WILD OATS MARKETS INC
Form S-3/A
July 14, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 14, 2005

REGISTRATION NO. 333-118406

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO

FORM S-3
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

WILD OATS MARKETS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or Other Jurisdiction of Organization or Incorporation)	84-1100630 (I.R.S. Employ Identification Nu

3375 MITCHELL LANE
BOULDER, COLORADO 80301
(303) 440-5220
(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

FREYA R. BRIER, ESQ.
SENIOR VICE PRESIDENT, REAL ESTATE AND GENERAL COUNSEL
WILD OATS MARKETS, INC.
3375 MITCHELL LANE
BOULDER, COLORADO 80301
(303) 440-5220
(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

WITH COPIES TO:

RANDALL H. DOUD, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
FOUR TIMES SQUARE
NEW YORK, NEW YORK 10036-6522
(212) 735-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time following the effectiveness of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY	PROPOSE AGGR OFFERI
3.25% Convertible Senior Debentures due 2034......................................	$115,000,000(1)	100%(2)	$115,00
Common stock, par value $0.001 per share.....	1,332,649(5)	$10.315(6)	$10.

(1) Represents the sum of the $100.0 million aggregate principal amount of 3.25% Convertible Senior Debentures due 2034 issued on June 1, 2004 and the additional $15.0 million aggregate principal amount of 3.25% Convertible Senior Debentures due 2034 issued on June 10, 2004.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(i) under the Securities Act, exclusive of accrued interest, if any.

(3) Previously paid.

(4) Represents 1,332,649 shares of common stock owned by Perry D. Odak, the Chief Executive Officer of the registrant. This number of shares does not reflect the indeterminate number of shares that may be issued, based on the price of the common stock at the time of any future conversion, in consideration for amounts in excess of the principal amount.

(5) Includes preferred share purchase rights, which are associated with and trade with the common stock. The value, if any, attributable to the rights is reflected in the market price of the common stock. No additional registration fee is required.

(6) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 based on the average of the high and low prices of the registrant's common stock on the NASDAQ National Market on May 16, 2005.

(7) Represents the amount of the registration fee paid with respect to the 1,332,649 shares of common stock owned by Mr. Odak. Pursuant to Rule 457(i) under the Securities Act of 1933, no registration fee is payable with respect to the 6,498,639 shares of common stock issuable upon conversion of the 3.25% Convertible Senior Debentures due 2034 because no additional consideration will be received by the registrant upon conversion of the 3.25% Convertible Senior Debentures due 2034.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION ACTING PURSUANT TO THE SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 14, 2005
PROSPECTUS

(WILD OATS MARKETS, INC. LOGO)
WILD OATS MARKETS, INC.
$115,000,000 3.25% CONVERTIBLE SENIOR DEBENTURES DUE 2034
AND
THE COMMON STOCK ISSUABLE UPON CONVERSION OF THE DEBENTURES
AND
1,332,649 ADDITIONAL SHARES OF COMMON STOCK

This prospectus relates to the resale by various selling securityholders of $115,000,000 aggregate principal amount of our 3.25% senior convertible debentures due 2034 and shares of our common stock into which the debentures are convertible. The debentures and shares of our common stock into which the debentures are convertible are being registered pursuant to an agreement with the initial purchasers of the debentures. This prospectus also relates to the resale by Perry D. Odak, our Chief Executive Officer, of up to 1,332,649 shares of common stock, which shares of common stock are being registered in connection with a stock purchase agreement with Mr. Odak. The debentures, the shares of common stock into which the debentures are convertible and the shares of common stock being registered by Mr. Odak are together referred to in this prospectus as the offered securities. The offered securities may be offered and sold from time to time by the securityholders specified in this prospectus or their successors in interest who have been identified in an amendment or supplement to this prospectus. See "Selling securityholders" beginning on page 63.

The debentures have a principal amount of $1,000 per debenture and bear regular interest at the annual rate of 3.25% until May 15, 2011, payable on May 15 and November 15 of each year, beginning on November 15, 2004. After May 15, 2011, we will not pay regular interest on the debentures. On May 15, 2034, the maturity date of the debentures, holders will receive the principal amount of $1,000 per debenture. We will pay contingent interest to the holders of the debentures for the period commencing May 20, 2011 and ending November 14, 2011 if the average trading price of a debenture for each of the last five trading days immediately preceding May 20, 2011 equals 125% or more of the principal amount of the debenture. Thereafter, we will pay additional contingent interest during a six-month interest period if the average trading price of the debentures during the five trading-day period immediately preceding the first day of the interest period equals or exceeds 125% of the principal amount of the debentures.

Holders may convert the debentures into shares of our common stock prior to stated maturity under certain circumstances described in this prospectus. We have made an irrevocable election to pay the principal amount of Debentures in cash upon conversion, however we retain the ability to satisfy the remainder of any conversion payment, in cash or a combination of cash and common stock.

On or after May 20, 2011, we may redeem the debentures in whole or in part at any time for a redemption price in cash equal to 100% of the principal amount of the debentures to be redeemed, plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to, but excluding, the redemption date.

The conversion rate is currently 56.5099 shares of our common stock per $1,000 principal amount of debentures, which is equivalent to a conversion price of approximately $17.70 per share of common stock. The conversion rate is subject to adjustment upon the occurrence of specified events.

The debentures are subject to United States federal income tax rules applicable to contingent payment debt instruments. See "Material United States federal income tax consequences" beginning on page 56.

The selling securityholders will receive all of the proceeds from the sale of the securities under this prospectus. We will not receive any proceeds from the sale of securities under this prospectus by the selling securityholders.

We will bear the expenses in connection with the offering, including filing fees and our legal and accounting fees, estimated at $3,000,000.

Our common stock is listed on the NASDAQ National Market under the symbol "OATS." On July 13, 2005, the last reported sale price of the common stock on the NASDAQ National Market was $12.39.

The debentures are not listed on any securities exchange or approved for quotation through any automated system.

INVESTING IN OUR DEBENTURES AND COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2005.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED OR DEEMED TO BE INCORPORATED BY REFERENCE INTO THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THE OFFERED SECURITIES ARE NOT BEING OFFERED IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS SPEAKS ONLY AS OF THE DATE OF THIS PROSPECTUS AND THE INFORMATION IN THE DOCUMENTS INCORPORATED OR DEEMED TO BE INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SPEAKS ONLY AS OF THE RESPECTIVE DATES THOSE DOCUMENTS WERE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION").

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SUMMARY

This summary contains basic information about us and this offering and summarizes the material information contained in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus and all the information that it incorporates by reference carefully, including the section entitled "Risk Factors", and our consolidated financial statements, the related notes and the management's discussion and analysis of our financial condition and results of operations for the periods covered by those financial statements, all of which are incorporated by reference into this prospectus, before making an investment decision.

Generally, in this prospectus, unless the context indicates otherwise, "we," "us" and "our" refer to Wild Oats Markets, Inc. and its consolidated subsidiaries. For purposes of the description of the debentures included in this prospectus, references to "the company," "issuer," "Wild Oats," "us," "we" and "our" refer only to Wild Oats Markets, Inc. and do not include our subsidiaries.

WILD OATS MARKETS, INC.

OVERVIEW

We are one of the largest natural foods supermarket chains in North America. As of July 13, 2005, we operated 111 natural foods stores in 24 states and British Columbia, Canada under several names, including:

-- Wild Oats Natural Marketplace (nationwide)

-- Henry's Farmers Market (Southern California and Phoenix, Arizona)

-- Sun Harvest Farms (Texas)

-- Capers Community Market (British Columbia, Canada)

We are dedicated to providing a broad selection of natural, organic and gourmet foods, environmentally friendly household products and an extensive selection of natural vitamins, supplements, herbal and homeopathic remedies and body care products at competitive prices, in an inviting and educational store environment that emphasizes customer service. Wild Oats provides its customers with a one-stop, full-service shopping alternative to both conventional supermarkets and traditional health food stores, with an emphasis on fresh foods, product education and information on wellness issues. Our comprehensive selection of natural and organic products appeals to health-conscious shoppers while offering virtually every product category found in a conventional supermarket. We believe that our market positioning, coupled with industry data that states that the natural products industry currently comprises less than 5% of the total grocery industry, offers significant potential for us to continue to expand our customer base.

Moreover, retail sales of natural products have substantially grown over the past decade, while sales growth in the traditional grocery industry has remained relatively flat over the same period. We believe that this growth reflects a broadening of the natural products consumer base, which is being propelled by several factors, including healthier eating patterns, increasing concern regarding food purity and safety, and greater environmental awareness.

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We were incorporated in Colorado in 1987, reincorporated in Delaware in 1993 and completed our initial public offering on October 22, 1996. Our sales grew from $969.2 million in fiscal 2003 to a record $1.048 billion in fiscal 2004, an overall sales growth of 8.1%. Our improvements in sales resulted from the opening of twelve new stores, for a net store base increase of five stores, nationwide increases in comparable store sales resulting from a number of successful operational, merchandising and marketing initiatives and the positive impact on us of an extensive strike at conventional grocery retailers in southern California beginning in October 2003.

Fiscal 2004 was a year in which many of the initiatives we commenced in 2001 and 2002 were refined and fully implemented. These initiatives included:

-- refinement of our growth strategy;

-- focus on brand awareness; and

-- use of new information technology systems.

In 2005, we plan to build brand awareness through sales of new and relaunched branded private label products, to expand our product selection to increase appeal to the speciality food shopper and leverage efficiencies created by investments in management information systems.

Wild Oats Markets, Inc. is a Delaware corporation. Our principal executive offices are located at 3375 Mitchell Lane, Boulder, Colorado 80301, and our telephone number at that address is (303) 440-5220. Our Web site is located at www.wildoats.com. The content of this Web site and any other Web sites identified in this prospectus are not incorporated by reference into this prospectus.

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SUMMARY OF THE DEBENTURES

ISSUER.................Wild Oats Markets, Inc., a Delaware corporation.

SECURITIES OFFERED......$115,000,000 principal amount of 3.25% Convertible Senior Debentures due 2034.

MATURITY DATE..........	May 15, 2034, unless earlier converted, redeemed or repurchased.
RANKING................	The debentures are our direct, unsecured and unsubordinated obligations and rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our future subordinated indebtedness. The debentures effectively rank junior to any of our secured indebtedness. The debentures are structurally subordinated to all liabilities of our subsidiaries, including our subsidiaries' guarantees of our indebtedness. See "Description of Debentures -- Ranking" beginning on page 24.
INTEREST...............	3.25% per annum on the principal amount, payable semiannually in arrears on May 15 and November 15 of each year, beginning November 15, 2004. We will not pay regular interest on the debentures after May 15, 2011.
CONTINGENT INTEREST.....	We will pay contingent interest to the holders of the debentures commencing May 20, 2011 and ending November 14, 2011 if the average trading price of a debenture equals 125% or more of the principal amount of the debenture during certain measurement periods. See "Description of Debentures -- Contingent Interest" beginning on page 24.
CONVERSION RIGHTS.......	You may convert the debentures into the right to receive a cash payment for the principal amount and either cash or stock for any remaining conversion amount at a conversion rate of 56.5099 shares per $1,000 principal amount of debentures (equal to a conversion price of approximately $17.70 per share of common stock), subject to adjustment, if certain events occur. See "Description of Debentures -- Conversion Rights" beginning on page 26.
	Upon conversion, we will pay the principal amount of the Debentures converted in cash, and any remaining amount in cash or a combination of cash and shares of our common stock. See "Description of the debentures--Conversion rights--Payment upon conversion" beginning on page 28.
SINKING FUND...........	None.
OPTIONAL REDEMPTION.....	Prior to May 20, 2011, the debentures will not be redeemable. On or after May 20, 2011, we may redeem for cash some or all of the debentures, at any time and from time to time, upon at least 30 and no more than 60 days' notice for a price equal to 100% of the principal amount of the debentures to be redeemed plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the redemption date.

REPURCHASE OF DEBENTURES BY US AT THE OPTION OF THE HOLDER.................	You may require us to repurchase some or all of your

debentures for cash on May 15, 2011, May 15, 2014 and May 15, 2024 at a repurchase price equal to 100% of the principal amount of the debentures being repurchased, plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the applicable repurchase date.

FUNDAMENTAL CHANGE......If we undergo a fundamental change (as defined in this prospectus) prior to maturity, you will have the right, at your option, to require us to repurchase some or all of your debentures for cash at a repurchase price equal to 100% of the principal amount of the debentures being repurchased, plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the applicable repurchase date. In addition, following certain fundamental changes, we will pay to all holders of debentures a make-whole premium which may be paid in cash, shares of common stock or a combination thereof.

REGISTRATION RIGHTS.....Pursuant to a registration rights agreement that we entered into in connection with the private offering of the debentures in June 2004, we have filed a shelf registration statement under the Securities Act of 1933, as amended (the "Securities Act"), relating to the resale of the debentures and the common stock issuable upon conversion of the debentures. The shares offered by Perry D. Odak, our Chief Executive Officer, are included in this prospectus in connection with a restricted stock purchase agreement entered into with Mr. Odak in March 2001. This prospectus constitutes a part of that shelf registration statement. We filed the shelf registration statement solely to permit the resale of offered securities, and investors who purchase debentures or shares of common stock from selling securityholders in this offering will not be entitled to any registration rights under the registration rights agreement. In addition, under the registration rights agreement relating to the private offering of the debentures, selling securityholders may be required to discontinue the sale or other disposition of debentures and shares of common stock issued upon conversion of debentures pursuant to the shelf registration statement and to discontinue the use of this prospectus under certain circumstances specified in the registration rights agreement.

UNITED STATES FEDERAL
INCOME TAX
CONSEQUENCES...........Under the indenture governing the debentures, we have agreed, and by acceptance of a beneficial interest in a debenture each holder of a debenture is deemed to have agreed, to treat the debentures as indebtedness for United States federal income tax purposes that is subject to the Treasury regulations governing contingent payment debt instruments. See "Material United States federal income tax consequences" beginning on page 56.

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USE OF PROCEEDS........The selling securityholders will receive all of the net proceeds from the sale of the debentures. We will not receive any of the proceeds from the sale of any of the debentures.

BOOK-ENTRY FORM.........The debentures are issued in book-entry form and are represented by global certificates deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC. Beneficial interests in any of the debentures are shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities except in limited circumstances.

TRADING.................We issued the debentures in June 2004 in a private offering. Prior to such offering there was no trading market for the debentures. Although the initial purchasers advised us at the time of that offering that they intended to make a market in the debentures, they are not obligated to do so and may discontinue such market making at any time without notice. There is no public market for the debentures and we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures through any automated quotation system. The debentures issued to qualified institutional buyers in the June 2004 offering currently trade on the PORTAL market. However, once debentures are sold under this prospectus, those debentures will no longer trade on the PORTAL market.

SUMMARY OF THE COMMON STOCK

ISSUER..................Wild Oats Markets, Inc., a Delaware corporation.

SECURITIES OFFERED......Up to 1,332,649 shares of common stock are being offered by Perry D. Odak, our Chief Executive Officer. The shares offered by Mr. Odak are included in this prospectus in connection with a restricted stock purchase agreement entered into with Mr. Odak in March 2001. The Board of Directors of the Company determined to include Mr. Odak's shares of the Company's common stock in this registration. The stock purchase agreement with Mr. Odak does not provide for such piggyback registration of Mr. Odak's shares as a matter of right under these circumstances, but does provide that the Board of Directors of the Company can be relieved of its obligation to register such shares for any reason by providing notice of such determination to Mr. Odak. Mr. Odak has informed the Board of Directors of the Company that his request to register his shares is a matter of convenience, and not evidence of present intent to sell such shares.

SHARES OUTSTANDING......We are authorized to issue, without further stockholder action under Delaware law, up to 60,000,000 shares of common stock, of which 28,672,750 shares were outstanding, 1,977,800 shares were held as treasury stock, 2,515,866 were reserved for issuance upon the exercise of outstanding options as of July 12, 2005.

We are also authorized to issue, without stockholder approval, 5,000,000 shares of preferred stock, none of which were outstanding as of July 12, 2005, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of the common stock.

DIVIDENDS..............We currently intend to retain any future earnings to finance the growth and development of our business and therefore do not anticipate paying any cash dividends in the foreseeable future.

REGISTRATION RIGHTS.....See "--Summary of the debentures--Registration rights" on page 5 for a description of the registration rights relating to the common stock.

USE OF PROCEEDS.........The selling securityholders will receive all of the net proceeds from the sale of shares of common stock. We will not receive any of the proceeds from the sale of shares of common stock.

TRADING.................The common stock is listed on the NASDAQ National Market under the symbol "OATS." On July 13, 2005, the last reported sale price of the common stock on the NASDAQ National Market was $12.39.

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RISK FACTORS

An investment in the debentures involves a high degree of risk. You should carefully consider the following factors, in addition to the other information contained in this prospectus, in deciding whether to invest in the debentures. This prospectus contains forward-looking statements that involve risk and uncertainties. Our actual results may differ significantly from the result discussed in the forward-looking statements. Factors that might cause such differences include those discussed below.

RISK RELATED TO OUR BUSINESS

OUR QUARTERLY FINANCIAL RESULTS AND OUR STOCK PRICE MAY FLUCTUATE SIGNIFICANTLY, WHICH MAY AFFECT OUR CASH FLOW FROM OPERATIONS, OUR FUTURE ABILITY TO RAISE PROCEEDS FROM EQUITY FINANCINGS OR BORROWINGS, OR OUR ABILITY TO OBTAIN NEW STORE LOCATIONS ON FAVORABLE ECONOMIC TERMS.

Our quarterly financial results of operations may differ materially from quarter to quarter for a variety of reasons, including the timing and success of new store openings, overall store performance, changes in the economy, seasonality and the timing of holidays, significant increases or decreases in prices for or availability of goods and services, competitive pressure and labor disturbances, as well as other factors mentioned in this section.

Our stock price has been and continues to be fairly volatile. Our stock price is affected by our quarterly and yearly financial results, financial results of our major competitors and suppliers, general market and economic conditions and publicity about us, our competitors, our vendors or our industry. Volatility in our stock price may affect our future ability to raise proceeds from equity financings or borrowings, or to obtain new store sites on favorable economic terms.

OUR PAST COMPARABLE STORE SALES MAY NOT BE INDICATIVE OF FUTURE COMPARABLE STORE SALES OR INDICATIVE OF FUTURE PERFORMANCE.

A variety of factors affect our comparable store sales results, including, among others:

-- the opening of stores by us or by our competitors in markets where we have existing stores;

-- the relative proportion of new stores to mature stores;

-- store remodelings;

-- the timing of promotional events;

-- our ability to implement our operating plans effectively;

-- changes in consumer preferences for natural foods products; and

-- general economic conditions.

Past increases in comparable store sales may not reflect future performance. Comparable store sales for any particular period may decrease in the future. Because of the factors listed above, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and that such comparisons cannot be relied upon as indicators of future financial performance. Fluctuations in our comparable store sales could cause the price of our common stock to fluctuate substantially.

INCREASED COMPETITION IN THE SALE OF NATURAL FOODS PRODUCTS COULD REDUCE OUR PROFITABILITY.

Our competitors currently include other independent and multi-unit natural foods supermarkets, smaller traditional natural foods stores, conventional supermarkets and specialty grocery stores. We believe that our primary competitor is Whole Foods Market, Inc., a national natural foods supermarket chain based in Texas, which, as of January 16, 2005, operated 166 stores in 28 states plus the District of Columbia, Canada and the United Kingdom and had annual sales of approximately $3.9 billion in its 2004 fiscal year. We directly compete with Whole Foods Market, Inc. in several states including California, Colorado, Florida, Illinois, Massachusetts, New Mexico and Texas (a total of 75% of our current total sales are in shared markets, as defined by a nationally recognized statistical survey firm). A number of other natural foods supermarkets offer a range of natural foods products similar to those we offer. While some competitors do not offer as full a range of products as we do, they do compete with us in some product categories.

Many of our competitors have been in business longer and have greater financial or marketing resources than we do. Our competitors also may be able to devote more funds and employees to securing suitable locations for new stores and to the sourcing, promotion and sale of their products. In addition, should any of our competitors reduce prices, we may be required to reduce prices to remain competitive, which could result in lower sales and profitability. As we open stores in new geographic markets, our success will depend in part on our ability to gain market share from established competitors. Traditional and specialty grocery stores are expanding the amount of natural foods they carry and market, and therefore they now compete directly with us for products, customers and locations. We expect competition from both new and existing competitors to increase in our markets and we may not be able to compete effectively in the future, which could adversely affect our profitability.

ECONOMIC CONDITIONS MAY AFFECT US TO A GREATER DEGREE THAN OUR COMPETITORS AND, AS A RESULT, OUR RESULTS OF OPERATIONS COULD BE DISPROPORTIONATELY ADVERSELY AFFECTED.

Downturns in general economic conditions in communities, states, regions or the nation as a whole can negatively affect our results of operations. While purchases of food generally do not decrease in a slower economy, consumers may choose less expensive alternative sources for food purchases. In addition, downturns in the economy make the disposition of excess properties, for which we continue to pay rent and other carrying costs, substantially more difficult as the markets become saturated with vacant space and market rents decrease.

INFORMATIONAL PICKETING AND OTHER UNION ACTIVITIES MAY NEGATIVELY AFFECT OUR SALES.

From time to time, unions will attempt to organize employees or portions of the employee base at stores or our distribution or production facilities. Responses to organization attempts require substantial management and employee time and are disruptive to operations. A successful organizational effort could result in disruptions in our store operations and higher costs for salaries and benefits. In addition, from time to time certain of our stores may be subject to informational picketing by local trade unions. Our company has affirmatively endorsed social responsibility, as evidenced by our mission statement; informational picketing conflicting with our publicly expressed social stance may, therefore, disappoint customer expectations and thereby discourage customer traffic and lower sales volumes.

LOSS OF KEY PERSONNEL COULD DISRUPT OUR BUSINESS AND NEGATIVELY AFFECT OUR RESULTS OF OPERATIONS.

We believe that our continued success will depend to a significant extent upon the leadership and performance of our key executive personnel, including:

- Perry D. Odak, our President and Chief Executive Officer;
- Robert Dimond, our Senior Vice President and Chief Financial Officer;
- Edward F. Dunlap, our Senior Vice President, Operations;
- Bruce M. Bowman, our Senior Vice President, Business Development;
- Stephen P. Kaczynski, our Senior Vice President, Merchandising and Marketing;
- Freya R. Brier, our Senior Vice President, Real Estate and General Counsel; and
- Peter F. Williams, our Vice President, Human Resources.

The loss of the services of these individuals or other of our key personnel could harm our operations. We do not maintain key person insurance on any of these personnel. Our continued success is also dependent upon our ability to attract and retain qualified executives to meet our future growth needs. We face intense competition for qualified executives, many of whom are subject to offers from competing employers. We may not be able to attract and retain key executive personnel as necessary to operate our business.

OUR GROWTH STRATEGY HAS PLACED, AND WILL CONTINUE TO PLACE, A SIGNIFICANT STRAIN ON OUR MANAGEMENT, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO EXECUTE AND MANAGE OUR BUSINESS STRATEGY IN A TIMELY FASHION.

Although we believe that we have the management, operational and information systems, distribution infrastructure and other resources required to implement our growth strategy, we may not be able to execute our new store expansion plans within the expected time frame. Our continued growth may place a significant strain on our management, our ability to distribute products to our stores, working capital and financial and management control systems. In order for us to manage our expanding store base successfully, our management will be required to anticipate the changing demands of our growing operations and to adapt systems and procedures accordingly. If we are not able to do so, our business, sales and overall profitability will be materially and negatively affected.

DISRUPTIONS OF PRODUCT SUPPLY COULD REDUCE STORE SALES AND PROFITABILITY AND DISRUPT OUR OPERATIONS.

Our business is dependent on our ability to buy products on a timely basis and at competitive prices from a small number of distributors and from a large number of relatively small vendors. In the fourth quarter of fiscal 2003, we announced that we and Tree of Life, Inc. ("TOL"), our previous primary distributor, would be terminating that relationship and that we would be converting a secondary contract with United Natural Foods, Inc. ("UNFI") to a primary relationship. We entered into a new primary distribution agreement with UNFI in January 2004. The distribution arrangement, which commenced effective April 1, 2004, has a five-year term. Under the terms of the new agreement, we are obligated to purchase a majority of certain specified categories of goods for sale in our U.S. stores from UNFI, except in certain defined circumstances. We believe UNFI has sufficient warehouse capacity and distribution technology to service our existing stores' distribution needs for natural foods and products as well as the

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needs of new stores in the future. The transition to UNFI from TOL was completed by the end of the first fiscal quarter of 2004.

To date, the transition has not resulted in any unusual or unexpected disruptions in product supply. However, from time to time we have experienced a shortage of private label products. Since private label products generally return a higher margin, this shortage has resulted in the loss of more profitable sales. We may also experience additional short term disruptions in delivery of goods as the transition is completed, resulting in reduced sales. We will have no other material supply contracts with our vendors, who could discontinue selling to us at any time. Although we believe that we could develop alternative sources of supply, any such termination may create a short-term disruption in store-level merchandise selection, resulting in reduced sales. Any significant disruption in the supply of goods could have a material impact on our overall sales volume, cost of goods and our profitability. We may not be able to negotiate future supply agreements with this or other distributors on terms favorable to us, if at all.

In February 2004, we transitioned from two older warehouse facilities to our new perishables distribution facility in Riverside, California. Some start-up issues resulted in sales disruptions to 22 stores then being serviced from the facility. These disruptions were exacerbated by produce volume volatility caused by the end of the California grocery strike. Continued problems at such facility could result in negative sales impacts at the 72 stores currently being serviced from the facility.

CHANGES IN GOVERNMENT REGULATION COULD INCREASE OUR COSTS AND REDUCE OUR OPERATING RESULTS.

We are subject to many laws, regulations and ordinances at the local, state and national level and problems or failures to comply with these laws could negatively affect our store sales and operations, or could delay the opening of a new store. Such laws regulate our operations and include the following:

- state and federal wage and hour laws, which may result in increased minimum wage levels, require payment of overtime to salaried employees and increase employee benefits costs;

- National Organic Program regulations promulgated by the United States Department of Agriculture, which may require different handling of certain products or the exclusion of certain products from the definition of "organic," each of which could limit available product supply, increase costs or reduce revenues;

- state and federal health and sanitation regulations, which may require substantial equipment or tenant improvement modifications at added expense to existing or newly constructed stores, substantially increase labor costs and costs of food preparation and handling, or impact the ability of our kitchens and commissaries to supply products across state lines to our other stores;

- local, state and federal regulations regarding the availability of liquor licenses and the restrictions on the permitted locations and hours for liquor sales, which may reduce sales at certain stores; and

- local land use regulations and zoning restrictions, which may impact hours of operation at certain stores, restrict our ability to receive shipments of products during non-retail hours, and inhibit our ability to provide certain services or products, resulting in diminished revenues and increased direct store operating costs.

For example, approximately 17% of our total sales in fiscal 2003 came from our Holistic Health department, which sells vitamins, supplements, herbal products, and body care and fitness products. There have been proposals for modifications to existing laws on a national level to restrict sales of certain supplement products or to regulate information available to consumers regarding these products, as well as recent bans from the U.S. Food and Drug Administration on the sale of certain products.

Modifications in existing laws and the implementation of new laws governing components of our business operations may be triggered by consumer and regulatory concerns regarding food safety issues, new technology or competitive pressures. Such modifications could require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, increased risk of litigation, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any of these requirements could harm our sales volume, costs of goods and direct store expenses. In addition, from time to time we are audited by various governmental agencies for compliance with existing laws, and we could be subject to fines or operational modifications as a result of noncompliance.

SUCCESSFULLY OPENING AND OPERATING NEW STORES IS A CRITICAL COMPONENT OF OUR GROWTH STRATEGY AND IF WE ARE UNABLE TO DO SO OUR OPERATING RESULTS MAY BE

ADVERSELY AFFECTED.

We have grown considerably in size and geographic scope since 1992. From the beginning of 1997 through 2004, we added 48 net new and acquired stores to our store base. We plan to continue growing, primarily through the opening of new stores. As of May 15, 2005, we operated 111 natural foods stores. To date in fiscal 2005, we have added four net new stores to our store base. In the remainder of fiscal 2005, we expect to add up to six additional stores to our store base.

We look to add stores (i) in those markets where we are currently the major natural and organic food retailer, (ii) where we can obtain locations that we believe will lead to an increased number of customers without placing substantial competitive pressure on our existing stores, and (iii) where our store locations intercept a majority of customers and thereby may discourage competitors from placing new stores in the market. If we are unable to successfully open and operate new stores our growth strategy will be restricted and our operating results will be harmed. Our growth strategy may be limited by the obligation to maintain a certain percentage of minimum excess availability as defined in our credit facility with Bank of America, N.A., as agent, which is referred to as a Loan and Security Agreement and is dated as of March 31, 2005. Excess availability is the difference between the borrowing base and the amounts outstanding under the credit facility, including letters of credit, commonly expressed as a percentage of the borrowing base. The borrowing base is the lesser of $40,000,000 as calculated by the value of certain inventory, credit and receivables, invested cash and, at our discretion, mortgaged assets. We are required under our credit facility to maintain a minimum amount of excess availability, which would not be available for our use.

Our ability to successfully open and operate new stores depends on many factors, including our ability to:

- identify areas of the country that meet our criteria for new store sites;

- locate suitable store sites and negotiate acceptable lease terms;

- hire and train new personnel, including administrative and accounting personnel, departmental, regional and store managers, store employees and other personnel in our corporate organization;

- expand into areas of the country where we have no operating experience;

- obtain governmental and other third party consents, permits and licenses needed to operate new stores;

- integrate new stores into our existing operations;

- expand our existing systems or acquire and implement new systems, including information systems, hardware and software, and distribution infrastructure, to include new, relocated and acquired stores; and

- obtain adequate funding for operations.

The success of new stores depends on a number of factors, including our ability to identify target customers and place stores in areas convenient to those customers, as well as create and implement merchandising and marketing programs that are effective with our targeted customers. New stores build their sales volumes and refine their merchandise selection gradually and, as a result, generally have lower gross margins and higher operating expenses as a percentage of sales than more mature stores. We anticipate that the stores we opened in 2004 and will open in 2005 will experience operating losses for the first 12 to 18 months of operation or possibly longer, in accordance with historical trends, although certain stores are projected to incur operating losses for six to twelve months, and others are projected to incur losses for greater than 18 months. Additionally, we incur significant pre-opening expenses and, as a result, the opening of a significant number of new stores in a single period will negatively affect our operating results.

WE MAY GROW OUR BUSINESS THROUGH THE ACQUISITION OF OTHER STORES. GROWING OUR BUSINESS THROUGH ACQUISITIONS INVOLVES RISKS THAT COULD HAVE A NEGATIVE EFFECT ON OUR BUSINESS AND FINANCIAL RESULTS.

We will continue to consider acquisitions of natural foods retailers where attractive opportunities exist. Acquisitions of operating stores involve risks which could have a negative effect on our business and financial results such as:

-- short-term declines in our reported operating results;

-- diversion of management's attention;

-- unanticipated problems or legal liabilities;

-- inclusion of incompatible operations, particularly management information systems; and

-- inexperience in operating different store formats.

Further, acquired stores, while generally profitable as of the acquisition date, initially generate lower gross margins and store contribution margins than our company average due to their substantially lower volume purchasing discounts and the integration of the acquired stores into our operating systems. Other factors that could cause acquired stores to perform at lower-than-expected levels include, among other things, difficulties in integrating existing employees,

turnover of regional and store management, disruption of advertising, changes in product mix and delays in the integration of purchasing programs.

OUR REMODELING EFFORTS MAY CAUSE AN EXTENDED REDUCTION IN THE SALES VOLUMES OF OUR REMODELED STORES.

We completed the remodeling or remerchandising of 23 of our older stores in 2004, and plan to commence and complete remodels of four of our stores in 2005 with the goal of updating key store departments' components and fixtures, reorganizing products by sales velocity, reducing excess SKU counts in certain categories of products, adding in new fixtures and signage to introduce our new lines of private label vitamins, minerals and supplements and giving greater emphasis to produce, meat and seafood and grocery departments. In the first half of 2006, we plan to complete five major remodels and remerchandise a number of our stores. Remodels and remerchandising typically cause short-term disruption in sales volume and related increases in certain expenses as a percentage of sales, such as payroll. Current and future remodeled or remerchandised stores may experience sales disruptions and the related impact on earnings to a greater degree than we have projected.

LEGAL PROCEEDINGS AND RESULTS OF AUDITS COULD MATERIALLY IMPACT OUR RESULTS.

Because of the large number of hourly personnel we employ, we are party to a substantial number of legal proceedings including matters involving personnel and employment issues. We are also audited by state tax authorities and conduct self-audits of benefit plans, including administrative practices of such plans. An internal review of our 401(k) retirement plan administrative practices revealed certain errors. We have filed a voluntary correction plan with the Internal Revenue Service and, pending approval, will contribute to employees an estimated $1.2 million to correct underdeferrals and delayed eligibility and we have accrued for the same. Our operating results could be harmed by the decisions and expenses related to defending legal proceedings or as a result of corrections identified by such audits.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF PEOPLE ARE HARMED BY THE PRODUCTS WE SELL.

There is increasing governmental scrutiny of and public awareness regarding food safety. We believe that many customers choose to shop at our stores because of their interest in health, nutrition and food safety. We believe that our customers hold us to a higher standard than conventional supermarkets. The real or perceived sale of contaminated food products by us could result in decreased sales and product liability claims, which would harm our operating results.

INFORMATION SYSTEM UPGRADES OR INTEGRATIONS MAY DISRUPT OUR OPERATIONS OR FINANCIAL REPORTING.

We continually evaluate and upgrade our management information systems. We are currently testing or implementing a number of significant upgrades and additions to our systems, including labor scheduling, back door receiving and centralized price hosting of our farmers market stores. Although we do not anticipate any disruption in our operations or financial reporting as a result of system upgrades or new system implementation, there can be no assurance that such disruption will not occur or that the desired benefits from the system upgrades or new system implementation will be realized.

RISKS RELATED TO THE DEBENTURES

THE DEBENTURES ARE UNSECURED AND, THEREFORE, ARE EFFECTIVELY SUBORDINATED TO ANY OF OUR SECURED DEBT.

The debentures are not secured by any of our assets or those of our subsidiaries. As a result, the debentures are effectively subordinated to our existing secured debt, including obligations under our credit facility, as well as any secured debt that we may incur in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of our secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the holders of the debentures.

AN ACTIVE TRADING MARKET FOR THE DEBENTURES MAY NOT DEVELOP.

We issued the debentures in June 2004 in a private offering made to "qualified institutional buyers," as defined in Rule 144A under the Securities Act. The offering was made through a group of investment banks, which we refer to as the "initial purchasers." Prior to that offering, there was no trading market for the debentures. Although the initial purchasers advised us at the time of that offering that they intended to make a market in the debentures, they are not obligated to do so and may discontinue such market making at any time without notice. Accordingly, there can be no assurance that any market for the debentures will develop or, if one does develop, that it will be maintained. If an active market for the debentures fails to develop or be sustained, the value of the debentures could be materially adversely affected.

There is no public market for the debentures and we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures through any automated quotation system. The debentures issued to qualified institutional buyers in the June 2004 offering currently trade on the PORTAL market. However, once debentures are sold under this prospectus, those debentures will no longer trade on the PORTAL market.

WE EXPECT THAT THE TRADING VALUE OF THE DEBENTURES WILL BE SIGNIFICANTLY AFFECTED BY THE PRICE OF OUR COMMON STOCK AND OTHER FACTORS.

The market price of the debentures is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the debentures than would be expected for nonconvertible debt securities. In addition, the debentures have a number of features, including conditions to conversion, which, if not met, could result in a holder receiving less than the value of our common stock into which a debenture would otherwise be convertible. These features could adversely affect the value and the trading price of the debentures.

OUR LEVEL OF LEVERAGE AND DEBT SERVICE OBLIGATIONS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND PREVENT US FROM FULFILLING OUR OBLIGATIONS TO YOU UNDER THE DEBENTURES.

As of April 2, 2005, we had approximately $149.2 million of indebtedness outstanding, consisting of letters of credit under our credit facility, capital leases and our obligations under the debentures. We may not be able to generate cash sufficient to pay the principal of, interest on and other amounts due in respect of our indebtedness when due. We and our subsidiaries may also incur additional debt that may be secured.

Our level of debt and debt service obligations could have important effects on your investment in the debentures. These effects may include:

-- making it more difficult for us to satisfy our obligations to you with respect to the debentures and our obligations to other persons with respect to our other debt;

-- limiting our ability to obtain additional financing or renew existing financing at maturity on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service requirements and other general corporate requirements;

-- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to our competitors that are less leveraged;

-- increasing our exposure to rising interest rates because a portion of our borrowings is at variable interest rates;

-- reducing the availability of our cash flow to fund our working capital requirements, capital expenditures, acquisitions, investments and other general corporate requirements because we will be required to use a substantial portion of our cash flow to service debt obligations; and

-- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our ability to pay principal and interest on the debentures and to satisfy our other debt obligations will depend upon our future operating performance and the availability of refinancing debt. If we are unable to service our debt and fund our business, we may be forced to reduce or delay capital expenditures, seek additional debt financing or equity capital, restructure or refinance our debt or sell assets. We cannot assure you that we would be able to obtain additional financing, refinance existing debt or sell assets on satisfactory terms or at all.

OUR REPORTED EARNINGS PER SHARE MAY BE MORE VOLATILE BECAUSE OF THE CONVERSION CONTINGENCY PROVISION OF THE DEBENTURES.

Holders of the debentures may convert the debentures into our common stock upon the occurrence of certain events or conditions (including events related to the trading price of our common stock). Until any of these contingencies are met, the shares underlying the debentures will not be included in the calculation of reported earnings per share. Should any of these contingencies be met, reported earnings per share would be expected to decrease as a result of the inclusion of the underlying shares in the earnings per share calculation. An increase in volatility in our stock price could cause some of these conditions to be met in one quarter and not in a subsequent quarter, increasing the volatility of reported fully diluted earnings per share.

A CHANGE IN THE ACCOUNTING RULES RELATING TO THE MANNER OF DETERMINING THE NUMBER OF OUTSTANDING SHARES IN THE COMPUTATION OF OUR EARNINGS PER SHARE WILL CAUSE US TO INCLUDE THE SHARES ISSUABLE ON CONVERSION OF THE DEBENTURES IN CALCULATING EARNINGS PER SHARE IF THE EFFECT IS DILUTIVE, REGARDLESS OF WHETHER ANY CONVERSION CONTINGENCIES HAD BEEN MET.

The Emerging Issues Task Force of the Financial Accounting Standards Board has reached a consensus surrounding the accounting rules relating to the manner of determining the number

of outstanding shares in the computation of our earnings per share regardless of the then current conversion price. This change causes us to include the shares issuable on conversion of the debentures in calculating earnings per share if the effect is dilutive, regardless of whether any conversion contingencies have been met. Including such shares in the diluted earnings per share calculation could reduce our diluted earnings per share, which in turn could adversely affect the market price of our common stock and, consequently, the value and trading price of the debentures. See "--We expect that the trading value of the debentures will be significantly affected by the price of our common stock and other factors" on page 15. Under the indenture governing the debentures, we have the right to, and we have, irrevocably elect to satisfy in cash 100% of the principal amount of the debentures converted after the date of such election, which should prevent the dilution in our diluted earnings per share for the principal amount. Amounts in excess of the principal can, however, still be settled in shares, thereby causing a dilution of earnings per share. The election could, however, additionally adversely affect us if we do not have adequate sources of cash from operations or from available borrowings to satisfy our obligations to make cash payments in respect of the debentures.

YOU WILL RECOGNIZE INCOME FOR FEDERAL INCOME TAX PURPOSES SIGNIFICANTLY IN

EXCESS OF CURRENT CASH PAYMENTS.

We treat the debentures as contingent payment debt instruments subject to U.S. federal income tax rules applicable to contingent payment debt instruments. Under that treatment, if you acquire debentures, you will be required to include on an accrual basis (even if you are generally a cash method taxpayer) amounts in income significantly in excess of the stated interest on the debentures based in part on projected future contingent payments that may not ultimately materialize. Any gain you recognize (including any gain attributable to a conversion of the debentures) will generally be ordinary interest income; any loss will be ordinary loss to the extent of interest on the debentures previously included in income and, thereafter, capital loss. There is some uncertainty as to the proper application of the Treasury regulations governing contingent payment debt instruments, and if our treatment were successfully challenged by the Internal Revenue Service, it might be determined that, among other things, you should have accrued interest income at a lower or higher rate, should not have recognized ordinary income upon the conversion, and should have recognized capital gain or loss, rather than ordinary income or loss upon a taxable disposition of the debentures. See "Material United States federal income tax consequences" beginning on page 56.

IF YOU HOLD DEBENTURES, YOU WILL NOT BE ENTITLED TO ANY RIGHTS WITH RESPECT TO OUR COMMON STOCK, BUT YOU WILL BE SUBJECT TO ANY CHANGES MADE WITH RESPECT TO OUR COMMON STOCK.

If you hold debentures, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting our common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you in connection with conversion of your debentures. For example, in the event that an amendment is proposed to our certificate of incorporation or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery to you of the common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

WE MAY NOT HAVE THE ABILITY TO RAISE THE FUNDS NECESSARY TO REPURCHASE THE DEBENTURES UPON A FUNDAMENTAL CHANGE OR ON ANY OTHER REPURCHASE DATE, AS REQUIRED BY THE INDENTURE GOVERNING THE DEBENTURES.

On May 15 , 2011, May 15, 2014 and May 15, 2024, or following a fundamental change as described under "Description of debentures--Repurchase of debentures by us at the option of the holder upon a fundamental change," holders of debentures may require us to repurchase their debentures for cash. A fundamental change may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then-existing indebtedness. Unless waived, a fundamental change could constitute an event of default under our credit facility. We cannot assure you that we will have sufficient financial resources, or will be able to arrange financing, to pay the repurchase price in cash with respect to any debentures tendered by holders for repurchase on any of these dates or upon a fundamental change, or that we will be able to obtain a waiver of a default under our credit facility upon a fundamental change. In addition, restrictions in our then existing credit facilities or other indebtedness may not allow us to repurchase the debentures. Our failure to repurchase the debentures when required would result in an event of default with respect to the debentures.

WE MAY ISSUE ADDITIONAL EQUITY SECURITIES AND THEREBY MATERIALLY AND ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

We are not restricted from issuing additional equity securities during the life of the debentures. We are authorized to issue, without stockholder approval, 5,000,000 shares of preferred stock, none of which were outstanding as of April 2, 2005, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. In addition, we are authorized to issue, without further stockholder action under Delaware law, up to 60,000,000 shares of common stock, of which 28,572,485 shares were outstanding, 1,977,800 shares were held as treasury stock and 2,518,554 were reserved for issuance upon the exercise of outstanding options. If we issue additional equity securities, the price of our common stock and, in turn, the price of the debentures may be materially and adversely affected.

PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BY-LAWS COULD LIMIT ANOTHER PARTY'S ABILITY TO ACQUIRE US AND COULD DEPRIVE YOU OF THE OPPORTUNITY TO OBTAIN A TAKEOVER PREMIUM FOR YOUR SHARES OF COMMON STOCK.

Provisions in our certificate of incorporation and by-laws, and under the Delaware General Corporation Law, may make it difficult for another company to acquire us and for you to receive any related takeover premium for our common stock. See "Description of capital stock" beginning on page 53.

Our certificate of incorporation and by-laws provide: (i) for division of the Board of Directors into three classes, with one class elected each year to serve a three-year term; (ii) that directors may be removed only for cause and only upon the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote; (iii) that the authorized number of directors may be changed only by resolution of the Board of Directors; (iv) that a vacancy on the Board of Directors may be filled by the remaining directors; and (v) that the affirmative

vote of the holders of at least two-thirds of the outstanding shares entitled to vote is required to alter, amend or repeal the foregoing provisions.

In addition, under our certificate of incorporation, our board of directors has the authority, without further action by our stockholders, to issue up to 5,000,000 shares of preferred stock (in one or more series) and to determine or alter the designations, preferences and relative, participating, optional or other rights of such shares of preferred stock. In connection with our rights agreement, our board of directors has authorized the issuance of shares of Series A Junior Participating Preferred Stock upon the occurrence of certain triggering events. The terms of the Series A Junior Participating Preferred Stock include, and the terms of any other preferred stock may include, voting rights, including the right to vote as a series on particular matters, conversion and redemption rights and preferences as to dividends and liquidation. No shares of preferred stock are currently outstanding and we have no present plans for the issuance of any preferred stock. The issuance of any preferred stock, however, could materially adversely affect the rights of holders of our common stock, and therefore could reduce its value. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the board of directors to issue preferred stock could delay, discourage, prevent or make it more difficult or costly to acquire us or effect a change in control in our board of directors.

We are also subject to the anti-takeover provision of Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a "business combination" with an "interested stockholder" for a period of the three years after the date of the transaction in which the person becomes an interested stockholder, unless the business combination is approved in the prescribed manner. The application of Section 203 could have the effect or delaying or preventing a change in control in us, including transaction in which stockholders might otherwise receive a premium for their shares over then current market prices.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In connection with the provisions of the Private Securities Litigation Reform Act of 1995, or the Reform Act, we may include forward looking statements (as defined in the Reform Act) in oral or written public statements issued by us or on our behalf. These forward looking statements may include, among other things, plans, objectives, projections, anticipated future economic performance or assumptions and the like that are subject to risks and uncertainties. These forward-looking statements are generally identified by the use of words such as we "expect," "believe," "anticipate," "estimate," or words of similar import. Actual results or outcomes may differ materially from those discussed in the forward looking statements. Important factors that may cause actual results to differ include, but are not limited to, the following:

-- the timing, cost and execution of new store openings, relocations, remodels, sales and closures;

-- the impact of competition;

-- changes in product supply or suppliers;

-- the ability to manage growth;

-- technological developments and changes in management information needs;

-- changes in customer needs and expectations;

-- governmental and regulatory actions;

-- the unanticipated loss of key personnel;

-- shifts in industry rates of compensation, government compliance costs or litigation;

-- natural disasters, terrorist attacks or war;

-- changes in interest rates and/or consumer spending either in the United States or non-United States markets in which we operate;

-- unanticipated expenses;

-- general industry or business trends or events;

-- changes in economic or business conditions in general or affecting the natural foods industry in particular;

-- labor strikes or union organizational efforts;

-- competition for and the availability of sites for new stores and potential acquisition candidates; and

-- other factors referenced in this prospectus.

USE OF PROCEEDS

The selling securityholders will receive all of the net proceeds from the sale of the offered securities. We will not receive any of the proceeds from the sale of any of these securities.

RATIO OF EARNINGS TO FIXED CHARGES

The following table presents the ratio of earnings to fixed charges for Wild Oats Markets, Inc. and its consolidated subsidiaries for each of the periods indicated.

	FISCAL YEAR					THREE MONTHS ENDED APRIL 2
	2000	2001	2002	2003	2004	2005
EARNINGS:						
Income (loss) before income taxes........................	$(26,367)	$ (71,824)	$ 8,736	$ 2,687	$(14,181)	$ (1,01
Add back fixed charges:						
Interest on rent expense.......	18,024	19,048	17,530	19,872	19,264	5,65
Interest expense...............	11,651	13,142	11,855	5,746	6,309	2,16
Adjusted Earnings................	$ 3,308	$ (39,634)	$ 38,121	$28,305	$ 11,392	$ 6,80
TOTAL FIXED CHARGES..............	$ 29,675	$ 32,190	$ 29,385	$25,618	$ 25,573	$ 7,81
RATIO OF EARNINGS TO FIXED CHARGES........................	--	--	1.3	1.1	--	-
DEFICIENCY OF EARNINGS TO FIXED CHARGES........................	$(26,367)	$ (71,824)	$ --	$ --	$(14,181)	$ (1,01

DIVIDEND POLICY

We currently intend to retain any future earnings to finance the growth and development of our business and therefore do not anticipate paying any cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, operations, capital requirements and financial condition. In addition, our credit facility contains restrictions on our ability to pay dividends.

DESCRIPTION OF THE DEBENTURES

We issued the debentures under an indenture dated as of June 1, 2004, between us and U.S. Bank National Association, as trustee. The registration of the debentures and the shares of common stock issuable upon conversion of the debentures is covered by a registration rights agreement dated June 1, 2004 between us and the initial purchasers. You may request a copy of the indenture and the registration rights agreement from the trustee.

The following description is a summary of the material provisions of the debentures, the indenture and the registration rights agreement. It does not restate those agreements in their entirety. Wherever particular provisions or defined terms of the indenture or form of debenture are referred to, these provisions or defined terms are incorporated in this prospectus by reference. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the debentures.

As used in this "Description of the debentures" section, references to "Wild Oats," "we," "our" or "us" refer solely to Wild Oats Markets, Inc. and not to our subsidiaries.

GENERAL

The debentures will mature on May 15, 2034 unless earlier converted, redeemed or repurchased. You have the option, subject to fulfillment of certain conditions and during the periods described below, to convert your debentures into shares of our common stock at an initial conversion rate of 56.5099 shares of common stock per $1,000 principal amount of debentures. This is equivalent to an initial conversion price of approximately $17.70 per share of common stock. The conversion rate is subject to adjustment if certain events occur. Upon conversion of a debenture and subject to our payment elections, you will receive only a cash payment for the principal amount of the debenture, and either cash, stock or a combination thereof for any amounts in excess of the principal amount. You will not receive any cash payment for interest (or contingent interest or additional amounts, if any) accrued and unpaid to the conversion date except under the limited circumstances described below.

If any interest payment date, maturity date, redemption date or repurchase date (including upon the occurrence of a fundamental change, as described below) falls on a day that is not a business day, the required payment will be made on the next succeeding business day with the same force and effect as if made on the date that the payment was due, and no additional interest will accrue on that payment for the period from and after the interest payment date, maturity date, redemption date or repurchase date (including upon the occurrence of a fundamental change, as described below), as the case may be, to that next succeeding business day.

The debentures will be issued only in denominations of $1,000 principal amount and integral multiples thereof. References to "a debenture" or "each debenture" in this prospectus refer to $1,000 principal amount of the debentures. The debentures have an aggregate principal amount of $115,000,000.

As used in this prospectus, "business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The

City of New York.

When we refer to "common stock," we mean the common stock, $0.001 par value, of Wild Oats Markets, Inc., which is the only outstanding class of our capital stock.

RANKING

The debentures are our direct, unsecured and unsubordinated obligations. The debentures rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The debentures effectively rank junior to any of our future secured indebtedness and any of our future indebtedness guaranteed by our subsidiaries. In addition, our rights and the rights of our creditors, including the holders of the debentures, to participate in the assets of a subsidiary during its liquidation or reorganization will be effectively subordinated to all existing and future liabilities of that subsidiary, including guarantees by the subsidiary of our future indebtedness. As of April 2, 2005, we had approximately $149.2 million of indebtedness outstanding, consisting of $115.1 million of principal and accrued but unpaid interest on the debentures and capital leases of approximately $34.1 million. As of such date, we had no amounts outstanding under our $40 million credit facility (excluding $8.8 million in letters of credit). As of such date, all our outstanding indebtedness (excluding the principal amount of and accrued but unpaid interest on the debentures) was secured by an interest in certain of our bank accounts, fixtures, equipment, certain leasehold mortgages and by guarantees from four of our subsidiaries and our subsidiaries had approximately $3.9 million in liabilities (net of intercompany balances and excluding the subsidiaries' guarantees under the credit facility) recorded on their balance sheets.

INTEREST

The debentures bear regular interest at a rate of 3.25% per annum. We will also pay contingent interest on the debentures in the circumstances described under "--Contingent interest." Interest (including contingent interest and additional amounts, if any) shall be payable semi-annually in arrears on May 15 and November 15 of each year, commencing November 15, 2004 and ending on May 15, 2011. After May 15, 2011, we will not pay regular interest on the debentures.

Interest on a debenture (including contingent interest and additional amounts, if any) will be paid to the person in whose name the debenture is registered at the close of business on the May 1 or November 1, as the case may be (each, a "record date"), immediately preceding the relevant interest payment date (whether or not such day is a business day). Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and accrues from June 1, 2004 or from the most recent date to which interest has been paid or duly provided for.

CONTINGENT INTEREST

We will pay contingent interest to the holders of debentures for the period commencing May 20, 2011 and ending November 14, 2011 if the average trading price of a debenture for each of the last five trading days immediately preceding May 20, 2011 equals 125% or more of the principal amount of the debenture. Thereafter, we will pay contingent interest on the interest payment date for a six-month interest period if the average trading price (as defined below) of the debentures during the five trading-day period immediately preceding the first day of the applicable six-month interest period equals or exceeds 125% of the principal amount of the debentures.

On any interest payment date when contingent interest shall be payable, the contingent interest payable per debenture will equal 0.25% of the average trading price of such debenture during the applicable five trading-day reference period.

We will notify the holders of the debentures upon a determination that they will be entitled to receive contingent interest with respect to any six-month interest period.

The "trading price" of a debenture on any date of determination shall be determined by us and shall be the average of the secondary market bid quotations per debenture obtained by the bid solicitation agent for $2,000,000 aggregate principal amount of debentures at approximately 4:00 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select, provided that if:

- -- at least two such bids are not obtained by the bid solicitation agent, or

- -- in our reasonable judgment, the bid quotations are not indicative of the secondary market value of debentures as of such determination date,

then the trading price for such determination date will equal (1) the applicable conversion rate of the debentures as of such determination date multiplied by (2) the average last reported sale price (as defined below) of our common stock on the five trading days ending on such determination date.

The bid solicitation agent will initially be the trustee. We may change the bid solicitation agent, but the bid solicitation agent will not be our affiliate. The bid solicitation agent will solicit bids from securities dealers that are believed by us to be willing to bid for the debentures.

OPTIONAL REDEMPTION BY US

No sinking fund is provided for the debentures. Prior to May 20, 2011, the debentures will not be redeemable. On or after May 20, 2011, we may redeem the debentures in whole or in part at any time for a redemption price in cash equal to 100% of the principal amount of the debentures to be redeemed, plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to but excluding the redemption date.

If the redemption date is an interest payment date, interest (including contingent interest and additional amounts, if any) shall be paid on such interest payment date to the record holder on the relevant record date.

We will provide not less than 30 nor more than 60 days' notice of redemption by mail to each registered holder of debentures to be redeemed. If the redemption notice is given and funds are deposited as required, then interest will cease to accrue on and after the redemption date on those debentures or portions of debentures called for redemption.

If we decide to redeem fewer than all of the outstanding debentures, the trustee will select the debentures to be redeemed (in principal amounts of $1,000 or integral multiples thereof) by lot, on a pro rata basis or by another method the trustee considers fair and appropriate. If the trustee selects a portion of your debentures for partial redemption and you convert a portion of your debentures, the converted portion will be deemed to be from the portion selected for redemption.

We may not redeem the debentures if we have failed to pay any interest (including contingent interest and additional amounts, if any) on the debentures when due and such failure to pay is continuing. We will notify all of the holders if we redeem any of the debentures.

CONVERSION RIGHTS

We have made an irrevocable election to pay the principal amount of the debentures due upon conversion in cash. Pursuant to this election, upon conversion cash and shares of our common stock may still be used to pay any amounts in excess of the principal amount, upon conversion. The discussion of conversion rights herein is subject to the terms set forth in "Description of Debentures--Payment upon conversion" beginning on page 29.

Subject to the conditions and during the periods described below, you may convert the principal portion of your debentures into cash and any premium into cash or a combination of cash and shares of our common stock initially at a conversion rate of 56.5099 shares of common stock per $1,000 principal amount of debentures (equivalent to an initial conversion price of approximately $17.70 per share of common stock based on the issue price per debenture). The conversion rate and the equivalent conversion price in effect at any given time are referred to as the "applicable conversion rate" and the "applicable conversion price," respectively, and will be subject to adjustment as described below. You may convert fewer than all of your debentures so long as the debentures converted are an integral multiple of $1,000 principal amount.

You may convert your debentures into shares of our common stock only in the following circumstances, which are described in more detail below, and to the following extent:

- in whole or in part, upon satisfaction of the market price condition;

- in whole or in part, upon satisfaction of the trading price condition;

- if any of your debentures are called for redemption, those debentures that have been so called;

- in whole or in part, upon the occurrence of specified corporate transactions; or

- in whole or in part, if a credit ratings event occurs.

If we call your debentures for redemption, you may convert the debentures only until the close of business on the second business day prior to the redemption date unless we fail to pay the redemption price. If you have already delivered a repurchase election with respect to a debenture as described under either "--Repurchase of debentures by us at the option of the holder" or "--Repurchase of debentures by us at the option of the holder upon a fundamental change," you may not surrender that debenture for conversion until you have withdrawn the repurchase election in accordance with the indenture.

Upon conversion, you will not receive any cash payment of interest (including contingent interest and additional amounts, if any) unless such conversion occurs between a regular record date and the interest payment date to which it relates. We will not issue fractional common shares upon conversion of debentures. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price of the common stock on the trading day prior to the conversion date. Our delivery to you of the cash and the number of shares of our common

stock into which a debenture is convertible, together with any cash payment for any fractional share, will be deemed to satisfy our obligation to pay:

-- the principal amount of the debenture; and

-- accrued interest (including contingent interest and additional amounts, if any) to but excluding the conversion date.

As a result, accrued interest (including contingent interest and additional amounts, if any) to but excluding the conversion date will be deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of your tax treatment upon receipt of our common stock upon conversion, see "Material United States federal income tax consideration" beginning on page 56.

Notwithstanding the preceding paragraph, if debentures are converted after the close of business on a record date, holders of such debentures at the close of business on the record date will receive the interest (including contingent interest and additional amounts, if any) payable on such debentures on the corresponding interest payment date notwithstanding the conversion. Debentures, upon surrender for conversion during the period from the close of business on any date, must be accompanied by funds equal to the amount of interest (including contingent interest and additional amounts, if any) payable on the debentures so converted; provided that no such payment need be made (1) if we have specified a redemption date that is after a record date and on or prior to the next interest payment date, (2) if we have specified a redemption date following a fundamental change that is after a record date and on or prior to the next interest payment date or (3) to the extent of any overdue interest (including any contingent interest and additional amounts) if any overdue interest exists at the time of conversion with respect to such debenture.

If you convert debentures, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of our common stock upon the conversion, unless the tax is due because you request the shares to be issued or delivered to another person, in which case you will pay that tax.

CONVERSION PROCEDURES

To convert your debenture you must do the following:

-- complete and manually sign the conversion notice on the back of the debenture, or a facsimile of the conversion notice, and deliver this irrevocable notice to the conversion agent;

-- surrender the debenture to the conversion agent;

-- if required, furnish appropriate endorsements and transfer documents;

-- if required, pay all transfer or similar taxes; and

-- if required, pay funds equal to interest payable on the next interest payment date.

The date you comply with these requirements is the conversion date under the indenture. If your interest is a beneficial interest in a global debenture, to convert you must comply with the last three requirements listed above and comply with the depositary's procedures for converting a beneficial interest in a global debenture.

The conversion agent will, on your behalf, convert the debentures into cash and shares of our common stock, to the extent we elect to satisfy any remaining amounts in excess of the principal amount conversion obligation in common stock. See "--Payment upon conversion" beginning on page 29. You may obtain copies of the required form of the conversion notice from the conversion agent. A certificate, or a book-entry transfer through DTC, for the number of full shares of our common stock into which any debentures are converted, together with a cash payment for any fractional share, will be delivered through the conversion agent as soon as practicable, but no later than the fifth business day, following the conversion date.

PAYMENT UPON CONVERSION

(1) Conversion on or prior to the final notice date. In the event that we receive your notice of conversion on or prior to the day that is 20 days prior to maturity or, with respect to debentures being redeemed, the applicable redemption date (the "final notice date"), the following procedures will apply:

The excess of the principal amount of the debentures under our obligation (the "conversion obligation") will be satisfied in cash or a combination of cash and shares of our common stock. We will notify you through the trustee of the dollar amount to be satisfied in cash at any time on or before the date that is two business days following receipt of your notice of conversion ("cash settlement notice period"). If we timely elect to pay cash for any portion of the shares otherwise issuable to you, you may retract the conversion notice at any time during the two business day period beginning on the day after the final day of the cash settlement notice period ("conversion retraction period"), no such retraction can be made (and a conversion notice shall be irrevocable) if we do not elect to deliver cash in lieu of shares (other than cash in lieu of fractional shares). If the conversion notice has not been retracted, then settlement (in cash and/or shares) will occur on the business day following the final day of the 10 trading-day period beginning on the day after the final day of the conversion retraction period. Settlement amounts will be computed as follows:

-- We will deliver to you cash in an amount equal to the product of:

  -- a number equal to (1) the aggregate original principal amount of debentures to be converted divided by 1,000 multiplied by (2) the conversion rate and

  -- the average of the last reported sale prices of our common stock for the ten consecutive trading days immediately following the date of our notice of our election to deliver cash (the "cash settlement averaging period").

-- If we elect to satisfy in cash a percentage of the conversion obligation other than 100%, we will deliver to you such cash amount ("cash amount") and a number of shares equal to the excess, if any, of the number of shares equal to (i) the aggregate original principal amount of debentures to be converted divided by 1,000, multiplied by (ii) the conversion rate, over the number of shares equal to the sum, for each day of the cash settlement averaging period, of (x) 10% of the cash amount, divided by (y) the last reported sale price of our common stock. In addition, we will pay cash for all fractional shares of common stock as described above.

-- If we choose to satisfy all of the remainder of our conversion obligation in common stock, notice of our election to deliver cash for the principal amount will be deemed to have been provided on the last date of the cash settlement notice period and your notice of conversion will not be retractable. Settlement amounts will be computed

and settlement dates will be determined in the same manner as set forth above under "--Conversion on or prior to the final notice date" and "--Conversion after the final notice date," as applicable.

(2) Conversion after the final notice date. In the event that we receive your notice of conversion after the final notice date, we will not send individual notices of our election to satisfy all or any portion of the conversion obligation in excess of the principal amount in cash. Instead, if we choose to satisfy all or any portion of the conversion obligation in cash, we will send a single notice to the trustee of the dollar amount to be satisfied in cash at any time on or before the final notice date. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under "--Conversion on or prior to the final notice date" except that the "cash settlement averaging period" shall be the five consecutive trading days ending on the third trading day prior to the conversion date. Settlement (in cash and/or shares) will occur on the business day following the final day of such cash settlement averaging period.

"Trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a U.S. national or regional securities exchange, on the principal other market on which our common stock is then traded.

We have irrevocably elected, by notice to the trustee and the holders of the debentures, to satisfy in cash 100% of the principal amount of the debentures converted after the date of such election. We still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. If we choose to satisfy all or a portion of the remainder of our conversion obligation in cash, we will provide notice of our election in the same manner as set forth above under either "--Conversion on or prior to the final notice date" or "--Conversion after the final notice date," whichever is applicable.

CONVERSION UPON SATISFACTION OF MARKET PRICE CONDITION

You may surrender your debentures for conversion (1) in any calendar quarter commencing after June 30, 2004 and before March 31, 2029 (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 130% of the applicable conversion price per share of our common stock on such last trading day and (2) at any time on or after April 1, 2029 if the last reported sale price of our common stock on any date on or after March 31, 2029 is greater than or equal to 130% of the conversion price.

For example, if on the last trading day of the calendar quarter ending September 30, 2005 the effective conversion price per share of our common stock is $17.70 (the effective conversion price on the original issue date of the debentures), and the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of such calendar quarter is greater than or equal to $23.01 (or 130% of $17.70), then a holder electing to convert its debentures at any time during the calendar quarter ending December 31, 2005 would be entitled to receive, for each $1,000 principal amount of its debentures, 56.5099 shares of our common stock. Upon conversion, such converting holder would not receive any cash payment of interest, unless such conversion

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occurred between November 1, 2005 and November 15, 2005 (a regular record date and the interest payment date related thereto, respectively). Furthermore, the holder would receive the payment of the fractional shares (0.5099 shares in this example) in cash, based on the last reported sale price of our common stock on the trading day prior to the date of conversion.

The "last reported sale price" of our common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and asked prices or, if more than one in either case, the average of the average bid and the average asked prices) on such date as reported in composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national or regional securities exchange, as reported by the New York Stock Exchange. If our common stock is not listed for trading on a U.S. national or regional securities exchange and not reported by the New York Stock Exchange on the relevant date, the "last reported sale price" will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau Incorporated or similar organization. If our common stock is not so quoted, the "last reported sale price" will be the average of the mid-point of the last bid and asked prices for our common stock on the relevant date from each of at least three independent nationally recognized investment banking firms selected by us for this purpose.

CONVERSION UPON SATISFACTION OF TRADING PRICE CONDITION

You may surrender your debentures for conversion during the five business day period after any five consecutive trading-day period in which the "trading price" per debenture, as determined following a request by a holder of debentures in accordance with the procedures described below, for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of our common stock for each day during such period (the "98% Trading Exception"); provided that if, on the date of any conversion pursuant to the 98% Trading Exception that is on or after May 15, 2029, the closing sale price of our common stock is greater than the conversion price but less than 130% of the conversion price, then you will receive, in lieu of common stock based on the conversion rate, an amount in cash equal to the principal amount of the debentures converted, plus accrued and unpaid interest, including contingent interest, if any, to the conversion date.

For example, if the then-current conversion rate is 56.5099 shares of our common stock per $1,000 principal amount of the debentures and the trading price of our common stock during the relevant five-day period was $10.00 per share, this provision would give a holder of debentures the right to convert its debentures if the trading price of the debentures during that five-day period was less than $553.80 (calculated as 0.98 x (56.5099 x 10)). Conversion would thus give the holder, for each $1,000 principal amount of debentures, 56.5099 shares of our common stock having an aggregate market value of $565.10 (assuming the same market price of our common stock of $10 per share).

The "trading price" of a debenture on any date of determination shall be determined by us and shall be the average of the secondary market bid quotations per debenture obtained by the trustee for $2,000,000 aggregate principal amount of debentures at approximately 4:00 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select, which may include one or more of the initial purchasers, provided that if at least two such bids cannot reasonably be obtained by the trustee, but one such bid can reasonably be obtained by the trustee, this one bid will be used.

If the trustee cannot reasonably obtain at least one bid for $2,000,000 aggregate principal amount of the debentures from a nationally recognized securities dealer, or in our reasonable judgment the bid quotations are not indicative of the secondary market value of the debentures, then the trading price per debenture will be deemed to be less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate.

In connection with any conversion upon satisfaction of the above trading price condition, the trustee shall have no obligation to determine the trading price of the debentures unless we have requested such determination; and we shall have no obligation to make such request unless you provide us with reasonable evidence that the trading price per debenture would be less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate. At such time, we shall instruct the trustee to determine the trading price of the debentures beginning on the next trading day and on each successive trading day until the trading price per debenture is greater than or equal to 98% of the product of the last reported sale price of our common stock and the applicable conversion rate.

CONVERSION UPON NOTICE OF REDEMPTION

If we call any or all of the debentures for redemption, you may convert any of your debentures that have been called for redemption at the applicable conversion rate at any time prior to the close of business on the second business day prior to the redemption date.

CONVERSION UPON SPECIFIED CORPORATE TRANSACTIONS

If we elect to:

- distribute to all holders of our common stock rights or warrants entitling them to subscribe for or purchase, for a period expiring within 45 days after the date of the distribution, shares of our common stock at less than the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date of the distribution; or

- distribute to all holders of our common stock, assets, debt securities or rights to purchase our securities, which distribution has a per share value as determined by our board of directors exceeding 5% of the last reported sale price of our common stock on the trading day immediately preceding the declaration date for such distribution,

we must notify holders of the debentures at least 20 business days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their debentures for conversion at any time until the earlier of the close of business on the business day immediately prior to the ex-dividend date or any announcement that such distribution will not take place. No holder may exercise this right to convert if the holder otherwise will participate in the distribution without conversion. The "ex-dividend" date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer.

In addition, if we are a party to a consolidation, merger or binding share exchange, in each case pursuant to which our common stock would be converted into cash or property other than securities, a holder may surrender debentures for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until and including the date which is 15 days after the actual effective date of such transaction. If we engage in certain reclassifications of our common stock or are a party to a consolidation,

merger, binding share exchange or transfer of all or substantially all of our assets, in each case pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a debenture into our common stock will be changed into a right to convert a debenture into the kind and amount of cash, securities or other property which a holder would have received if the holder had converted its debentures immediately prior to the applicable record date for such transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be adjusted. If the transaction also constitutes a fundamental change, a holder can require us to redeem all or a portion of its debentures as described under "--Repurchase of debentures by us at the option of the holder upon a fundamental change."

CONVERSION UPON CREDIT RATINGS EVENT

If we obtain a credit rating for the debentures from Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Rating Services ("Standard & Poor's") or both, then you will have the right to surrender your debentures for conversion into our common stock at the applicable conversion rate prior to maturity as follows:

-- if we obtain a credit rating for the debentures from both Moody's and Standard & Poor's, at any time when (i) the long-term credit rating assigned to the debentures by Moody's or Standard & Poor's is two or more levels below the credit rating initially assigned to the debentures, (ii) both Moody's and Standard & Poor's have discontinued, withdrawn or suspended their ratings with respect to the debentures or (iii) either Moody's or Standard & Poor's has discontinued, withdrawn or suspended its rating with respect to the debentures and the remaining rating is two or more levels below the credit rating initially assigned to the debentures; or

-- if we obtain a credit rating for the debentures from only one of Moody's and Standard & Poor's, at any time when (i) the long-term credit rating assigned to the debentures by such rating agency is two or more levels below the credit rating initially assigned to the debentures or (ii) such rating agency has discontinued, withdrawn or suspended its rating.

The debentures have not been assigned a credit rating by any rating agency. We have no obligation to obtain a credit rating for the debentures, and these provisions do not apply to any credit rating that we have not requested.

CONVERSION RATE ADJUSTMENTS

The conversion rate will be adjusted as described below, except that we will not make any adjustments to the conversion rate if holders of the debentures participate in any of the transactions described below.

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination, the conversion rate will be adjusted based on the following formula:

$$CR' = CR(o\ X\ )\frac{OS'}{OS(o)}$$

where,

CR(o)	=	the conversion rate in effect immediately prior to such event
CR'	=	the conversion rate in effect immediately after such event
OS(o)	=	the number of our shares of common stock outstanding immediately prior to such event
OS'	=	the number of our shares of common stock outstanding immediately after such event

(2) If we issue to all or substantially all holders of our common stock any rights or warrants entitling them for a period of not more than 45 days to subscribe for or purchase shares of our common stock, or securities convertible into shares of our common stock, at a price per share or a conversion price per share less than the sale price of shares of our common stock on the business day immediately preceding the time of announcement of such issuance, the conversion rate will be adjusted based on the following formula (provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration):

$$CR' = CR(o) \ X\ \frac{OS(o) + X}{OS(o) + Y}$$

where,

CR(o)	=	the conversion rate in effect immediately prior to such event
CR'	=	the conversion rate in effect immediately after such event
OS(o)	=	the number of shares of our common stock outstanding immediately prior to such event
X	=	the total number of shares of our common stock issuable pursuant to such rights
Y	=	the number of shares of our common stock equal to the aggregate price payable to exercise such rights divided by the average of the last reported sale prices of our common

stock for the ten consecutive trading days prior to the business day immediately preceding the record date for the issuance of such rights

(3) If we distribute shares of our capital stock, evidences of our indebtedness or other assets or property of ours to all or substantially all holders of our common stock, excluding:

-- dividends, distributions and rights or warrants referred to in clause (1) or (2) above; and

-- dividends or distributions paid exclusively in cash; then the conversion rate will be adjusted based on the following formula:

$$CR' = CR(o) \times \frac{SP(o)}{SP(o) - FMV}$$

where,

CR(o)	=	the conversion rate in effect immediately prior to such distribution
CR(o)	=	the conversion rate in effect immediately after such distribution
SP(o)	=	the average of the last reported sale prices of our common stock for the ten days prior to the business day immediately preceding the record date for such distribution

FMV	=	the fair market value (as determined on the ex-dividend date by our board of directors) of the shares of capital stock, evidences of indebtedness, assets or property distributed with respect to each outstanding share of our common stock on the record date for such distribution

With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our common stock or shares of capital stock of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit, which we refer to as a "spin-off," the conversion rate in effect immediately before the close of business on the record date fixed for determination of shareholders entitled to receive the distribution will be increased based on the following formula:

$$CR' = CR(o) \times \frac{FMV(o) + MP(o)}{MP(o)}$$

where,

CR(o)	=	the conversion rate in effect immediately prior to such

distribution

CR'	=	the conversion rate in effect immediately after such distribution
FMV(o)	=	the average of the last reported sale prices of the capital stock or similar equity interest distributed to holders of our common stock applicable to one share of our common stock over the first 10 trading days after the effective date of the spin-off
MP(o)	=	the average of the last reported sale prices of our common stock over the first 10 consecutive trading days after the effective date of the spin-off

The adjustment to the conversion rate under the preceding paragraph will occur on the tenth trading day from, and including, the effective date of the spin-off.

(4) If we make any cash dividend or distribution during any of our quarterly fiscal periods to all or substantially all holders of our common stock, the conversion rate will be adjusted based on the following formula:

$$CR' = CR(o) \times \frac{SP(o)}{SP(o) - C}$$

where,

CR(o)	=	the conversion rate in effect immediately prior to the ex-dividend date for such distribution
CR'	=	the conversion rate in effect immediately after the record date for such distribution
SP(o)	=	the average of the last reported sale prices of our common stock for the ten consecutive trading days prior to the business day immediately preceding the ex-dividend date of such distribution
C	=	the amount in cash per share we distribute to holders of our common stock

(5) If we or any of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock, to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the last reported sale price of our common stock on the trading day next succeeding the last date on which tenders or exchanges

may be made pursuant to such tender or exchange offer, the conversion rate will be increased based on the following formula:

$$CR' = CR(o) \times \frac{AC + (SP' \times OS')}{OS(o) \times SP'}$$

where,

CR(o)	=	the conversion rate in effect on the date such tender or exchange offer expires
CR'	=	the conversion rate in effect on the day next succeeding the date such tender or exchange offer expires
AC	=	the aggregate value of all cash and any other consideration (as determined by our board of directors) paid or payable for shares purchased in such tender or exchange offer
OS(o)	=	the number of shares of common stock outstanding immediately prior to the date such tender or exchange offer expires
OS'	=	the number of shares of common stock outstanding immediately after the date such tender or exchange offer expires
SP'	=	the average of the last reported sale prices of our common stock for the ten consecutive trading days commencing on the trading day next succeeding the date such tender or exchange offer expires

If, however, the application of the foregoing formula would result in a decrease in the conversion rate, no adjustment to the conversion rate will be made.

Except as stated herein, we will not adjust the conversion rate for the issuance of shares of our common stock or any securities convertible into or exchangeable for shares of our common stock or the right to purchase shares of our common stock or such convertible or exchangeable securities.

In the event of:

- any reclassification of our common stock, or
- a consolidation, merger or combination involving us, or
- a sale or conveyance to another person of all or substantially all of our property and assets,

in which holders of our outstanding common stock would be entitled to receive cash, securities or other property for their shares of common stock, holders of debentures will generally be entitled thereafter to convert their debentures into the same type of consideration received by holders of our common stock immediately prior to one of these types of event.

We may, from time to time, to the extent permitted by law and the Nasdaq Marketplace Rules, increase the conversion rate of the debentures by any amount for a period of at least 20 days if our board of directors determines that such increase would be in our best interest. We are required to give at least 15 days prior notice of any increase in the conversion rate. We may also (but are not required to) increase the conversion rate to avoid or diminish income tax to holders of our common stock or rights to purchase shares of our common stock in connection with a dividend or distribution of shares (or rights to acquire shares) or similar event. For discussion of the United States federal income tax treatment of an adjustment to the conversion rate of the debentures, see "Material United States federal income tax consequences--U.S. holders--Constructive dividends" on page 60.