Exhibit 32 to Plaintiff's Memorandum of Points and Authorities in Support of Its Motion for Temporary Restraining Order and Preliminary Injunction

(PX01302)

Part 2 of 3

Direct Store Expenses

Direct store expenses totaled approximately $1.42 billion, $1.22 billion and $986.0 million in fiscal years 2006, 2005 and 2004, respectively. Direct store expenses as a percentage of sales was approximately 25.4%, 26.0% and 25.5% in fiscal years 2006, 2005 and 2004, respectively. Direct store expenses as a percentage of sales increased fiscal year 2005 principally due to share based compensation costs totaling approximately $10.1 million and natural disaster costs totaling approximately $13.4 million. For all years, higher direct operating expenses of new stores continue to have a partially offsetting impact on store contribution. Direct store expense as a percentage of sales tends to be higher for new stores and decrease as stores mature, reflecting increasing operational productivity of the store teams.

General and Administrative Expenses

General and administrative expenses totaled approximately $181.2 million, $158.9 million and $119.8 million in fiscal years 2006, 2005 and 2004, respectively. General and administrative expenses as a percentage of sales were 3.2%, 3.4% and 3.1% in fiscal years 2006, 2005 and 2004, respectively. General and administrative expenses as a percentage of sales increased in fiscal year 2005 principally due to share based compensation costs totaling approximately $8.6 million and natural disaster costs totaling approximately $1.0 million. Fiscal year 2004 general and administrative expenses decreased as a percentage of sales due to our strong sales growth and focus on leveraging general and administrative expenses at both regional and national levels. The Company does not expect significant leveraging of general and administrative expenses as a percentage of sales in 2007 below historical levels.

Pre-opening and Relocation Costs

Pre-opening costs include rent expense incurred during construction of new stores and other costs related to new store openings, including costs associated with hiring and training personnel, supplies and other miscellaneous costs. Rent expense is generally incurred approximately nine months prior to a store's opening date. Other pre-opening costs are incurred primarily in the 30 days prior to a new store opening. Relocation costs consist of moving costs, remaining lease payments, accelerated depreciation costs and other costs associated with replaced facilities. Pre-opening and relocation costs totaled approximately $37.4 million, $37.0 million and $18.6 million in fiscal years 2006, 2005 and 2004, respectively. Pre-opening and relocation costs as a percentage of sales were 0.7%, 0.8% and 0.5% in fiscal years 2006, 2005 and 2004, respectively. Stores newly opened and relocated were as follows:

	2006	2005	2004
New stores	11	12	11
Relocated stores	2	3	1
Total stores opened	13	15	12

The Company expects total pre-opening and relocation costs for fiscal year 2007 to range from approximately $68 million to $74 million. This significant year-over-year increase is due primarily to the anticipated acceleration in leases tendered and square footage opening in fiscal years 2007 and 2008, including the opening of 18 to 20 new stores in fiscal year 2007. Approximately $18 million to $24 million of this total relates to stores expected to open in fiscal year 2008. These ranges are based on estimated tender dates which are subject to change. The Company expects significantly higher-than-average pre-opening expense in fiscal year 2007 partially due to approximately $7 million related to its first Whole Foods Market store in London. Excluding this store, the Company expects total pre-opening and relocation expense for stores opening in fiscal year 2007 to average approximately $2.4 million per store, above the Company's average of approximately $1.9 million for stores opened in fiscal year 2006 due primarily to higher accelerated depreciation related to relocations.

Interest Expense

Interest expense consists of costs related to our convertible subordinated debentures, senior notes and bank line of credit, net of capitalized interest associated with new store development and internally developed software. Interest expense, net of amounts capitalized, was approximately $32,000, $2.2 million and $7.2 million in fiscal years 2006, 2005 and 2004, respectively. These reductions in net interest expense reflect decreases in the carrying amount of our convertible subordinated debentures resulting from the voluntary conversion by debenture holders to shares of Company common stock over the three-year period. Additionally, the Company made the final principal payment of approximately $5.7 million to retire its senior notes on May 16, 2006. The Company had no amounts outstanding on its bank line of credit during fiscal years 2006, 2005 and 2004.

Investment and Other Income

Investment and other income includes investment gains and losses, interest income, rental income and other income totaling approximately $20.7 million, $9.6 million and $6.5 million in fiscal years 2006, 2005 and 2004, respectively. These increases in investment and other income primarily result from higher yields on investments and higher average investment balances. Investment and other income for fiscal year 2006 includes approximately $2.1 million of insurance proceeds related to Hurricane Katrina losses. During fiscal year 2004, we sold all of our investments in unrestricted and restricted common shares of Gaiam Inc. for approximately $1.8 million, resulting in a loss of approximately $0.5 million.

Income Taxes

Our effective tax rate on income was approximately 40.0%, 42.5% and 40.0% for fiscal years 2006, 2005 and 2004, respectively. The increase in our effective tax rate for fiscal year 2005 resulted primarily from the non-deductible portion of the expense recognized for the accelerated vesting of stock options during the fourth quarter. As of September 24, 2006 we had international operating loss carryforwards totaling approximately $32.5 million, of which approximately $11.8 million will begin to expire in fiscal year 2008 and approximately $20.7 million has an indefinite life. We have provided a valuation allowance of approximately $13.3 million for deferred tax assets associated with international operating loss carryforwards and capital loss carryforwards for which management has determined it is more likely than not that the deferred tax asset will not be realized.

Share-based Compensation

The Company recognized share-based compensation costs totaling approximately $19.9 million in fiscal year 2005. During the fourth quarter of fiscal year 2005, the Company accelerated the vesting of all outstanding stock options, except options held by the members of the executive team and certain options held by team members in the United Kingdom, in order to prevent past option grants from having an impact on future results. The Company recognized an estimated share-based compensation charge totaling approximately $17.4 million in fiscal year 2005 related to this acceleration, of which approximately $10.1 million is included in "Direct store expenses," approximately $6.1 million is included in "General and administrative expenses," and approximately $1.2 million is included in "Cost of goods sold and occupancy costs." The Company also recognized share-based compensation in fiscal year 2005 totaling approximately $2.5 million for modification of terms of certain stock option grants and other compensation based on the intrinsic value of the Company's common stock, which is included in "General and administrative expenses." The Company's effective tax rate for the fourth quarter and fiscal year 2005 was higher than its historical rate primarily due to the non-deductible portion of the expense recognized for the accelerated vesting of stock options.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123R, "Share-Based Payment," which requires all companies to recognize an expense for share-based payments, including stock options, based on the fair value of the equity instrument. In April 2005, the Securities and Exchange Commission adopted a final rule amending Rule 4-01(a) of Regulation S-X amending the compliance date for SFAS No. 123R to be effective starting with the first interim or annual reporting period of the first fiscal year beginning on or after June 15, 2005. The provisions of SFAS No. 123R were effective for the Company's first quarter of fiscal year 2006. The Company recognized share-based compensation costs under the requirements of SFAS No. 123R totaling approximately $9.4 million in fiscal year 2006, of which approximately $3.6 million is included in "Direct store expenses" in the Consolidated Statements of Operations, approximately $5.5 million is included in "General and administrative expenses," and approximately $0.3 million is included in "Cost of goods sold and occupancy costs." Included in the 2006 total expense is approximately $1.2 million for modification of terms of certain stock option grants and approximately $3.0 million to increase the estimated charge related to the 2005 acceleration based on actual experience.

The Company expects share-based compensation of approximately $2 million to $3 million per quarter in the first two quarters of fiscal year 2007 and approximately $3 million to $4 million per quarter in the third and fourth quarters of the fiscal year following the Company's annual grant date early in the third quarter, when the majority of options are granted.

Natural Disaster Costs

The Company has two stores in the New Orleans area which were damaged by and closed due to Hurricane Katrina during the fourth quarter of fiscal year 2005, and accordingly the Company recorded expenses totaling approximately $16.5 million for related estimated net losses. The main components of the $16.5 million expense were estimated impaired assets totaling approximately $12.2 million, estimated inventory losses totaling approximately $2.5 million, salaries and relocation allowances for displaced Team Members and other costs totaling approximately $3.4 million, and a $1.0 million special donation from the Company to the American Red Cross, net of accrued estimated insurance proceeds totaling approximately $2.6 million. In fiscal year 2005, approximately $13.4 million of net natural disaster costs is included in "Direct store expenses" in the Consolidated Statements of Operations, approximately $1.0 million is included in "General and administrative expenses," and approximately $2.1 million is included in "Cost of goods sold and occupancy costs." In fiscal year 2006, the Company recognized approximately $7.2 million in pre-tax credits for insurance proceeds and other adjustments related to previously estimated Hurricane Katrina losses, of which approximately $4.2 million is included in "Direct store expenses," approximately $0.9 million is included in "Cost of goods sold and occupancy costs," and approximately $2.1 million is included in "Investment and other income."

Business Combinations

On January 31, 2004, we acquired all of the outstanding stock of Fresh & Wild Holdings Limited ("Fresh & Wild") for a total of approximately $20 million in cash and approximately $16 million in Company common stock, totaling 477,470 shares. The acquisition of Fresh & Wild, which owned and operated seven natural and organic food stores in London and Bristol, England, provided a platform for expansion of the Whole Foods Market brand in the United Kingdom. This transaction was accounted for using the purchase method and, accordingly, the purchase price has been allocated to tangible and identifiable intangible assets acquired based on their estimated fair values at the date of acquisition. Total costs in excess of tangible and intangible assets acquired of approximately $30.5 million were recorded as goodwill. Fresh & Wild results of operations are included in our consolidated income statements for the period beginning February 1, 2004 through September 26, 2004 and all subsequent periods. John Mackey and Walter Robb, executive officers of the Company, each owned approximately 0.2% of the outstanding stock of Fresh & Wild and received proceeds totaling approximately $54,000 and $78,000, respectively, in consideration for their ownership interest.

On October 27, 2003, we acquired certain assets of Select Fish LLC ("Select Fish") in exchange for approximately $3 million in cash plus the assumption of certain liabilities. All assets acquired relate to a seafood processing and distribution facility located in Seattle, Washington. This transaction was accounted for using the purchase method. Accordingly the purchase price was allocated to tangible and identifiable intangible assets acquired based on their estimated fair values at the date of the acquisition. Total costs in excess of tangible and intangible assets acquired of approximately $1.1 million have been recorded as goodwill. Select Fish results of operations are included in our consolidated income statements beginning October 27, 2003.

Liquidity and Capital Resources

We generated cash flows from operating activities of approximately $452.7 million, $410.8 million and $330.3 million in fiscal years 2006, 2005 and 2004, respectively. Cash flows from operating activities represented our principal source of cash and resulted primarily from our net income less non-cash expenses, income tax benefits that resulted from the exercise of team member stock options and changes in operating working capital. Prior to the adoption of SFAS No. 123R at the beginning of fiscal year 2006, the Company presented the tax savings resulting from tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option." SFAS No. 123R requires the Company to reflect the tax savings resulting from tax deductions in excess of expense reflected in its financial statements as a financing cash flow. The Company's excess tax benefit received upon exercise of nonqualified team member stock options totaled approximately $52.0 million in fiscal year 2006. We had cash and cash equivalent balances totaling approximately $2.3 million and $308.5 million at September 24, 2006 and September 25, 2005, respectively.

Net cash used in investing activities was approximately $569.3 million, $322.2 million and $324.3 million for fiscal years 2006, 2005 and 2004, respectively. At September 24, 2006, the Company had short-term investments in available-for-sale securities totaling approximately $193.8 million. These investments are generally state and local government obligations with effective maturities of less than 90 days. The Company also had approximately $60.0 million in restricted cash at September 24, 2006. During the second quarter of fiscal year 2004, we acquired all of the outstanding stock of Fresh & Wild Holdings Limited, which owned and operated seven natural and organic food stores in London and Bristol, England, for a total of approximately $20 million in cash and approximately $16 million in Company common stock, totaling 477,470 shares. During the first quarter of fiscal year 2004, we acquired certain assets of Select Fish LLC, which owned and operated a seafood processing and distribution facility located in Seattle, Washington, in exchange for approximately $3 million in cash plus the assumption of certain liabilities.

Our principal historical capital requirements have been the funding of the development or acquisition of new stores and acquisition of property and equipment for existing stores. The required cash investment for new stores varies depending on the size of the new store, geographic location, degree of work performed by the landlord and complexity of site development issues. Capital expenditures for fiscal years 2006, 2005 and 2004 totaled approximately $340.2 million, $324.1 million and $266.5 million, respectively, of which approximately $208.6 million, $207.8 million and $156.7 million, respectively, was for new store development and approximately $131.6 million, $116.3 million and $109.7 million, respectively, was for remodels and other additions. Cash flows from investing activities for fiscal year 2006 include approximately $3.3 million in insurance proceeds related to property and equipment.

The following table provides information about the Company's store development activities:

	Stores Opened During Fiscal Year 2006	Leases Tendered as of November 2, 2006	Total Leases Signed as of November 2, 2006
Number of stores (including relocations)	13	13	88
Number of relocations	2	1	18
New markets	4	2	21
Average store size (gross square feet)	50,200	53,200	56,000
As a percentage of existing store average size	147%	154%	162%
Total square footage	653,000	691,000	5,003,000
As a percentage of existing square footage	10%	11%	77%
Average pre-opening expense per store	$1.9 million		
Average pre-opening rent per store	$0.7 million		
Average tender period	7.8 months		

The Company expects capital expenditures for fiscal year 2007 to be in the range of approximately $525 million to $575 million, of which approximately 70% to 75% is related to new stores expected to open in fiscal year 2007 and beyond. The remaining portion will consist of capital expenditures during fiscal year 2007 in connection with ongoing equipment upgrades and resets at existing stores and continued development of management information systems. Absent any significant cash acquisition or significant change in market condition, we expect planned expansion and other anticipated working capital and capital expenditure requirements for the next twelve months will be funded by cash generated from the expected results of operations, available unrestricted cash and cash equivalents, and short-term investments. Our revolving line of credit is also available should additional working capital be required. There can be no assurance, however, that we will continue to generate cash flows at or above current levels or that our revolving line of credit or other sources of capital will be available to us in the future. We continually evaluate the need to establish other sources of working capital and will seek those considered appropriate based upon the Company's needs and market conditions.

On October 1, 2004, we amended our credit facility to extend the maturity of our $100 million revolving line of credit to October 1, 2009. The credit agreement contains certain affirmative covenants including maintenance of certain financial ratios and certain negative covenants including limitations on additional indebtedness as defined in the agreement. At September 24, 2006 and September 25, 2005, we were in compliance with the applicable debt covenants. All outstanding amounts borrowed under this agreement bear interest at our option of either the defined base rate or the LIBOR rate plus a premium. Commitment fees of 0.15% of the undrawn amount are payable under this agreement. At September 24, 2006 and September 25, 2005 no amounts were drawn under the agreement. The amount available to the Company under the agreement was effectively reduced to $88.4 million by outstanding letters of credit totaling approximately $11.6 million at September 25, 2005. On November 7, 2005, we amended our credit facility to delete negative covenants related to the repurchase of Company stock and payment of dividends.

We have outstanding zero coupon convertible subordinated debentures which had a carrying amount of approximately $8.3 million and $12.9 million at September 24, 2006 and September 25, 2005, respectively. The debentures have an effective yield to maturity of 5 percent and a scheduled maturity date of March 2, 2018. The debentures are convertible at the option of the holder, at any time on or prior to maturity, unless previously redeemed or otherwise purchased. The debentures may be redeemed at the option of the holder on March 2, 2008 or March 2, 2013 at the issue price plus accrued original discount to the date of redemption. Subject to certain limitations, at our option, we may elect to pay this purchase price in cash, shares of common stock or any combination thereof. The debentures may also be redeemed in cash at the option of the holder if there is a change in control at the issue price plus accrued original discount to the date of redemption. The Company may redeem the debentures for cash, in whole or in part, at redemption prices equal to the issue price plus accrued original discount to the date of redemption. The debentures are subordinated in the right of payment to all existing and future senior indebtedness. The debentures have a conversion rate of 21.28 shares of Company common stock per $1,000 principal amount at maturity, or approximately 311,000 shares and 505,000 shares at September 24, 2006 and September 25, 2005, respectively. Approximately $5.0 million and $150.1 million of the carrying amount of the debentures was voluntarily converted by holders to approximately 194,000 and 6.0 million shares of Company common stock during fiscal years 2006 and 2005, respectively.

The Company made the final principal payment of approximately $5.7 million to retire its senior notes on May 16, 2006.

Table of Contents

Net proceeds to the Company from the exercise of stock options by team members totaled approximately $222.0 million, $85.8 million and $59.5 million in fiscal years 2006, 2005 and 2004, respectively. The higher rate of stock option exercises in fiscal year 2006 resulted in part from the accelerated vesting of stock options on September 22, 2005. Net cash used by financing activities was approximately $189.7 million in fiscal year 2006. Net cash provided by financing activities was approximately $25.2 million and $22.9 million in fiscal years 2005 and 2004, respectively. The following table shows payments due by period on contractual obligations as of September 24, 2006 (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Convertible debt	$ 8,320	$ —	$ 8,320	$ —	$ —
Capital lease obligations (including interest)	378	58	182	113	25
Operating lease obligations	4,763,886	162,827	474,774	489,359	3,636,926

Although the timing of any potential redemption is uncertain, the above table assumes convertible debentures, shown at accreted value as of September 24, 2006, will be redeemed at the option of the holder on March 2, 2008. The following table shows expirations per period on commercial commitments as of September 24, 2006 (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Credit facilities	$100,000	$ —	$—	$100,000	$ —

We periodically make other commitments and become subject to other contractual obligations that we believe to be routine in nature and incidental to the operation of the business. Management believes that such routine commitments and contractual obligations do not have a material impact on our business, financial condition or results of operations.

Following is a summary of dividends declared in fiscal years 2006 and 2005 (in thousands, except per share amounts):

Date of Declaration	Dividend per Share	Date of Record	Date of Payment	Total Amount
Fiscal year 2006:				
November 9, 2005	$ 0.15	January 13, 2006	January 23, 2006	$ 20,918
November 9, 2005	2.00	January 13, 2006	January 23, 2006	277,904
March 6, 2006	0.15	April 14, 2006	April 24, 2006	21,004
June 13, 2006	0.15	July 14, 2006	July 24, 2006	21,186
Fiscal year 2005:				
November 10, 2004	$ 0.10	January 7, 2005	January 17, 2005	$ 12,088
April 5, 2005	0.13	April 15, 2005	April 25, 2005	16,345
June 7, 2005	0.13	July 15, 2005	July 25, 2005	16,834
September 14, 2005	0.13	October 14, 2005	October 24, 2005	17,063

On September 27, 2006, the Company's Board of Directors approved a quarterly dividend of $0.15 per share that was paid on October 23, 2006 to shareholders of record on October 13, 2006. On November 2, 2006, the Company's Board of Directors approved a 20% increase in the Company's quarterly dividend to $0.18 per share payable on January 22, 2007 to shareholders of record on January 12, 2007. The Company will pay future dividends at the discretion of the Board of Directors. The continuation of these payments, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depend on many factors, including the results of operations and the financial condition of the Company. Subject to these qualifications, the Company currently expects to pay dividends on a quarterly basis.

On November 8, 2005, the Company's Board of Directors approved a stock repurchase program of up to $200 million. On November 6, 2006, the Company's Board of Directors approved a $100 million increase in the Company's stock repurchase program, bringing the total remaining authorization to $200 million over the next three years. The specific timing and repurchase amounts will vary based on market conditions, securities law limitations and other factors and will be made using the Company's available cash resources. The repurchase program may be suspended or discontinued at any time without prior notice. During the fourth quarter of fiscal year 2006, the Company repurchased on the open market approximately 2.0 million shares of Company common stock that were held in treasury at September 24, 2006. The average price per share paid was $49.85, for a total of approximately $100 million. At September 25, 2005, we had no shares of Company common stock in treasury.

Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. Actual results may differ from these estimates. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances.

We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our significant accounting policies are summarized in Note 2 to the consolidated financial statements. We believe that the following accounting policies are the most critical in the preparation of our financial statements because they involve the most difficult, subjective or complex judgments about the effect of matters that are inherently uncertain.

Insurance and Self-Insurance Liabilities

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. While we believe that our assumptions are appropriate, the estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Inventory Valuation

We value our inventories at the lower of cost or market. Cost was determined using the last-in, first-out ("LIFO") method for approximately 93.9% and 94.1% of inventories in fiscal years 2006 and 2005, respectively. Under the LIFO method, the cost assigned to items sold is based on the cost of the most recent items purchased. As a result, the costs of the first items purchased remain in inventory and are used to value ending inventory. The excess of estimated current costs over LIFO carrying value, or LIFO reserve, was approximately $13.2 million and $10.7 million at September 24, 2006 and September 25, 2005, respectively. Costs for remaining inventories are determined by the first-in, first-out ("FIFO") method. Cost was determined using the retail method for approximately 54% of inventories in fiscal years 2006 and 2005. Under the retail method, the valuation of inventories at cost and the resulting gross margins are determined by counting each item in inventory, then applying a cost-to-retail ratio for various groupings of similar items to the retail value of inventories. Inherent in the retail inventory method calculations are certain management judgments and estimates, including shrinkage, which could impact the ending inventory valuation at cost as well as the resulting gross margins. Cost was determined using the item cost method for approximately 46% of inventories in fiscal years 2006 and 2005, respectively. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances) of each item and recording the actual cost of items sold. The item-cost method of accounting enables management to more precisely manage inventory and purchasing levels when compared to the retail method of accounting.

Goodwill and Intangible Assets

Goodwill consists of the excess of cost of acquired enterprises over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is reviewed for impairment annually, or more frequently if impairment indicators arise, on a reporting unit level. We allocate goodwill to one reporting unit for goodwill impairment testing. We determine fair value utilizing both a market value method and discounted projected future cash flows compared to our carrying value for the purpose of identifying impairment. Our annual impairment review requires extensive use of accounting judgment and financial estimates. Application of alternative assumptions and definitions, such as reviewing goodwill for impairment at a different organizational level, could produce significantly different results.

Income Taxes

We recognize deferred income tax assets and liabilities by applying statutory tax rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Deferred tax assets and liabilities are adjusted to reflect changes in tax laws or rates in the period that includes the enactment date. Significant accounting judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. In addition, we are subject to periodic audits and examinations by the IRS and other state and local taxing authorities. Although we believe that our estimates are reasonable, actual results could differ from these estimates.

Share-Based Compensation

Our Company maintains several share-based incentive plans. We grant options to purchase common stock under our 1992 Stock Option Plans, as amended. Under these plans, options are granted at an option price equal to the market value of the stock at the grant date and are generally exercisable ratably over a four-year period beginning one year from grant date and have a five-year term. The grant date is established once the Company's Board of Directors approves the grant and all key terms have been determined. The exercise prices of our stock option grants are the closing price on the grant date. Stock option grant terms and conditions are communicated to team members within a relatively short period of time. Our Company generally approves one primary stock option grant annually, occurring during a trading window. Our Company offers a team member stock purchase plan to all full-time team members with a minimum of 400 hours of service. Under this plan, participating team members may purchase our common stock each fiscal quarter through payroll deductions. Participants in the stock purchase plan may elect to purchase unrestricted shares at 100 percent of market value or restricted shares at 85 percent of market value on the purchase date.

Prior to the effective date of revised SFAS No. 123R, "Share-Based Payment," the Company applied Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and related interpretations for our stock option grants. APB No. 25 provides that the compensation expense relative to our team member stock options is measured based on the intrinsic value of the stock option at date of grant.

Effective the beginning of the first quarter of fiscal year 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective transition method. Under this method, prior periods were not restated. The Company uses the Black-Scholes multiple option pricing model which requires extensive use of accounting judgment and financial estimates, including estimates of the expected term team members will retain their vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. The related share-based compensation expense is recognized on a straight-line basis over the vesting period. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the Consolidated Statements of Operations. The provisions of SFAS No. 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date.

SFAS No. 123R requires the Company to value unvested stock options granted prior to its adoption of SFAS No. 123 under the fair value method and expense these amounts in the income statement over the stock option's remaining vesting period. In the fourth quarter of fiscal year 2005, the Company accelerated the vesting of all outstanding stock options, except options held by the members of the executive team and certain options held by team members in the United Kingdom, in order to prevent past option grants from having an impact on future results. The Company intends to keep its broad-based stock option program in place, but also intends to limit the number of shares granted in any one year so that annual earnings per share dilution from equity-based compensation expense will not exceed 10%.

Prior to the adoption of SFAS No. 123R, the Company presented the tax savings resulting from tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option." SFAS No. 123R requires the Company to reflect the tax savings resulting from tax deductions in excess of expense reflected in its financial statements as a financing cash flow.

In November 2005, the FASB issued Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for the Tax Effects of the Share-Based Payment Awards" ("FSP FAS 123R-3"). The Company has elected to adopt the transition guidance for the additional paid-in-capital pool ("APIC pool") pool in paragraph 81 of SFAS No. 123R. The prescribed transition method is a detailed method to establish the beginning balance of the APIC pool related to the tax effects of share-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of share-based compensation awards that are outstanding upon adoption of SFAS No. 123R.

Recent Accounting Pronouncements

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No.108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements." SAB No. 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The requirements of SAB No. 108 are effective for fiscal years ending after November 15, 2006. We are currently evaluating the effect, if any, that the adoption of SAB No. 108 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value and does not change existing guidance as to whether or not an instrument is carried at fair value. The provisions of SFAS No. 157 are effective for the specified fair value measures for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on our consolidated financial statements.

In July 2006, the FASB issued Interpretation 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. The interpretation applies to all tax positions accounted for in accordance with Statement 109 and requires a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in an income tax return. Subsequent recognition, derecognition, and measurement is based on management's best judgment given the facts, circumstances and information available at the reporting date. FIN 48 is effective for fiscal years beginning after December 15, 2006. Early adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. We are currently evaluating the effect, if any, that the adoption of FIN 48 will have on our consolidated financial statements.

In March 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation). Taxes within the scope of EITF Issue No. 06-3 include any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales taxes, use taxes, value-added taxes, and some excise taxes. The EITF concluded that the presentation of these taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. For any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements. The Company's policy is to exclude all such taxes from revenue. The provisions of EITF 06-3 are effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 will not have any effect on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a Replacement of Accounting Principles Board Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement was issued. The Company is required to adopt the provisions of SFAS No. 154, as applicable, beginning in fiscal year 2007. We do not expect the adoption of SFAS No. 154 will have a significant effect on our future consolidated financial statements.

Disclaimer on Forward Looking Statements

Except for the historical information contained herein, the matters discussed in this analysis are forward looking statements that involve risks and uncertainties, including but not limited to general business conditions, the timely development and opening of new stores, the integration of acquired stores, the impact of competition and changes in government regulation. For a discussion of these and other risks and uncertainties that may affect our business, see "Item 1A. Risk Factors." The Company does not undertake any obligation to update forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to interest rate changes and changes in market values of our investments and long-term debt. We are not a party to any derivative arrangement and do not use financial instruments for trading or other speculative purposes. The impact of foreign exchange fluctuations on our foreign subsidiary is not material.

Interest Rate Risk

We seek to minimize the risks from interest rate fluctuations through ongoing evaluation of the composition of our investments and long-term debt. The Company holds interest-bearing instruments that are classified as cash and cash equivalents and short-term investments. These investments are of a short-term nature, and therefore changes in interest rates would not likely have a material impact on the valuation of these instruments or interest income. We classify our investments as available-for-sale and, accordingly, have recorded them at fair value on our balance sheets. We had investments totaling approximately $203.9 million and $325.7 million at September 24, 2006 and September 25, 2005, respectively, which earned an average interest rate of approximately 3.8% and 3.5%, respectively. At September 24, 2006, an unrealized gain of approximately $0.1 million related to investments was included as a component of shareholders' equity. During fiscal year 2006, we made the final principal payment of approximately $5.7 million to retire our senior notes. Our senior unsecured notes had fixed interest rates, and the fair value of these instruments was affected by changes in market interest rates. The senior unsecured notes bore interest at a fixed rate of 7.29% and had an outstanding balance of approximately $5.7 million at September 25, 2005. At September 25, 2005, the estimated fair value of the senior notes exceeded the carrying amount by approximately $0.1 million.

Interest Rate and Market Risk

Our zero coupon subordinated convertible debentures have fixed interest rates, and the fair value of these instruments is affected by both changes in the market price of our stock and changes in market interest rates. During fiscal year 2006 and 2005 approximately $5.0 million and $150.1 million, respectively, of the carrying amount, of the debentures were converted, at the option of the holder, into Company common stock. The zero coupon subordinated convertible debentures have an effective yield to maturity of 5% and had an outstanding balance of approximately $8.3 million and $12.9 million at September 24, 2006 and September 25, 2005, respectively. At September 24, 2006 and September 25, 2005 the estimated fair value of the convertible debentures exceeded the carrying amount by approximately $11.0 million and $21.8 million, respectively. Should interest rates or the market value of our stock increase or decrease, the estimated fair value of the zero coupon subordinated debentures would decrease or increase accordingly.

Market Risk

We regularly review the carrying value of our investments to identify and record losses when events and circumstances indicate that such declines in the fair value of such assets below our accounting basis are other-than-temporary.

Item 8. Financial Statements and Supplementary Data.

Whole Foods Market, Inc.
Index to Consolidated Financial Statements

Whole Foods Market, Inc.
Report of Independent Registered Public Accounting Firm

To the Board of Directors
Whole Foods Market, Inc.

We have audited the accompanying consolidated balance sheets of Whole Foods Market, Inc. ("the Company") as of September 24, 2006 and September 25, 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three fiscal years in the period ended September 24, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2006, Whole Foods Market, Inc. changed its method of accounting for stock-based compensation in accordance with guidance provided in the Statement of Financial Standards No. 123(R), "Share-Based Payment."

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whole Foods Market, Inc. as of September 24, 2006 and September 25, 2005, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended September 24, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Whole Foods Market, Inc.'s internal control over financial reporting as of September 24, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 5, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Austin, Texas
December 5, 2006

Whole Foods Market, Inc.
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the Board of Directors
Whole Foods Market, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Whole Foods Market, Inc. maintained effective internal control over financial reporting as of September 24, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Whole Foods Market, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Whole Foods Market, Inc. maintained effective internal control over financial reporting as of September 24, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Whole Foods Market, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 24, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Whole Foods Market, Inc. as of September 24, 2006 and September 25, 2005, and the related consolidated statement of operations, shareholders' equity and comprehensive income, and cash flows for each of the three fiscal years in the period ended September 24, 2006, of Whole Foods Market, Inc. and our report dated December 5, 2006, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Austin, Texas
December 5, 2006

Table of Contents

Whole Foods Market, Inc.
Consolidated Balance Sheets
(In thousands)
September 24, 2006 and September 25, 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 2,252	$ 308,524
Short-term investments – available-for-sale securities	193,847	—
Restricted cash	60,065	36,922
Trade accounts receivable	82,137	66,682
Merchandise inventories	203,727	174,848
Prepaid expenses and other current assets	33,804	45,965
Deferred income taxes	48,149	39,588
Total current assets	623,981	672,529
Property and equipment, net of accumulated depreciation and amortization	1,236,133	1,054,605
Goodwill	113,494	112,476
Intangible assets, net of accumulated amortization	34,767	21,990
Deferred income taxes	29,412	22,452
Other assets	5,209	5,244
Total assets	$2,042,996	$1,889,296

	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt and capital lease obligations	$ 49	$ 5,932
Trade accounts payable	121,857	103,348
Accrued payroll, bonus and other benefits due team members	153,014	126,981
Dividends payable	—	17,208
Other current liabilities	234,850	164,914
Total current liabilities	509,770	418,383
Long-term debt and capital lease obligations, less current installments	8,606	12,932
Deferred rent liability	120,421	91,775
Other long-term liabilities	56	530
Total liabilities	638,853	523,620
Shareholders' equity:		
Common stock, no par value, 300,000 shares authorized; 142,198 and 136,017 shares issued, 139,607 and 135,908 shares outstanding in 2006 and 2005, respectively	1,147,872	874,972
Common stock in treasury, at cost	(99,964)	—
Accumulated other comprehensive income	6,975	4,405
Retained earnings	349,260	486,299
Total shareholders' equity	1,404,143	1,365,676
Commitments and contingencies		
Total liabilities and shareholders' equity	$2,042,996	$1,889,296

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

Whole Foods Market, Inc.
Consolidated Statements of Operations
(In thousands, except per share amounts)
Fiscal years ended September 24, 2006, September 25, 2005 and September 26, 2004

	2006	2005	2004
Sales	$5,607,376	$4,701,289	$3,864,950
Cost of goods sold and occupancy costs	3,647,734	3,052,184	2,523,816
Gross profit	1,959,642	1,649,105	1,341,134
Direct store expenses	1,421,968	1,223,473	986,040
General and administrative expenses	181,244	158,864	119,800
Pre-opening and relocation costs	37,421	37,035	18,648
Operating income	319,009	229,733	216,646
Other income (expense):			
Interest expense	(32)	(2,223)	(7,249)
Investment and other income	20,736	9,623	6,456
Income before income taxes	339,713	237,133	215,853
Provision for income taxes	135,885	100,782	86,341
Net income	$ 203,828	$ 136,351	$ 129,512
Basic earnings per share	$ 1.46	$ 1.05	$ 1.06
Weighted average shares outstanding	139,328	130,090	122,648
Diluted earnings per share	$ 1.41	$ 0.99	$ 0.99
Weighted average shares outstanding, diluted basis	145,082	139,950	135,454
Dividends declared per share	$ 2.45	$ 0.47	$ 0.30

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

Whole Foods Market, Inc.
Consolidated Statements of Shareholders' Equity and Comprehensive Income
(In thousands)
Fiscal years ended September 24, 2006, September 25, 2005 and September 26, 2004

	Shares Outstanding	Common Stock	Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
Balances at September 28, 2003	120,140	$ 423,297	$ —	$ 1,624	$ 320,055	$ 744,976
Net income	—	—	—	—	129,512	129,512
Foreign currency translation adjustments	—	—	—	856	—	856
Reclassification adjustments for losses included in net income	—	—	—	88	—	88
Change in unrealized gain (loss) on investments, net of income taxes	—	—	—	(515)	—	(515)
Comprehensive income	—	—	—	429	129,512	129,941
Dividends ($0.30 per share)	—	—	—	—	(37,089)	(37,089)
Issuance of common stock pursuant to team member stock plans	4,184	59,518	—	—	—	59,518
Issuance of common stock in connection with acquisition	478	16,375	—	—	—	16,375
Tax benefit related to exercise of team member stock options	—	35,583	—	—	—	35,583
Other	12	334	—	—	—	334
Balances at September 26, 2004	124,814	535,107	—	2,053	412,478	949,638
Net income	—	—	—	—	136,351	136,351
Foreign currency translation adjustments	—	—	—	1,893	—	1,893
Reclassification adjustments for losses included in net income	—	—	—	1,063	—	1,063
Change in unrealized gain (loss) on investments, net of income taxes	—	—	—	(604)	—	(604)
Comprehensive income	—	—	—	2,352	136,351	138,703
Dividends ($0.47 per share)	—	—	—	—	(62,530)	(62,530)
Issuance of common stock pursuant to team member stock plans	5,042	110,293	—	—	—	110,293
Tax benefit related to exercise of team member stock options	—	62,643	—	—	—	62,643
Share-based compensation	—	19,135	—	—	—	19,135
Conversion of subordinated debentures	6,052	147,794	—	—	—	147,794
Balances at September 25, 2005	135,908	874,972	—	4,405	486,299	1,365,676
Net income	—	—	—	—	203,828	203,828
Foreign currency translation adjustments	—	—	—	2,494	—	2,494
Change in unrealized gain (loss) on investments, net of income taxes	—	—	—	76	—	76
Comprehensive income	—	—	—	2,570	203,828	206,398
Dividends ($2.45 per share)	—	—	—	—	(340,867)	(340,867)
Issuance of common stock pursuant to team member stock plans	5,510	199,450	—	—	—	199,450
Purchase of treasury stock	(2,005)	—	(99,964)	—	—	(99,964)
Excess tax benefit related to exercise of team member stock options	—	59,096	—	—	—	59,096
Share-based compensation	—	9,432	—	—	—	9,432
Conversion of subordinated debentures	194	4,922	—	—	—	4,922
Balances at September 24, 2006	139,607	$1,147,872	$(99,964)	$ 6,975	$ 349,260	$1,404,143

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

Whole Foods Market, Inc.
Consolidated Statements of Cash Flows
(In thousands)
Fiscal years ended September 24, 2006, September 25, 2005 and September 26, 2004

	2006	2005	2004
Cash flows from operating activities			
Net income	$ 203,828	$ 136,351	$ 129,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	156,223	133,759	115,157
Loss on disposal of fixed assets	6,291	15,886	5,769
Share-based compensation	9,432	19,135	—
Deferred income tax expense (benefit)	(15,521)	(27,873)	(682)
Tax benefit related to exercise of team member stock options	—	62,643	35,583
Excess tax benefit related to exercise of team member stock options	(52,008)	—	—
Interest accretion on long-term debt	460	4,120	7,551
Deferred rent	26,607	16,080	11,109
Other	693	1,317	(1,133)
Net change in current assets and liabilities:			
Trade accounts receivable	(17,720)	(2,027)	(19,158)
Merchandise inventories	(32,200)	(21,486)	(27,868)
Prepaid expenses and other current assets	(7,849)	(4,151)	(2,940)
Trade accounts payable	18,509	12,597	12,515
Accrued payroll, bonus and other benefits due team member	26,033	26,445	29,646
Other accrued expenses	129,886	38,023	35,279
Net cash provided by operating activities	452,664	410,819	330,340
Cash flows from investing activities			
Development costs of new store locations	(208,588)	(207,792)	(156,728)
Other property, plant and equipment expenditures	(131,614)	(116,318)	(109,739)
Proceeds from hurricane insurance	3,308	—	—
Acquisition of intangible assets	(16,332)	(1,500)	—
Change in notes receivable	—	13,500	(13,500)
Purchase of available-for-sale securities	(555,095)	—	—
Sale of available-for-sale securities	362,209	—	—
Increase in restricted cash	(23,143)	(10,132)	(26,790)
Payment for purchase of acquired entities, net of cash acquired	—	—	(18,873)
Other investing activities	—	—	1,332
Net cash used in investing activities	(569,255)	(322,242)	(324,298)
Cash flows from financing activities			
Dividends paid	(358,075)	(54,683)	(27,728)
Issuance of common stock	222,030	85,816	59,518
Purchase of treasury stock	(99,964)	—	—
Excess tax benefit related to exercise of team member stock options	52,008	—	—
Payments on long-term debt and capital lease obligations	(5,680)	(5,933)	(8,864)
Net cash provided by (used in) financing activities	(189,681)	25,200	22,926
Net change in cash and cash equivalents	(306,272)	113,777	28,968
Cash and cash equivalents at beginning of year	308,524	194,747	165,779
Cash and cash equivalents at end of year	$ 2,252	$ 308,524	$ 194,747
Supplemental disclosures of cash flow information:			
Interest paid	$ 607	$ 1,063	$ 2,127
Federal and state income taxes paid	$ 70,220	$ 74,706	$ 60,372
Non-cash transactions:			
Common stock issued in connection with acquisition	$ —	$ —	$ 16,375
Conversion of convertible debentures into common stock, net of fees	$ 4,922	$ 147,794	$ 293

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

Whole Foods Market, Inc.
Notes to Consolidated Financial Statements
Fiscal years ended September 24, 2006, September 25, 2005 and September 26, 2004

(1) Description of Business

Whole Foods Market, Inc. and its consolidated subsidiaries (collectively "Whole Foods Market," "Company," or "We") own and operate the largest chain of natural and organic foods supermarkets. Our Company mission is to promote vitality and well-being for all individuals by supplying the highest quality, most wholesome foods available. Through our growth, we have had a large and positive impact on the natural and organic foods movement throughout the United States, helping lead the industry to nationwide acceptance over the last 25 years. We opened our first store in Texas in 1980 and, as of September 24, 2006, have expanded our operations both by opening new stores and acquiring existing stores from third parties to 186 stores: 177 stores in 31 U.S. states and the District of Columbia; three stores in Canada; and six stores in the United Kingdom.

(2) Summary of Significant Accounting Policies

Definition of Fiscal Year

We report our results of operations on a 52- or 53-week fiscal year ending on the last Sunday in September. Fiscal years 2006, 2005 and 2004 were 52-week years.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. All significant majority-owned subsidiaries are consolidated on a line-by-line basis, and all significant intercompany accounts and transactions are eliminated upon consolidation.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Investments

We classify as available-for-sale our cash equivalent investments and our short-term and long-term investments in debt and equity securities that have readily determinable fair values. Available-for-sale investments are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale investments are excluded from earnings and are reported as a separate component of shareholders' equity until realized. A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary or for a period greater than two fiscal quarters results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis of the security is established. Cost basis is established and maintained utilizing the specific identification method.

Restricted Cash

Restricted cash primarily relates to cash held as collateral to support projected workers' compensation obligations.

Inventories

We value our inventories at the lower of cost or market. Cost was determined using the last-in, first-out ("LIFO") method for approximately 94% of inventories in fiscal years 2006 and 2005. Under the LIFO method, the cost assigned to items sold is based on the cost of the most recent items purchased. As a result, the costs of the first items purchased remain in inventory and are used to value ending inventory. The excess of estimated current costs over LIFO carrying value, or LIFO reserve, was approximately $13.2 million and $10.7 million at September 24, 2006 and September 25, 2005, respectively. Costs for remaining inventories are determined by the first-in, first-out ("FIFO") method.

Cost was determined using the retail method for approximately 54% of inventories in fiscal years 2006 and 2005. Under the retail method, the valuation of inventories at cost and the resulting gross margins are determined by applying a cost-to-retail ratio for various groupings of similar items to the retail value of inventories. Inherent in the retail inventory method calculations are certain management judgments and estimates, including shrinkage, which could impact the ending inventory valuation at cost as well as the resulting gross margins. Cost was determined using the item cost method for approximately 46% of inventories in fiscal years 2006 and 2005. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances) of each item and recording the actual cost of items sold. The item-cost method of accounting allows for more accurate reporting of periodic inventory balances and enables management to more precisely manage inventory and purchasing levels when compared to the retail method of accounting.

Our largest supplier, United Natural Foods, Inc., accounted for approximately 22%, 22% and 20% of our total purchases in fiscal years 2006, 2005 and 2004, respectively.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and amortization. We provide depreciation of equipment over the estimated useful lives (generally three to 15 years) using the straight-line method. We provide amortization of leasehold improvements on the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases. Terms of leases used in the determination of estimated useful lives may include renewal periods at the Company's option if exercise of the option is determined to be reasonably assured at the inception of the lease. We provide depreciation of buildings over the estimated useful lives (generally 20 to 30 years) using the straight-line method. Costs related to a projected site determined to be unsatisfactory and general site selection costs that cannot be identified with a specific store location are charged to operations currently. The Company recognizes a liability for the fair value of a conditional asset retirement obligation when the obligation is incurred. Repair and maintenance costs are expensed as incurred. Interest costs on significant projects constructed or developed for the Company's own use are capitalized as a separate component of the asset. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is reflected in earnings.

Operating Leases

The Company leases stores, distribution centers, bakehouses and administrative facilities under operating leases. Store lease agreements generally include rent holidays, rent escalation clauses and contingent rent provisions for percentage of sales in excess of specified levels. Most of our lease agreements include renewal periods at the Company's option. We recognize rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased space for construction and other purposes. We record tenant improvement allowances and rent holidays as deferred rent liabilities and amortize the deferred rent over the terms of the lease to rent. We record rent liabilities for contingent percentage of sales lease provisions when we determine that it is probable that the specified levels will be reached during the fiscal year.

Goodwill

Goodwill consists of the excess of cost of acquired enterprises over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is reviewed for impairment annually, or more frequently if impairment indicators arise, on a reporting unit level. We allocate goodwill to one reporting unit for goodwill impairment testing. We determine fair value utilizing both a market value method and discounted projected future cash flows compared to our carrying value for the purpose of identifying impairment. Our annual impairment review requires extensive use of accounting judgment and financial estimates. Application of alternative assumptions and definitions, such as reviewing goodwill for impairment at a different organizational level, could produce significantly different results.

Intangible Assets

Intangible assets include acquired leasehold rights, liquor licenses, license agreements, non-competition agreements and debt issuance costs. Indefinite-lived intangible assets are reviewed for impairment annually, or more frequently if impairment indicators arise. We amortize definite-lived intangible assets on a straight-line basis over the life of the related agreement, currently one to 48 years for contract-based intangible assets and one to five years for marketing-related and other identifiable intangible assets.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

We evaluate long-lived assets and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. When the Company commits to relocate a location, a charge to write down the related assets to their estimated net recoverable value is included in the "Pre-opening and relocation costs" line item in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable, accrued payroll, bonuses and team member benefits, and other accrued expenses approximate fair value because of the short maturity of those instruments. Investments are stated at fair value with unrealized gains and losses included as a component of shareholders' equity until realized.

The fair value of convertible subordinated debentures is estimated using quoted market prices. The fair value of senior unsecured notes is estimated by discounting the future cash flows at the rates currently available to us for similar debt instruments of comparable maturities. Carrying amounts and estimated fair values of our financial instruments other than those for which carrying amounts approximate fair values as noted above are as follows (in thousands):

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Convertible subordinated debentures	$ 8,320	$ 19,298	$12,850	$ 34,635
Senior unsecured notes	—	—	5,714	5,828

Insurance and Self-Insurance Reserves

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. While we believe that our assumptions are appropriate, the estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Revenue Recognition

We recognize revenue for sales of our products at the point of sale. Discounts provided to customers at the point of sale are recognized as a reduction in sales as the products are sold.

Cost of Goods Sold and Occupancy Costs

Cost of goods sold includes cost of inventory sold during the period, net of discounts and allowances, contribution from non-retail distribution and food preparation operations, shipping and handling costs and occupancy costs. The Company receives various rebates from third party vendors in the form of quantity discounts and payments under cooperative advertising agreements. Quantity discounts and co-operative advertising discounts in excess of identifiable advertising costs are recognized as a reduction of cost of goods sold when the related merchandise is sold.

Advertising

Advertising and marketing expense for fiscal years 2006, 2005 and 2004 was approximately $24.0 million, $20.1 million and $17.4 million, respectively. These amounts are shown net of vendor allowances received for co-operative advertising of approximately $1.2 million, $1.2 million and $1.0 million in fiscal years 2006, 2005 and 2004, respectively. Advertising costs are charged to expense as incurred and are included in the "Direct store expenses" line item in the Consolidated Statements of Operations.

Pre-opening and Relocation Costs

Pre-opening costs include rent expense incurred during construction of new stores and costs related to new store openings including costs associated with hiring and training personnel, smallwares, supplies and other miscellaneous costs. Rent expense is generally incurred approximately nine months prior to a store's opening date. Other pre-opening costs are incurred primarily in the 30 days prior to a new store opening. Pre-opening costs are expensed as incurred. Relocation costs, which consist of moving costs, remaining lease payments, accelerated depreciation costs, asset impairment costs, other costs associated with replaced facilities and other related expenses, are expensed as incurred.

Share-Based Compensation

Our Company maintains several share-based incentive plans. We grant options to purchase common stock under our 1992 Stock Option Plans, as amended. Under these plans, options are granted at an option price equal to the market value of the stock at the grant date and are generally exercisable ratably over a four-year period beginning one year from grant date and have a five-year term. The grant date is established once the Company's Board of Directors approves the grant and all key terms have been determined. The exercise prices of our stock option grants are the closing price on the grant date. Stock option grant terms and conditions are communicated to team members within a relatively short period of time. Our Board of Directors generally approves one primary stock option grant annually with a grant date that occurs during a trading window. Our Company offers a team member stock purchase plan to all full-time team members with a minimum of 400 hours of service. Under this plan, participating team members may purchase our common stock each calendar quarter through payroll deductions. Participants in the stock purchase plan may elect to purchase unrestricted shares at 100 percent of market value or restricted shares at 85 percent of market value on the purchase date.

Prior to the effective date of revised Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," the Company applied Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and related interpretations for our stock option grants. APB No. 25 provides that the compensation expense relative to our team member stock options is measured based on the intrinsic value of the stock option at date of grant.

Effective the beginning of the first quarter of fiscal year 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective transition method. Under this method, prior periods were not restated. The Company's methods used to determine share-based compensation, which includes the utilization of the Black-Scholes option pricing model, requires extensive use of accounting judgment and financial estimates, including estimates of the expected term team members will retain their vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. The related share-based compensation expense is recognized on a straight-line basis over the vesting period. Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation and consequently, the related amounts recognized in the Consolidated Statements of Operations. The provisions of SFAS No. 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date.

SFAS No. 123R requires the Company to value unvested stock options granted prior to its adoption of SFAS No. 123 under the fair value method and expense these amounts in the income statement over the stock option's remaining vesting period. In the fourth quarter of fiscal year 2005, the Company accelerated the vesting of all outstanding stock options, except options held by the members of the executive team and certain options held by team members in the United Kingdom, in order to prevent past option grants from having an impact on future results. The Company intends to keep its broad-based stock option program in place, but also intends to limit the number of shares granted in any one year so that annual earnings per share dilution from equity-based compensation expense will not exceed 10%.

Prior to the adoption of SFAS No. 123R, the Company presented the tax savings resulting from tax deductions resulting from the exercise of stock options as an operating cash flow, in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option." SFAS No. 123R requires the Company to reflect gross tax savings resulting from tax deductions in excess of expense reflected in its financial statements, including pro forma amounts, as a financing cash flow.

In November 2005, the FASB issued Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for the Tax Effects of the Share-Based Payment Awards" ("FSP FAS 123R-3"). The Company has elected to adopt the transition guidance for the additional paid-in-capital pool ("APIC pool") pool in paragraph 81 of SFAS No. 123R. The prescribed transition method is a detailed method to establish the beginning balance of the APIC pool related to the tax effects of share-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of share-based compensation awards that are outstanding upon adoption of SFAS No. 123R.

Income Taxes

We recognize deferred income tax assets and liabilities by applying statutory tax rates in effect at the balance sheet date to differences between the book basis and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Deferred tax assets and liabilities are adjusted to reflect changes in tax laws or rates in the period that includes the enactment date. Significant accounting judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. In addition, we are subject to periodic audits and examinations by the IRS and other state and local taxing authorities. Although we believe that our estimates are reasonable, actual results could differ from these estimates.

Earnings per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the fiscal period. Diluted earnings per share is based on the weighted average number of common shares outstanding plus, where applicable, the additional common shares that would have been outstanding as a result of the conversion of dilutive options and convertible debt.

Comprehensive Income

Comprehensive income consists of net income, foreign currency translation adjustments, and unrealized gains and losses on marketable securities, net of income taxes. Comprehensive income is reflected in the Consolidated Statements of Shareholders' Equity and Comprehensive Income. At September 24, 2006, accumulated other comprehensive income consisted of foreign currency translation adjustment gains of approximately $6.9 million and unrealized gains on marketable securities of approximately $0.1 million. At September 25, 2005, accumulated other comprehensive income consisted of foreign currency translation adjustment gains of approximately $4.4 million.

Foreign Currency Translation

The Company's Canadian and United Kingdom operations use their local currency as their functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Segment Information

We operate in one reportable segment, natural foods supermarkets. We currently have three stores in Canada and six stores in the United Kingdom. All of our remaining operations are domestic.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. We use estimates when accounting for depreciation and amortization, allowance for doubtful accounts, inventory valuation, long-term investments, team member benefit plans, team member health insurance plans, workers' compensation liabilities, share-based compensation, store closure reserves, income taxes and contingencies.

Reclassifications

Where appropriate, we have reclassified prior years' financial statements to conform to current year presentation.

Recent Accounting Pronouncements

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No.108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements." SAB No. 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The requirements of SAB No. 108 are effective for fiscal years ending after November 15, 2006. We are currently evaluating the effect, if any, that the adoption of SAB No. 108 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value and does not change existing guidance as to whether or not an instrument is carried at fair value. The provisions of SFAS No. 157 are effective for the specified fair value measures for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on our consolidated financial statements.

In July 2006, the FASB issued Interpretation 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. The interpretation applies to all tax positions accounted for in accordance with Statement 109 and requires a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in an income tax return. Subsequent recognition, derecognition, and measurement is based on management's best judgment given the facts, circumstances and information available at the reporting date. FIN 48 is effective for fiscal years beginning after December 15, 2006. Early adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. We are currently evaluating the effect, if any, that the adoption of FIN 48 will have on our consolidated financial statements.

In March 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation). Taxes within the scope of EITF Issue No. 06-3 include any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales taxes, use taxes, value-added taxes, and some excise taxes. The EITF concluded that the presentation of these taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed. For any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements. The Company's policy is to exclude all such taxes from revenue. The provisions of EITF 06-3 are effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF 06-3 will not have any effect on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a Replacement of Accounting Principles Board Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement was issued. The Company is required to adopt the provisions of SFAS No. 154, as applicable, beginning in fiscal year 2007. We do not expect the adoption of SFAS No. 154 will have a significant effect on our future consolidated financial statements.

(3) Natural Disaster Costs

The Company has two stores in the New Orleans area which were damaged by and closed due to Hurricane Katrina during the fourth quarter of fiscal year 2005, and accordingly the Company recorded expenses totaling approximately $16.5 million for related estimated net losses. The main components of the $16.5 million expense were estimated impaired assets totaling approximately $12.2 million, estimated inventory losses totaling approximately $2.5 million, salaries and relocation allowances for displaced Team Members and other costs totaling approximately $3.4 million, and a $1.0 million special donation from the Company to the American Red Cross, net of accrued estimated insurance proceeds totaling approximately $2.6 million. In fiscal year 2005, approximately $13.4 million of net natural disaster costs is included in "Direct store expenses" in the Consolidated Statements of Operations, approximately $1.0 million is included in "General and administrative expenses," and approximately $2.1 million is included in "Cost of goods sold and occupancy costs." In fiscal year 2006, the Company recognized approximately $7.2 million in pre-tax credits for insurance proceeds and other adjustments related to previously estimated Hurricane Katrina losses, of which approximately $4.2 million is included in "Direct store expenses," approximately $0.9 million is included in "Cost of goods sold and occupancy costs," and approximately $2.1 million is included in "Investment and other income."

(4) Property and Equipment

Balances of major classes of property and equipment are as follows (in thousands):

	2006	2005
Land	$ 39,993	$ 34,396
Buildings and leasehold improvements	955,130	784,000
Fixtures and equipment	779,050	692,403
Construction in progress and equipment not yet in service	168,105	133,061
	1,942,278	1,643,860
Less accumulated depreciation and amortization	706,145	589,255
	$1,236,133	$1,054,605

Depreciation and amortization expense related to property and equipment totaled approximately $152.4 million, $129.8 million and $111.2 million for fiscal years 2006, 2005 and 2004, respectively. Property and equipment included accumulated accelerated depreciation and other asset impairments totaling approximately $13.1 million and $5.9 million at September 24, 2006 and September 25, 2005, respectively. Property and equipment includes approximately $0.9 million, $3.0 million and $2.1 million of interest capitalized during fiscal years 2006, 2005 and 2004, respectively. Development costs of new store locations totaled approximately $208.6 million, 207.8 million and $156.7 million in fiscal years 2006, 2005 and 2004, respectively. As of November 2, 2006, we had signed leases for 88 stores under development.

(5) Business Combinations

Fresh & Wild Holdings Limited

On January 31, 2004, we acquired all of the outstanding stock of Fresh & Wild Holdings Limited ("Fresh & Wild") for a total of approximately $20 million in cash and approximately $16 million in Company common stock, totaling 477,470 shares. The acquisition of Fresh & Wild, which owned and operated seven natural and organic food stores in London and Bristol, England, provided a platform for expansion of the Whole Foods Market brand in the United Kingdom. This transaction was accounted for using the purchase method and, accordingly, the purchase price has been allocated to tangible and identifiable intangible assets acquired based on their estimated fair values at the date of acquisition. Total costs in excess of tangible and intangible assets acquired of approximately $30.5 million have been recorded as goodwill. Fresh & Wild results of operations are included in our consolidated income statements for the period beginning February 1, 2004 through September 26, 2004 and all subsequent periods. John Mackey and Walter Robb, executive officers of the Company, each owned approximately 0.2% of the outstanding stock of Fresh & Wild and received proceeds totaling approximately $54,000 and $78,000, respectively, in consideration for their ownership interest.

Select Fish LLC

On October 27, 2003, we acquired certain assets of Select Fish LLC ("Select Fish") in exchange for approximately $3 million in cash plus the assumption of certain liabilities. All assets acquired relate to a seafood processing and distribution facility located in Seattle, Washington. This transaction was accounted for using the purchase method. Accordingly the purchase price was allocated to tangible and identifiable intangible assets acquired based on their estimated fair values at the date of the acquisition. Total costs in excess of tangible and intangible assets acquired of approximately $1.1 million have been recorded as goodwill. Select Fish results of operations are included in our consolidated income statements beginning October 27, 2003.

(6) Goodwill and Other Intangible Assets

Goodwill and indefinite-lived intangible assets are reviewed for impairment annually, or more frequently if impairment indicators arise. We allocate goodwill to one reporting unit for goodwill impairment testing. During fiscal year 2006, we acquired goodwill totaling approximately $1.1 million, primarily related to the acquisition of one small store in Portland, Maine. We acquired indefinite-lived intangible assets totaling approximately $50,000 and $0.7 million during fiscal years 2006 and 2005, respectively, consisting primarily of liquor licenses. There was no impairment of goodwill or indefinite-lived intangible assets during fiscal years 2006, 2005 or 2004.

Definite-lived intangible assets are amortized over the useful life of the related agreement. We acquired definite-lived intangible assets totaling approximately $15.7 million and $1.5 million during fiscal years 2006 and 2005, respectively, consisting primarily of acquired leasehold rights. Amortization associated with intangible assets totaled approximately $2.5 million, $2.8 million, and 3.0 million during fiscal years 2006, 2005 and 2004, respectively. The components of intangible assets were as follows (in thousands):

	2006		2005	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Indefinite-lived contract-based	$ 774	$ —	$ 723	$ —
Definite-lived contract-based	45,579	(11,833)	32,597	(11,827)
Definite-lived marketing-related and other	2,242	(1,995)	2,921	(2,425)
	$ 48,595	$ (13,828)	$ 36,241	$ (14,252)

Amortization associated with the net carrying amount of intangible assets is estimated to be approximately $2.4 million in fiscal year 2007, $2.3 million in fiscal year 2008, $2.3 million in fiscal year 2009, $2.2 million in fiscal year 2010 and $2.2 million in fiscal year 2011.

(7) Long-Term Debt

We have long-term debt and obligations under capital leases as follows (in thousands):

	2006	2005
Obligations under capital lease agreements for equipment, due in monthly installments through 2012	$ 335	$ 300
Senior unsecured notes	—	5,714
Convertible debentures, including accreted interest	8,320	12,850
Total Long-term debt	8,655	18,864
Less current installments	49	5,932
Long-term debt, less current installments	$8,606	$12,932

On October 1, 2004, we amended our credit facility to extend the maturity of our $100 million revolving line of credit to October 1, 2009. The credit agreement contains certain affirmative covenants including maintenance of certain financial ratios and certain negative covenants including limitations on additional indebtedness as defined in the agreement. At September 24, 2006 and September 25, 2005, we were in compliance with the applicable debt covenants. All outstanding amounts borrowed under this agreement bear interest at our option of either the defined base rate or the LIBOR rate plus a premium. Commitment fees of 0.15% of the undrawn amount are payable under this agreement. At September 24, 2006 and September 25, 2005 no amounts were drawn under the agreement. The amount available to the Company under the agreement was effectively reduced to $88.4 million by outstanding letters of credit totaling approximately $11.6 million at September 25, 2005. On November 7, 2005, we amended our credit facility to delete negative covenants related to the repurchase of Company stock and payment of dividends.

We have outstanding zero coupon convertible subordinated debentures which had a carrying amount of approximately $8.3 million and $12.9 million at September 24, 2006 and September 25, 2005, respectively. The debentures have an effective yield to maturity of 5 percent and a scheduled maturity date of March 2, 2018. The debentures are convertible at the option of the holder, at any time on or prior to maturity, unless previously redeemed or otherwise purchased. The debentures may be redeemed at the option of the holder on March 2, 2008 or March 2, 2013 at the issue price plus accrued original discount to the date of redemption. Subject to certain limitations, at our option, we may elect to pay this purchase price in cash, shares of common stock or any combination thereof. The debentures may also be redeemed in cash at the option of the holder if there is a change in control at the issue price plus accrued original discount to the date of redemption. The Company may redeem the debentures for cash, in whole or in part, at redemption prices equal to the issue price plus accrued original discount to the date of redemption. The debentures are subordinated in the right of payment to all existing and future senior indebtedness. The debentures have a conversion rate of 21.280 shares of Company common stock per $1,000 principal amount at maturity, or approximately 311,000 shares and 505,000 shares at September 24, 2006 and September 25, 2005, respectively. Approximately $5.0 million and $150.1 million of the carrying amount of the debentures were voluntarily converted by holders to shares of Company common stock during fiscal years 2006 and 2005, respectively.

We also had outstanding senior unsecured notes that bear interest at 7.29% payable quarterly with a carrying amount of approximately $5.7 million at September 25, 2005. The Company made the final principal payment totaling approximately $5.7 million to retire its senior notes on May 16, 2006.

(8) Leases

The Company is committed under certain capital leases for rental of equipment and certain operating leases for rental of facilities and equipment. These leases expire or become subject to renewal clauses at various dates from 2006 to 2038. Amortization of equipment under capital lease is included with depreciation expense.

Rental expense charged to operations under operating leases for fiscal years 2006, 2005 and 2004 totaled approximately $153.1 million, $124.8 million and $99.9 million, respectively. Minimum rental commitments required by all non-cancelable leases are approximately as follows (in thousands):

	Capital	Operating
2007	$ 58	$ 162,827
2008	93	227,490
2009	89	247,284
2010	74	246,028
2011	39	243,331
Future fiscal years	25	3,636,926
	378	$4,763,886
Less amounts representing interest	43	
Net present value of capital lease obligations	335	
Less current installments	49	
Long-term capital lease obligations, less current installments	$ 286	

During fiscal years 2006, 2005 and 2004, we paid contingent rentals totaling approximately $9.6 million, $7.6 million and $4.8 million, respectively. No asset retirement obligations have been incurred associated with operating leases. Sublease rental income totaled approximately $1.6 million, $1.3 million and $1.4 million during fiscal years 2006, 2005 and 2004, respectively. John Mackey and Glenda Chamberlain, executive officers of the Company, own approximately 51% and 2%, respectively, of BookPeople, Inc., a retailer of books and periodicals that is unaffiliated with the Company, which leases retail space in Austin, Texas from the Company. The lease provides for an aggregate annual minimum rent of approximately $0.4 million which the Company received in rental income in fiscal years 2006, 2005 and 2004.

(9) Income Taxes

Components of income tax expense are as follows (in thousands):

	2006	2005	2004
Current federal income tax	$120,774	$106,087	$70,750
Current state income tax	30,632	22,568	16,272
Total current tax	151,406	128,655	87,022
Deferred federal income tax	(13,350)	(22,462)	284
Deferred state income tax	(2,171)	(5,411)	(965)
Total deferred income tax	(15,521)	(27,873)	(681)
Total income tax expense	$135,885	$100,782	$86,341

Actual income tax expense differed from the amount computed by applying statutory corporate income tax rates to income before income taxes as follows (in thousands):

	2006	2005	2004
Federal income tax based on statutory rates	$118,900	$ 82,997	$75,548
Increase (reduction) in income taxes resulting from:			
Change in valuation allowance	(31)	1,639	2,310
Tax exempt interest	(1,352)	—	—
Share-based compensation	(462)	3,310	—
Deductible state income taxes	(9,962)	(6,005)	(5,357)
Other, net	331	1,684	(1,467)
Total federal income taxes	107,424	83,625	71,034
State income taxes	28,461	17,157	15,307
Total income tax expense	$135,885	$100,782	$86,341