

Edgar Filing: Fresh Market, Inc. - Form 10-Q

Fresh Market, Inc.  
Form 10-Q  
November 26, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 27, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-34940

THE FRESH MARKET, INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)  
628 Green Valley Road, Suite 500  
Greensboro, NC  
(Address of Principal Executive Offices)

56-1311233  
(I.R.S. Employer  
Identification No.)

27408  
(Zip Code)

(336) 272-1338  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Edgar Filing: Fresh Market, Inc. - Form 10-Q

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of November 18, 2013 was 48,384,359 shares.

---

The Fresh Market, Inc.

Form 10-Q

For the Thirteen and Thirty-Nine Weeks Ended October 27, 2013

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheets as of October 27, 2013 and January 27, 2013 4

Consolidated Statements of Comprehensive Income for the thirteen and thirty-nine weeks ended October 27, 2013 and October 28, 2012 5

Consolidated Statements of Stockholders' Equity for the thirty-nine weeks ended October 27, 2013 and the fifty-two weeks ended January 27, 2013 6

Consolidated Statements of Cash Flows for the thirty-nine weeks ended October 27, 2013 and October 28, 2012 7

Notes to Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures About Market Risk 27

Item 4. Controls and Procedures 27

PART II – OTHER INFORMATION

Item 1. Legal Proceedings 28

Item 1A. Risk Factors 28

Item 6. Exhibits 28

Signature 29

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements in addition to historical information. We use words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “looking forward,” “may,” “plan,” “project,” “should,” “target,” “will” and “would” or any variations of these words or other words with similar meanings to identify such forward-looking statements. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These “forward looking statements” may relate to such matters as our industry, business strategy, goals and expectations concerning our market position, future operations, future performance or results, margins, profitability, capital expenditures, liquidity and capital resources, interest rates and other financial and operating information and the outcome of contingencies such as legal and administrative proceedings.

Our forward-looking statements contained in this Form 10-Q are based on management's current expectations and are subject to uncertainty and changes in circumstances. We cannot guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The following are some of the factors that could cause actual future results to differ materially from those expressed in any forward-looking statements: unexpected expenses and risks associated with our business; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection, customer service and convenience; the effective management of our merchandise buying and inventory levels; accounting entries and adjustments at the close of a fiscal quarter; the quality and safety of food products and other items that we may sell; our ability to anticipate and/or react to changes in customer demand; changes in economic and financial conditions, including the outcome of negotiations surrounding U.S. fiscal policy, which, even if resolved, may be adverse due to tax increases and spending cuts, and the resulting impact on consumer confidence; other changes in consumer confidence and spending; unexpected consumer responses to promotional programs; unusual, unpredictable and/or severe weather conditions, including their effect on our supply chain and our store operations; the effectiveness of our logistics and supply chain model, including the ability of our third-party logistics providers to meet our product demands and restocking needs on a cost competitive basis; the execution and management of our store growth, including the availability and cost of acceptable real estate locations for new store openings, the capital that we utilize in connection with new store development and the anticipated time between lease execution and store opening; the mix of our new store openings as between build to suit sites and second-generation, as-is sites; the actions of third parties involved in our store growth activities, including property owners, landlords, property managers, contractors, subcontractors, government agencies, and current tenants who occupy one or more of our proposed new store locations, all of whom may be impacted by their financial condition, their lenders, their activities outside of those focused on our new store growth and other tenants, customers and business partners of theirs; global economies and credit and financial markets; our ability to maintain the security of electronic and other confidential information; serious disruptions and catastrophic events; competition; personnel recruitment and retention; acquisitions and divestitures, including the ability to integrate successfully any such acquisitions; information systems and technology; commodity, energy, fuel and other cost increases; compliance with laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; tax matters; numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature; and other factors, many of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements. You should bear this in mind as you consider forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date hereof. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of

new information, future developments or otherwise, except as may be required by any applicable securities laws. You are advised, however, to consult any further disclosures we may make in our future reports to the Securities and Exchange Commission, on our website, or otherwise.

## Part I. Financial Information

## Item 1. Financial Statements

The Fresh Market, Inc.

Consolidated Balance Sheets

(In thousands, except share amounts)

(unaudited)

|   | October 27,<br>2013 | January 27,<br>2013 |
|---|---------------------|---------------------|
| Assets  |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$14,606            | \$8,737             |
| Accounts receivable, net  | 8,920               | 6,830               |
| Inventories   | 56,626              | 43,985              |
| Prepaid expenses and other current assets                                     | 3,346               | 7,675               |
| Income tax benefit  | 1,948               | —                   |
| Deferred income taxes   | 4,219               | 3,784               |
| Total current assets  | 89,665              | 71,011              |
| Property and equipment:   |                     |                     |
| Land  | 2,846               | 2,846               |
| Buildings   | 60,887              | 19,106              |
| Store fixtures and equipment  | 313,545             | 272,249             |
| Leasehold improvements  | 208,821             | 170,483             |
| Office furniture, fixtures, and equipment                                     | 13,592              | 12,224              |
| Automobiles   | 1,433               | 1,335               |
| Construction in progress  | 27,309              | 18,661              |
| Total property and equipment  | 628,433             | 496,904             |
| Accumulated depreciation  | (241,307)           | (207,060)           |
| Total property and equipment, net   | 387,126             | 289,844             |
| Restricted cash   | —                   | 14,205              |
| Other assets  | 8,252               | 10,309              |
| Total assets  | \$485,043           | \$385,369           |
| Liabilities and stockholders' equity  |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable  | \$50,977            | \$35,634            |
| Accrued liabilities   | 63,440              | 54,385              |
| Total current liabilities   | 114,417             | 90,019              |
| Long-term debt  | 33,600              | 42,000              |
| Capital leases and financing obligations                                      | 26,019              | 2,088               |
| Deferred income taxes   | 21,975              | 24,053              |
| Deferred rent   | 12,729              | 11,341              |
| Other liabilities   | 23,529              | 18,009              |
| Total noncurrent liabilities  | 117,852             | 97,491              |
| Commitments and contingencies (Notes 2, 4 and 8)                              |                     |                     |
| Stockholders' equity:   |                     |                     |
| Preferred stock – \$0.01 par value; 40,000,000 shares authorized, none issued | —                   | —                   |

Edgar Filing: Fresh Market, Inc. - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Common stock – \$0.01 par value; 200,000,000 shares authorized, 48,221,704 and 48,144,620 shares issued and outstanding as of October 27, 2013 and January 27, 2013, respectively | 482       | 482       |
| Additional paid-in capital  | 111,528   | 105,431   |
| Retained earnings   | 140,764   | 91,946    |
| Total stockholders' equity  | 252,774   | 197,859   |
| Total liabilities and stockholders' equity  | \$485,043 | \$385,369 |

See accompanying notes to consolidated financial statements.

The Fresh Market, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except share and per share amounts)

(unaudited)

|   | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|---|------------------------------|---------------------|---------------------------------|---------------------|
|   | October 27,<br>2013          | October 28,<br>2012 | October 27,<br>2013             | October 28,<br>2012 |
| Sales   | \$364,457                    | \$321,494           | \$1,085,847                     | \$959,275           |
| Cost of goods sold (exclusive of depreciation shown separately) | 242,400                      | 215,137             | 713,175                         | 633,485             |
| Gross profit  | 122,057                      | 106,357             | 372,672                         | 325,790             |
| Operating expenses:   |                              |                     |                                 |                     |
| Selling, general and administrative expenses                    | 88,865                       | 76,590              | 252,869                         | 221,087             |
| Store closure and exit costs                                    | 74                           | 131                 | 347                             | 856                 |
| Depreciation  | 14,224                       | 11,749              | 39,266                          | 33,164              |
| Income from operations  | 18,894                       | 17,887              | 80,190                          | 70,683              |
| Interest expense  | 1,089                        | 526                 | 2,554                           | 1,109               |
| Income before provision for income taxes                        | 17,805                       | 17,361              | 77,636                          | 69,574              |
| Tax provision   | 6,741                        | 6,472               | 28,818                          | 26,086              |
| Net income  | \$11,064                     | \$10,889            | \$48,818                        | \$43,488            |
| Net income per share:   |                              |                     |                                 |                     |
| Basic and diluted   | \$0.23                       | \$0.23              | \$1.01                          | \$0.90              |
| Weighted-average common shares outstanding:                     |                              |                     |                                 |                     |
| Basic   | 48,217,984                   | 48,068,869          | 48,191,399                      | 48,057,451          |
| Diluted   | 48,442,252                   | 48,323,150          | 48,389,426                      | 48,280,923          |
| Comprehensive income:   |                              |                     |                                 |                     |
| Net income  | \$11,064                     | \$10,889            | \$48,818                        | \$43,488            |
| Other comprehensive income                                      | —                            | —                   | —                               | —                   |
| Total comprehensive income                                      | \$11,064                     | \$10,889            | \$48,818                        | \$43,488            |

See accompanying notes to consolidated financial statements.



The Fresh Market, Inc.  
Consolidated Statements of Stockholders' Equity  
(In thousands, except share amounts)  
(unaudited)

|   | Common Stock, \$0.01 par value |                 |                                  |                      |                                  |
|---|--------------------------------|-----------------|----------------------------------|----------------------|----------------------------------|
|   | Common Shares<br>Outstanding   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
| Balance at January 29, 2012   | 48,040,083                     | \$481           | \$98,622                         | \$27,813             | \$126,916                        |
| Exercise of share-based awards  | 77,209                         | 1               | 1,717                            | —                    | 1,718                            |
| Issuance of common stock<br>pursuant to restricted stock<br>units       | 16,964                         | —               | —                                | —                    | —                                |
| Issuance of common stock<br>pursuant to employee stock<br>purchase plan | 3,751                          | —               | 185                              | —                    | 185                              |
| Issuance of restricted stock<br>awards                                  | 6,613                          | —               | —                                | —                    | —                                |
| Withholding tax on restricted<br>stock unit vesting                     | —                              | —               | (492                             | ) —                  | (492                             |
| Share-based compensation  | —                              | —               | 4,259                            | —                    | 4,259                            |
| Tax benefit related to exercise<br>of share-based awards                | —                              | —               | 1,140                            | —                    | 1,140                            |
| Net income  | —                              | —               | —                                | 64,133               | 64,133                           |
| Balance at January 27, 2013   | 48,144,620                     | \$482           | \$105,431                        | \$91,946             | \$197,859                        |
| Exercise of share-based awards  | 62,702                         | —               | 1,565                            | —                    | 1,565                            |
| Issuance of common stock<br>pursuant to restricted stock<br>units       | 3,167                          | —               | —                                | —                    | —                                |
| Issuance of common stock<br>pursuant to employee stock<br>purchase plan | 3,977                          | —               | 176                              | —                    | 176                              |
| Issuance of restricted stock<br>awards                                  | 7,238                          | —               | —                                | —                    | —                                |
| Withholding tax on restricted<br>stock unit vesting                     | —                              | —               | (80                              | ) —                  | (80                              |
| Share-based compensation  | —                              | —               | 4,256                            | —                    | 4,256                            |
| Tax benefit related to exercise<br>of share-based awards                | —                              | —               | 180                              | —                    | 180                              |
| Net income  | —                              | —               | —                                | 48,818               | 48,818                           |
| Balance at October 27, 2013   | 48,221,704                     | \$482           | \$111,528                        | \$140,764            | \$252,774                        |

See accompanying notes to consolidated financial statements.



Edgar Filing: Fresh Market, Inc. - Form 10-Q

The Fresh Market, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

|   | For the Thirty-Nine Weeks Ended |                     |
|---|---------------------------------|---------------------|
|   | October 27,<br>2013             | October 28,<br>2012 |
| Operating activities  |                                 |                     |
| Net income  | \$48,818                        | \$43,488            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                     |
| Depreciation and amortization   | 39,432                          | 33,330              |
| Loss on disposal of property and equipment  | 13                              | 129                 |
| Share-based compensation  | 4,256                           | 3,218               |
| Excess tax benefits from share-based compensation                                 | (180)                           | ) (288)             |
| Deferred income taxes   | (2,513)                         | ) (4,248)           |
| Change in assets and liabilities:   |                                 |                     |
| Accounts receivable   | (2,090)                         | ) (1,943)           |
| Inventories   | (12,641)                        | ) (9,935)           |
| Prepaid expenses and other assets   | 1,273                           | (1,309)             |
| Accounts payable  | 15,343                          | 7,742               |
| Accrued and other liabilities   | 12,907                          | 6,267               |
| Net cash provided by operating activities   | 104,618                         | 76,451              |
| Investing activities  |                                 |                     |
| Purchases of property and equipment   | (92,169)                        | ) (62,752)          |
| Proceeds from sale of property and equipment                                      | 76                              | 6,696               |
| Net cash used in investing activities   | (92,093)                        | ) (56,056)          |
| Financing activities  |                                 |                     |
| Borrowings on revolving credit facility   | 376,132                         | 341,668             |
| Payments made on revolving credit facility  | (384,532)                       | ) (358,768)         |
| Payments made on capital leases and financing obligations                         | (97)                            | ) (45)              |
| Proceeds from issuance of common stock pursuant to employee stock purchase plan   | 176                             | 136                 |
| Excess tax benefits from share-based compensation                                 | 180                             | 288                 |
| Payments on withholding tax for restricted stock unit vesting                     | (80)                            | ) —                 |
| Proceeds from exercise of share-based compensation awards                         | 1,565                           | 963                 |
| Net cash used in financing activities   | (6,656)                         | ) (15,758)          |
| Net increase in cash and cash equivalents   | 5,869                           | 4,637               |
| Cash and cash equivalents at beginning of period                                  | 8,737                           | 10,681              |
| Cash and cash equivalents at end of period  | \$14,606                        | \$15,318            |
| Supplemental disclosures of cash flow information:                                |                                 |                     |
| Cash paid during the period for interest  | \$1,308                         | \$733               |
| Cash paid during the period for taxes   | \$39,265                        | \$35,765            |

Edgar Filing: Fresh Market, Inc. - Form 10-Q

Non-cash investing and financing activities:

|  |          |         |
|--|----------|---------|
| Property and equipment acquired through capital leases and financing obligations | \$40,267 | \$1,915 |
|--|----------|---------|

See accompanying notes to consolidated financial statements.

7

---

The Fresh Market, Inc.  
 Notes to Consolidated Financial Statements  
 October 27, 2013  
 (In thousands, except share and per share data)  
 (unaudited)

## 1. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited consolidated financial statements of The Fresh Market, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission in instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2013. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods indicated. Interim results are not necessarily indicative of results that may be expected for a full fiscal year or future interim periods.

Certain prior year amounts have been reclassified to conform with the current year's presentation. None of the reclassifications or changes in presentation are considered material.

The Company's wholly-owned subsidiaries are consolidated and all intercompany accounts and transactions are eliminated upon consolidation.

The Company reports its results of operations on a 52 or 53 week fiscal year ending on the last Sunday in January. Fiscal years 2013 and 2012 are 52 week fiscal years and each fiscal quarter consists of 13 weeks.

The Company has determined that it has only one reportable segment. All of the Company's revenues come from the sale of items at its specialty food stores. The Company's primary focus is on perishable food categories, which include meat, seafood, produce, deli, bakery, floral, sushi and prepared foods. Non-perishable categories consist of traditional grocery and dairy products as well as specialty foods, including bulk, coffee, candy, beer and wine. The following is a summary of the percentage for the sales of perishable and non-perishable items:

|                | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|----------------|------------------------------|---------------------|---------------------------------|---------------------|
|                | October 27,<br>2013          | October 28,<br>2012 | October 27,<br>2013             | October 28,<br>2012 |
| Perishable     | 65.4%                        | 65.7%               | 66.0%                           | 66.3%               |
| Non-perishable | 34.6%                        | 34.3%               | 34.0%                           | 33.7%               |

### Recent Accounting Pronouncements

Effective January 28, 2013, the Company adopted ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which clarifies how to report the effect of significant reclassifications out of accumulated other comprehensive income. The adoption concerns presentation and disclosure only, and it did not have an impact on the Company's consolidated financial statements.

## 2. Long-Term Debt

Long-term debt is as follows:

|  |                     |                     |
|--|---------------------|---------------------|
|  | October 27,<br>2013 | January 27,<br>2013 |
|--|---------------------|---------------------|

Edgar Filing: Fresh Market, Inc. - Form 10-Q

Unsecured revolving credit note, with maximum available borrowings of \$175,000 at October 27, 2013 and January 27, 2013, interest payable monthly at one-month LIBOR plus a margin, weighted-average annual interest rate of 3.5% and 2.7% for the thirty-nine weeks ended October 27, 2013 and the fifty-two weeks ended January 27, 2013, respectively

|          |          |
|----------|----------|
| \$33,600 | \$42,000 |
|----------|----------|

The Fresh Market, Inc.  
Notes to Consolidated Financial Statements - (continued)

2. Long-Term Debt (continued)

The Company is party to a revolving credit facility with Bank of America, N.A. as Administrative Agent, Swing Line Lender, and Letter of Credit Issuer, and several other lending institutions (as amended, the "2011 Credit Facility"). The 2011 Credit Facility matures February 22, 2016, and is available to provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions, issuance of letters of credit, refinancing and payment of fees. While the Company currently has no material domestic subsidiaries, other entities will guarantee the Company's obligations under the 2011 Credit Facility if and when they become material domestic subsidiaries of the Company during the term of the 2011 Credit Facility.

The 2011 Credit Facility provides for total borrowings of up to \$175,000. Under the terms of the 2011 Credit Facility, the Company is entitled to request an increase in the size of the facility by an amount not exceeding \$75,000 in the aggregate. If the existing lenders elect not to provide the full amount of a requested increase, or in lieu of accepting offers from existing lenders to increase their commitments, the Company may designate one or more other lenders to become a party to the 2011 Credit Facility, subject to the approval of the Administrative Agent. The 2011 Credit Facility includes a letter of credit sublimit of \$25,000, of which \$13,667 and \$12,926 was outstanding at October 27, 2013 and January 27, 2013, respectively. The beneficiaries of these letters of credit are predominantly the Company's workers' compensation and general liability insurance carriers. The 2011 Credit Facility also includes a swing line sublimit of \$10,000.

At the Company's option, outstanding borrowings bear interest at (i) the London Interbank Offered Rate ("LIBOR") plus an applicable margin that ranges from 1.00% to 2.25%, (ii) the Eurodollar rate plus an applicable margin that ranges from 1.00% to 2.25%, or (iii) the base rate plus an applicable margin that ranges from 0% to 1.25%, where the base rate is defined as the greatest of: (a) the federal funds rate plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. As of October 27, 2013 and January 27, 2013, all outstanding borrowings bore interest at LIBOR plus an applicable margin.

The commitment fee calculated on the unused portions of the 2011 Credit Facility ranges from 0.20% to 0.35% per annum.

The 2011 Credit Facility contains a number of affirmative and restrictive covenants, including limitations on the Company's ability to grant liens, incur additional debt, pay dividends, redeem its common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions.

3. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other accrued expenses approximate fair value because of their short maturity. The carrying amount of long-term debt approximates fair value because the advances under this instrument bear variable interest rates which reflect market changes to interest rates and contain variable risk premiums based on certain financial ratios achieved by the Company. The Company did not elect to report any of its nonfinancial assets or nonfinancial liabilities at fair value.

4. Leases

The Company has leases which are accounted for as capital leases. The related assets are included in the "Buildings" line item as part of Property and Equipment on the accompanying Consolidated Balance Sheets and are depreciated over the term of the related leases. Capital lease assets and liabilities are recorded at the lesser of the net present value of minimum lease payments or at the fair market value based on comparable market data. The Company does not recognize rent expense for capital leases. Rather, rental payments under the leases are recognized as a reduction of the capital lease obligations and as interest expense.

In certain instances, the Company has leases in which it is considered the owner of the building for accounting purposes, in which case the value of the leased building is recorded in the "Construction in progress" line item (if the related store has not opened) or the "Buildings" line item (if the related store has opened) and a corresponding financing obligation is recorded in the "Capital leases and financing obligations" line item on the Consolidated Balance

Sheets. After possession of the related property is obtained and the store is opened, the financing obligation is amortized over the lease term using the effective interest method and the building is depreciated over the lease term.



The Fresh Market, Inc.  
Notes to Consolidated Financial Statements - (continued)

4. Leases (continued)

The following is a summary of future minimum lease payments for capital leases and financing obligations as of October 27, 2013:

| Fiscal Year            | Capital Leases and Financing Obligations |   |
|------------------------|--|---|
| Remainder of 2013      | \$1,105                                  |   |
| 2014                   | 4,911                                    |   |
| 2015                   | 5,041                                    |   |
| 2016                   | 5,041                                    |   |
| 2017                   | 5,041                                    |   |
| Thereafter             | 50,057                                   |   |
| Gross lease commitment | 71,196                                   |   |
| Less: interest         | (44,784)                                 | ) |
| Net lease commitment   | \$26,412                                 |   |

5. Employee Benefits

Long-Term Cash Incentive Program

In March 2012, the Company adopted The Fresh Market, Inc. Long-Term Cash Incentive Program for Select Employees (the "Program"), in which the Company's executive officers do not participate. The purpose of the Program is to provide incentives and reward employees for achieving specified performance goals over a performance period. Under the Program, the Company grants awards, which entitle participants to receive cash bonuses based upon the Company's achievement of specified performance goals encompassing a three-year fiscal performance period. The Company granted awards under the Program to its participants during the thirty-nine weeks ended October 27, 2013 and October 28, 2012. At the end of each reporting period, the Company evaluates the potential amount of the awards payable based on the estimated level of its performance. These awards are expensed over the respective performance period on a straight-line basis. Cumulative adjustments, if any, are recorded quarterly to reflect subsequent changes in estimated performance.

Each participant receives a percentage of the applicable target amount for the performance period based on achievement of the performance goals and formulas. The Program's award payouts will vary based on the level of achievement of the performance goals and can range from 33% to 150% of the pre-established target award. Each participant is entitled to a minimum of one-third of the target amount, which will be paid in three annual payments over the three-year vesting period. At the end of the three-year period, each participant is eligible for a final payout based upon the Company's specific measurement criteria. There will be no additional payout unless the threshold for the applicable performance goal is reached, and the participant must be employed by the Company at the end of the performance period to be eligible for payment of an award.

Based on the expected level of achievement of the performance goals as of the respective balance sheet dates, the Company recorded a \$225 reduction to previously recognized expense related to the Program for the thirteen weeks ended October 27, 2013 and expense of \$124 for the thirteen weeks ended October 28, 2012. For the thirty-nine weeks ended October 27, 2013 and October 28, 2012, the Company recognized expense of \$298 and \$388, respectively.

6. Share-based Compensation

The Company grants share-based awards under The Fresh Market, Inc. 2010 Omnibus Incentive Compensation Plan. As of October 27, 2013, approximately 2,200,000 shares of the Company's common stock were available for share-based awards.



The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

#### 6. Share-based Compensation (continued)

##### Stock Options - 2010 Omnibus Incentive Compensation Plan

For the thirty-nine weeks ended October 27, 2013, the Company granted non-qualifying stock options representing approximately 141,000 shares of common stock to employees. Options are granted at an option price equal to the closing price of the Company's common stock on the grant date and vest in 25% annual increments on each of the first four anniversaries of the grant date. Options expire ten years from the grant date. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options at the grant date.

As of October 27, 2013 and January 27, 2013, there were approximately 790,000 and 760,000 nonvested stock options outstanding, respectively, and approximately \$5,600 and \$5,900 of unrecognized share-based compensation expense, respectively. The Company anticipates this expense to be recognized over a weighted-average remaining service period of approximately 2.4 years.

Share-based compensation expense related to stock options recognized during the thirteen weeks ended October 27, 2013 and October 28, 2012 totaled \$738 and \$718, respectively. Share-based compensation expense related to stock options recognized during the thirty-nine weeks ended October 27, 2013 and October 28, 2012 totaled \$2,182 and \$2,117, respectively. Share-based compensation expense is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

##### Restricted Stock Units - 2010 Omnibus Incentive Compensation Plan

For the thirty-nine weeks ended October 27, 2013, the Company awarded restricted stock units ("RSUs") representing approximately 26,000 shares of common stock to its employees. The RSUs vest in 25% annual increments on each of the first four anniversaries of the grant date and the fair value is equal to the closing price of the Company's common stock on the grant date.

As of October 27, 2013 and January 27, 2013, total remaining unearned compensation cost related to nonvested RSUs was approximately \$2,000 and \$1,600, respectively, which will be recognized over the weighted-average remaining service period of approximately 2.5 years.

The Company recognized \$272 and \$186 of share-based compensation expense related to the RSUs for the thirteen weeks ended October 27, 2013 and October 28, 2012, respectively. Share-based compensation expense related to the RSUs for the thirty-nine weeks ended October 27, 2013 and October 28, 2012 totaled \$853 and \$572, respectively. Share-based compensation expense is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

##### Restricted Stock Awards - 2010 Omnibus Incentive Compensation Plan

For the thirty-nine weeks ended October 27, 2013, the Company granted approximately 9,000 restricted stock awards ("RSAs") to its non-employee directors. RSAs vest at the earlier of one year from the date of grant or the next annual meeting of the stockholders. The fair value of the RSAs is equal to the closing price of the Company's common stock on the grant date.

As of October 27, 2013 and January 27, 2013, total remaining unearned compensation cost related to nonvested RSAs was approximately \$251 and \$150, respectively, which will be recognized over the weighted-average remaining service period of approximately 0.6 years.

The Company recognized \$105 and \$104 of share-based compensation expense related to RSAs for the thirteen weeks ended October 27, 2013 and October 28, 2012, respectively. The Company recognized \$316 and \$278 of share-based compensation expense related to RSAs for the thirty-nine weeks ended October 27, 2013 and October 28, 2012, respectively. Share-based compensation expense is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.



The Fresh Market, Inc.  
Notes to Consolidated Financial Statements - (continued)

6. Share-based Compensation (continued)

Executive Restricted Stock Awards - 2010 Omnibus Incentive Compensation Plan

For the thirty-nine weeks ended October 27, 2013, the Company granted approximately 92,000 RSAs to its executive officers. The grant was comprised of two types of RSAs under the 2010 Omnibus Incentive Compensation Plan: RSAs that are subject to three-year cliff-based vesting, and RSAs that vest in annual 25% increments over a four-year period beginning on the grant date. Upon vesting, the risk of forfeiture and restrictions on transferability lapse. The Company recognizes the related compensation expense on a straight-line basis over the required service period. The fair value of the executive RSAs is equal to the closing price of the Company's common stock on the grant date. As of October 27, 2013, total remaining unearned compensation cost related to nonvested executive RSAs was approximately \$3,000, which will be recognized over the weighted-average remaining service period of approximately 2.5 years.

The Company recorded share-based compensation expense related to the executive RSAs of approximately \$293 and \$680 for the thirteen and thirty-nine weeks ended October 27, 2013, respectively, which is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

Performance Share Awards - 2010 Omnibus Incentive Compensation Plan

The Performance Share Award Agreement, approved by the Board of Directors in March 2012, provides for the issuance of performance shares ("Performance Shares") under the 2010 Omnibus Incentive Compensation Plan to executive officers and certain other members of the Company's management team based upon an established performance goal. The Performance Shares are subject to performance conditions and time-based cliff vesting on the last day of the performance period defined below. Upon vesting, the risk of forfeiture and restrictions on transferability lapse. The fair value of the Performance Shares is equal to the closing price of the Company's common stock on the grant date.

The performance goal is a specified cumulative three-year earnings per share amount for the fiscal 2012 through 2014 performance period. The actual number of Performance Shares which vest for each participant is set at a minimum threshold of 0% of the participant's target number of Performance Shares and could increase to up to 150% of the target based upon performance results. Actual performance against the performance goal will be measured at the end of the performance period and approved by the Compensation Committee of the Board of Directors of the Company (the "Committee"). Expense is recorded over the required performance period, subject to management's assessment of the expected performance outcome.

The Company did not grant any Performance Shares for the thirty-nine weeks ended October 27, 2013. Based on the expected level of achievement of the performance goal as of the respective balance sheet dates, the Company recognized a reduction to share-based compensation expense of approximately \$85 for the thirteen weeks ended October 27, 2013 and expense of approximately \$111 for the thirteen weeks ended October 28, 2012 related to the Performance Shares. The Company recognized share-based compensation expense related to Performance Shares of approximately \$49 and \$251 for the thirty-nine weeks ended October 27, 2013 and October 28, 2012, respectively. Share-based compensation expense is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

Performance Share Units - 2010 Omnibus Incentive Compensation Plan

In March 2013, the Committee adopted a Performance Share Unit Award Agreement under the 2010 Omnibus Incentive Compensation Plan. For the thirty-nine weeks ended October 27, 2013, the Company awarded approximately 30,000 performance share units ("PSUs") to its executive officers and certain other members of the Company's management team based upon an established performance goal. The PSUs are subject to performance conditions and time-based cliff vesting on the last day of the performance period, as defined below, and settle in shares of the Company's common stock upon vesting. The fair value of the PSUs is equal to the closing price of the Company's common stock on the grant date.

The performance goal is a specified cumulative three-year earnings per share amount for the fiscal 2013 through 2015 performance period. The actual number of PSUs which vest for each participant is set at a minimum threshold of 0%

of the participant's target number of PSUs and could increase to up to 150% of the target based upon performance results. Actual performance against the performance goal will be measured at the end of the performance period and approved by the Committee. Expense is recorded over the required performance period, subject to management's assessment of the expected performance outcome.

The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

#### 6. Share-based Compensation (continued)

Based on the expected level of achievement of the performance goal as of the respective balance sheet date, the Company recognized a reduction to share-based compensation expense related to PSUs of approximately \$10 for the thirteen weeks ended October 27, 2013 and share-based compensation expense related to PSUs of approximately \$144 for the thirty-nine weeks ended October 27, 2013. Those amounts are recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

##### Deferred Stock Units - 2010 Omnibus Incentive Compensation Plan

In June 2013, the Company granted approximately 1,600 deferred stock units ("DSUs"), which are elections made by certain non-employee directors that enable them to receive all of their retainer payments in the form of the Company's common stock. DSUs vest when issued and are converted to common stock upon separation from service. The fair value of the DSUs is equal to the closing price of the Company's common stock on the grant date.

As of October 27, 2013, total remaining unearned compensation cost related to DSUs was \$48, which will be recognized over the weighted-average remaining service period of approximately 0.6 years.

The Company recognized \$20 and \$32 of share-based compensation expense related to DSUs for the thirteen and thirty-nine weeks ended October 27, 2013, respectively, which is recorded in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

##### Employee Stock Purchase Plan

In November 2010, The Fresh Market, Inc. Employee Stock Purchase Plan ("ESPP") was adopted and approved by the Company's Board of Directors and stockholders. Since July 1, 2011, eligible employees have had the option to purchase shares of the Company's common stock at a 5% discount from the market price through a payroll deduction.

As of October 27, 2013, approximately 991,000 shares of common stock were available for issuance under the ESPP. During the thirty-nine weeks ended October 27, 2013 and October 28, 2012, 3,977 and 2,684 shares of the Company's common stock, respectively, were purchased under the ESPP, which resulted in proceeds of \$176 and \$136, respectively.

#### 7. Earnings per Share

The computation of basic earnings per share is based on the number of weighted-average common shares outstanding during the period. The computation of diluted earnings per share includes the dilutive effect of common stock equivalents consisting of incremental common shares deemed outstanding from the assumed exercise of stock options, RSUs, RSAs, executive RSAs and DSUs. The Company excluded the dilutive effect of its Performance Share awards and PSUs since the related performance conditions had not been satisfied for the thirteen and thirty-nine weeks ended October 27, 2013 and October 28, 2012.

The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

#### 7. Earnings per Share (continued)

A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations follows (in thousands, except share and per share amounts):

|   | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|---|------------------------------|---------------------|---------------------------------|---------------------|
|   | October 27,<br>2013          | October 28,<br>2012 | October 27,<br>2013             | October 28,<br>2012 |
| Net income available to common stockholders<br>(numerator for basic and diluted earnings per<br>share)  | \$ 11,064                    | \$ 10,889           | \$ 48,818                       | \$ 43,488           |
| Weighted-average common shares outstanding<br>(denominator for basic earnings per share)  | 48,217,984                   | 48,068,869          | 48,191,399                      | 48,057,451          |
| Potential common shares outstanding:  |                              |                     |                                 |                     |
| Incremental shares from share-based awards  | 224,268                      | 254,281             | 198,027                         | 223,472             |
| Weighted-average common shares outstanding<br>and potential additional common shares<br>outstanding (denominator for diluted earnings<br>per share) | 48,442,252                   | 48,323,150          | 48,389,426                      | 48,280,923          |
| Basic and diluted earnings per share  | \$ 0.23                      | \$ 0.23             | \$ 1.01                         | \$ 0.90             |

For the thirteen weeks ended October 27, 2013 and October 28, 2012, there were approximately 268,000 and 229,000 shares, respectively, excluded from the computation of diluted weighted-average common shares outstanding because such shares were antidilutive. For the thirty-nine weeks ended October 27, 2013 and October 28, 2012, there were approximately 282,000 and 243,000 shares, respectively, that were antidilutive.

#### 8. Commitments and Contingencies

##### Litigation

From time to time, the Company is involved in various legal proceedings in the normal course of business, including labor and employment, premises, personal injury, product liability and general liability claims, and claims related to commercial and leasing matters. In the opinion of management, the resolution of currently pending matters, other than those described or referred to in the following paragraphs, will not have a material adverse effect on the Company's financial condition or results of operations. However, because of the nature and inherent uncertainties of litigation, the Company cannot predict with certainty the ultimate resolution of these actions and, should the outcome of these actions be unfavorable, the Company's business, financial position, results of operations or cash flows could be materially and adversely affected.

The Company reviews the status of its legal proceedings and records a provision for a liability when it is considered probable that both a liability has been incurred and the amount of the loss can be reasonably estimated. This review is updated periodically as additional information becomes available. If either or both of the criteria are not met, the Company reassesses whether there is at least a reasonable possibility that a loss, or additional losses, may be incurred. If there is a reasonable possibility that a loss may be incurred, the Company discloses the estimate of the amount of the loss or range of losses, that the amount is not material, or that an estimate of loss cannot be made. The Company expenses its legal fees as incurred.

In assessing potential loss contingencies, the Company considers a number of factors, including those listed in the FASB's Accounting Standards Codification 450-20, Contingencies – Loss Contingencies, regarding assessing the probability of a loss and assessing whether a loss is reasonably estimable. Litigation can be expensive and disruptive



to normal business operations. Moreover, the results of litigation are difficult to predict and the Company's view of these matters may change as the litigation and events unfold over time. An unfavorable outcome in any legal matter, if material, could have a material adverse effect on the Company's results of operations in the period in which the unfavorable outcome occurs and potentially in future periods.

The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

8. Commitments and Contingencies (continued)

The Company is party to a lawsuit that was filed against it and other parties in the state of South Carolina in connection with certain outdoor candle products that were sold at certain of the Company's stores and are alleged to have caused personal injury. The lawsuit seeks damages from the Company, as well as from one or more manufacturers of these products and the packager of these products. The Company believes it has defenses against these claims and will vigorously defend itself and pursue recovery from insurers and other third parties. The Company maintains insurance policies (subject to customary deductibles) for its defense costs and any liability resulting from the lawsuit, although one of the Company's umbrella carriers that sits above its primary general liability insurer has reserved its rights as to coverage. The manufacturers of the candle product and the fuel gel used in the candle have each filed for bankruptcy. Because the lawsuit is at an early stage, and because of the uncertain status of the liability of third parties and potential recovery from third parties, the Company is unable to predict the outcome of the lawsuit or to estimate the amount of damages, if any, that may be awarded. If the Company is ultimately found liable in the lawsuit and insurance is not available, liability resulting from the lawsuit could have a material adverse effect on the Company's results of operations for the period or periods in which it is incurred.

The Company is party to a lawsuit that was filed against it in U.S. District Court in Connecticut alleging that the manner in which the Company implemented and applied the fluctuating workweek method for calculating the compensation due to the Company's department managers violates the federal Fair Labor Standards Act. The complaint purports to state a collective action on behalf of a class of department managers in stores in states in which the Company uses the fluctuating workweek method of compensation. The Company believes that the fluctuating workweek method (and the manner in which it implemented and applied it) is permissible under federal law and the law of each state in which the Company employs it, and the Company intends to vigorously defend itself in this proceeding. As the case is in the very early stages, the Company cannot predict whether the Court will dismiss the complaint for having no merit or certify a collective action, nor can the Company predict the amount of damages, if any, that ultimately may be awarded. Should the Company ultimately be found liable in this matter, its liability could have a material adverse effect on the Company's results of operations for the period or periods in which it is incurred.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

The Fresh Market, Inc. is a high-growth specialty retailer focused on creating an extraordinary food shopping experience for its customers. Since opening our first store in 1982, we have offered high-quality food products, with an emphasis on fresh, premium perishables and an uncompromising commitment to customer service. We seek to provide an attractive, convenient shopping environment while offering our customers a compelling price-value combination. As of October 27, 2013, we operated 146 stores in 26 states across the United States.

We believe several key differentiating elements of our business have enabled us to execute our strategy consistently and profitably across our expanding store base. We believe the differentiated shopping experience has helped us to expand our business primarily through favorable word-of-mouth publicity. Within our smaller-box format, we focus on higher-margin food categories and strive to deliver a more personal level of service and a more enjoyable shopping experience. Further, our smaller-box format is adaptable to different retail sites and configurations and has facilitated our successful growth. Additionally, we believe our disciplined, comprehensive approach to planning and merchandising and the support we provide our stores allow us to deliver a consistent shopping experience and financial performance across our store base.

### How We Assess the Performance of Our Business

In assessing our performance, we consider a variety of performance and financial measures. The key measures that we assess to evaluate the performance of our business are set forth below.

#### Sales

Our sales comprise gross sales net of coupons, commissions and discounts. Sales include sales from all our stores. The food retail industry and our sales are affected by general economic conditions and seasonality, as well as the other factors, discussed below, that affect our comparable store sales. Consumer purchases of specialty food products are particularly sensitive to a number of factors that influence the levels of consumer spending, including economic conditions, the level of disposable consumer income, consumer debt, interest rates and consumer confidence. In addition, our business is seasonal and, as a result, our average weekly sales fluctuate during the year and are usually highest in the fourth quarter when customers make holiday purchases.

#### Comparable Store Sales

Our practice is to include sales from a store in comparable store sales beginning on the first day of the sixteenth full month following the store's opening. We believe that comparability is achieved approximately fifteen months after opening. When a store that is included in comparable store sales is remodeled or relocated, we continue to consider sales from that store to be comparable store sales. There may be variations in the way that our competitors calculate comparable or "same store" sales. As a result, data in this Form 10-Q regarding our comparable store sales may not be comparable to similar data made available by our competitors.

Various factors may affect comparable store sales, including:

- overall economic trends and conditions, including general price levels in the economy;
- consumer confidence, preferences and buying trends;
- our competition, including competitor store openings or closings near our stores;
- our competitors expanding their offerings of premium/perishable products;
- the pricing of our products, including the effects of inflation, deflation and our promotional activities which we evaluate and adjust in the ordinary course of our business;
- the number of customer transactions at our stores;
- our ability to provide an assortment of distinctive, high-quality product offerings to generate new and repeat visits to our stores;
- the level of customer service that we provide in our stores;
- our in-store merchandising-related activities;
- our ability to source products efficiently;
- our opening of new stores in the vicinity of our existing stores;
- the number of stores we open, remodel or relocate in any period; and
- severe or unfavorable weather conditions.

As we continue to pursue our growth strategy, we expect that a significant percentage of our sales growth will continue to come from new stores not included in comparable store sales. Accordingly, comparable store sales is only one measure we use to assess our performance.

#### Gross Profit

Gross profit is equal to our sales minus our cost of goods sold. Gross margin rate measures gross profit as a percentage of our sales. Cost of goods sold is directly correlated with sales and includes the direct costs of purchased merchandise, distribution and supply chain costs, buying costs, store supplies and store occupancy costs. Store occupancy costs include rent, common area maintenance, real estate taxes, personal property taxes, insurance, licenses and utilities. Cost of goods sold is exclusive of depreciation, which is reported separately. The components of our cost of goods sold may not be identical to those of our competitors. As a result, data in this Form 10-Q regarding our gross profit and gross margin rate may not be comparable to similar data made available by our competitors.

Gross margin rate enhancements are driven by:

- economies of scale resulting from expanding our store base;
- reduced shrinkage as a percentage of sales; and
- productivity gains through process and program improvements.

Changes in the mix of products sold may also impact our gross margin rate.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses include certain retail store and corporate costs, including compensation (both cash and share-based), pre-opening expenses, and other corporate administrative costs. Share-based compensation expenses include those arising from grants made under our 2010 Omnibus Incentive Compensation Plan. Pre-opening expenses are costs associated with the opening of new stores, including costs associated with store labor, travel, recruiting, relocating and training personnel and other miscellaneous costs. Pre-opening costs are expensed as incurred.

Labor and corporate administrative costs generally decrease as a percentage of sales as a result of an increase in our sales. Accordingly, selling, general and administrative expenses as a percentage of sales are usually higher in lower-volume quarters and lower in higher-volume quarters. Store-level compensation costs are generally the largest component of our selling, general and administrative expenses. The components of our selling, general and administrative expenses may not be identical to those of our competitors. As a result, data in this Form 10-Q regarding our selling, general and administrative expenses may not be comparable to similar data made available by our competitors. We expect that our selling, general and administrative expenses will increase in future periods due to our continuing store growth.

#### Income from Operations

Income from operations consists of gross profit minus selling, general and administrative expenses, store closure and exit costs and depreciation.

#### Taxes

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. The amount of taxes currently payable or refundable is accrued, and deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in our financial statements in the period that includes the enactment date.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales.

|  | For the Thirteen Weeks Ended                               |         |                     |         | For the Thirty-Nine Weeks Ended |         |                     |         |
|--|--|---------|---------------------|---------|---------------------------------|---------|---------------------|---------|
|  | October 27,<br>2013  |         | October 28,<br>2012 |         | October 27,<br>2013             |         | October 28,<br>2012 |         |
|  | (amounts in thousands, except share and per share amounts) |         |                     |         |                                 |         |                     |         |
| <b>Consolidated Statements of Income Data (unaudited):</b> |  |         |                     |         |                                 |         |                     |         |
| Sales  | \$364,457  | 100.0 % | \$321,494           | 100.0 % | \$1,085,847                     | 100.0 % | \$959,275           | 100.0 % |
| Cost of goods sold   | 242,400  | 66.5 %  | 215,137             | 66.9 %  | 713,175                         | 65.7 %  | 633,485             | 66.0 %  |
| Gross profit   | 122,057  | 33.5 %  | 106,357             | 33.1 %  | 372,672                         | 34.3 %  | 325,790             | 34.0 %  |
| Selling, general and administrative expenses               | 88,865   | 24.4 %  | 76,590              | 23.8 %  | 252,869                         | 23.3 %  | 221,087             | 23.0 %  |
| Store closure and exit costs                               | 74   | 0.0 %   | 131                 | 0.0 %   | 347                             | 0.0 %   | 856                 | 0.1 %   |
| Depreciation   | 14,224   | 3.9 %   | 11,749              | 3.7 %   | 39,266                          | 3.6 %   | 33,164              | 3.5 %   |
| Income from operations                                     | 18,894   | 5.2 %   | 17,887              | 5.6 %   | 80,190                          | 7.4 %   | 70,683              | 7.4 %   |
| Interest expense   | 1,089  | 0.3 %   | 526                 | 0.2 %   | 2,554                           | 0.2 %   | 1,109               | 0.1 %   |
| Income before provision for income taxes                   | 17,805   | 4.9 %   | 17,361              | 5.4 %   | 77,636                          | 7.1 %   | 69,574              | 7.3 %   |
| Tax provision  | 6,741  | 1.8 %   | 6,472               | 2.0 %   | 28,818                          | 2.7 %   | 26,086              | 2.7 %   |
| Net income   | \$11,064   | 3.0 %   | \$10,889            | 3.4 %   | \$48,818                        | 4.5 %   | \$43,488            | 4.5 %   |
| Net income per share                                       |  |         |                     |         |                                 |         |                     |         |
| Basic and diluted  | \$0.23   |         | \$0.23              |         | \$1.01                          |         | \$0.90              |         |
| Shares used in computation of net income per share:        |  |         |                     |         |                                 |         |                     |         |
| Basic  | 48,217,984   |         | 48,068,869          |         | 48,191,399                      |         | 48,057,451          |         |
| Diluted  | 48,442,252   |         | 48,323,150          |         | 48,389,426                      |         | 48,280,923          |         |

Percentage totals in the above table may not equal the sum of the components due to rounding.

|   | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|---|------------------------------|---------------------|---------------------------------|---------------------|
|   | October 27,<br>2013          | October 28,<br>2012 | October 27,<br>2013             | October 28,<br>2012 |
| <b>Other Operating Data (unaudited):</b>                                  |                              |                     |                                 |                     |
| Number of stores at end of period   | 146                          | 127                 | 146                             | 127                 |
| Comparable store sales growth <sup>(1)</sup>                              | 3.1                          | % 5.6               | % 3.2                           | % 7.3               |
| Gross square footage at end of period (in thousands)                      | 3,094                        | 2,677               | 3,094                           | 2,677               |
| Average comparable store size (gross square feet) <sup>(2)</sup>          | 21,111                       | 21,182              | 21,113                          | 21,205              |
| Comparable store sales per gross square foot during period <sup>(2)</sup> | \$126                        | \$123               | \$393                           | \$384               |



Our practice is to include sales from a store in comparable store sales beginning on the first day of the sixteenth full month following the store's opening. When a store that is included in comparable store sales is remodeled or (1)relocated, we continue to consider sales from that store to be comparable store sales. There may be variations in the way that our competitors calculate comparable or "same store" sales. As a result, data in this Form 10-Q regarding our comparable store sales may not be comparable to similar data made available by our competitors.

Average comparable store size and comparable store sales per gross square foot are calculated using the gross (2)square footage and sales for stores included within our comparable store base for each month during the given period.

#### Items Impacting Comparability

Thirty-Nine Weeks Ended October 28, 2012

Items impacting comparability between the thirty-nine weeks ended October 27, 2013 and the thirty-nine weeks ended October 28, 2012 include the following:

Approximately \$0.5 million, or \$0.01 per share on a diluted basis, for the thirty-nine weeks ended October 28, 2012, in issuance costs incurred in connection with our secondary offering of common stock. As agreed upon by and among us and certain stockholders, we were obligated to bear the expenses and fees, except for underwriting discounts and commissions, of the offering. We received no proceeds in connection with the public offering, and all fees and expenses incurred during the thirty-nine weeks ended October 28, 2012 were expensed and included in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income.

We resolved two legal matters during the thirty-nine weeks ended October 28, 2012. The net amount of the settlement payments made and received related to these matters are included in the "Selling, general and administrative expenses" line item on the accompanying Consolidated Statements of Comprehensive Income and totaled approximately \$0.4 million on a pre-tax basis, which resulted in an after-tax reduction in earnings per share of approximately \$0.01 per share on a diluted basis. Legal fees and related expenses in connection with these matters were expensed as incurred during the thirty-nine weeks ended October 28, 2012.

#### Period to Period Comparisons

Thirteen Weeks Ended October 27, 2013 Compared to the Thirteen Weeks Ended October 28, 2012

##### Sales

Sales increased 13.4%, or \$43.0 million, to \$364.5 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012, resulting from a \$9.3 million increase in comparable store sales and a \$33.7 million increase in non-comparable store sales. There were 117 comparable stores and 29 non-comparable stores open at October 27, 2013.

Comparable store sales increased 3.1% to \$308.7 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012, driven by a 2.8% increase in the number of transactions and a 0.3% increase in the average transaction size at our comparable stores. Average customer transaction size for comparable stores increased to \$30.69 for the thirteen weeks ended October 27, 2013, compared to \$30.60 for the thirteen weeks ended October 28, 2012.

Non-comparable store sales for the thirteen weeks ended October 27, 2013 were below the internal goals we had established for them. The sales results from this group of stores were negatively impacted by certain stores opened in selected new markets outside our historic footprint at levels below both the average new store and the internal goals set for them in light of the expenses associated with these stores. When we open stores in new markets, sales may be



lower, and take more time to reach our anticipated targets, than stores in our historic footprint. When this occurs, we may have to expend additional resources through marketing and brand building activities to improve sales.

### Gross Profit

Gross profit increased 14.8%, or \$15.7 million, to \$122.1 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012. The amount of the increase in gross profit attributable to increased sales was \$14.2 million and the amount attributable to increased gross margin rate was \$1.5 million. The gross margin rate increased 40 basis points to 33.5% for the thirteen weeks ended October 27, 2013, from 33.1% for the thirteen weeks ended October 28, 2012. The increase in our gross margin rate was primarily attributable to an improvement in our merchandise margin rate as a result of a reduction in merchandise shrink expense, partially offset by an increase in occupancy expense as a percentage of sales.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 16.0%, or \$12.3 million, to \$88.9 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012. The increase in selling, general and administrative expenses was primarily attributable to an increase in the number of stores in operation during the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012, which led to higher overall store-level compensation expenses and other costs to operate our stores. With more stores in operation during the thirteen weeks ended October 27, 2013, store-level compensation expenses increased \$9.5 million, other store operating and pre-opening expenses increased \$2.2 million, and corporate general and administrative expenses increased approximately \$0.5 million.

As a percentage of sales, selling, general and administrative expenses increased by 60 basis points to 24.4% for the thirteen weeks ended October 27, 2013, compared to 23.8% for the thirteen weeks ended October 28, 2012. The increase in the selling, general and administrative expense rate for the thirteen weeks ended October 27, 2013 was primarily the result of lower than expected sales in certain non-comparable stores combined with expense increases related to store-level compensation at some of these non-comparable stores as we provide higher service levels to build our brand in new markets. Additionally, we experienced higher employee healthcare claim costs, and pre-opening expenses, compared to the thirteen weeks ended October 28, 2012. These expenses were partially offset by an improvement from other store operating expenses and corporate general and administrative expenses as a percentage of sales for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012.

### Depreciation Expense

Depreciation increased 21.1%, or \$2.5 million, to \$14.2 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012, principally due to store unit growth and the recognition of depreciation expense for certain store locations, which are recorded as capital and financing lease assets. Depreciation expense as a percentage of sales increased by 20 basis points to 3.9% for the thirteen weeks ended October 27, 2013, compared to 3.7% for the thirteen weeks ended October 28, 2012.

### Income from Operations

Income from operations increased 5.6%, or \$1.0 million, to \$18.9 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012. Income from operations as a percentage of sales for the thirteen weeks ended October 27, 2013 decreased 40 basis points to 5.2% from 5.6% for the thirteen weeks ended October 28, 2012. The decrease was primarily attributable to increased selling, general, and administrative expenses and depreciation expense, which was partially offset by an improvement in our merchandise margin rate during the thirteen weeks ended October 27, 2013, as described above.

### Interest Expense

Interest expense increased approximately \$0.6 million to \$1.1 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012. The increase was primarily attributable to \$0.9 million of interest expense related to capital lease and financing obligations for the thirteen weeks ended October 27, 2013, compared to \$0.2 million for the thirteen weeks ended October 28, 2012.

Income Tax Expense

Income taxes for the thirteen weeks ended October 27, 2013 resulted in an effective tax rate of approximately 37.9%, compared to approximately 37.3% for the thirteen weeks ended October 28, 2012.

## Net Income

As a result of the foregoing, net income increased 1.6%, or \$0.2 million, to \$11.1 million for the thirteen weeks ended October 27, 2013, compared to the thirteen weeks ended October 28, 2012. Net income as a percentage of sales for the thirteen weeks ended October 27, 2013 decreased 40 basis points to 3.0% from 3.4% for the thirteen weeks ended October 28, 2012.

## Thirty-Nine Weeks Ended October 27, 2013 Compared to the Thirty-Nine Weeks Ended October 28, 2012

### Sales

Sales increased 13.2%, or \$126.6 million, to \$1,085.8 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012, resulting from a \$28.8 million increase in comparable store sales and a \$97.8 million increase in non-comparable store sales. There were 117 comparable stores and 29 non-comparable stores open at October 27, 2013.

Comparable store sales increased 3.2% for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012, due to a 1.7% increase in the number of transactions and a 1.5% increase in the average transaction size at our comparable stores. Average customer transaction size for comparable stores increased to \$31.36 for the thirty-nine weeks ended October 27, 2013, compared to \$30.93 for the thirty-nine weeks ended October 28, 2012.

Non-comparable store sales for the thirty-nine weeks ended October 27, 2013 were below the internal goals we had established for them. The sales results from this group of stores were negatively impacted by certain stores opened in selected new markets outside our historic footprint at levels below both the average new store and the internal goals set for them in light of the expenses associated with these stores. When we open stores in new markets, sales may be lower, and take more time to reach our anticipated targets, than stores in our historic footprint. When this occurs, we may have to expend additional resources through marketing and brand building activities to improve sales.

### Gross Profit

Gross profit increased 14.4%, or \$46.9 million, to \$372.7 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. The amount of the increase in gross profit attributable to increased sales was \$43.0 million and the amount attributable to increased gross margin rate was \$3.9 million. The gross margin rate increased 30 basis points to 34.3% for the thirty-nine weeks ended October 27, 2013, from 34.0% for the thirty-nine weeks ended October 28, 2012. The increase in our gross margin rate was primarily attributable to an improvement in our merchandise margin rate as well as a slight improvement in supplies expense as a percentage of sales for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 14.4%, or \$31.8 million, to \$252.9 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. The increase in selling, general and administrative expenses was primarily attributable to an increase in the number of stores in operation during the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012, which led to higher overall store-level compensation expenses and other costs to operate our stores. With more stores in operation during the thirty-nine weeks ended October 27, 2013, store-level compensation expenses increased \$25.1 million, other store operating and pre-opening expenses increased \$5.0 million and corporate administrative expenses increased \$2.2 million compared to the thirty-nine weeks ended October 28, 2012.

Selling, general and administrative expenses as a percentage of sales increased by 30 basis points to 23.3% for the thirty-nine weeks ended October 27, 2013, compared to 23.0% for the thirty-nine weeks ended October 28, 2012. The increase in the rate was primarily the result of lower than expected sales in certain non-comparable stores combined

with expense increases related to store-level compensation at some of these non-comparable stores as we provide higher service levels to build our brand in new markets. We also experienced higher employee healthcare claim costs and pre-opening expense for the thirty-nine weeks ended October 27, 2013. Additionally, items impacting comparability included \$0.9 million or 10 basis points as a percentage of sales in transaction costs and legal settlements for the thirty-nine weeks ended October 28, 2012, which provided a favorable impact to selling, general and administrative expenses for the thirty-nine weeks ended October 27, 2013.

#### Depreciation Expense

Depreciation increased 18.4%, or \$6.1 million, to \$39.3 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012, principally due to store unit growth and the recognition of depreciation expense for certain store locations, which are recorded as capital and financing lease assets. Depreciation expense as a percentage of sales increased by 10 basis points to 3.6% for the thirty-nine weeks ended October 27, 2013, compared to 3.5% for the thirty-nine weeks ended October 28, 2012.

#### Income from Operations

Income from operations increased 13.5%, or \$9.5 million, to \$80.2 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. Income from operations as a percentage of sales for the thirty-nine weeks ended October 27, 2013 remained flat at 7.4% on a year-over-year basis compared to the thirty-nine weeks ended October 28, 2012.

#### Interest Expense

Interest expense increased approximately \$1.5 million to \$2.6 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. The increase was primarily attributable to \$2.2 million of interest expense related to capital lease and financing obligations for the thirty-nine weeks ended October 27, 2013, compared to \$0.2 million of interest expense for the thirty-nine weeks ended October 28, 2012.

#### Income Tax Expense

Income taxes for the thirty-nine weeks ended October 27, 2013 resulted in an effective tax rate of approximately 37.1%, compared to approximately 37.5% for the thirty-nine weeks ended October 28, 2012. The lower tax rate results from an increase in various state and federal tax credits for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012.

#### Net Income

As a result of the foregoing, net income increased 12.3%, or \$5.3 million, to \$48.8 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. Net income as a percentage of sales for the thirty-nine weeks ended October 27, 2013 remained flat at 4.5% on a year-over-year basis compared to the thirty-nine weeks ended October 28, 2012.

#### Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from operations and borrowings under the 2011 Credit Facility. Our primary uses of cash are purchases of inventory, operating expenses, capital expenditures primarily for opening new stores and relocating and remodeling existing stores, debt service and corporate taxes. We believe that the cash generated from operations, together with the borrowing availability under the 2011 Credit Facility, will be sufficient to meet our working capital needs for at least the next twelve months, including investments made, and expenses incurred, in connection with opening new stores and relocating and remodeling existing stores and other strategic initiatives. These strategic initiatives include the replacement of store equipment and product display fixtures, investments in information technology and merchandising enhancements. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within a few days of the related sale.

At October 27, 2013, we had approximately \$14.6 million in cash and cash equivalents and \$127.7 million in borrowing availability under the 2011 Credit Facility.

While we believe we have sufficient liquidity and capital resources to meet our current operating requirements and expansion plans, we may elect to pursue additional expansion opportunities within the next year which could require additional debt or equity financing. If we are unable to secure additional financing at favorable terms in order to pursue such additional expansion opportunities, our ability to pursue such opportunities could be materially adversely affected.



A summary of our operating, investing and financing activities is shown in the following table:

|   | For the Thirty-Nine Weeks Ended |                     |
|---|---------------------------------|---------------------|
|   | October 27,<br>2013             | October 28,<br>2012 |
| Net cash provided by operating activities | \$104,618                       | \$76,451            |
| Net cash used in investing activities     | (92,093                         | ) (56,056           |
| Net cash used in financing activities     | (6,656                          | ) (15,758           |
| Net increase in cash and cash equivalents | \$5,869                         | \$4,637             |

#### Operating Activities

Cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation and amortization, realized gain or loss on disposal of property and equipment, share-based compensation, changes in deferred income taxes, and the effect of changes in assets and liabilities.

|   | For the Thirty-Nine Weeks Ended |                     |
|---|---------------------------------|---------------------|
|   | October 27,<br>2013             | October 28,<br>2012 |
| Net income  | \$48,818                        | \$43,488            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                     |
| Depreciation and amortization   | 39,432                          | 33,330              |
| Loss on disposal of property and equipment  | 13                              | 129                 |
| Share-based compensation  | 4,256                           | 3,218               |
| Excess tax benefits from share-based compensation                                 | (180                            | ) (288              |
| Deferred income taxes   | (2,513                          | ) (4,248            |
| Changes in assets and liabilities   | 14,792                          | 822                 |
| Net cash provided by operating activities   | \$104,618                       | \$76,451            |

Net cash provided by operating activities increased 36.8%, or \$28.2 million, to \$104.6 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. The increase in net cash provided by operating activities was primarily due to increases in net income and depreciation and changes in assets and liabilities.

#### Investing Activities

Cash used in investing activities consists primarily of capital expenditures for opening new stores and relocating and remodeling existing stores, as well as investments in information technology and merchandising enhancements.

|  | For the Thirty-Nine Weeks Ended |                     |
|--|---------------------------------|---------------------|
|  | October 27,<br>2013             | October 28,<br>2012 |
| Purchases of property and equipment          | \$(92,169                       | ) \$(62,752         |
| Proceeds from sale of property and equipment | 76                              | 6,696               |
| Net cash used in investing activities        | \$(92,093                       | ) \$(56,056         |

Capital expenditures increased 46.9%, or \$29.4 million, to \$92.2 million for the thirty-nine weeks ended October 27, 2013, compared to the thirty-nine weeks ended October 28, 2012. Capital expenditures related to new, remodeled, or relocated stores totaled \$85.1 million for the thirty-nine weeks ended October 27, 2013, compared to \$55.9 million for the thirty-nine weeks ended October 28, 2012. In April 2012, we received proceeds of \$6.6 million from a land and



building sale-leaseback transaction.

24

---

We plan to spend approximately \$115.0 million to \$125.0 million on capital expenditures during fiscal 2013, primarily related to real estate investments.

We plan to open 22 new stores during fiscal 2013, 17 of which have been opened as of October 27, 2013.

#### Financing Activities

Cash used in financing activities consists principally of borrowings and payments under the 2011 Credit Facility. We currently do not intend to pay cash dividends on our common stock.

|   | For the Thirty-Nine Weeks Ended |                     |   |
|---|---------------------------------|---------------------|---|
|   | October 27,<br>2013             | October 28,<br>2012 |   |
| Borrowings on revolving credit facility   | \$376,132                       | \$341,668           |   |
| Payments made on revolving credit facility                                      | (384,532                        | ) (358,768          | ) |
| Payments made on capital leases and financing obligations                       | (97                             | ) (45               | ) |
| Proceeds from issuance of common stock pursuant to employee stock purchase plan | 176                             | 136                 |   |
| Excess tax benefits from share-based compensation                               | 180                             | 288                 |   |
| Payments on withholding tax for restricted stock unit vesting                   | (80                             | ) —                 | ) |
| Proceeds from exercise of share-based compensation awards                       | 1,565                           | 963                 |   |
| Net cash used in financing activities   | \$ (6,656                       | ) \$ (15,758        | ) |

Net cash used in financing activities for the thirty-nine weeks ended October 27, 2013 decreased 57.8%, or \$9.1 million to \$6.7 million mostly due to a decrease in net payments on the 2011 Credit Facility compared to the thirty-nine weeks ended October 28, 2012. We reduced the 2011 Credit Facility balance by \$8.4 million for the thirty-nine weeks ended October 27, 2013, compared to a reduction of \$17.1 million for the thirty-nine weeks ended October 28, 2012. Cash inflows from financing activities were primarily attributable to proceeds due to the exercise of share-based compensation awards.

#### Revolving Credit Facility

The 2011 Credit Facility matures February 22, 2016, and is available to provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions, issuance of letters of credit, refinancing and payment of fees. While we currently have no material domestic subsidiaries, other entities will guarantee our obligations under the 2011 Credit Facility if and when they become material domestic subsidiaries during the term of the 2011 Credit Facility.

The 2011 Credit Facility provides for total borrowings of up to \$175.0 million. Under the terms of the 2011 Credit Facility, we are entitled to request an increase in the size of the facility by an amount not exceeding \$75.0 million in the aggregate. If the existing lenders elect not to provide the full amount of a requested increase, or in lieu of accepting offers from existing lenders to increase their commitments, we may designate one or more other lenders to become a party to the 2011 Credit Facility, subject to the approval of the Administrative Agent. The 2011 Credit Facility includes a letter of credit sublimit of \$25.0 million and a swing line sublimit of \$10.0 million.

At our option, outstanding borrowings bear interest at (i) LIBOR plus an applicable margin that ranges from 1.00% to 2.25%, (ii) the Eurodollar rate plus an applicable margin that ranges from 1.00% to 2.25%, or (iii) the base rate plus an applicable margin that ranges from 0% to 1.25%, where the base rate is defined as the greatest of: (a) the federal funds rate plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%.

The commitment fee calculated on the unused portions of the 2011 Credit Facility ranges from 0.20% to 0.35% per annum. As of October 27, 2013 and January 27, 2013, all outstanding borrowings bore interest at LIBOR plus an applicable margin.

The 2011 Credit Facility contains a number of affirmative and restrictive covenants, including limitations on our ability to grant liens, incur additional debt, pay dividends, redeem our common stock, make certain investments and

engage in certain merger, consolidation or asset sale transactions.

In addition, the 2011 Credit Facility provides that we will be required to maintain the following financial ratios: a consolidated maximum leverage ratio as of the end of any quarter of not more than 4.25 to 1.00, based upon the ratio of (i) adjusted funded debt (as defined in the 2011 Credit Facility) to (ii) EBITDAR (as defined in the 2011 Credit Facility) over the period consisting of the four fiscal quarters ending on or before the determination date, and a consolidated fixed charge coverage ratio of not less than 1.70 to 1.00, based upon the ratio of (i) EBITDAR (as defined in the 2011 Credit Facility) less cash taxes paid by us and certain discretionary distributions over the period consisting of the four fiscal quarters ending on or immediately prior to the determination date to (ii) the sum of interest expense, cash lease and rent expense and the current portion of capitalized lease obligations for such period and the current portion of long-term liabilities for the four fiscal quarters ending as of the end of any quarter on or prior to the determination date.

We were in compliance with all debt covenants under the 2011 Credit Facility as of October 27, 2013.

#### Off-Balance Sheet Arrangements

Our off-balance sheet arrangements at October 27, 2013 consisted of operating leases. We have no other off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on our consolidated financial statements or changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Contractual Obligations

Our contractual obligations primarily consist of long-term debt obligations and lease obligations. No material changes outside the ordinary course of business have occurred in our contractual obligations during the thirty-nine weeks ended October 27, 2013. For a more comprehensive discussion of our contractual obligations see "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 27, 2013.

#### Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, as we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, costs and expenses and related disclosures. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. These estimates and assumptions are affected by management's application of accounting policies. On an on-going basis, management evaluates its estimates and judgments. Based on this definition, we have identified the critical accounting policies and judgments addressed below. Critical accounting policies that affect our more significant judgments and estimates used in the preparation of our financial statements include, accounting for inventories, accounting for impairment of long-lived assets, accounting for closed store reserves, accounting for insurance reserves, accounting for income taxes and accounting for share-based compensation, which are discussed in more detail under the caption "Critical Accounting Policies" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," set forth in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 27, 2013.

#### Capital Leases

The most significant estimates used by management in accounting for capital leases and the impact of these estimates are as follows:

Expected lease term - Our expected lease term includes both contractual lease periods and cancelable option periods where failure to exercise such options would result in an economic penalty. The expected lease term is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the lease term exceeds 75% of the leased asset's useful life. The expected lease term is also used in determining the depreciable life of the asset. An increase in the expected lease term will increase the probability that a lease will be considered a capital lease and will generally result in higher interest and depreciation expense for a leased property recorded on our balance sheet.

Incremental borrowing rate - The incremental borrowing rate is primarily used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the minimum lease payments is greater than 90% of the fair market value of the property. An increase in the incremental borrowing rate decreases the net present value of the minimum lease payments and reduces the probability that a lease will be considered a capital lease. For leases which are recorded on our balance sheet with a related capital lease, the

incremental borrowing rate is also used in allocating our rental payments between interest expense and a reduction of the outstanding obligation. If our calculation of the net present value of minimum lease payments is greater than the fair value of the leased asset, the incremental borrowing rate is adjusted so the net present value of the minimum lease payments does not exceed the fair value of the leased asset.

Fair market value of leased asset - The fair market value of leased retail property is generally estimated based on comparable market data as provided by third-party sources. Fair market value is used in determining whether the lease is accounted for as an operating lease or a capital lease. A lease is considered a capital lease if the net present value of the minimum lease payments equals or exceeds 90% of the fair market value of the leased property. A higher fair market value reduces the likelihood that a lease will be considered a capital lease.

#### Seasonality

The food retail industry and our sales are affected by seasonality. Our average weekly sales fluctuate during the year and are usually highest in the fourth quarter when customers make holiday purchases.

#### Inflation

While inflation may impact our sales and cost of goods sold, we believe the effects of inflation on our results of operations and financial condition were moderate for the thirteen and thirty-nine weeks ended October 27, 2013. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not utilize financial instruments for trading or other speculative purposes, nor do we utilize leveraged financial instruments. Our exposure to market risks results primarily from changes in interest rates and there have been no material changes regarding our market risk position from the information provided under Part II, Item 7A in our Form 10-K for the fiscal year ended January 27, 2013.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that, as of October 27, 2013, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the thirteen and thirty-nine weeks ended October 27, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## Part II. Other Information

### Item 1. Legal Proceedings

In the ordinary course of our business, we are subject to lawsuits, investigations and claims, including, but not limited to, intellectual property disputes, contractual disputes, premises claims and employment, environmental, health, product liability and safety matters. Although we cannot predict with certainty the ultimate resolution of any lawsuits, investigations and claims asserted against us, we do not believe any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, prospects, financial condition, cash flows or results of operations, except for the proceedings described in the immediately succeeding paragraph, which could have a material adverse effect on us.

We are currently party to a lawsuit that was filed against us and other parties in the state of South Carolina in connection with certain outdoor candle products that were sold at certain of our stores and are alleged to have caused personal injury. The lawsuit seeks damages from us, as well as from one or more manufacturers of these products and the packager of these products. We believe that we have defenses against these claims and we will vigorously defend ourselves and pursue recovery from insurers and other third parties. We maintain insurance policies (subject to customary deductibles) for our defense costs and any liability resulting from the lawsuit, although one of our umbrella carriers that sits above its primary general liability insurer has reserved its rights as to coverage. The manufacturers of the candle product and the fuel gel used in the candle have each filed for bankruptcy. Because the lawsuit is at an early stage, and because of the uncertain status of the liability of third parties and of the potential recovery from third parties, we are unable to predict the outcome of the lawsuit or to estimate the amount of damages, if any, that may be awarded. If we are ultimately found liable in the lawsuit and insurance is not available, liability resulting from the lawsuit could have a material adverse effect on our results of operations for the period or periods in which it is incurred.

We are party to a lawsuit that was filed against us in U.S. District Court in Connecticut alleging that the manner in which we implemented and applied the fluctuating workweek method for calculating the compensation due to our department managers violates the federal Fair Labor Standards Act. The complaint purports to state a collective action on behalf of a class of department managers in stores in states in which we use the fluctuating workweek method of compensation. We believe that the fluctuating workweek method (and the manner in which we have implemented and applied it) is permissible under federal law and the law of each state in which we employ it, and we intend to vigorously defend ourselves in this proceeding. As the case is in the very early stages, we cannot predict whether the Court will dismiss the complaint for having no merit or certify a collective action, nor can we predict the amount of damages, if any, that ultimately may be awarded. Should we ultimately be found liable in this matter, our liability could have a material adverse effect on our results of operations for the period or periods in which it is incurred.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 27, 2013.

### Item 6. Exhibits

|              |  |
|--------------|--|
| Exhibit 10.1 | Terms of employment of Randall A. Young  |
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| Exhibit 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| Exhibit 101  |  |



Edgar Filing: Fresh Market, Inc. - Form 10-Q

The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended October 27, 2013, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 26, 2013

THE FRESH MARKET, INC.

By: /s/ Jeffrey B. Short  
Jeffrey B. Short  
Vice President and Controller  
(Principal Accounting Officer)