative period, net interest income declined $2.6 million, non-interest income decreased $670,000 due primarily to the change in the net gains or losses on the disposal of assets, and non-interest expense increased $800,000, resulting in a reduction in pre-tax net income of $4.0 million. Income tax expense decreased $1.4 million during the comparative period primarily as a result of the decrease in pre-tax net income.

Net Interest Income. The discussion of net interest income for the three months ended March 31, 2007 and 2006 presented below should be read in conjunction with the following tables, which set forth certain information related to the consolidated statements of operations for those periods, and which also present the average yield on assets and average cost of liabilities for the periods indicated. The yields and costs were derived by dividing income or expense by the average balance of their related assets or liabilities during the periods represented. Average balances were derived from average daily balances. The yields include fees that are considered adjustments to yields.

Analysis of Net Interest Income (Unaudited)

	Three Months Ended March 31,					
	2007			2006		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars In Thousands)					
Assets:						
Interest-earning assets:						
Real estate loans	$2,706,863	$40,250	5.95%	$2,627,262	$37,839	5.76%
Other loans	1,895	45	9.50	2,074	49	9.45
Mortgage-backed securities	154,655	1,512	3.91	192,672	1,845	3.83
Investment securities	30,062	442	5.88	38,329	482	5.03
Other short-term investments	175,683	2,469	5.62	106,240	1,156	4.35
Total interest-earning assets	3,069,158	$44,718	5.83%	2,966,577	$41,371	5.58%
Non-interest earning assets	145,164			152,240		
Total assets	$3,214,322			$3,118,817		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
NOW and Super Now accounts	$36,080	$120	1.35%	$37,239	$91	0.99%
Money Market accounts	567,020	5,123	3.66	455,676	2,079	1.85
Savings accounts	295,950	425	0.58	330,646	455	0.56
Certificates of deposit	1,089,761	12,493	4.65	981,346	8,871	3.67
Borrowed Funds	752,622	8,671	4.67	826,298	9,434	4.63
Total interest-bearing liabilities	2,741,433	$26,832	3.97%	2,631,205	$20,930	3.23%
Checking accounts	94,680			95,352		
Other non-interest-bearing liabilities	91,798			101,033		
Total liabilities	2,927,911			2,827,590		
Stockholders' equity	286,411			291,227		
Total liabilities and stockholders' equity	$3,214,322			$3,118,817		
Net interest income		$17,886			$20,441	
Net interest spread			1.86%			2.35%
Net interest-earning assets	$327,725			$335,372		
Net interest margin			2.33%			2.76%
Ratio of interest-earning assets to interest-bearing liabilities			111.95%			112.75%

Rate/Volume Analysis (Unaudited)

	Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006 Increase/ (Decrease) Due to:		
	Volume	Rate	Total
	(Dollars In thousands)		
Interest-earning assets:			
Real Estate Loans	$1,154	$1,257	$2,411
Other loans	(3)	(1)	(4)
Mortgage-backed securities	(368)	35	(333)
Investment securities	(113)	73	(40)
Other short-term investments	866	447	1,313
Total	1,536	1,811	3,347
Interest-bearing liabilities:			
NOW and Super Now accounts	$(4)	$33	$29
Money market accounts	742	2,302	3,044
Savings accounts	(48)	18	(30)
Certificates of deposit	1,100	2,522	3,622
Borrowed funds	(853)	90	(763)
Total	937	4,965	5,902
Net change in net interest income	$599	$(3,154)	$(2,555)

Net interest income for the three months ended March 31, 2007 decreased $2.6 million to $17.9 million, from $20.4 million during the three months ended March 31, 2006. The decrease was attributable to an increase of $5.9 million in interest expense that was partially offset by an increase of $3.3 million in interest income. The net interest spread decreased 49 basis points, from 2.35% for the three months ended March 31, 2006 to 1.86% for the three months ended March 31, 2007, and the net interest margin decreased 43 basis points, from 2.76% to 2.33% during the same period.

The tightening of monetary policy by the Federal Open Market Committee from the second half of 2004 through June 30, 2006, in combination with various market factors suppressing increases in both general long-term interest rates and interest rates offered on real estate loans within the Bank's lending market, resulted in a narrowing spread between short and long-term interest rates, which negatively impacted net interest income during the three-month period ended March 31, 2007.

The decrease in both the net interest spread and net interest margin reflected an increase of 74 basis points in the average cost of interest bearing liabilities. The increase resulted primarily from increases in the average cost of money market deposits and CDs of 181 basis points and 98 basis points, respectively, during the comparative period, reflecting increases in short-term interest rates during the first six months of 2006. (See "Interest Expense" below).

Partially offsetting the increase in the average cost of interest bearing liabilities was an increase of 25 basis points in the average yield on interest earning assets during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase resulted primarily from an increase in the average balance of real estate loans (the Bank's highest yielding interest earning asset) as a percentage of total interest earning assets, which was coupled with an increase in the average yields on real estate loans and other short term investments of 19 basis points and 127 basis points, respectively. The increase in the composition of real estate loans as a percentage of interest earning assets resulted from both loan origination activity during the period April 2006 through March 2007 coupled with a reduction in the level of investment securities and MBS during the same period, as cash flows from maturing investment securities and MBS were utilized to fund both loan originations and ongoing operations of the Company. See "Interest Income" below for a discussion of the increase in the yield on real estate loans and short-term investments.

Interest Income. Interest income was $44.7 million during the three months ended March 31, 2007, an increase of $3.3 million from $41.4 million during the three months ended March 31, 2006. This resulted from increases of $2.4 million and $1.3 million in interest income on real estate loans and other short-term investments, respectively, that were partially offset by decreases in interest income on MBS and investment securities of $333,000 and $40,000, respectively, during the period.

The increase in interest income on real estate loans resulted from both growth in their average balance of $79.6 million during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, and an increase of 19 basis points in their average yield during the same period. The growth in the average balance of real estate loans reflected originations of $556.4 between April 2006 and March 2007, which were partially offset by principal repayments and loan sales during the period. The increase in average yield on real estate loans reflected both increases in medium- and long-term interest rates during the first six months of 2006, which positively impacted the average loan origination rate during the

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period April 2006 through March 2007, coupled with an increase of $466,000 in prepayment fee income during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The increase in loan prepayment and amortization activity during the three months ended March 31, 2007 reflected the settlement of a few larger loans in connection with the sale of the respective underlying collateral, and did not reflect a particular market trend.

The increase in interest income on other short-term investments resulted from growth in their average balance of $69.4 million during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 coupled with an increase of 127 basis points in their average yield during the same period. The increase in average balance of other short-term investments reflected the reinvestment of cash flows from deposits, maturing investment securities and principal repayments on MBS in short-term securities and federal funds sold, since the flattened yield curve provided benefits to retaining the funds in short-term investments. The increase in average yield on other short-term investments reflected ongoing increases in short-term interest rates during the first six months of 2006.

The decline in interest income on MBS during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 resulted from a decreased average balance of $38.0 million (resulting primarily from principal repayments on MBS of $36.8 million during the period April 2006 through March 2007), that was partially offset by an increase of 8 basis points in average yield during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 (resulting from increases in short and medium-term interest rates during the first six months of 2006). The decline in interest income on investment securities reflected a decrease in their average balances of $8.3 million during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, as cash flows from maturing investment securities were either utilized to fund loan originations or retained in other short-term investments.

Interest Expense. Interest expense increased $5.9 million, to $26.8 million, during the three months ended March 31, 2007, from $20.9 million during the three months ended March 31, 2006. The growth resulted primarily from increased interest expense of $3.6 million related to CDs and $3.0 million related to money markets, that was partially offset by a decline of $763,000 in interest expense on borrowings.

The increase in interest expense on CDs resulted from an increase in their average cost of 98 basis points during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The increase in average cost resulted from increases in short-term interest rates during the first six months of 2006, as a significant majority of the Bank's CDs have re-priced since March 31, 2006. In addition, the average balance of CDs increased $108.4 million during the period, reflecting successful gathering of new CDs from promotional activities. (See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

Interest expense on money markets increased $3.0 million during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 due to an increase of 181 basis points in their average cost during the period, along with an increase of $111.3 million in their average balance during the same period. During the three months ended March 31, 2007, the Bank increased the rates offered on both promotional and non-promotional money market accounts, which led to the increase in average cost during the period. In addition, the Bank grew its balance of money markets during the period July 2006 through March 2007 through successful promotional activities.

Interest expense on borrowed funds declined $763,000 during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, due to a decline of $73.7 million in average balance during the period. The average cost of borrowed funds increased 4 basis points during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, due to the replacement of maturing low cost short-term borrowings at higher rates while short-term interest rates rose during the first six months of 2006.

Provision for Loan Losses. The provision for loan losses was $60,000 during the three months ended both March 31, 2007 and March 31, 2006, as the Bank provided for additional inherent losses in the portfolio.

Non-Interest Income. Non-interest income, excluding gains or losses on the sale of assets, approximated $2.3 million during both the three months ended March 31, 2007 and 2006.

The Company sold loans to FNMA totaling $20.2 million and $27.1 million during the three months ended March 31, 2007 and 2006, respectively. The gains recorded on these sales were $244,000 and $399,000 during the three months ended March 31, 2007 and 2006, respectively. All of the loans sold during both of these periods were designated for sale upon origination. The loans sold during the three months ended March 31, 2007 and 2006 had weighted average terms to the earlier of maturity or next repricing of 10.9 years and 16.5 years, respectively. The Company additionally recorded a non-recurring gain of $478,000 during the three months ended March 31, 2006 on the sale of a property obtained in its 1999 acquisition of Financial Bancorp, Inc.,

Non-Interest Expense. Non-interest expense was $11.2 million during the three months ended March 31, 2007, an increase of $800,000 from the three months ended March 31, 2006.

Salaries and employee benefits increased $634,000 as a result of regular increases to existing employee compensation levels.

Occupancy and equipment expense increased $83,000 during the three months ended March 31, 2007 compared to the March 31, 2006 quarter due to both general increases in utility costs and real estate taxes as well as the addition of the Valley Stream branch, which was only open for one month during the quarter ended March 31, 2006.

Data processing expense increased $81,000 as a result of increased loan and deposit account activity during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Other expenses increased $61,000 due primarily to increased advertising costs of $96,000 resulting from increased promotional activities.

Non-interest expense to average assets was 1.40% in the March 2007 quarter, compared to 1.34% for the quarter ended March 31, 2006. The increase reflected the growth in non-interest expense during the comparative period.

Income Tax Expense. Income tax expense decreased $1.4 million during the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006, due primarily to a decline of $4.0 million in pre-tax net income during the period.

Other Information

Loan Portfolio Composition

The following table presents a breakdown of the Company's loan portfolio at March 31, 2007 and December 31, 2006 by loan type:

	At March 31, 2007		**At December 31, 2006**	
	Balance	**% of Total**	**Balance**	**% of Total**
	(Dollars in thousands)			
One-to Four family and cooperative apartment	$149,517	5.5%	$153,847	5.7%
Multifamily residential	1,210,547	44.3	1,201,760	44.5
Commercial real estate	428,104	15.7	400,097	14.8
Mixed use (classified as multifamily residential)	651,322	23.8	653,346	24.2
Mixed use (classified as commercial real estate)	263,695	9.7	266,830	9.9
Construction and land acquisition	26,839	1.0	23,340	0.9
Unearned Discounts and net deferred loan fees	1,208	-	1,048	-
Total real estate loans	2,731,232	100.0%	2,700,268	100.0%
Consumer loans	2,058		2,205	
Allowance for loan losses	(15,558)		(15,514)	

Total loans, net	$2,717,732	$2,686,959

Investment Portfolio Summary Information

The following table presents summary information related to the Company's consolidated investment securities and MBS portfolios at March 31, 2007 and December 31, 2006:

	At March 31, 2007	**At December 31,** 2006
	(Dollars in thousands)	
Balance at end of period	$ 176,285	$ 184,220
Average interest rate	4.48%	4.49%
Average duration (in years)	2.2	2.3

Outlook for the Remainder of 2007

At present, the overall yield on the Company's interest-earning assets is rising. The average yield on interest earning assets, excluding the effects of prepayment fee income and fourth quarter 2006 equity returns, rose on a linked quarter basis, from 5.61% to 5.65%.

The average cost of deposits rose from 3.35% during the December 31, 2006 quarter to 3.54% during the March 2007 quarter. This trend is likely to diminish during the second quarter of 2007, as inflows from promotional activity are expected to decline from the first quarter level, and a large portion of the promotional deposits added during the first quarter are expected to reprice below their current promotional cost.

Prepayment and amortization rates, which approximated 11% during 2006, are expected to remain in the 10% to 12% range during 2007. At March 31, 2007, the real estate loan commitment pipeline approximated $109.9 million, with a weighted average interest rate of 6.3%, including $21.3 million of loan commitments intended for sale to FNMA.

Operating expenses are expected to approximate $10.7 million in the second quarter of 2007. Share repurchases, which were somewhat accelerated in the first quarter, are likely to recede to the 2006 quarterly levels. The Company is positioned, however, to be opportunistic in the purchase of its own shares should conditions warrant.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk were presented at December 31, 2006 in Item 7A of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 16, 2007. The following is an update of the discussion provided therein.

General. Virtually all of the Company's market risk continues to reside at the Bank level. The Bank's largest component of market risk remains interest rate risk. The Company is not subject to foreign currency exchange or commodity price risk. At March 31, 2007, the Company owned no trading assets, nor did it conduct transactions involving derivative instruments requiring bifurcation in order to hedge interest rate or market risk.

Assets, Deposit Liabilities and Wholesale Funds. There was no material change in the composition of assets, deposit liabilities or wholesale funds from December 31, 2006 to March 31, 2007.

Interest Sensitivity Gap. There was no material change in the computed one-year interest sensitivity gap from December 31, 2006 to March 31, 2007.

Interest Rate Risk Exposure (Net Portfolio Value) Compliance. At March 31, 2007, the Bank continued to monitor the impact of interest rate volatility upon net interest income and net portfolio value ("NPV") in the same manner as at December 31, 2006. There were no changes in the Board-approved limits of acceptable variance in the effect of interest rate fluctuations upon net interest income and NPV at March 31, 2007 compared to December 31, 2006.

The analysis that follows presents the estimated NPV resulting from market interest rates prevailing at a given quarter-end ("Pre-Shock Scenario"), and under four other interest rate scenarios (each a "Rate Shock Scenario") represented by immediate, permanent, parallel shifts in the term structure of interest rates from the actual term structure observed at March 31, 2007 and December 31, 2006. The analysis additionally presents a measurement of the percentage by which each of the Rate Shock Scenario NPVs change from the Pre-Shock Scenario NPV at March 31, 2007 and December 31, 2006. Interest rate sensitivity is measured by the changes in the various NPV ratios ("NPV Ratios") from the Pre-Shock Scenario to the Rate

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Shock Scenarios. An increase in the NPV Ratio is considered favorable, while a decline is considered unfavorable.

At March 31, 2007							
	Net Portfolio Value			Portfolio Value of Assets		Portfolio Value ofAssets At December 31, 2006	
	Dollar Amount	Dollar Change	Percentage Change	NPV Ratio	Sensitivity Change	NPV Ratio	Sensitivity Change
Change in Interest Rate		(Dollars in Thousands)					
+ 200 Basis Points	$289,497	$(90,590)	-23.83%	9.10%	(245)	10.01%	(220)
+ 100 Basis Points	336,607	-43,480	-11.44	10.41	(114)	11.22	(99)
Pre-Shock Scenario	380,087	-	-	11.55	-	12.21	-
- 100 Basis Points	407,641	27,554	7.25	12.20	65	12.67	46
- 200 Basis Points	415,119	35,032	9.22	12.29	74	12.47	26

The NPVs presented above incorporate asset and liability values, some of which (*e.g.*, mortgage loans and time deposits) were derived from the Bank's valuation model, and others of which (*e.g.*, MBS and structured borrowings) were provided by reputable independent sources. The Bank's valuation model for assets and liabilities incorporates, at each level of interest rate change, estimates of cash flows from non-contractual sources such as unscheduled principal payments on loans and passbook deposit balance decay. The Bank's estimates for loan prepayment levels are influenced by the recent history of prepayment activity in its loan portfolio as well as the interest-rate composition of the existing portfolio, especially vis-à-vis the current interest rate environment. In addition, the Bank considers the amount of prepayment fee protection inherent in the loan portfolio when estimating future prepayment cash flows. Regarding passbook deposit flows, the Bank tracks and analyzes the decay rate of its passbook deposits over time and over various interest rate scenarios and then estimates its passbook decay rate for use in the valuation model. Regardless of the care and precision with which the estimates are derived, however, actual cash flows for loans, as well as passbooks, could differ significantly from the Bank's estimates resulting in significantly different NPV calculations.

The Bank also generates a series of spot discount rates that are integral to the valuation of the projected monthly cash flows of its assets and liabilities. The Bank's valuation model employs discount rates that are representative of prevailing market rates of interest, with appropriate adjustments suited to the heterogeneous characteristics of the Bank's various asset and liability portfolios.

The Pre-Shock Scenario NPV declined from $386.2 million at December 31, 2006 to $380.1 million at March 31, 2007. The NPV Ratio at March 31, 2007 was 11.55% in the Pre-Shock Scenario, a decrease from the NPV Ratio of 12.21% in that Scenario at December 31, 2006. The decrease in the Pre-Shock NPV was due primarily to a reduction in the valuation of multifamily loans reflecting some assumption modifications as the loans moved closer to their repricing date.

The Bank's +200 basis point Rate Shock Scenario NPV decreased from $306.5 million at December 31, 2006 to $289.1 million at March 31, 2007. This decrease resulted primarily from the aforementioned decline in the value of multifamily loans .

The NPV Ratio was 9.10% in the +200 basis point Rate Shock Scenario at March 31, 2007, an decrease from the NPV Ratio of 10.01% in the +200 basis point Rate Shock Scenario at December 31, 2006. The decrease in the Bank's +200 basis point Rate Shock Scenario NPV Ratio at March 31, 2007 compared to December 31, 2006 reflected the aforementioned decrease in the +200 basis point Rate Shock Scenario NPV during the period.

At March 31, 2007, the sensitivity change in the +200 basis point Rate Shock Scenario was 245 basis points, compared to a sensitivity change of 220 basis points in the +200 basis point Rate Shock Scenario at December 31, 2006. The increase in sensitivity was primarily due to the aforementioned decrease in the value of multifamily loans.

Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of March 31, 2007, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each found that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 4T. Controls and Procedures

Not applicable.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is routinely named as a defendant in or party to various pending or threatened legal actions or proceedings. Certain of these matters may seek substantial monetary damages. In the opinion of management, the Company is involved in no actions or proceedings that will have a material adverse impact on its financial condition and results of operations.

Item 1A. Risk Factors

There have been no material changes in the Company’s risk factors from those previously disclosed in Part I, Item 1A of the Company’s Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) During the three months ended March 31, 2007, the Holding Company purchased 425,458 shares of its common stock into treasury. A summary of the shares repurchased by month is as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet be Purchased Under the Programs
January 2007	95,500	$13.70	95,500	1,591,110
February 2007	65,500	13.04	65,500	1,525,610
March 2007	264,458	12.87	264,458	1,261,152

All repurchases in the above table were made under the Company's Eleventh Stock Repurchase Program, which was approved by the Holding Company's Board of Directors and publicly announced on December 15, 2005. The Eleventh Stock Repurchase Program allows for the repurchase of up to 1,847,977 shares of the Holding Company's common stock, and has no expiration date. No existing repurchase plans expired during the three months ended March 31, 2007, nor did the Company terminate any repurchase programs prior to expiration during the quarter.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	
3(i)	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. (1)
3(ii)	Amended and Restated Bylaws of Dime Community Bancshares, Inc. (12)
4.1	Amended and Restated Certificate of Incorporation of Dime Community Bancshares, Inc. [See Exhibit 3(i) hereto]
4.2	Amended and Restated Bylaws of Dime Community Bancshares, Inc. [See Exhibit 3(ii) hereto]
4.3	Draft Stock Certificate of Dime Community Bancshares, Inc. (2)
4.4	Certificate of Designations, Preferences and Rights of Series A Junior Participating Preferred Stock (3)
4.5	Rights Agreement, dated as of April 9, 1998, between Dime Community Bancorp, Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (3)
4.6	Form of Rights Certificate (3)
4.7	Second Amended and Restated Declaration of Trust, dated as of July 29, 2004, by and among Wilmington Trust Company, as Delaware Trustee, Wilmington Trust Company as Institutional Trustee, Dime Community Bancshares, Inc., as Sponsor, the Administrators of Dime Community Capital Trust I and the holders from time to time of undivided beneficial interests in the assets of Dime Community Capital Trust I (8)
4.8	Indenture, dated as of March 19, 2004, between Dime Community Bancshares, Inc. and Wilmington Trust Company, as trustee (8)
4.9	Series B Guarantee Agreement, dated as of July 29, 2004, executed and delivered by Dime Community Bancshares, Inc., as Guarantor and Wilmington Trust Company, as Guarantee Trustee, for the benefit of the holders from time to time of the Series B Capital Securities of Dime Community Capital Trust I (8)
10.1	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Vincent F. Palagiano (4)
10.2	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Michael P. Devine (4)
10.3	Amended and Restated Employment Agreement between The Dime Savings Bank of Williamsburgh and Kenneth J. Mahon (4)
10.4	Employment Agreement between Dime Community Bancorp, Inc. and Vincent F. Palagiano (9)
10.5	Employment Agreement between Dime Community Bancorp, Inc. and Michael P. Devine (9)
10.6	Employment Agreement between Dime Community Bancorp, Inc. and Kenneth J. Mahon (9)
10.7	Form of Employee Retention Agreement by and among The Dime Savings Bank of Williamsburgh, Dime Community Bancorp, Inc. and certain officers (4)
10.8	The Benefit Maintenance Plan of Dime Community Bancorp, Inc. (5)
10.9	Severance Pay Plan of The Dime Savings Bank of Williamsburgh (4)
10.10	Retirement Plan for Board Members of Dime Community Bancorp, Inc. (5)
10.11	Dime Community Bancorp, Inc. 1996 Stock Option Plan for Outside Directors, Officers and Employees, as amended by amendments number 1 and 2 (5)
10.12	Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc., as amended by amendments number 1 and 2 (5)
10.13	

	Form of stock option agreement for Outside Directors under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan. (5)
10.14	Form of stock option agreement for officers and employees under Dime Community Bancshares, Inc. 1996 and 2001 Stock Option Plans for Outside Directors, Officers and Employees and the 2004 Stock Incentive Plan (5)
10.15	Form of award notice for outside directors under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
10.16	Form of award notice for officers and employees under the Recognition and Retention Plan for Outside Directors, Officers and Employees of Dime Community Bancorp, Inc. (5)
10.17	Financial Federal Savings Bank Incentive Savings Plan in RSI Retirement Trust (6)
10.18	Financial Federal Savings Bank Employee Stock Ownership Plan (6)
10.19	Option Conversion Certificates between Dime Community Bancshares, Inc. and each of Messrs. Russo, Segrete, Calamari, Latawiec, O'Gorman, and Ms. Swaya pursuant to Section 1.6(b) of the Agreement and Plan of Merger, dated as of July 18, 1998 by and between Dime Community Bancshares, Inc. and Financial Bancorp, Inc. (6)
10.20	Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees (7)
10.21	Dime Community Bancshares, Inc. 2004 Stock Incentive Plan for Outside Directors, Officers and Employees (10)
10.22	Waiver executed by Vincent F. Palagiano (12)
10.23	Waiver executed by Michael P. Devine (12)
10.24	Waiver executed by Kenneth J. Mahon (12)
10.25	Form of restricted stock award notice for officers and employees under the 2004 Stock Incentive Plan (11)
10.26	Employee Retention Agreement between The Dime Savings Bank of Williamsburgh and Christopher D. Maher (13)

Table continued on next page

31(i).1	Certification of Chief Executive Officer Pursuant to 17 CFR 240.13a-14(a)
31(i).2	Certification of Chief Financial Officer Pursuant to 17 CFR 240.13a-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

(1) Incorporated by reference to the registrant's Transition Report on Form 10-K for the transition period ended December 31, 2002 filed on March 28, 2003.

(2) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 filed on September 28, 1998.

(3) Incorporated by reference to the registrant's Current Report on Form 8-K dated April 9, 1998 and filed on April 16, 1998.

(4) Incorporated by reference to Exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997.

(5) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed on September 26, 1997, and the Current Reports on Form 8-K filed on March 22, 2004 and March 29, 2005.

(6) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000 filed on September 28, 2000.

(7) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003.

(8) Incorporated by reference to Exhibits to the registrant’s Registration Statement No. 333-117743 on Form S-4 filed on July 29, 2004.

(9) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed on March 15, 2004.

(10) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed on March 16, 2005.

(11) Incorporated by reference to the registrant's Current Report on Form 8-K filed on March 22, 2005.

(12) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 10, 2005.

(13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed on November 9, 2006.

SIGNATURES

Pursuant to the requirements 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.

Dime Community Bancshares, Inc.

Dated: May 10, 2007	By: **/s/ VINCENT F. PALAGIANO** Vincent F. Palagiano Chairman of the Board and Chief Executive Officer
Dated: May 10, 2007	By: **/s/ KENNETH J. MAHON** Kenneth J. Mahon Executive Vice President and Chief Financial Officer (Principal Accounting Officer)