Sprouts Farmers Market, Inc.
Form 10-K
February 26, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 28, 2014

Commission File Number: 001-36029

Sprouts Farmers Market, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**32-0331600**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11811 N. Tatum Boulevard, Suite 2400

Phoenix, Arizona 85028

(Address of principal executive offices and zip code)

(480) 814-8016

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock, $0.001 par value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No x

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 x   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 x   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   x

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

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

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

As of June 27, 2014, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s voting common stock held by non-affiliates of the registrant was $3,365,500,197, based on the last reported sale price of such stock as reported on The NASDAQ Global Select Market on such date.

As of February 24, 2015, there were outstanding 152,064,393 shares of the registrant s common stock, $0.001 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year ended December 28, 2014.

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EXPLANATORY NOTE

On July 29, 2013, Sprouts Farmers Markets, LLC, a Delaware limited liability company, converted into Sprouts Farmers Market, Inc., a Delaware corporation, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Comparability of Results of Operations Corporate Conversion. As used in this Annual Report on Form 10-K, unless the context otherwise requires, references to the Company, Sprouts, we, us and our refer to Sprouts Farmers Markets, LLC and, after the corporate conversion, to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries. In the corporate conversion, each unit of Sprouts Farmers Markets, LLC was converted into 11 shares of common stock of Sprouts Farmers Market, Inc., and each option to purchase units of Sprouts Farmers Markets, LLC was converted into an option to purchase 11 shares of common stock of Sprouts Farmers Market, Inc. For the convenience of the reader, except as the context otherwise requires, all information included in this Annual Report on Form 10-K is presented giving effect to the corporate conversion.

On July 31, 2013, the Company s Registration Statement on Form S-1 (Reg. No. 333-188493) and the Company s Registration Statement on Form 8-A became effective, and the Company became subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (referred to as the Exchange Act).

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, estimate, expect, intend, may, might, plan, project, will, would, should, could, can, predict, potential, continue, objective, or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors included in this Annual Report on Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

PART I

Item 1. *Business*

Who We Are

Sprouts Farmers Market operates as a healthy grocery store that offers fresh, natural and organic food that includes fresh produce, bulk foods, vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, body care and natural household items catering to consumers growing interest in eating and living healthier. Since our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability. With 198 stores in 12 states as of February 26, 2015, we are one of the largest specialty retailers of fresh, natural and organic food in the United States.

The cornerstones of our business are fresh, natural and organic products at compelling prices (which we refer to as Healthy Living for Less), an attractive and differentiated shopping experience, and knowledgeable team members who we believe provide best-in-class customer service and product education.

Healthy Living for Less. We offer high-quality, fresh, natural and organic products at attractive prices in every department. Consistent with our farmers market heritage, our offering begins with fresh produce, which we source, warehouse and distribute in-house and sell at prices we believe to be significantly below those of other food retailers. In addition, our scale, operating structure and deep industry relationships position us to consistently deliver Healthy Living for Less throughout the store. Based on our experience, we believe we attract a broad customer base, including conventional supermarket customers, and appeal to a much wider demographic than other specialty retailers of natural and organic food. We believe that over time, our compelling prices and product offering convert many trial customers into loyal lifestyle customers who shop Sprouts with greater frequency and across an increasing number of departments.

Attractive, Differentiated Shopping Experience. In a convenient, small-box format (average store size of 28,000 to 30,000 sq. ft.), our stores have a farmers market feel, with a bright, open-air atmosphere to create a comfortable and engaging in-store experience. We strive to be our customers everyday healthy grocery store. We feature fresh produce and bulk foods at the center of the store surrounded by a complete grocery offering, including vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, beer and wine, body care and natural household items. Consistent with our fresh, natural and organic offering, we choose not to carry most of the traditional, national branded consumer packaged goods generally found at conventional grocery retailers (*e.g.*, Doritos, Tide and Lucky Charms). Instead, we offer high-quality, healthier alternatives that emphasize our focus on fresh, natural and organic products at great values.

Customer Service and Education. We are dedicated to our mission of Healthy Living for Less, and we attract team members who share our passion for educating and serving our customers with the goal of making healthy eating easier and more accessible. We believe our well-trained and engaged team members help our customers increasingly understand that they can purchase a wide selection of high-quality, healthy, and great tasting food for themselves and their families at attractive prices by shopping at Sprouts.

Our Industry

We operate within the grocery store industry which encompasses store formats ranging from small grocery and convenience stores to large independent and chain supermarkets. According to the *Progressive Grocer*, U.S.

supermarket sales totaled over $620 billion in 2013. Based on our industry experience, we believe we are capturing significant market share from conventional supermarkets and other specialty concepts in this supermarket segment.

The supermarket segment is comprised of various formats, including conventional, supercenter, natural / gourmet, limited assortment and warehouse. While the natural and organic food segment is one of the fastest growing segments in the industry, conventional supermarkets have experienced overall share decline from approximately 73% in 2005 to 66% in 2013, according to the *Progressive Grocer*, as customers have migrated to other grocery retail formats. Conventional supermarket customers are attracted to competitors unique product offerings, formats and differentiated shopping experiences.

We believe Sprouts offers consumers a compelling value relative to conventional supermarkets and mass retailers and will continue to benefit from the following industry and consumer trends:

- *Increasing consumer focus on health and wellness*. We believe, based on our industry experience, that consumers are increasingly focused on health and wellness and are actively seeking healthy foods in order to improve eating habits. According to the *Nutrition Business Journal*, sales of natural and organic food have grown at a CAGR of 12.0% from 1997 to 2012, reaching a total market size of $57 billion in the United States and are expected to continue to grow to $117 billion in 2020, representing a CAGR of 11.0% from 2013 to 2020. In addition, according to the *Nutrition Business Journal*, vitamin and supplement sales grew at a CAGR of 5.8% from 1997 to 2012, reaching a total market size of $32 billion in the United States. The *Nutrition Business Journal* forecasts this market will accelerate growth to a CAGR of 6.9% from 2013 to 2020.

This overall demand for healthy products is driven by many factors, including increased awareness about the benefits of eating healthy, a greater focus on preventative health measures, and the rising costs of health care. We believe customers are attracted to retailers with comprehensive health and wellness product offerings. As a result, food retailers are offering an increased assortment of fresh, natural and organic foods as well as vitamins and supplements to meet this demand.

- *Emphasis on the customer shopping experience.* Consumers are increasingly focused on their shopping experience. According to the 2011 Food Marketing Institute study, *The Food Retailing Industry Speaks*, 60% of shoppers do not shop at the store most convenient to their home. These consumers choose their shopping location based on variety, price and higher-quality produce and meat. Shoppers are also loyal to their primary store, with 75% of their total grocery budget spent at their primary store according to a survey in the *Food Marketing Institute s U.S. Grocery Shopper Trends 2014*. Grocers are therefore focused on providing a broad selection of products along with exceptional customer service.

- *Consumer desire for value.* Customers across formats seek quality products at compelling value. Stores under our management experienced positive quarterly pro forma comparable store sales growth throughout the economic downturn from 2008 to 2010, while certain traditional, natural and organic retailers faced pressure on sales as customers shifted to lower-priced items or eliminated certain discretionary purchases. We believe consumers will continue to seek high-quality, value-priced offerings in their purchases over the long-term, regardless of macroeconomic conditions.

What Makes Us Different

We believe the following competitive strengths position Sprouts to capitalize on two powerful, long-term consumer trends a growing interest in health and wellness and a focus on value:

Comprehensive fresh, natural and organic product offering at great value. We feature an expansive offering of high-quality fresh, natural and organic products at compelling value. In particular, we position Sprouts to be a value leader in fresh produce in order to drive trial visits to our stores by new customers. We believe that, over time, our differentiated product offering and strong value proposition converts many trial customers into loyal, lifestyle customers who shop broader categories across the store.

Resilient business model with strong financial performance. We achieved positive, pro forma comparable store sales growth of 9.9%, 10.7%, 9.7%, 5.1% and 2.3% in fiscal 2014, 2013, 2012, 2011 and 2010, respectively, calculated in footnote (b) to the table titled Supplemental Pro Forma Data Net Sales in Item 6. Selected Financial Data. We believe the consistency of our performance over time, even through the economic downturn from 2008 to 2010, and across geographies and vintages is the result of a number of factors, including our distinctive value positioning and merchandising strategies, product innovation and a well-trained staff focused on customer education and service. In addition, we believe our high volume and low-cost store model enhance our ability to consistently offer competitive prices on a complete assortment of fresh, natural and organic products.

Proven and replicable economic store model. We believe that our store model, combined with our rigorous store selection process and a growing interest in health and wellness, contribute to our attractive new store returns on investment. Our typical store requires an average new store cash investment of approximately $2.8 million, including store buildout (net of contributions from landlords), inventory (net of payables) and cash pre-opening expenses. Based on historical performance, we target pre-tax cash-on-cash returns of 35-40% within three to four years after opening. We believe the consistent performance of our store portfolio across geographies and vintages supports the portability of the Sprouts brand and store model into a wide range of markets.

Significant new store growth opportunity supported by broad demographic appeal. We believe, based on our experience, that our broad product offering and value proposition appeals to a wider demographic than other leading competitors, including higher-priced health food and gourmet food retailers. Sprouts has been successful across a variety of urban, suburban and rural locations in diverse geographies, from California to Georgia, underscoring the heightened interest in eating healthy across markets. Based on research conducted for us, we believe that the U.S. market can support approximately 1,200 Sprouts Farmers Market stores operating under our current format, including 400 in states in which we currently operate. We intend to achieve 14% annual new store growth over at least the next five years, balanced among existing, adjacent and new markets.

Passionate and experienced management team with proven track record. Since inception, we have been dedicated to delivering Healthy Living for Less. Our passion and commitment is shared by team members throughout the entire organization, from our stores to our corporate office. Our executive management team has extensive experience in the grocery and food retail industry, and deep roots in organic, natural and specialty food retail. With recent investments in people, systems and other infrastructure, we believe we are well-positioned to achieve our future growth plans.

Growing Our Business

We are pursuing a number of strategies designed to continue our growth and strong financial performance, including:

Expand our store base. We intend to continue expanding our store base by pursuing new store openings in existing markets, expanding into adjacent markets and penetrating new markets. From our founding in 2002 through December 28, 2014, we opened 115 new stores while successfully rebranding 43 Henry s Farmers Market (Henry s) and 39 Sunflower Farmers Market (Sunflower) stores to the Sprouts banner. On a combined basis, Sprouts, Henry s and Sunflower opened an average of 18 stores per year from fiscal 2009 through fiscal 2014, which includes the 24 new stores we opened in fiscal 2014, to bring our total store footprint to 191 stores as of December 28, 2014. We expect to continue to expand our store base with 27 store openings planned in fiscal 2015, of which seven have opened as of the date of this Annual Report on Form 10-K, and we intend to achieve 14% annual new store growth over at least the next five years.

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The below diagram shows our store footprint, by state, as of December 28, 2014.

Continue positive comparable store sales. For 31 consecutive quarters, including throughout the economic downturn from 2008 to 2010, stores under our management have achieved positive comparable store sales growth. We believe we can continue to grow the number of customer transactions by enhancing our core value proposition and distinctive customer-oriented shopping experience. We aim to grow our average ticket by continuing to expand and refine our fresh, natural and organic product offering, our targeted and personalized marketing efforts and our in-store education. We believe these factors, combined with the continued strong growth in fresh, natural and organic food consumption, will allow Sprouts to gain new customers, increase customer loyalty and, over time, convert single-department trial customers into core, lifestyle customers who shop Sprouts with greater frequency and across an increasing number of departments.

Enhance our operating margins. We believe we can continue to enhance our operating margins through efficiencies of scale, improved systems, continued cost discipline and enhancements to our merchandise offerings. We have made significant investments in management, information technology systems, training, marketing, compliance and other infrastructure to enable us to pursue our growth plans, which we believe will also enhance our margins over time. Furthermore, we expect to achieve economies of scale in sourcing and distribution as we add new stores. Our new stores generally start off at a lower operating margin and over three to four years, increase toward the company average. As such, the timing of our openings could impact the overall operating margins in a given year.

Grow the Sprouts Farmers Market brand. We are committed to supporting our stores, product offerings and brand through a variety of marketing programs, private label offerings and corporate partnerships. In addition, we will continue our community outreach and charity programs to more broadly connect with our local communities with the aim of promoting our brand and educating consumers on healthy choices. We will also continue to expand our innovative marketing and promotional strategy through print, digital and social media platforms, all of which promote our mission of Healthy Living for Less.

Our Heritage

We were founded by members of a family with a long history of selling fresh and natural foods to a broad demographic of customers. In 1969, Stan Boney and his brothers opened Boney s Marketplace in Southern California, which would later become Henry s Farmers Market, a farmers market style natural and organic specialty retailer. After selling Henry s Farmers Market in 1999, Stan and his son, Shon, and two

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family friends began plans for what would become Sprouts Farmers Market with the goal of making affordable healthy foods, vitamins and other products available to everyone. In 2002, we opened the first Sprouts Farmers Market store in Chandler, Arizona. In 2010, we had 54 stores and reached over $620 million in net sales and approximately 3,700 team members. In April 2011, we partnered with the investment funds affiliated with, and co-investment vehicles managed by, Apollo Management VI, L.P. (referred to as the Apollo Funds), and added 43 stores by combining with Henry s and its Sun Harvest-brand stores (referred to as the Henry s Transaction). The Henry s Transaction brought us to 103 total stores located in Arizona, California, Colorado and Texas as of the end of 2011. In May 2012, we added another 37 stores through our acquisition of Sunflower (referred to as the Sunflower Transaction and together with the Henry s Transaction are collectively referred to as the Transactions) and extended our footprint into New Mexico, Nevada, Oklahoma and Utah. These three businesses all trace their lineage back to Henry s Farmers Market and were built with similar store formats and operations including a strong emphasis on value, produce and service in smaller, convenient locations. The consistency of these formats and operations was an important factor that allowed us to rapidly and successfully rebrand and integrate each of these businesses under the Sprouts banner and on a common platform.

During 2011 through 2014, we continued to open new stores and, as of December 28, 2014, had 191 stores in ten states. We are one of the largest specialty retailers of fresh, natural and organic food in the United States.

In connection with our initial public offering (referred to as our IPO), on July 29, 2013, Sprouts Farmers Markets, LLC, a Delaware limited liability company, converted into Sprouts Farmers Market, Inc., a Delaware corporation. As part of the corporate conversion, holders of membership interests of Sprouts Farmers Markets, LLC in the form of Class A and Class B units received 11 shares of our common stock for each unit held immediately prior to the corporate conversion, and options to purchase units became options to purchase 11 shares of our common stock for each unit underlying options outstanding immediately prior to the corporate conversion, at the same aggregate exercise price in effect prior to the corporate conversion.

On August 1, 2013, our common stock began trading on the NASDAQ Global Select Market and on August 6, 2013, we closed our IPO.

Our Stores and Operations

We believe our stores represent a blend of conventional supermarkets, farmers markets, natural foods stores, and smaller specialty markets, differentiating us from other food retailers, while also providing a complete offering for our customers.

Store Design. Our stores are organized in a flipped conventional food retail store model, positioning our produce at the center of the store surrounded by a complete grocery offering. We typically dedicate approximately 15% of a store s selling square footage to produce, which we believe is significantly higher than many of our peers. The stores are designed with open floor plans and low displays, intended to provide an easy-to-shop environment that allows our customers to view the entire store. The design of our stores is a farmers market style, with wooden crates stacked with fresh produce and self-service bulk food barrels and bins in a bright and open atmosphere. We believe our stores provide customers with a differentiated shopping experience and promote greater interaction with our well-trained and enthusiastic team members, resulting in what we believe is an enhanced level of customer service.

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The below diagram shows a sample layout of our stores:

Culture of Service. We are committed to providing and believe we have best-in-class customer service, which builds trust with our customers and differentiates the Sprouts shopping experience from that of many of our competitors. We design our stores to maximize customers interactions with our team members. For example, in addition to an open floor plan and low displays, we do not have aisle numbers or self-service checkout lines in our stores, which promotes interaction between customers and team members. We believe this interaction provides an opportunity to educate customers and provides a valued, differentiated customer service model, which enhances customer loyalty and increases visits and purchases over time.

Customer service is critical to our culture and we place great importance on training our team members on customer service and product knowledge to ensure there is friendly, knowledgeable staff in every department. Our team members are trained and empowered to proactively engage with customers throughout the entire store. This includes investing time with them on the benefits of different vitamins, sharing ways to prepare a meal or cutting a piece of produce or opening a package to offer customers product tastings throughout the store. We consider customer education and service to be particularly important as many conventional supermarket customers that have not shopped our stores believe that eating healthy is expensive and difficult. At Sprouts, we believe in Healthy Living for Less and strive to provide more consumers with the opportunity to offer their families great tasting, healthy, natural and organic products for less.

Our stores are typically staffed with 80 to 90 full and part-time team members including a store manager, an assistant store manager, eight department managers, five assistant department managers, store office staff and other team members.

Recruiting, Training, Development and Promotion. We strive to create a strong and unified company culture and develop team members throughout the entire organization. We have regional department level merchandisers and trainers who are focused on training team members within departments and also assist with store and local merchandising strategies and execution. For new stores, we typically have team members on site approximately three to four weeks before opening to optimize initial and long-term store performance and customer service. We also have approximately 100 people in the field as regional support teams in human resources, operations and compliance. These teams focus on hiring, retention, training, food safety, security, financial management and other operational best practices. We regularly perform audits of our stores to assess customer service, inventory quality and control, merchandising and other factors. We believe our team members contribute to our consistently high service standards and that this helps us successfully open new stores.

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We believe Sprouts is an attractive place to work with significant growth opportunities for our team members. We offer competitive wages and benefits as we believe active, educated and passionate team members contribute to consumer satisfaction. In 2014, we promoted approximately 3,600 team members. We also host quarterly Team Member Appreciation Days at each store, hold town hall meetings between team members and company management and provide our team members with discounts on purchases in the store.

Store Size. Our stores are generally between 28,000 and 30,000 square feet, which we believe is smaller than many of our peers average stores. Our stores are located in a variety of mid-sized and larger shopping centers, lifestyle centers and in certain cases, independent single-unit, stand-alone developments. The size of our stores and our real estate strategy provide us flexibility in site selection, including entering into new developments or existing sites formerly operated by other retailers, including other grocery banners, office supply stores, electronics retailers and other second generation space. Further, we believe our value positioning allows us to serve a diverse customer base and provides us significant flexibility to enter new markets across a variety of socio-economic areas, including markets with varying levels of fresh, natural and organic grocer penetration.

The portability of our store design enabled us to open 19 and 24 stores in fiscal 2013 and fiscal 2014, respectively. We have 27 store openings planned in fiscal 2015, of which seven have opened as of the date of this Annual Report on Form 10-K, and we intend to achieve 14% annual new store growth over at least the next five years.

Our Product Offering

We are a complete food retailer. We focus and tailor our assortment to fresh, natural and organic foods and healthier options throughout all of our departments. When possible, we also offer local products, which we believe our customers value and trust, adding to our authenticity as a natural and organic farmers market.

Fresh, Natural and Organic Foods

Our product offerings focus on fresh, natural and organic foods. Foods are generally considered fresh if it is minimally processed or in its raw state not subject to any type of preservation or freezing. Natural foods can be broadly defined as foods that are minimally processed and are free of synthetic preservatives, artificial sweeteners, colors, flavors and other additives, growth hormones, antibiotics, hydrogenated oils, stabilizers and emulsifiers. Essentially, natural foods are largely or completely free of non-naturally occurring chemicals and are as near to their whole, natural state as possible.

Organic foods refer to the food itself as well as the method by which it is produced. In general, organic operations must demonstrate that they are protecting natural resources, conserving biodiversity, and using only approved substances and must be certified by a USDA-accredited certifying agency. These organic standards include:

Crop production must not use irradiation, sewage sludge, synthetic fertilizers, prohibited pesticides, and genetically modified organisms.

Livestock producers must meet animal health and welfare standards, not use antibiotics or growth hormones, use 100% organic feed, and provide animals with access to the outdoors.

Multi-ingredient organic food must be compromised of 95% or more certified organic content. Further, retailers that handle, store or sell organic products must implement measures to protect their organic character.

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Products

We categorize the varieties of products we sell as perishable and non-perishable. Perishable product categories include produce, meat, seafood, deli and bakery. Non-perishable product categories include grocery, vitamins and supplements, bulk items, dairy and dairy alternatives, frozen foods, beer and wine, and natural health and body care. The following is a breakdown of our perishable and non-perishable sales mix:

	2014	2013	2012
Perishables	50.8%	50.1%	49.1%
Non-Perishables	49.2%	49.9%	50.9%

Departments

Our stores include the following departments:

Produce. Placed at the center of our stores, our high-quality, value-oriented offering begins with our produce department. We offer our customers a farmers market open-feel environment consisting of an abundant and affordable natural and organic offering of fresh fruits, vegetables and herbs, focused on appearance, flavor and value. Our extensive produce selection includes seasonal, specialty and organic items, often from local or regional farms, at prices targeted to be significantly lower than our competitors.

Bulk Items. Our stores include a uniquely crafted selection of more than 450 varieties of scoopable nuts, fruits, trail mixes, grains, beans, cereals, coffee, tea, spices, candy and snacks featured in the center of the store. We believe this high-quality, value-oriented department provides a feeling of an old-time grocery store as customers are able to select and scoop as much of these items as they wish, enabling them to buy just enough for a particular recipe, sample a new item, or buy in abundance for home storage.

Vitamins and Supplements. Our stores feature more than 4,700 vitamins, supplements, natural remedies, functional food, lifestyle support, and herbal supplements. This department includes an extensive private label offering. We believe there is an education component to shopping in our vitamins and supplements department and that our customers value friendly, knowledgeable and dedicated team members to introduce products and to guide them through their purchases. We employ a full-time nutritionist to assist and train team members and we frequently host in-store, product-specific training sessions. Each store typically holds four to five training sessions per month (including both internal and vendor-led). These training sessions prepare our vitamin and supplement team members to better educate and serve our customers through personalized service and more than 300 annual in-store and online seminars.

Grocery. Our grocery offering focuses on healthy options. We carry approximately 4,600 natural and organic products in our grocery aisles, including meal components, natural sodas and other beverages, snacks and bars, baking goods, baby, pet and household items such as detergent and paper towels, and earth-friendly mercantile items. Our product offering includes more than 2,500 gluten-free items, and our own Sprouts private label brand products. We also offer distinctive locally-produced products in each of our market areas, such as preserves, honey, BBQ sauces, salsas and chips.

Meat. Our Olde Tyme Butcher Shops combine high-quality sourcing through our trusted supplier network, product variety and old-fashioned customer service. Sprouts skilled butchers hand cut meat fresh daily in store with real customer service available to cut it any way you like it. We feature choice natural beef, pasture raised pork, grass fed organic beef, organic chicken and Grade A all-natural poultry raised cage-free from trusted partner ranches and farms. We consider our approach to be old-fashioned as we cut and grind meat fresh, as needed for our customers, and unlike much of the industry today, we have no offsite facility delivering products processed days in advance. We also offer varieties of sausages made fresh daily in-store as well as an abundant selection of entrees, including gourmet burgers, pinwheels, stuffed chicken breasts, pork chops and roasts. We believe that our customers value the freshness, quality and service level of our meat department and this generates repeat traffic and purchases.

Seafood. We offer a wide variety of seafood favorites delivered up to six days a week. We carry multiple options for baking, sautéing, or grilling and round out our assortment with wild fresh species while in season.

Deli. We feature a broad array of fresh deli specialties, including high-quality sliced deli meat, salads, dips, entrees, side dishes and fresh made to order sandwiches at value prices and an abundant selection of cheeses from around the world.

Bakery. Our focus on fresh, high-quality and unique signature products is evident in our bakery department, which is located at the entrance to each store. Sprouts bakery offering includes artisan bread alongside a wide assortment of sandwich breads, rolls, tortillas, pitas, muffins, cookies and pies as well as sugar free, gluten free and low carbohydrate products. We bake a large selection of products fresh in-store every day to enhance the overall customer experience.

Dairy and Dairy Alternatives. Our dairy department features a wide selection of organic, natural and regionally sourced milk, yogurt (including Greek, Australian, organic, and soy-based), butter and eggs, as well as a full selection of vegan and vegetarian alternative dairy products.

Frozen Foods. Our freezer cases feature traditional and ethnic natural and organic entrees and side dishes, along with frozen vegetables, desserts and specialty items, such as gluten-free breads and non-dairy ice creams.

Beer and Wine. We offer a carefully selected assortment of craft beers, microbrews and premium beers from around the world and an expansive variety of domestic and international wines, many of which we price at $10 or less. We also stock Kosher, organic, sustainable and biodynamic, local, exclusive-to-Sprouts and even non-alcoholic wines.

Natural Health and Body Care. Sprouts offers approximately 2,500 natural, cruelty-free health and beauty products, old-fashioned remedies and modern body care innovations, including facial care products and make up, skin, hair, dental, baby care and grooming products, all at value-oriented prices.

Private Label

We have been expanding the breadth of our Sprouts branded products over the last several years and have a dedicated product development team focused on continuing this growth. These products uphold our quality standards, and include no artificial flavors, colors or preservatives. We believe our private label brand features competitively priced specialty and innovative products, at quality levels that equal or exceed national brands. We have increased our portfolio of private label items from approximately 800 items at the end of 2011 to approximately 1,500 as of

December 28, 2014. We believe our private label products build and enhance the Sprouts brand and allow us to distinguish ourselves from our competitors, promoting customer loyalty. Our private label brands generally provide us with increased margins and our customers with lower prices compared to branded products.

Sourcing and Distribution

We manage the buying of, and set the standards for, the products we sell, and we source our products from over 850 vendors and suppliers, both domestically and internationally.

We believe, based on our industry experience, that our strong relationships in the produce business provide us a competitive advantage and enable us to offer high-quality produce at prices we believe are significantly below those of conventional food retailers and even further below high-end natural and organic food retailers. Given the importance of produce to our stores, we source, warehouse and distribute all

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produce in-house. This ensures our produce meets our high quality standards. We are supported by dedicated regional procurement teams that provide us flexibility to procure produce on local, regional and national levels.

We have department and product specifications that ensure a consistently high level of quality across product ingredients, production standards and other key measures of freshness, natural and organic standards. These specifications are measured at both entry and exit points to our facilities. We distribute all produce to our stores from two leased distribution facilities and one third-party operated distribution facility, and we manage every aspect of quality control in this department. We believe we have sufficient capacity at these facilities to support our near-term growth plans.

We believe our scale, together with this decentralized purchasing structure and flexibility generates cost savings, which we then pass on to our customers. Distributors and farmers recognize the volume of goods we sell through our stores and our flexible purchasing and distribution model allows us to opportunistically acquire produce at great value which we will also pass along to our customers.

For all non-produce products, we use third-party distributors and vendors to distribute products directly to our stores following specifications and quality control standards that are set by us.

Nature s Best, Inc. (referred to as NB) is our primary supplier of dry grocery and frozen food products, accounting for approximately 23%, 23% and 17% of our total purchases in fiscal 2014, 2013 and 2012, respectively. Another 4% of our total purchases in each of fiscal 2014, 2013 and 2012 were made through our secondary supplier, United Natural Foods, Inc. (referred to as UNFI). See Risk Factors Disruption of significant supplier relationships could negatively affect our business.

Our Customers

Our target customer seeks a wide assortment of high-quality fresh and nutritious food as well as vitamins and supplements at competitive prices. We believe our value proposition and complete grocery offering engages both conventional and health-focused shoppers.

We have a broad range of customers from those looking for value, to customers seeking specific attribute products, to those seeking to eat healthier. We believe the majority of our customers are initially attracted to our stores by our fresh produce, which we offer at prices we believe are significantly below those of conventional food retailers and even further below high-end natural and organic food retailers. We drive customer traffic by aggressively promoting produce and other items through weekly advertisements designed primarily to reach the everyday supermarket shopper. These customers are typically trial customers that limit their shopping to specific products or departments, such as produce. Through department-specific promotions, in-store signage, and customer education, these trial customers become transition customers that shop new departments and try new products. Over time, through customer service and engagement, targeted marketing, and increased knowledge of our product offering, we believe that transition customers become lifestyle customers that shop with greater frequency throughout the entire store. The table below provides an overview of our trial, transition and lifestyle customer maturation cycle.

Category	Description
Trial	Trial customers are new to our stores and typically limit their shopping to a specific product or visit a single department (e.g., produce).
Transition	

	Former trial customers that have become familiar with our stores through promotions, in-store signage and customer education, and are shopping an increasing number of departments.
Lifestyle	Lifestyle customers are frequent customers that make Sprouts their primary grocery shopping destination. They are very familiar with our stores and shop for products throughout the entire store.

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Our Pricing, Marketing and Advertising

Pricing. We are committed to a pricing strategy consistent with our motto of Healthy Living for Less. As a farmers market style store, we emphasize low prices throughout the entire store, as we are able to pass along the benefits of our scale and purchasing power to our customers. We position our prices with everyday value for our customers with regular promotions on selected products that drive traffic and trial. We typically have about 25% of our approximately 17,500 products on sale at any given time.

Marketing and Advertising. We supplement and support our everyday competitive pricing strategy through weekly advertised specials, a weekly e-circular, online coupons and special promotions. We send over 13 million weekly advertisement circulars to encourage customers to shop at our stores. These circulars focus on product education and offerings and aim to engage the customer. We use sales flyers distributed through direct delivery or inserted into local newspapers as our primary medium for advertising. These sales flyers include representative products from our key departments. In addition, we have a customer database of over 697,000 customers as of December 28, 2014, many of whom receive electronic versions of our weekly circulars or monthly newsletters.

We tailor our advertisements to specific markets, which provides us with greater flexibility to offer different promotions and respond to local competitive activity. In addition, we advertise our sales promotions and support our brand image through the use of local radio, as well as targeted direct mail in specific markets. We also maintain our website, *www.sprouts.com*, on which we display our weekly sales flyers and offer special deals and coupons and continue to expand our social media platform. The inclusion of our website address in this Annual Report on Form 10-K does not include or incorporate by reference the information on or accessible through our website herein. As of December 28, 2014, we had approximately 1,170,000 Facebook fans, up from approximately 324,000 at the end of 2013. In 2012, we also began launching Facebook pages for each new store opening, which we believe helps build awareness and excitement around our new stores.

We believe our lead time for weekly print advertising is significantly shorter than many of our peers, thereby providing a competitive advantage for Sprouts. This shorter period affords us flexibility in our promotional offerings which can result in our ability to purchase perishable inventory at greater volumes with better pricing from our sourcing partners and thus deliver exceptional value to our customers.

In addition to the weekly circulars, the table below describes a few of the numerous other saving opportunities for our customers, all of which are meant to reinforce our value offering and are designed to appeal to specific target customers. In 2014, we had approximately 29 department-wide promotions at each store throughout the year.

Promotional Activity	Description
Double-Ad Wednesday	As weekly ads run from Wednesday to Wednesday, on each Wednesday there are twice as many items on sale
Vitamin Extravaganza	Every vitamin, supplement and body care product is 25% off regular retail pricing
Frozen Frenzy	20% off any frozen item a customer can fit into a Sprouts grocery bag. These products include natural and organic entrees, side dishes, and frozen vegetables and desserts
Gluten-Free Jubilee	25% off thousands of gluten-free products in all departments
72-Hour Sale	

	On select Fridays, Saturdays and Sundays, stores run special ad prices on popular meat, vitamins, bulk items and everyday groceries
Incredible Bulk Sale	25% off all bulk bin items, bulk spices, and bulk coffees

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Our Communities

We are actively involved in the communities in which we operate, and support many local non-profit and educational institutions that share our goal of improved health, nutrition and fitness. Stores are also encouraged to support charities important to their local communities. This involvement takes many forms, including:

Alignment with Certain Causes. Sprouts has undertaken a number of innovative corporate fundraising initiatives, including a multi-faceted program with Autism Speaks and the Southwest Autism Research and Resource Center. Since 2010, we have raised more than $4.9 million through our donations, as well as the donations by our customers (who made donations at the cash register) and business partners. We have also adopted the Grab & Give campaign, which encourages customers to buy bags of groceries at a discount and then allow us to donate them to food banks in the markets in which we operate.

Donations. Our donation goal is to contribute to the health of families and children and to healthy environments through in-kind support. Many donations are made at store level, in the form of food donations or gift cards, to qualifying organizations that are aligned with our goals. Examples include bananas or water for fundraising road races, reusable bags for health fairs and green festivals and gift cards to be used as raffle items or to provide catering for a fundraising event. During 2014, we donated over eight million pounds of produce and other food to local food banks in the markets in which we operate through our Food Rescue Program, which we launched in August 2013.

Volunteerism. Our team members are encouraged to help people and organizations in need. We have provided major volunteer support to events like the Arizona Walk Now for Autism Speaks, the Phoenix Rescue Mission, and various food banks. With an engaged base of more than 17,000 team members, we have the ability to use our leverage to support causes.

Store Selection and Economics

We have an extensive and selective process for new store site selection, which includes in-depth analysis of area demographics, competition, growth potential, traffic patterns, grocery spend and other key criteria. We have a dedicated real estate team as well as a real estate committee comprised of our Chief Development Officer and other members of senior management, including our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Multiple members of our committee will also conduct an on-site inspection prior to approving any new location.

Our typical store requires an average new store cash investment of approximately $2.8 million, consisting of store buildout (net of contributions from landlords) of approximately $2.4 million, and inventory (net of payables) and cash pre-opening expenses of approximately $400,000. On average, our stores reach a mature sales growth rate in three or four years after opening, with net sales increasing 20-30% during this time period. Based on our historical performance, we target net sales of $10-$12 million during the first year after opening and pre-tax cash-on-cash returns of 35-40% within three to four years after opening. We believe the consistent performance of our store portfolio across geographies and vintages supports the portability of the Sprouts brand and store model into a wide range of markets.

Based upon research conducted for us by Buxton Company in 2013, we believe that the U.S. market can support approximately 1,200 Sprouts Farmers Market stores operating under our current format. We believe we have significant growth opportunity in existing markets, as approximately 400 of these 1,200 potential stores are located in our current markets (nine states). We intend to achieve 14% annual new store growth over at least the next five years, with a balanced focus on existing, adjacent and new market growth.

See Properties for additional information with respect to our store locations.

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Competition

The $620 billion U.S. supermarket industry is large, intensely competitive and highly fragmented. We compete for customers with a wide array of food retailers, including natural and organic, specialty, conventional, mass and discount and other food retail formats. Our competitors include conventional supermarkets such as Kroger and Safeway, as well as other food retailers such as Whole Foods, Natural Grocers by Vitamin Cottage and Trader Joe s.

Insurance and Risk Management

We use a combination of insurance and self-insurance to provide for potential liability for workers compensation, general liability, product liability, director and officers liability, team member healthcare benefits, and other casualty and property risks. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all affect ultimate settlements of claims. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Seasonality

Our business is subject to modest seasonality. Our average weekly sales fluctuate throughout the year and are typically highest in the first half of the fiscal year and lowest during the fourth quarter. Produce, which contributed approximately 26% of our net sales for the fiscal year ended December 28, 2014, is generally more available in the first six months of our fiscal year due to the timing of peak growing seasons.

Trademarks and Other Intellectual Property

We believe that our intellectual property has substantial value and has contributed to the success of our business. In particular, our trademarks, including our registered SPROUTS FARMERS MARKET®, SPROUTS® and HEALTHY LIVING FOR LESS!® trademarks, are valuable assets that we believe reinforce our customers favorable perception of our stores. In addition to our trademarks, we believe that our trade dress, which includes the human-scale design, arrangement, color scheme and other physical characteristics of our stores and product displays, is a large part of the farmers market atmosphere we create in our stores and enables customers to distinguish our stores and products from those of our competitors.

From time to time, third parties have used names similar to ours, have applied to register trademarks similar to ours and, we believe, have infringed or misappropriated our intellectual property rights. Third parties have also, from time to time, opposed our trademarks and challenged our intellectual property rights. We respond to these actions on a case-by-case basis. The outcomes of these actions have included both negotiated out-of-court settlements as well as litigation.

Information Technology Systems

We have made significant investments in information technology infrastructure, including purchasing, receiving, inventory, point of sale, warehousing, distribution, accounting, reporting and financial systems. We also maintain modern supply chain systems allowing for operating efficiencies and scalability to support our continued growth. All of our stores, including those acquired in the Transactions, operate under one integrated information technology platform. We believe our current information technology infrastructure will support our growth plans but plan on continuing our history of investment in this area.

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Regulatory Compliance

Our stores are subject to various local, state and federal laws, regulations and administrative practices affecting our business. We must comply with provisions regulating health and sanitation standards, food labeling, equal employment, minimum wages, environmental protection, licensing for the sale of food and, in many stores, licensing for beer and wine or other alcoholic beverages. Our operations, including the manufacturing, processing, formulating, packaging, labeling and advertising of products are subject to regulation by various federal agencies, including the Food and Drug Administration (referred to as the FDA), the Federal Trade Commission (referred to as the FTC), the U.S. Department of Agriculture (referred to as the USDA), the Consumer Product Safety Commission and the Environmental Protection Agency.

Food. The FDA has comprehensive authority to regulate the safety of food and food ingredients (other than meat and poultry products), as well as dietary supplements. Food additives and food contact substances are subject to pre-market approvals or notification requirements. The FDA s overall food safety authority was dramatically enhanced in 2011 with the passage of the Food Safety Modernization Act (referred to as FSMA). The FSMA requires the FDA to issue regulations mandating that risk-based preventive controls be observed by most food producers. This authority will apply to domestic food facilities and, by way of imported food supplier verification requirements, to foreign facilities that supply food products to the U.S. market. In addition, the FSMA requires the FDA to establish science-based minimum standards for the safe production and harvesting of produce, to identify high risk foods and high risk facilities and instructs the FDA to set goals for the frequency of FDA inspections of such high risk facilities as well as non-high risk facilities and foreign facilities from which food is imported into the United States. Though most of the regulations and guidance for this program are being developed, the FSMA has an immediate impact.

For example, with respect to foods and dietary supplements the FSMA meaningfully augments the FDA s ability to access producers records and suppliers records. The FSMA gives the FDA authority to require food producers, distributors and sellers to recall adulterated or misbranded food if the FDA determines that there is a reasonable probability that the food will cause serious adverse health consequences to persons or animals. Additionally, the FSMA increases the FDA s authority to institute administrative detentions of adulterated and misbranded foods. The FSMA is also likely to result in enhanced tracking and tracing of food requirements and, as a result, added recordkeeping burdens upon our suppliers and contract manufacturers.

The FDA also exercises broad jurisdiction over the labeling and promotion of food. Labeling is a broad concept that, under certain circumstances, extends even to product-related claims and representations made on a company s website or similar printed or graphic medium. All foods, including dietary supplements, must bear labeling that provides consumers with essential information with respect to ingredients, product weight, etc. The FDA administers a systematic review and approval program for certain health claims (claims describing the relationship between a food substance and a health or disease condition). It has also promulgated regulatory definitions for various nutrient content claims (*e.g.,* high in antioxidants, low in fat, etc.). In 2014, the FDA issued a proposed rule that would amend the nutrition facts labeling standards on food products, which if adopted, could affect our costs through mandatory label or signage updates to products sold in our deli department.

FDA and USDA Enforcement. The FDA has broad authority to enforce the provisions of the Food, Drug and Cosmetic Act (referred to as FDCA) applicable to the safety, labeling, manufacturing and promotion of foods and dietary supplements, including powers to issue a public warning letter to a company, publicize information about illegal products, institute an administrative detention of food, request or order a recall of illegal products from the market, and request the Department of Justice to initiate a seizure action, an injunction action or a criminal prosecution in the U.S. courts. Pursuant to the FSMA, the FDA also has the power to refuse the import of any food or dietary supplement from a foreign supplier that is not appropriately verified as in compliance with all FDA laws and regulations.

Moreover, the FDA has the authority to administratively suspend the registration of any facility producing food, including supplements, deemed to present a reasonable probability of causing serious adverse health consequences.

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The USDA s Food Safety Inspection Service (referred to as FSIS) is the public health agency responsible for ensuring that the nation s commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged. FSIS inspectors conduct regular, mandatory on-site inspections of processing and manufacturing facilities. When violations occur, the agency has broad discretion to withhold FSIS inspection services, shut down processing facilities, and to take civil or criminal actions against violators of applicable statutes and regulations. Additionally, the USDA s Agricultural Marketing Service (referred to as AMS) oversees the National Organics Program for all foods making such organic claims. Under the Program, products labeled organic must be certified by an accredited agent as compliant with USDA-established standards. The AMS may levy civil monetary penalties and withdraw organic certification for up to five years per incident if violations are discovered.

Dietary Supplements. The FDCA has been amended several times with respect to dietary supplements, in particular by the Dietary Supplement Health and Education Act of 1994 (referred to as DSHEA). DSHEA established a framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements, defined dietary supplement and new dietary ingredient and established new statutory criteria for evaluating the safety of substances meeting the respective definitions. In the process, DSHEA removed dietary supplements and new dietary ingredients from pre-market approval requirements that apply to food additives and pharmaceuticals and established a combination of notification and post marketing controls for regulating product safety, however, non-dietary ingredients in a dietary supplement remain subject to the FDA s food additive authorities. The FDA does not require notification to market a dietary supplement if it contains only dietary ingredients that were present in the U.S. food supply prior to DSHEA s enactment on October 15, 1994. However, for a dietary ingredient not present in the food supply prior to this date, the manufacturer must provide the FDA with information supporting the conclusion that the ingredient will reasonably be expected to be safe at least 75 days before introducing a new dietary ingredient into interstate commerce. As required by the FSMA, the FDA issued draft guidance in July 2011, which attempts to clarify when an ingredient will be considered a new dietary ingredient, the evidence needed to document the safety of a new dietary ingredient, and appropriate methods for establishing the identity of a new dietary ingredient. In particular, the new guidance may cause dietary supplement products available in the market before DSHEA to now be classified to include a new dietary ingredient if the dietary supplement product was produced using manufacturing processes different from those used in 1994.

DSHEA also empowered the FDA to establish binding good manufacturing practice regulations governing key aspects of the production of dietary supplements. DSHEA expressly permits dietary supplements to bear statements describing how a product affects the structure, function and/or general well-being of the body. Although manufacturers must be able to substantiate any such statement, no pre-market approval authorization is required for such statements and manufacturers need only notify FDA that they are employing a given claim. No statement may expressly or implicitly represent that a dietary supplement will diagnose, cure, mitigate, treat, or prevent a disease. DSHEA does, however, authorize supplement sellers to provide third-party literature, (*e.g.*, a reprint of a peer-reviewed scientific publication linking a particular dietary ingredient with health benefits) in connection with the sale of a dietary supplement to consumers. This authorization is limited and applies only if the publication is printed in its entirety, is not false or misleading, presents a balanced view of the available scientific information and does not promote a particular manufacturer or brand of dietary supplement, and is displayed in an area physically separate from the dietary supplements.

Food and Dietary Supplement Advertising. The FTC exercises jurisdiction over the advertising of foods and dietary supplements. The FTC has the power to institute monetary sanctions and the imposition of consent decrees and penalties that can severely limit a company s business practices. In recent years, the FTC has instituted numerous enforcement actions against dietary supplement companies for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims.

Compliance. As is common in our industry, we rely on our suppliers and contract manufacturers to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements. In general, we seek certifications of compliance, representations and warranties, indemnification and/or insurance from our suppliers and contract manufacturers. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in products we sell. In addition, the failure of such products to comply with applicable regulatory and legislative requirements could prevent us from marketing the products or require us to recall or remove such products from our stores. In order to comply with applicable statutes and regulations, our suppliers and contract manufacturers have from time to time reformulated, eliminated or relabeled certain of their products and we have revised certain provisions of our sales and marketing program.

Employees

As of December 28, 2014, we had more than 17,000 team members. None of our team members are subject to collective bargaining agreements. We consider our relations with our team members to be good, and we have never experienced a strike or significant work stoppage.

Corporate Offices

Our principal executive offices are located at 11811 N. Tatum Boulevard, Suite 2400, Phoenix, Arizona 85028, and our telephone number is (480) 814-8016. Effective March 9, 2015, our principal executive offices will be located at 5455 E. High Street, Suite 111, Phoenix, Arizona 85054. Our website address is *www.sprouts.com*. The information on or accessible through our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the Securities and Exchange Commission (referred to as the SEC).

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Item 1A. *Risk Factors*

Certain factors may have a material adverse effect on our business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. Any of the following risks could materially and adversely affect our business, results of operations, financial condition, or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment.

Business and Operating Risks

Our continued growth depends on new store openings, and our failure to successfully open new stores could negatively impact our business and stock price.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. Successful implementation of this strategy depends upon a number of factors, including our ability to effectively achieve a level of cash flow or obtain necessary financing to support our expansion; find suitable sites for new store locations; negotiate and execute leases on acceptable terms; secure and manage the inventory necessary for the launch and operation of our new stores; hire, train and retain skilled store personnel; promote and market new stores; and address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets. Although we plan to expand our store base primarily through new store openings, we may grow through strategic acquisitions. Our ability to grow through strategic acquisitions will depend upon our ability to identify suitable targets and negotiate acceptable terms and conditions for their acquisition, as well as our ability to obtain financing for such acquisitions, integrate the acquired stores into our existing store base and retain the customers of such stores. If we are ineffective in performing these activities, then our efforts to open and operate new stores may be unsuccessful or unprofitable, and we may be unable to execute our growth strategy.

Although we believe, based on research conducted for us by a third-party research firm in 2013, that the U.S. market can support approximately 1,200 Sprouts Farmers Market stores operating under our current format, we anticipate that it will take years to grow our store count to that number. We cannot assure you that we will grow our store count to approximately 1,200 stores. We opened 24 and 19 stores in fiscal 2014 and 2013, respectively, and we intend to achieve 14% annual new store growth over at least the next five years. However, we cannot assure you that we will achieve this expected level of new store growth. We may not have the level of cash flow or financing necessary to support our growth strategy. Additionally, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our existing business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. Further, new store openings in markets where we have existing stores may result in reduced sales volumes at our existing stores in those markets. If we experience a decline in performance, we may slow or discontinue store openings, or we may decide to close stores that we are unable to operate in a profitable manner. If we fail to successfully implement our growth strategy, including by opening new stores, our financial condition and results of operations may be adversely affected.

On many of our projects, including build-to-suit and existing repurposed locations, we have received landlord contributions for leasehold improvements and other build-out costs. We cannot guarantee that we will be able to continue to receive landlord contributions at the same levels or at all. Any reductions of landlord contributions could have an adverse impact on our new store cash-on-cash returns and our operating results.

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We may be unable to maintain or increase comparable store sales, which could negatively impact our business and stock price.

We may not be able to maintain or improve the levels of comparable store sales that we have experienced in the past. Our comparable store sales growth could be lower than our historical average for many reasons, including:

- general economic conditions;
- slowing in the fresh, natural and organic retail sector;
- the impact of new and acquired stores entering into the comparable store base;
- the opening of new stores that cannibalize store sales in existing areas;
- increased competitive activity;
- price changes in response to competitive factors;
- possible supply shortages;
- cycling against any year of above-average sales results;
- consumer preferences, buying trends and spending levels;
- product price inflation and deflation;
- the number and dollar amount of customer transactions in our stores;
- our ability to provide product offerings that generate new and repeat visits to our stores; and
- the level of customer service that we provide in our stores.

These factors may cause our comparable store sales results to be materially lower than in recent periods, which could harm our business and result in a decline in the price of our common stock.

Disruption of significant supplier relationships could negatively affect our business.

NB is our primary supplier of dry grocery and frozen food products, accounting for approximately 23% of our total purchases in each of fiscal 2014 and 2013. We also have commitments in place with NB to order certain amounts of our distribution-sourced organic and natural produce, and to maintain certain minimum average annual store purchase volumes, including for any new stores we open. Our current contractual relationship with NB continues through April 2018. Due to this concentration of purchases from a single third-party supplier, the cancellation of our distribution arrangement or the disruption, delay or inability of NB to deliver product to our stores may materially and adversely affect our operating results while we establish alternative distribution channels. Another 4% of our total purchases in each of fiscal 2014 and 2013 were made through our secondary supplier, UNFI. Our current contractual relationship with UNFI continues through December 31, 2018. There is no assurance UNFI or other distributors will be able to fulfill our needs on favorable terms or at all. In addition, if NB, UNFI or any of our other suppliers fail to comply with food safety, labeling or other laws and regulations, or face allegations of non-compliance, their operations may be disrupted. We cannot assure you that we would be able to find replacement suppliers on commercially reasonable terms, which would have a material adverse effect on our financial condition and results of operations.

Any significant interruption in the operations of our distribution centers or supply chain network could disrupt our ability to deliver our produce and other products in a timely manner.

We self-distribute our produce through our two distribution centers located in Arizona and Texas and a third-party distribution center in California. Any significant interruption in the operation of our distribution center infrastructure, such as disruptions due to fire, severe weather or other catastrophic events, power outages, labor disagreements, or shipping problems, could adversely impact our ability to distribute produce to our stores. Such interruptions could result in lost sales and a loss of customer loyalty to our brand. While we maintain business interruption and property insurance, if the operation of our distribution centers were interrupted for any reason causing delays in shipment of produce to our stores, our insurance may not be sufficient to cover losses we experience, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, unexpected delays in deliveries from vendors that ship directly to our stores or increases in transportation costs (including through increased fuel costs) could have a material adverse effect on our financial condition and results of operations. Labor shortages in the transportation industry, long-term disruptions to the national and international transportation infrastructure, reduction in capacity and industry-specific regulations such as hours-of-service rules that lead to delays or interruptions of deliveries could negatively affect our business.

Disruptions to, or security breaches involving, our information technology systems could harm our ability to run our business.

We rely extensively on information technology systems for point of sale processing in our stores, supply chain, financial reporting, human resources and various other processes and transactions. Our information technology systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems that could result in the compromise of confidential customer data, catastrophic events, and usage errors by our team members. In January 2013, we discovered sophisticated malware installed on certain credit card pin pads in a limited number of our stores designed to illegally access our customers credit card information. We discovered the malware shortly after it was planted and promptly shut down its access to our systems, but it is possible that our customers credit card information was compromised. In connection with the January 2013 breach, in addition to replacing the affected card terminals for a total cost of approximately $170,000, we engaged a nationally recognized cybersecurity firm to investigate the incident. The costs associated with the investigation, and any penalties assessed by our credit card vendors, are covered by our insurance policy, subject to our insurance deductible of $100,000. We have implemented numerous additional security protocols since the attack in order to further tighten security, but there can be no assurance similar breaches will not occur in the future, be detected in a timely manner or be covered by our insurance policy.

Our information technology systems may also fail to perform as we anticipate, and we may encounter difficulties in adapting these systems to changing technologies or expanding them to meet the future needs of our business. If our systems are breached, damaged or cease to function properly, we may have to make significant investments to fix or replace them, suffer interruptions in our operations, incur liability to our customers and others, face costly litigation, and our reputation with our customers may be harmed. Various third parties, such as our suppliers and payment processors, also rely heavily on information technology systems, and any failure of these systems could also cause significant interruptions to our business. Any material interruption in the information technology systems we rely on may have a material adverse effect on our operating results and financial condition.

Our newly opened stores may negatively impact our financial results in the short-term, and may not achieve sales and operating levels consistent with our more mature stores on a timely basis or at all.

We have actively pursued new store growth and plan to continue doing so in the future. We cannot assure you that our new store openings will be successful or reach the sales and profitability levels of our existing stores. New store openings may negatively impact our financial results in the short-term due to the effect of store opening costs and lower sales and contribution to overall profitability during the initial period following opening. New stores build their sales volume and their customer base over time and, as a result,

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generally have lower margins and higher operating expenses, as a percentage of net sales, than our more mature stores. New stores may not achieve sustained sales and operating levels consistent with our more mature store base on a timely basis or at all. This may have an adverse effect on our financial condition and operating results.

In addition, we may not be able to successfully integrate new stores into our existing store base and those new stores may not be as profitable as our existing stores. Further, we have experienced in the past, and expect to experience in the future, some sales volume transfer from our existing stores to our new stores as some of our existing customers switch to new, closer locations. If our new stores are less profitable than our existing stores, or if we experience sales volume transfer from our existing stores, our financial condition and operating results may be adversely affected.

If we are unable to successfully identify market trends and react to changing consumer preferences in a timely manner, our sales may decrease.

We believe our success depends, in substantial part, on our ability to:

- anticipate, identify and react to natural and organic grocery and dietary supplement trends and changing consumer preferences and demographics in a timely manner;
- translate market trends into appropriate, saleable product and service offerings in our stores before our competitors; and
- develop and maintain vendor relationships that provide us access to the newest merchandise on reasonable terms.

Consumer preferences often change rapidly and without warning, moving from one trend to another among many product or retail concepts. Our performance is impacted by trends regarding healthy lifestyles, dietary preferences, natural and organic products, and vitamins and supplements. Consumer preferences towards vitamins, supplements or natural and organic food products might shift as a result of, among other things, economic conditions, food safety perceptions, scientific research or findings regarding the benefits or efficacy of such products, national media attention and the cost of these products. Our store offerings currently include natural and organic products and dietary supplements. A change in consumer preferences away from our offerings would have a material adverse effect on our business. Additionally, negative publicity over the safety, efficacy or benefits of any such items may adversely affect demand for our products, and could result in lower customer traffic, sales and results of operations.

If we are unable to anticipate and satisfy consumer preferences in the regions where we operate, our sales may decrease, which could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to maintain or improve our operating margins, which could adversely affect our financial condition and ability to grow.

If we are unable to successfully manage the potential difficulties associated with store growth, we may not be able to capture the efficiencies of scale that we expect from expansion. If we are not able to continue to capture efficiencies of scale, improve our systems, continue our cost discipline, and maintain appropriate store labor levels and disciplined product selection, our operating margins may stagnate or decline. In addition, competition and pricing pressures from competitors may also adversely impact our operating margins. Both efficiencies from scale and competition could have a material adverse effect on our business, financial condition and results of operations and adversely affect the price of our common stock.

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Real or perceived concerns that products we sell could cause unexpected side effects, illness, injury or death could result in their discontinuance or expose us to lawsuits, either of which could result in unexpected costs and damage to our reputation.

There is increasing governmental scrutiny of and public awareness regarding food safety. Unexpected side effects, illness, injury, or death caused by products we sell could result in the discontinuance of sales of these products or prevent us from achieving market acceptance of the affected products. Such side effects, illnesses, injuries and death could also expose us to product liability or negligence lawsuits. Any claims brought against us may exceed our existing or future insurance policy coverage or limits. Any judgment against us that is in excess of our policy limits would have to be paid from our cash reserves, which would reduce our capital resources. Further, we may not have sufficient capital resources to pay a judgment, in which case our creditors could levy against our assets.

As a fresh, natural and organic retailer, we believe that many customers choose to shop our stores because of their interest in health, nutrition and food safety. As a result, we believe that our customers hold us to a high food safety standard. Therefore, real or perceived quality or food safety concerns, whether or not ultimately based on fact, and whether or not involving products sold at our stores, would cause negative publicity and lost confidence regarding our company, brand, or products, which could in turn harm our reputation and net sales, and could have a material adverse effect on our business, results of operations or financial condition.

If we fail to maintain our reputation and the value of our brand, our sales may decline.

We believe our continued success depends on our ability to maintain and grow the value of the Sprouts brand. Maintaining, promoting and positioning our brand and reputation will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high-quality customer experience. Brand value is based in large part on perceptions of subjective qualities, and even isolated incidents involving our company, our suppliers or the products we sell can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation. Our brand could be adversely affected if we fail to achieve these objectives, or if our public image or reputation were to be tarnished by negative publicity.

The loss of key management could negatively affect our business.

We are dependent upon a number of key management and other team members. If we were to lose the services of a significant number of key team members within a short period of time, this could have a material adverse effect on our operations as we may not be able to find suitable individuals to replace them on a timely basis, if at all. In addition, any such departure could be viewed in a negative light by investors and analysts, which may cause our stock price to decline. We do not maintain key person insurance on any team member.

If we are unable to attract, train and retain team members, we may not be able to grow or successfully operate our business.

The food retail industry is labor intensive. Our continued success is dependent upon our ability to attract and retain qualified team members who understand and appreciate our culture and are able to represent our brand effectively and establish credibility with our business partners and consumers. We face intense competition for qualified team members, many of whom are subject to offers from competing employers. Our ability to meet our labor needs, while controlling wage and labor-related costs, is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force in the markets in which we are located, unemployment levels within those markets, unionization of the available work force, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer,

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while increasing our wages could cause our earnings to decrease. If we are unable to hire and retain team members capable of meeting our business needs and expectations, our business and brand image may be impaired. Any failure to meet our staffing needs or any material increase in turnover rates of our team members or team member wages may adversely affect our business, results of operations or financial condition.

Union attempts to organize our team members could negatively affect our business.

None of our team members are currently subject to a collective bargaining agreement. As we continue to grow and enter different regions, unions may attempt to organize all or part of our team member base at certain stores or within certain regions. Responding to such organization attempts may distract management and team members and may have a negative financial impact on individual stores, or on our business as a whole.

Our lease obligations could adversely affect our financial performance and may require us to continue paying rent for store locations that we no longer operate.

We are subject to risks associated with our current and future store, distribution center and administrative office real estate leases. Our high level of fixed lease obligations will require us to use a portion of cash generated by our operations to satisfy these obligations, and could adversely impact our ability to obtain future financing, if required, to support our growth or other operational investments. We will require substantial cash flows from operations to make our payments under our operating leases, all of which provide for periodic increases in rent. If we are not able to make the required payments under the leases, the lenders or owners of the relevant stores, distribution centers or administrative offices may, among other things, repossess those assets, which could adversely affect our ability to conduct our operations. In addition, our failure to make payments under our operating leases could trigger defaults under other leases or under agreements governing our indebtedness, which could cause the counterparties under those agreements to accelerate the obligations due thereunder.

Further, we generally cannot cancel our leases, so if we decide to close or relocate a location, we may nonetheless be committed to perform our obligations under the applicable lease, including paying the base rent for the remaining lease term. In addition, as our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or any terms at all, which could materially adversely affect our business, results of operations or financial condition.

Claims under our insurance plans may differ from our estimates, which could materially impact our results of operations.

We use a combination of insurance and self-insurance plans to provide for the potential liabilities for workers compensation, general liability (including, in connection with legal proceedings described under Legal proceedings could materially impact our business, financial condition and results of operations below), property insurance, director and officers liability insurance, vehicle liability and team member health-care benefits. Liabilities associated with the risks that are retained by us are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Our results could be materially impacted by claims and other expenses related to such plans if future occurrences and claims differ from these assumptions and historical trends.

We may be unable to generate sufficient cash flow to satisfy our debt service obligations, which could adversely impact our business.

As of December 28, 2014, we had outstanding indebtedness of $261.3 million under our credit agreement (referred to as the Credit Facility). We may incur additional indebtedness in the future, including borrowings under our Credit

Facility. Our indebtedness, or any additional indebtedness we may incur, could require us to divert funds identified for other purposes for debt service and impair our liquidity

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position. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we will be able to take any of such actions on a timely basis, on terms satisfactory to us or at all.

The fact that a substantial portion of our cash flow from operations could be needed to make payments on this indebtedness could have important consequences, including the following:

- reducing our ability to execute our growth strategy, including new store development;
- impacting our ability to continue to execute our operational strategies in existing stores;
- increasing our vulnerability to general adverse economic and industry conditions;
- reducing the availability of our cash flow for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the market in which we operate, which would place us at a competitive disadvantage compared to our competitors that may have less debt;
- limiting our ability to borrow additional funds; and
- failing to comply with the covenants in our debt agreements could result in all of our indebtedness becoming immediately due and payable.

Our ability to obtain necessary funds through borrowing will depend on our ability to generate cash flow from operations. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us under our Credit Facility or otherwise in amounts sufficient to enable us to fund our liquidity needs, our operating results and financial condition may be adversely affected. Our inability to make scheduled payments on our debt obligations in the future would require us to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures, or seek additional equity investment.

Covenants in our debt agreements restrict our operational flexibility.

The agreement governing our Credit Facility contains usual and customary restrictive covenants relating to our management and the operation of our business, including the following:

- incurring additional indebtedness;

- making certain investments;
- merging, dissolving, liquidating, consolidating, or disposing of all or substantially all of our assets;
- paying dividends, making distributions, or redeeming capital stock;
- entering into transactions with our affiliates; and
- granting liens on our assets.

Our Credit Facility also requires us to maintain a specified financial ratio at the end of any fiscal quarter at any time the Revolving Credit Facility is drawn. Our ability to meet this financial ratio, if applicable, could be affected by events beyond our control. Failure to comply with any of the covenants under our Credit Facility could result in a default under the facility, which could cause our lenders to accelerate the timing of payments and exercise their lien on substantially all of our assets, which would have a material adverse effect on our business, operating results, and financial condition.

Our management has limited experience managing a public company, and our current resources may not be sufficient to fulfill our public company obligations.

As a public company, we are subject to various regulatory requirements, including those of the SEC and the NASDAQ Global Select Market. These requirements include record keeping, financial reporting and corporate governance rules and regulations. Our management team has limited experience in managing a public company and, historically, has not had the resources typically found in a public company. Our internal infrastructure may not be adequate to support our increased reporting obligations, and we may be unable to hire, train or retain necessary staff and may initially be reliant on engaging outside consultants or professionals to overcome our lack of experience. Our business could be adversely affected if our internal infrastructure is inadequate, we are unable to engage outside consultants, or are otherwise unable to fulfill our public company obligations.

Market and Other External Risks

Competition in our industry is intense, and our failure to compete successfully may adversely affect our revenues and profitability.

We operate in the highly competitive retail food industry. Our competitors include supermarkets, natural food stores, mass or discount retailers, warehouse membership clubs, online retailers, and specialty stores. These retailers compete with us for products, customers and locations. We compete on a combination of factors, primarily product selection and quality, customer service, store format, location and price. Our success depends on our ability to offer products that appeal to our customers preferences, and our failure to offer such products could lead to a decrease in our sales. To the extent that our competitors lower prices, our ability to maintain profit margins and sales levels may be negatively impacted. In addition, some competitors are aggressively expanding their number of stores or their product offerings or increasing the space allocated to perishable and specialty foods, including natural and organic foods. Some of these competitors may have been in business longer or may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting and selling their products. As competition in certain areas intensifies or competitors open stores within close proximity to our stores, our results of operations may be negatively impacted through a loss of sales, decrease in market share, reduction in margin from competitive price changes or greater operating costs.

We rely heavily on sales of fresh produce and quality natural and organic products, and product supply disruptions may have an adverse effect on our profitability and operating results.

We have a significant focus on perishable products, including fresh produce and natural and organic products. Sales of produce accounted for approximately 26% of our net sales in both fiscal 2014 and 2013. Although we have not experienced difficulty to date in maintaining the supply of our produce and fresh, natural and organic products that meet our quality standards, there is no assurance that these products will be available to meet our needs in the future. The availability of such products at competitive prices depends on many factors beyond our control, including the number and size of farms that grow natural or organic crops or raise livestock that meet our quality, welfare and production standards and the ability of our vendors to maintain organic, non-genetically modified or other applicable third-party certifications for such products. Produce is also vulnerable to adverse weather conditions and natural disasters, such as floods, droughts, storms, frosts, earthquakes, hurricanes and pestilences. Adverse weather conditions and natural disasters can lower crop yields and reduce crop size and quality, which in turn could reduce the available supply of, or increase the price of, fresh produce, which may adversely impact sales of our fresh produce and our other products that rely on produce as a key ingredient.

In addition, we and our suppliers compete with other food retailers in the procurement of natural and organic products, which are often less available than conventional products. If our competitors significantly increase their natural and organic product offerings due to increases in consumer demand or otherwise, we and our suppliers may not be able to obtain a sufficient supply of such products on favorable terms, or at all, our sales may decrease, which could have a material adverse effect on our business, financial condition and results of operations. We could also suffer significant inventory losses in the event of disruption of our distribution network or extended power outages in our distribution centers. If we are unable to maintain inventory levels suitable for our business needs, it would materially adversely affect our financial condition and results of operations.

General economic conditions that impact consumer spending could adversely affect our business.

The retail food business is sensitive to changes in general economic conditions. Recessionary economic cycles, increases in interest rates, higher prices for commodities, fuel and other energy, inflation, high levels of unemployment and consumer debt, depressed home values, high tax rates and other economic factors that affect consumer spending and confidence or buying habits may materially adversely affect the demand for products we sell in our stores. In recent years, the U.S. economy has experienced volatility due to uncertainties related to energy prices, credit availability, difficulties in the banking and financial services sectors, decreases in home values and retirement accounts, high unemployment and falling consumer confidence. As a result, consumers are more cautious and could shift their spending to lower-priced competition, such as warehouse membership clubs, dollar stores or extreme value formats, which could have a material and adverse effect on our operating results and financial condition.

In addition, inflation or deflation can impact our business. Food deflation could reduce sales growth and earnings, while food inflation, combined with reduced consumer spending, could reduce gross profit margins. As a result, our operating results and financial condition could be materially adversely affected.

The current geographic concentration of our stores creates an exposure to local or regional downturns or catastrophic occurrences.

As of December 28, 2014, we operated 79 stores in California, making California our largest market representing 41% of our total stores and 44% of our net sales in the fiscal year ended December 28, 2014. We also have store concentration in Texas, Arizona and Colorado, operating 33, 27 and 25 stores in those states, respectively, and representing 44% in the aggregate of our net sales in the fiscal year ended December 28, 2014. In addition, we source a large portion of our produce from California, ranging from approximately 40% to approximately 70% depending on the time of year. As a result, our business is currently more susceptible to regional conditions than the operations of more geographically diversified competitors, and we are vulnerable to economic downturns in those regions. Any unforeseen events or circumstances that negatively affect these areas in which we have stores or from which we obtain products could materially adversely affect our revenues and profitability. These factors include, among other things, changes in demographics, population and employee bases, wage increases, changes in economic conditions, severe weather conditions and other catastrophic occurrences. Such conditions may result in reduced customer traffic and spending in our stores, physical damage to our stores, loss of inventory, closure of one or more of our stores, inadequate work force in our markets, temporary disruption in the supply of products, delays in the delivery of goods to our stores and a reduction in the availability of products in our stores. Any of these factors may disrupt our business and materially adversely affect our financial condition and results of operations.

Increased commodity prices and availability may impact profitability.

Many products we sell include ingredients such as wheat, corn, oils, milk, sugar, cocoa and other key ingredients. Many commodity prices worldwide have been increasing. Any increase in prices of such key ingredients may cause our vendors to seek price increases from us. We cannot assure you that we will be able to mitigate vendor efforts to increase our costs, either in whole or in part. In the event we are unable to continue mitigating potential vendor price increases, we may in turn consider raising our prices, and our customers may be deterred by any such price increases. Our profitability may be impacted through increased costs to us which may impact gross margins, or through reduced revenue as a result of a decline in the number and average size of customer transactions.

Energy costs are an increasingly significant component of our operating expenses and increasing energy costs, unless offset by more efficient usage or other operational responses, may impact our profitability.

We utilize natural gas, water, sewer and electricity in our stores and use gasoline and diesel in trucks that deliver products to our stores. We may also be required to pay certain adjustments or other amounts pursuant to our supply and delivery contracts in connection with increases in fuel prices. Increases in energy costs, whether driven by increased demand, decreased or disrupted supply, increased environmental regulations or an anticipation of any such events will increase the costs of operating our stores. Although fuel prices declined during the second half of 2014, our shipping costs also may increase if fuel and freight prices increase. We may not be able to recover these rising costs through increased prices charged to our customers, and any increased prices may exacerbate the risk of customers choosing lower-cost alternatives. In addition, if we are unsuccessful in attempts to protect against these increases in energy costs through long-term energy contracts, improved energy procurement, improved efficiency and other operational improvements, the overall costs of operating our stores will increase, which would impact our profitability, financial condition and results of operations.

Higher wage and benefit costs could adversely affect our business.

Changes in federal and state minimum wage laws and other laws relating to employee benefits, including the Patient Protection and Affordable Care Act, could cause us to incur additional wage and benefit costs. Increased labor costs would increase our expenses and have an adverse impact on our profitability.

Increases in certain costs affecting our marketing, advertising and promotions may adversely impact our ability to advertise effectively and reduce our profitability.

Postal rate increases, and increasing paper and printing costs affect the cost of our promotional mailings. In response to any future increase in mailing costs, we may consider reducing the number and size of certain promotional pieces. In addition, we rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. We are not party to any long-term contracts for the supply of paper. Future increases in costs affecting our marketing, advertising and promotions could adversely impact our ability to advertise effectively and our profitability.

A widespread health epidemic could materially impact our business.

Our business could be severely impacted by a widespread regional, national or global health epidemic. A widespread health epidemic may cause customers to avoid public gathering places such as our stores or otherwise change their shopping behaviors. Additionally, a widespread health epidemic could also adversely impact our business by disrupting production and delivery of products to our stores and by impacting our ability to appropriately staff our stores.

We may require additional capital to fund the expansion of our business, and our inability to obtain such capital could harm our business.

To support our expanding business, we must have sufficient capital to continue to make significant investments in our new and existing stores and advertising. We cannot assure you that cash generated by our operations will be sufficient to allow us to fund such expansion. If cash flows from operations are not sufficient, we may need additional equity or debt financing to provide the funds required to expand our business. If such financing is not available on satisfactory terms or at all, we may be unable to expand our business or to develop new business at the rate desired and our operating results may suffer. Debt financing increases expenses, may contain covenants that restrict the operation of our business, and must be repaid regardless of operating results. Equity financing, or debt financing that is convertible into equity, could result in additional dilution to our existing stockholders.

Our inability to obtain adequate capital resources, whether in the form of equity or debt, to fund our business and growth strategies may require us to delay, scale back or eliminate some or all of our operations or the expansion of our business, which may have a material adverse effect on our business, operating results, financial condition or prospects.

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Financial Reporting, Legal and Other Regulatory Risks

We, as well as our vendors, are subject to numerous laws and regulations and our compliance with these laws and regulations may increase our costs, limit or eliminate our ability to sell certain products, raise regulatory enforcement risks not present in the past, or otherwise adversely affect our business, reputation, results of operations and financial condition.

As a retailer of food, vitamins and supplements and a seller of many of our private label products, we are subject to numerous health and safety laws and regulations. Our suppliers and contract manufacturers are also subject to such laws and regulations. These laws and regulations apply to many aspects of our business, including the manufacturing, packaging, labeling, distribution, advertising, sale, quality and safety of products we sell, as well as the health and safety of our team members and the protection of the environment. We are subject to regulation by various government agencies, including the FDA, the USDA, the FTC, the Occupational Safety and Health Administration, the Consumer Product Safety Commission and the Environmental Protection Agency, as well as various state and local agencies.

We are also subject to the USDA s Organic Rule, which facilitates interstate commerce and the marketing of organically produced food, and provides assurance to our customers that such products meet consistent, uniform standards. Compliance with the USDA s Organic Rule also places a significant burden on some of our suppliers, which may cause a disruption in some of our product offerings. In addition, the USDA s Food Safety Inspection Service (referred to as FSIS) conducts regular, mandatory on-site inspections of processing and manufacturing facilities. When violations occur, the agency has broad discretion to withhold FSIS inspection services, shut down processing facilities and take civil or criminal actions against violators of applicable statutes and regulations.

As a retailer of supplements, our sales of vitamins and supplements are regulated under DSHEA, a statute which is administered by the FDA as part of its responsibilities under the FDCA. DSHEA expressly permits vitamins and supplements to bear statements describing how a product affects the structure, function and/or general well-being of the body. However, no statement may expressly or implicitly represent that a supplement will diagnose, cure, mitigate, treat or prevent a disease.

New or revised government laws and regulations, such as the FSMA, passed in January 2011, which grants the FDA greater authority over the safety of the national food supply, as well as increased enforcement by government agencies, could result in additional compliance costs and civil remedies. Specifically, the FSMA requires the FDA to issue regulations mandating that risk-based preventive controls be observed by the majority of food producers. This authority applies to all domestic food facilities and, by way of imported food supplier verification requirements, to all foreign facilities that supply food products. In addition, the FSMA requires the FDA to establish science-based minimum standards for the safe production and harvesting of produce, requires the FDA to identify high risk foods and high risk facilities and instructs the FDA to set goals for the frequency of FDA inspections of such high risk facilities as well as non-high risk facilities and foreign facilities from which food is imported into the United States.

With respect to both food and dietary supplements, the FSMA meaningfully augments the FDA s ability to access a producer s records and a supplier s records. This increased access could permit the FDA to identify areas of concern it had not previously considered to be problematic either for us or for our suppliers. The FSMA is also likely to result in enhanced tracking and tracing of food requirements and, as a result, added recordkeeping burdens upon our suppliers. In addition, under the FSMA, the FDA has the authority to inspect certifications and therefore evaluate whether foods and ingredients from our suppliers are compliant with the FDA s regulatory requirements. Such inspections may delay the supply of certain products or result in certain products being unavailable to us for sale in our stores.

DSHEA established that no notification to the FDA is required to market a dietary supplement if it contains only dietary ingredients that were present in the U.S. food supply prior to DSHEA s enactment. However, for a dietary ingredient not present in the food supply prior to DSHEA s enactment, the manufacturer is required to provide the FDA with information supporting the conclusion that the ingredient

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will reasonably be expected to be safe at least 75 days before introducing a new dietary ingredient into interstate commerce. As required by the FSMA, the FDA issued draft guidance in July 2011, which attempts to clarify when an ingredient will be considered a new dietary ingredient, the evidence needed to document the safety of a new dietary ingredient, and appropriate methods for establishing the identity of a new dietary ingredient. In particular, the guidance may cause dietary supplement products available in the market before DSHEA to now be classified to include a new dietary ingredient if the dietary supplement product was produced using manufacturing processes different from those used in 1994. Accordingly, the adoption of the draft FDA guidance or similar guidance could materially adversely affect the availability of dietary supplement products.

The FDA has broad authority to enforce the provisions of the FDCA applicable to the safety, labeling, manufacturing and promotion of foods and dietary supplements, including powers to issue a public warning letter to a company, publicize information about illegal products, institute an administrative detention of food, request or order a recall of illegal products from the market, and request the Department of Justice to initiate a seizure action, an injunction action or a criminal prosecution in the U.S. courts. Pursuant to the FSMA, the FDA also has the power to refuse the import of any food or dietary supplement from a foreign supplier that is not appropriately verified as in compliance with all FDA laws and regulations. Moreover, the FDA has the authority to administratively suspend the registration of any facility producing food, including supplements, deemed to present a reasonable probability of causing serious adverse health consequences.

In connection with the marketing and advertisement of products we sell, we could be the target of claims relating to false or deceptive advertising, including under the auspices of the FTC and the consumer protection statutes of some states. Furthermore, in recent years, the FDA has been aggressive in enforcing its regulations with respect to nutrient content claims (*e.g.*, low fat, good source of, calorie free, etc.), unauthorized health claims (claims that characterize the relationship between a food or food ingredient and a disease or health condition), and other claims that impermissibly suggest therapeutic benefits for certain foods or food components. These events could interrupt the marketing and sales of products in our stores, including our private label products, severely damage our brand reputation and public image, increase the cost of products in our stores, result in product recalls or litigation, and impede our ability to deliver merchandise in sufficient quantities or quality to our stores, which could result in a material adverse effect on our business, financial condition and results of operations.

Our reputation could also suffer from real or perceived issues involving the labeling or marketing of products we sell as natural. Although the FDA and the USDA have each issued statements regarding the appropriate use of the word natural, there is no single, U.S. government-regulated definition of the term natural for use in the food industry. The resulting uncertainty has led to consumer confusion, distrust and legal challenges. Plaintiffs have commenced legal actions against a number of food companies that market natural products, asserting false, misleading and deceptive advertising and labeling claims, including claims related to genetically modified ingredients. In limited circumstances, the FDA has taken regulatory action against products labeled natural that nonetheless contain synthetic ingredients or components. Should we become subject to similar claims, consumers may avoid purchasing products from us or seek alternatives, even if the basis for the claim is unfounded. Adverse publicity about these matters may discourage consumers from buying our products. The cost of defending against any such claims could be significant. Any loss of confidence on the part of consumers in the truthfulness of our labeling or ingredient claims would be difficult and costly to overcome and may significantly reduce our brand value. Any of these events could adversely affect our reputation and brand and decrease our sales, which would have a material adverse effect on our business, financial condition and results of operations.

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We are also subject to laws and regulations more generally applicable to retailers. Compliance with such laws and regulations may increase our costs, limit or eliminate our ability to sell certain products or otherwise adversely affect our business, reputation, results of operations or financial condition.

We are also subject to laws and regulations more generally applicable to retailers, including labor and employment, taxation, zoning and land use, environmental protection, workplace safety, public health, community right-to-know and alcoholic beverage sales. Our stores are subject to unscheduled inspections on a regular basis, which, if violations are found, could result in the assessment of fines, suspension of one or more needed licenses and, in the case of repeated critical violations, closure of the store until a re-inspection demonstrates that we have remediated the problem. Further, our new store openings could be delayed or prevented or our existing stores could be impacted by difficulties or failures in our ability to obtain or maintain required approvals or licenses. In addition, we are subject to environmental laws pursuant to which we could be held responsible for all of the costs or liabilities relating to any contamination at our or our predecessors past or present facilities and at third-party waste disposal sites, regardless of our knowledge of, or responsibility for, such contamination, and such costs may exceed our environmental liability insurance coverage.

As is common in our industry, we rely on our suppliers and contract manufacturers to ensure that the products they manufacture and sell to us comply with all applicable regulatory and legislative requirements. In general, we seek certifications of compliance, representations and warranties, indemnification and/or insurance from our suppliers and contract manufacturers. However, even with adequate insurance and indemnification, any claims of non-compliance could significantly damage our reputation and consumer confidence in our products. In order to comply with applicable statutes and regulations, our suppliers and contract manufacturers have from time to time reformulated, eliminated or relabeled certain of their products and we have revised certain provisions of our sales and marketing program.

We cannot predict the nature of future laws, regulations, interpretations or applications, or determine what effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state and local regulatory schemes would have on our business in the future. They could, however, increase our costs or require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional recordkeeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any or all of such requirements could have a material adverse effect on our business, financial condition and results of operations.

Our nutrition-oriented educational activities may be impacted by government regulation or our inability to secure adequate liability insurance.

We provide nutrition-oriented education to our customers, and these activities may be subject to state and federal regulation, and oversight by professional organizations. In the past, the FDA has expressed concerns regarding summarized health and nutrition-related information that (i) does not, in the FDA s view, accurately present such information, (ii) diverts a consumer s attention and focus from FDA-required nutrition labeling and information or (iii) impermissibly promotes drug-type disease-related benefits. If our team members or third parties we engage to provide this information do not act in accordance with regulatory requirements, we may become subject to penalties that could have a material adverse effect on our business. We believe we are currently in compliance with relevant regulatory requirements. However, we cannot predict the nature of future government regulation and oversight, including the potential impact of any such regulation on this activity. Furthermore, the availability of professional liability insurance or the scope of such coverage may change, or our insurance coverage may prove inadequate, which may adversely impact the ability of our customer educators to provide some information to our customers. The occurrence of any such developments could negatively impact the perception of our brand, our sales and our ability to attract new customers.

We may be unable to adequately protect our intellectual property rights, which could harm our business.

We rely on a combination of trademark, trade secret, copyright and domain name law and internal procedures and nondisclosure agreements to protect our intellectual property. In particular, we believe our trademarks, including SPROUTS FARMERS MARKET®, SPROUTS® and HEALTHY LIVING FOR LESS!®, and our domain names, including sprouts.com, are valuable assets. However, there can be no assurance that our intellectual property rights will be sufficient to distinguish our products and services from those of our competitors and to provide us with a competitive advantage. From time to time, third parties may use names and logos similar to ours, may apply to register trademarks or domain names similar to ours, and may infringe or otherwise violate our intellectual property rights. There can be no assurance that our intellectual property rights can be successfully asserted against such third parties or will not be invalidated, circumvented or challenged. Asserting or defending our intellectual property rights could be time consuming and costly and could distract management s attention and resources. If we are unable to prevent our competitors from using names, logos and domain names similar to ours, consumer confusion could result, the perception of our brand and products could be negatively affected, and our sales and profitability could suffer as a result. We also license the SPROUTS FARMERS MARKETS trademark to a third party for use in operating two grocery stores. If the licensee fails to maintain the quality of the goods and services used in connection with this trademark, our rights to, and the value of, this and similar trademarks could potentially be harmed. Negative publicity relating to the licensee could also be incorrectly associated with us, which could harm the business. Failure to protect our proprietary information could also have a material adverse effect on our business.

We may also be subject to claims that our activities or the products we sell infringe, misappropriate or otherwise violate the intellectual property rights of others. Any such claims can be time consuming and costly to defend and may distract management s attention and resources, even if the claims are without merit. Such claims may also require us to enter into costly settlement or license agreements (which could, for example, prevent us from using our trademarks in certain geographies or in connection with certain products and services), pay costly damage awards, and face a temporary or permanent injunction prohibiting us from marketing or providing the affected products and services, any of which could have a material adverse effect on our business.

Changes in accounting standards may materially impact reporting of our financial condition and results of operations.

Accounting principles generally accepted in the United States and related accounting pronouncements, implementation guidelines, and interpretations for many aspects of our business, such as accounting for inventories, goodwill and intangible assets, store closures, leases, insurance, income taxes, stock-based compensation and accounting for mergers and acquisitions, are complex and involve subjective judgments. Changes in these rules or their interpretation may significantly change or add significant volatility to our reported earnings without a comparable underlying change in cash flow from operations. As a result, changes in accounting standards may materially impact our reported financial condition and results of operations.

Specifically, proposed changes to financial accounting standards could require such leases to be recognized on our balance sheet. In addition to our indebtedness, we have significant obligations relating to our current operating leases. All of our existing stores are subject to leases, which have average remaining terms of nine years and, as of December 28, 2014, we had undiscounted operating lease commitments of approximately $1,149 million, scheduled through 2032, related primarily to our stores, including stores that are not yet open. These commitments represent the minimum lease payments due under our operating leases, excluding common area maintenance, insurance and taxes related to our operating lease obligations, and do not reflect fair market value rent reset provisions in the leases. These leases are classified as operating leases and disclosed in Note 20 to our consolidated financial statements

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included elsewhere in this Annual Report on Form 10-K, but are not reflected as liabilities on our consolidated balance sheets. During fiscal 2014, our rent expense charged under operating leases was approximately $72.9 million.

The Financial Accounting Standards Board (referred to as FASB) is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In May 2013, the FASB issued a new exposure draft, Leases (referred to as the Exposure Draft), which would replace the existing guidance in Accounting Standards Codification 840 (referred to as ASC 840), Leases (formerly Statement of Financial Accounting Standards 13, Accounting for Leases). Under the Exposure Draft, among other changes in practice, a lessee s rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Other significant provisions of the Exposure Draft include (i) defining the lease term to include the noncancellable period together with periods for which there is a significant economic incentive for the lessee to extend or not terminate the lease; (ii) defining the initial lease liability to be recorded on the balance sheet to contemplate only those variable lease payments that depend on an index or that are in substance fixed; and (iii) a dual approach for determining whether lease expense is recognized on a straight-line or accelerated basis, depending on whether the lessee is expected to consume more than an insignificant portion of the leased asset s economic benefits. However, as the standard-setting process is still ongoing, we are unable to determine the impact this proposed change in accounting standards will have on our consolidated financial statements.

Legal proceedings could materially impact our business, financial condition and results of operations.

Our operations, which are characterized by a high volume of customer traffic and by transactions involving a wide variety of product selections, carry a higher exposure to consumer litigation risk when compared to the operations of companies operating in some other industries. Consequently, we may be a party to individual personal injury, product liability, intellectual property, employment-related and other legal actions in the ordinary course of our business, including litigation arising from food-related illness. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. While we maintain insurance, insurance coverage may not be adequate, and the cost to defend against future litigation may be significant. There may also be adverse publicity associated with litigation that may decrease consumer confidence in our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may materially adversely affect our business, financial condition, and results of operations.

We incur substantial costs as a result of being a public company.

As a public company, we are subject to public company reporting obligations under the Exchange Act, and the rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act of 2002 (referred to as the Sarbanes-Oxley Act), the Dodd-Frank Act of 2010, and the listing requirements of NASDAQ Global Select Market. We incur significant legal, accounting, and other expenses as a public company, including costs resulting from our public company reporting obligations and maintenance of corporate governance practices. Our management and other personnel devote a substantial amount of time to ensure that we comply with all of these requirements. The reporting requirements, rules, and regulations require substantial legal and financial compliance costs and will make some activities more time-consuming and costly than when we were a private company.

If we are unable to maintain effective internal control over financial reporting in the future, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may decline.

As a public company, we are required to maintain internal control over financial reporting. Pursuant to Section 404 of the Sarbanes-Oxley Act, we are required to file a report by management on the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting.

In connection with management s assessment of the effectiveness of our disclosure controls and procedures for the year ended December 29, 2013, we concluded a material weakness existed related to our internal controls with respect to the costing of non-perishable inventories. During the fiscal year ended December 28, 2014, we implemented additional controls and procedures to address this material weakness and management determined that this material weakness was remediated as of December 28, 2014.

If we are unable to maintain effective internal control over financial reporting, if we identify any material weaknesses therein, if we are unsuccessful in our efforts to remediate any such material weakness, if our management is unable to report that our internal control over financial reporting is effective when required, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting when required, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. In addition, we could become subject to investigations by NASDAQ Global Select Market, the SEC, or other regulatory authorities, which could require additional financial and management resources.

If our goodwill becomes impaired, we may be required to record a significant charge to earnings.

We have a significant amount of goodwill. As of December 28, 2014, we had goodwill of approximately $368.1 million, which represented 27% of our total assets as of such date. Goodwill is reviewed for impairment on an annual basis in the fourth fiscal quarter or whenever events occur or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount. Fair value is determined based on the discounted cash flows and comparable market values of our single reporting unit. If the fair value of the reporting unit is less than its carrying value, the fair value of the implied goodwill is calculated as the difference between the fair value of our reporting unit and the fair value of the underlying assets and liabilities, excluding goodwill. In the event an impairment to goodwill is identified, an immediate charge to earnings in an amount equal to the excess of the carrying value over the implied fair value would be recorded, which would adversely affect our operating results. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Goodwill and Intangible Assets.

Determining market values using a discounted cash flow method requires that we make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate market rates. Our judgments are based on historical experience, current market trends and other information. In estimating future cash flows, we rely on internally generated forecasts for operating profits and cash flows, including capital expenditures. Based on our annual impairment test during fiscal 2012, 2013 and 2014, no goodwill impairment charge was required to be recorded. Changes in estimates of future cash flows caused by items such as unforeseen events or changes in market conditions could negatively affect our reporting unit s fair value and result in an impairment charge. Factors that could cause us to change our estimates of future cash flows include a prolonged economic crisis, successful efforts by our competitors to gain market share in our core markets, our inability to compete effectively with other retailers or our inability to maintain price competitiveness. An impairment of a significant portion of our goodwill could materially adversely affect our financial condition and results of operations.

Common Stock Ownership Risks

Our stock price may be volatile, and you may not be able to resell your shares at or above the price you paid for them or at all.

Prior to our IPO, there had been no public market for our common stock. An active public market for our common stock may not be sustained. If an active public market is not sustained, it may be difficult for you to sell your shares of our common stock at a price that is attractive to you, or at all. The price of our common stock in any such market may be higher or lower than the price that you paid.

There is no guarantee that our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares. The trading price of our common stock may be volatile and subject to wide price fluctuations in response to various factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our quarterly or annual financial results;
- the financial guidance we may provide to the public, any changes in such guidance, or our failure to meet such guidance;
- failure of industry or securities analysts to maintain coverage of our company, changes in financial estimates by any industry or securities analysts that follow our company, or our failure to meet such estimates;
- various market factors or perceived market factors, including rumors, whether or not correct, involving us or our competitors;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- sales, or anticipated sales, of large blocks of our stock;
- short selling of our common stock by investors;
- additions or departures of key personnel;
- new store openings or entry into new markets by us or by our competitors;
- regulatory or political developments;

- changes in accounting principles or methodologies;
- litigation and governmental investigations;
- acquisitions by us or by our competitors; and
- general financial market conditions or events.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the price or liquidity of our common stock. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, we could incur substantial costs defending the lawsuit or paying for settlements or damages. Such a lawsuit could also divert the time and attention of our management from our business.

Anti-takeover provisions could impair a takeover attempt and adversely affect existing stockholders.

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may have the effect of rendering more difficult, delaying, or preventing an acquisition of our company, even when this would be in the best interest of our stockholders. Our corporate governance documents include the following provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing blank check preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- prohibiting our stockholders from acting by written consent, thereby requiring stockholder action to be taken at an annual or special meeting of stockholders;
- prohibiting our stockholders from calling special meetings of stockholders, which may delay the ability of our stockholders to force consideration of a proposal or the ability of holders controlling a majority of our capital stock to take any action, including the removal of directors;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board and stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- permitting newly created directorships resulting from an increase in the authorized number of directors or vacancies on our board of directors to be filled only by a majority of our remaining directors, even if less than a quorum is then in office, or by a sole remaining director; and
- providing that our board of directors is expressly authorized to make, repeal, alter, or amend our bylaws.

In addition, Delaware law imposes conditions on the voting of control shares and on certain business combination transactions with interested stockholders.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

If securities or industry analysts cease publishing research or reports about us, our business, or our market, or if they adversely change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If we do not maintain adequate research coverage, or if any of the analysts who may cover us downgrade our stock or publish inaccurate or unfavorable research about our business or provide relatively more favorable recommendations about our competitors, our stock price could decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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Since we do not expect to pay any cash dividends for the foreseeable future, investors may be forced to sell their stock in order to obtain a return on their investment.

We do not anticipate declaring or paying in the foreseeable future any cash dividends on our capital stock. Instead, we plan to retain any earnings to finance our operations and growth plans. In addition, our Credit Facility contains covenants that would restrict our ability to pay cash dividends. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

As of December 28, 2014, we had 191 stores located in ten states, as shown in the chart below:

State	Number of Stores	State	Number of Stores
Arizona	27	Nevada	5
California	79	New Mexico	6
Colorado	25	Oklahoma	6
Georgia	4	Texas	33
Kansas	2	Utah	4

In fiscal 2013, we opened 19 new stores, and in fiscal 2014 we opened 24 new stores. As of February 26, 2015, we have opened seven stores in fiscal 2015, bringing our total store count to 198.

We lease all of our stores from unaffiliated third parties. A typical store lease is for an initial 10 to 20 year term with four renewal options of five years each. We expect that we will be able to renegotiate these leases or relocate these stores as necessary. In addition to new store openings, we remodel or relocate stores periodically in order to improve performance. In fiscal 2014, we remodeled 15 stores, relocated one store and in fiscal 2015, we plan to remodel approximately six stores.

As of December 28, 2014, we leased our two distribution warehouses, as well as our current corporate office in Phoenix, Arizona, from unaffiliated third parties. Information about such facilities is set forth in the table below:

Facility	State	Square Footage*
Corporate Office(1)	Arizona	43,000
Distribution Warehouse	Arizona	106,000
Distribution Warehouse	Texas	117,000

* Rounded to the nearest 1,000 square feet

(1) In July 2014, we entered into a 14-year lease for a new approximately 71,000 square foot corporate office in Phoenix, Arizona to commence in March 2015, at which time we will relocate to this location.

We believe our portfolio of long-term leases is a valuable asset supporting our retail operations, but we do not believe that any individual store property is material to our financial condition or results of operations.

Item 3. ***Legal Proceedings***

From time to time we are a party to legal proceedings, including matters involving personnel and employment issues, product liability, personal injury, intellectual property and other proceedings arising in

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the ordinary course of business, which have not resulted in any material losses to date. Although management does not expect that the outcome in these proceedings will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements of claims that could materially impact our results.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock began trading on the NASDAQ Global Select Market under the symbol SFM on August 1, 2013. Prior to that date, there was no public market for our common stock. The price range per share of common stock presented below represents the highest and lowest closing prices for our common stock on the NASDAQ Global Select Market for each full quarterly period since our IPO.

	High	Low
2013		
Third quarter	$ 46.31	$ 33.00
Fourth quarter	$ 49.45	$ 35.58

	High	Low
2014		
First quarter	$ 40.09	$ 33.92
Second quarter	$ 38.35	$ 25.73
Third quarter	$ 33.18	$ 29.10
Fourth quarter	$ 32.94	$ 27.17

The closing price of our common stock as of February 24, 2015 was $36.64 per share, and the number of stockholders of record of our common stock as of February 24, 2015 was 146. This number excludes stockholders whose stock is held in nominee or street name by brokers.

Dividend Policy

Since we became a publicly traded company on August 1, 2013, we have not declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our operating results, financial condition, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant. Our Credit Facility contains covenants that would restrict our ability to pay cash dividends.

Issuer Purchases of Equity Securities

None.

Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between August 1, 2013 (the date our stock began trading on the Nasdaq Global Select Market) and December 28, 2014, with the cumulative total return of (i) the Nasdaq Composite Index and (ii) the S&P Food Retail Index, over the same period.

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The comparison assumes that $100.00 was invested in our common stock, the Nasdaq Composite Index and the S&P Food Retail Index, and assumes reinvestment of dividends, if any. The graph assumes the initial value of our common stock on August 1, 2013 was the closing sale price on that day of $40.11 per share and not the initial offering price to the public of $18.00 per share. The performance shown on the graph below is based on historical results and is not intended to suggest future performance.

This performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that section, and shall not be deemed to be incorporated by reference into any filing of Sprouts Farmers Market, Inc. under the Securities Act or the Exchange Act.

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Item 6. ***Selected Financial Data***

	Fiscal 2014(4)	Fiscal 2013(3)	Fiscal 2012(2)	Fiscal 2011(1)	Fiscal 2010(1)
	(dollars in thousands, except per share data)				
Statements of Operations Data:					
Net sales	$ 2,967,424	$ 2,437,911	$ 1,794,823	$ 1,105,879	$ 516,816
Cost of sales, buying and occupancy	2,082,221	1,712,644	1,264,514	794,905	366,947
Gross profit	885,203	725,267	530,309	310,974	149,869
Direct store expenses	581,621	496,183	368,323	238,245	114,463
Selling, general and administrative expenses	95,397	81,795	86,364	58,528	23,277
Amortization of Henry s trade names and capitalized software				32,202	867
Store pre-opening costs	7,749	5,734	2,782	1,338	2,341
Store closure and exit costs	725	2,051	2,155	6,382	354
Income (loss) from operations	199,711	139,504	70,685	(25,721)	8,567
Interest expense	(25,063)	(37,203)	(35,488)	(19,813)	(681)
Other income	596	487	562	358	295
Loss on extinguishment of debt	(1,138)	(18,721)	(992)		
Income (loss) before income taxes	174,106	84,067	34,767	(45,176)	8,181
Income tax (provision) benefit	(66,414)	(32,741)	(15,267)	17,731	(3,320)
Net income (loss)	$ 107,692	$ 51,326	$ 19,500	$ (27,445)	$ 4,861
Per Share Data:					
Net income (loss) per share basic	$ 0.72	$ 0.38	$ 0.16	$ (0.28)	$ 0.08
Net income (loss) per share diluted	$ 0.70	$ 0.37	$ 0.16	$ (0.28)	$ 0.08
Weighted average shares outstanding basic	149,751	134,622	119,427	96,954	64,350
Weighted average shares outstanding diluted	154,328	139,765	121,781	96,954	64,350

	Fiscal 2014	Fiscal 2013	Fiscal 2012(2)	Fiscal 2011(1)	Fiscal 2010(1)
Pro forma comparable store sales growth(5)	9.9%	10.7%	9.7%	5.1%	2.3%
Pro forma stores at end of period	191	167	148	138	129
Other Operating Data:					
Stores at beginning of period	167	148	103	43	40
Opened	24	19	9	7	3
Acquired			37	56	
Closed			(1)	(3)	
Stores at end of period(6)	191	167	148	103	43

Gross square feet at end of period	5,252,851	4,582,743	4,064,888	2,721,430	1,035,841
Average store size at end of period (gross square feet)	27,502	27,442	27,465	26,422	24,089

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	As of December 28, 2014	December 29, 2013	December 30, 2012(2)	January 1, 2012(1)	January 2, 2011(1)
Balance Sheet Data					
Cash and cash equivalents	$ 130,513	$ 77,652	$ 67,211	$ 14,542	$ 4,918
Total assets	1,369,073	1,172,404	1,103,236	761,646	232,636
Total capital and finance lease obligations, including current portion	150,698	119,572	107,639	75,409	8,248
Total long-term debt, including current portion	256,357	311,240	426,544	294,764	
Total stockholders equity	685,389	513,771	386,755	267,453	156,660

(1) Fiscal 2010 and the period from January 3, 2011 through April 18, 2011 reflect the sales and expenses directly attributable to Henry s operations and include allocations of expenses from Henry s previous parent company. These expenses were allocated to Henry s on the basis that was considered to reflect fairly or reasonably the utilization of the services provided to, or the benefit obtained by, Henry s. Historical financial statements for Henry s prior to April 18, 2011 do not reflect the interest expense or debt Henry s might have incurred if it had been a stand-alone entity. Additionally, we would have expected to incur other expenses not reflected in our historical financial statements prior to April 18, 2011, if Henry s had operated as a stand-alone entity. Commencing on April 18, 2011, our consolidated financial statements also include the financial position, results of operations and cash flows of the business we operated prior to the acquisition of Henry s (such prior business referred to as Sprouts Arizona).

(2) For the period from April 18, 2011 to May 28, 2012 our consolidated financial statements include the financial position results of operations and cash flows of Henry s and Sprouts Arizona. Commencing on May 29, 2012, our consolidated financial statements also include the financial position, results of operations and cash flows of Sunflower. Fiscal 2012 included $19.5 million of expenses related to the acquisition and integration of Sunflower and Henry s.

(3) Fiscal 2013 selling, general and administrative expense included $3.2 million for IPO related bonuses and $2.0 million for expenses related to the November 2013 Offering.

(4) Fiscal 2014 selling, general and administrative expense included $2.6 million for expenses related to our April 2014 secondary offering and our August 2014 secondary offering.

(5) Pro forma comparable store sales growth reflects comparable store sales growth calculated including stores acquired in the Transactions for all reported periods. Our practice is to include sales from a store in comparable store sales beginning on the first day of the 61st week following the store s opening and to exclude sales from a closed store from comparable store sales on the day of closure. We include sales from an acquired store in comparable store sales on the later of (i) the day of acquisition or (ii) the first day of the 61st week following the store s opening. We use pro forma comparable store sales to calculate pro forma comparable store sales growth.

(6) During Fiscal 2014, we also relocated one store.

Supplemental Pro Forma Data Net Sales

	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010
			(dollars in thousands)		
Net sales actual	$ 2,967,424	$ 2,437,911	$ 1,794,823	$ 1,105,879	$ 516,816

Pro forma adjustments(a)			196,140	616,776	973,543
Pro forma net sales	$ 2,967,424	$ 2,437,911	$ 1,990,963	$ 1,722,655	$ 1,490,359
Pro forma comparable store sales growth(b)	9.9%	10.7%	9.7%	5.1%	2.3%

(a) Pro forma adjustments reflect the net sales of Sprouts Arizona and Sunflower for all periods reported.
(b) Pro forma comparable store sales growth is calculated including all stores acquired in the Transactions for all periods reported.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors or in other parts of this Annual Report on Form 10-K. Please also see the section entitled Special Note Regarding Forward-Looking Statements.

Business Overview

Sprouts Farmers Market operates as a healthy grocery store that offers fresh, natural and organic food that includes fresh produce, bulk foods, vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, body care and natural household items catering to consumers growing interest in eating and living healthier. Since our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability. With 191 stores in ten states as of December 28, 2014, we are one of the largest specialty retailers of fresh, natural and organic food in the United States. As of February 26, 2015, we have grown to 198 stores in 12 states (including our first stores in Missouri and Alabama).

The cornerstones of our business are fresh, natural and organic products at compelling prices (which we refer to as Healthy Living for Less), an attractive and differentiated shopping experience, and knowledgeable team members who we believe provide best-in-class customer service and product education.

Our History

In 2002, we opened the first Sprouts Farmers Market store in Chandler, Arizona. In 2010, we had 54 stores and reached over $620 million in net sales and approximately 3,700 team members. In April 2011, we partnered with the Apollo Funds, and added 43 stores by merging with Henry s and its Sun Harvest-brand stores in the Henry s Transaction. Our merger with Henry s brought us to 103 total stores located in Arizona, California, Colorado and Texas as of the end of 2011. In May 2012, we added another 37 stores through our acquisition of Sunflower in the Sunflower Transaction and extended our footprint into New Mexico, Nevada, Oklahoma and Utah. We refer to the Henry s Transaction and the Sunflower Transaction as the Transactions . On August 1, 2013, our common stock began trading on the NASDAQ Global Select Market.

Outlook

We are pursuing a number of strategies designed to continue our growth, including expansion of our store base, driving comparable store sales growth, enhancing our operating margins and growing the Sprouts brand. We intend to continue expanding our store base by pursuing new store openings in our existing markets, expanding into adjacent markets and penetrating new markets. Although we plan to expand our store base primarily through new store openings, we may grow through strategic acquisitions if we identify suitable targets and are able to negotiate acceptable terms and conditions for acquisition. We intend to achieve 14% annual new store growth for at least the next five years, including 27 planned new store openings in 2015, of which seven have opened as February 26, 2015.

We also believe we can continue to improve our comparable store sales growth by enhancing our core value proposition and distinctive customer-oriented shopping experience, as well as through expanding and refining our fresh, natural and organic product offerings, our targeted and personalized marketing

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efforts and our in-store education. We believe our operating margins will continue to benefit from scale efficiencies, information technology systems, continued cost discipline and enhancements to our merchandise offerings. We are committed to growing the Sprouts brand by supporting our stores, product offerings and corporate partnerships, including the expansion of innovative marketing and promotional strategies through print, digital and social media platforms, all of which promote our mission of Healthy Living for Less.

Components of Operating Results

We report our results of operations on a 52- or 53-week fiscal year ending on the Sunday closest to December 31, with each fiscal quarter generally divided into three periods consisting of two four-week periods and one five-week period. Fiscal 2014, 2013 and 2012 were 52-week years ending on December 28, 2014, December 29, 2013, and December 30, 2012, respectively.

Net Sales

We recognize sales revenue at the point of sale, with discounts provided to customers reflected as a reduction in sales revenue. Proceeds from sales of gift cards are recorded as a liability at the time of sale, and recognized as sales when they are redeemed by the customer. We do not include sales taxes in net sales.

We monitor our comparable store sales growth to evaluate and identify trends in our sales performance. Pro forma comparable store sales growth reflects comparable store sales growth on a pro forma basis calculated including all stores acquired in the Transactions. Our practice is to include sales from a store in comparable store sales beginning on the first day of the 61st week following the store s opening and to exclude sales from a closed store from comparable store sales beginning on the day of closure. We include sales from an acquired store in comparable store sales on the later of (i) the day of acquisition or (ii) the first day of the 61st week following the store s opening. This practice may differ from the methods that other retailers use to calculate similar measures. We use pro forma comparable store sales to calculate pro forma comparable store sales growth. See the table titled Supplemental Pro Forma Data Net Sales in Item 6. Selected Financial Data.

Our net sales have increased as a result of new store openings, comparable store sales growth and the full integration of Sunflower stores. Factors that influence comparable store sales growth and other sales trends include:

- general economic conditions and trends, including levels of disposable income and consumer confidence;
- consumer preferences and buying trends;
- our ability to identify market trends, and to source and provide product offerings that promote customer traffic and growth in average ticket;
- the number of customer transactions and average ticket;
- the prices of our products, including the effects of inflation and deflation;

opening new stores in the vicinity of our existing stores;

advertising, in-store merchandising and other marketing activities; and

our competition, including competitive store openings in the vicinity of our stores and competitor pricing and merchandising strategies.

Cost of sales, buying and occupancy and gross profit

Cost of sales includes the cost of inventory sold during the period, including direct costs of purchased merchandise (net of discounts and allowances), distribution and supply chain costs, buying costs and supplies. Merchandise incentives received from vendors are reflected in the carrying value of inventory when earned or as progress is made toward earning the rebate or allowance, and are reflected as a component of cost of sales as the inventory is sold. Inflation and deflation in the prices of food and other products we sell may periodically affect our gross profit and gross margin. The short-term impact of inflation and deflation is largely dependent on whether or not we pass the effects through to our customers, which will depend upon competitive market conditions.

Occupancy costs include store rental, property taxes, utilities, common area maintenance, amortization of favorable and unfavorable leasehold interests and property insurance. Occupancy costs do not include building depreciation, which is classified as a direct store expense.

Our cost of sales, buying and occupancy and gross profit are correlated to sales volumes. As sales increase, gross margin is affected by the relative mix of products sold, pricing strategies, inventory shrinkage and improved leverage of fixed costs of sales, buying and occupancy.

Direct store expenses

Direct store expenses consist of store-level expenses such as salaries and benefits, related equity-based compensation, supplies, depreciation and amortization for buildings, store leasehold improvements, equipment and other store specific costs. As sales increase, direct store expenses generally decline as a percentage of sales.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of salaries and benefits costs, equity-based compensation, advertising, acquisition-related costs and corporate overhead.

We charge third-parties to place advertisements in our in-store guide and newspaper circulars. We record consideration received from vendors in connection with cooperative advertising programs as a reduction to advertising costs when the allowance represents reimbursement of a specific and identifiable cost. Advertising costs are expensed as incurred.

Store pre-opening costs

Store pre-opening costs include rent expense during construction of new stores and costs related to new store openings, including costs associated with hiring and training personnel and other miscellaneous costs. Store pre-opening costs are expensed as incurred.

Store closure and exit costs

We recognize a reserve for future operating lease payments associated with facilities that are no longer being utilized in our current operations. The reserve is recorded based on the present value of the remaining non-cancelable lease payments after the cease use date less an estimate of subtenant income. If subtenant income is expected to be higher than the lease payments, no accrual is recorded. Lease payments included in the closed store reserve are expected to be paid over the remaining terms of the respective leases. Our assumptions about subtenant income are based on our experience and knowledge of the area in which the closed property is located, guidance received from local brokers and agents and existing economic conditions. Adjustments to the closed store reserve relate primarily to changes in actual or estimated subtenant income and changes in actual lease payments from original estimates. Adjustments are made for changes in estimates in the period in which the change becomes known, considering timing of new information regarding market, subleases or other lease updates. Changes in reserve estimates are classified as store closure and exit costs in the consolidated statements of operations.

Provision for income taxes

On July 29, 2013, Sprouts Farmers Markets, LLC, a Delaware limited liability company, converted into Sprouts Farmers Market, Inc., a Delaware corporation. See Factors Affecting Comparability of Result of Operations Corporate Conversion. The corporate conversion has not had a material impact on our results of operations, financial position or cash flows since we were treated as a corporation for income tax purposes prior to the conversion.

In September 2013, the Internal Revenue Service issued final regulations related to tangible property, which govern when a taxpayer must capitalize or deduct expenses for acquiring, maintaining, repairing and replacing tangible property. The regulations are effective for tax years beginning January 1, 2014; however, early adoption is permitted. We have adopted the regulations for the tax year beginning December 30, 2013. We have analyzed the impacts of the tangible property regulations and have determined we are in compliance with the regulations.

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Factors Affecting Comparability of Results of Operations

Sunflower Transaction

In May 2012, we acquired Sunflower in the Sunflower Transaction. Commencing on May 29, 2012, our consolidated financial statements also include the financial position, results of operations and cash flows of Sunflower.

Pro Forma Information

The effect of the Sunflower Transaction had a material effect on the comparability of our results of operations. Consequently, we have supplemented the comparative discussion of our results of operations for fiscal 2013 and fiscal 2012 with a comparative discussion of our historical results of operations on a pro forma basis for fiscal. Pro forma statement of operations information for fiscal 2012 gives effect to the Sunflower Transaction as if it was consummated on the first day of fiscal 2012 as set out under Pro Forma for the Sunflower Transaction in Unaudited Supplemental Fiscal 2012 Pro Forma Information. This fiscal 2012 pro forma information presented in this Management s Discussion and Analysis of Financial Condition and Results of Operations does not include the impact of the April 2013 Refinancing, described below in Liquidity and Capital Resources , or the IPO.

April 2013 Refinancing

In April 2013, we completed a transaction in which we refinanced our debt (the April 2013 Refinancing) and made a distribution to our equity and option holders, as further discussed in Liquidity and Capital Resources below. The April 2013 Refinancing resulted in an increase in borrowings, a reduction in interest rate and the recording of a loss on extinguishment of debt.

Corporate Conversion

In connection with our IPO, on July 29, 2013, Sprouts Farmers Markets, LLC, a Delaware limited liability company, converted into Sprouts Farmers Market, Inc., a Delaware corporation. As part of the corporate conversion, holders of membership interests of Sprouts Farmers Markets, LLC in the form of Class A and Class B units received 11 shares of our common stock for each unit held immediately prior to the corporate conversion, and options to purchase units became options to purchase 11 shares of our common stock for each unit underlying options outstanding immediately prior to the corporate conversion, at the same aggregate exercise price in effect prior to the corporate conversion. For the convenience of the reader, except where the context otherwise requires, information in this Annual Report on Form 10-K has been presented giving effect to the corporate conversion. The corporate conversion has not had a material impact on the comparability of our results of operations, since we were treated as a corporation for income tax purposes prior to the conversion.

IPO

On August 6, 2013, we completed our initial public offering of 21,275,000 shares of common stock of Sprouts Farmers Market, Inc., including 2,775,000 shares of common stock issued as a result of the exercise in full of the underwriters option to purchase additional shares, at a price of $18.00 per share. We sold 20,477,215 shares of common stock, including the additional shares, and certain stockholders sold the remaining 797,785 shares.

We received net proceeds from our IPO of approximately $344.1 million, after deducting underwriting discounts and offering expenses. We used the net proceeds to repay $340.0 million of outstanding indebtedness under the Term Loan and for general corporate purposes. We recorded a loss on extinguishment of debt related to the repayment.

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Results of Operations for Fiscal 2014, 2013 and 2012

The following tables set forth our results of operations, unaudited supplemental pro forma information and other operating data for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	Fiscal 2014	Fiscal 2013 (in thousands)	Fiscal 2012
Consolidated Statement of Operations Data:			
Net sales	$ 2,967,424	$ 2,437,911	$ 1,794,823
Cost of sales, buying and occupancy	2,082,221	1,712,644	1,264,514
Gross profit	885,203	725,267	530,309
Direct store expenses	581,621	496,183	368,323
Selling, general and administrative expenses	95,397	81,795	86,364
Store pre-opening costs	7,749	5,734	2,782
Store closure and exit costs	725	2,051	2,155
Income from operations	199,711	139,504	70,685
Interest expense	(25,063)	(37,203)	(35,488)
Other income	596	487	562
Loss on extinguishment of debt	(1,138)	(18,721)	(992)
Income before income taxes	174,106	84,067	34,767
Income tax provision	(66,414)	(32,741)	(15,267)
Net income	$ 107,692	$ 51,326	$ 19,500

	Fiscal 2012 (in thousands)
Unaudited Supplemental Pro Forma Information(1):	
Net sales	$ 1,990,963
Cost of sales, buying and occupancy	1,403,158
Gross profit	587,805
Direct store expenses	403,731
Selling, general and administrative expenses	91,611
Store pre-opening costs	5,218
Store closure and exit costs	2,214
Income from operations	85,031
Interest expense	(40,250)
Other income	649

Loss on extinguishment of debt		(992)
Income (loss) before income taxes		44,438
Income tax (provision) benefit		(19,912)
Net income (loss)	$	24,526

(1) Unaudited supplemental pro forma information for fiscal 2012 gives effect to the Sunflower Transaction as if it were consummated on the first day of fiscal 2012 (but does not give effect to the April 2013 Refinancing or the IPO). See Unaudited Supplemental Fiscal 2012 Pro Forma Information.

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	Fiscal 2014	Fiscal 2013	Fiscal 2012
Other Operating Data:			
Pro forma comparable store sales growth	9.9%	10.7%	9.7%
Stores at beginning of period	167	148	103
Opened	24	19	9
Acquired			37
Closed			(1)
Stores at end of period	191	167	148

Comparison of Fiscal 2014 to Fiscal 2013

Net sales

	Fiscal 2014	Fiscal 2013	Change	% Change
		(dollars in thousands)		
Net sales	$ 2,967,424	$ 2,437,911	$ 529,513	22%
Comparable store sales growth	9.9%	10.7%		

Net sales increased during 2014 as compared to 2013, primarily as a result of (i) sales growth at stores operated prior to 2014 and (iii) new store openings.

Net sales growth at stores operated prior to December 29, 2013 contributed $343.0 million, or 65% of the increase in net sales for 2014. New store openings during 2014 contributed $186.5 million, or 35%, of the increase in net sales during 2014.

Cost of sales, buying and occupancy and gross profit

	Fiscal 2014	Fiscal 2013	Change	% Change
		(dollars in thousands)		
Net sales	$ 2,967,424	$ 2,437,911	$ 529,513	22%
Cost of sales, buying and occupancy	2,082,221	1,712,644	369,577	22%
Gross profit	885,203	725,267	159,936	22%
Gross margin	29.8%	29.7%	0.1%	

Cost of sales, buying and occupancy increased during 2014 compared to 2013, primarily due to the increase in sales from new store openings and comparable store sales growth, as discussed above. Gross profit increased $157.0 million as a result of increased sales volume and $2.9 million as a result of increased margin. The 10 basis point increase in gross margin during 2014 was primarily driven by leverage in occupancy, utilities and buying costs partially offset by lower merchandise margins from higher inflation in certain categories and increased promotional activities.

Direct store expenses

	Fiscal 2014	Fiscal 2013	Change	% Change
	(dollars in thousands)			
Direct store expenses	$ 581,621	$ 496,183	$ 85,438	17%
Percentage of net sales	19.6%	20.4%	(0.8)%	

Direct store expenses increased $85.4 million, primarily due to a $43.2 million increase for stores operated prior to 2014. The remaining $42.2 million increase in direct store expenses is associated with stores opened during 2014. Direct store expenses, as a percentage of net sales, decreased 80 basis points, primarily due to leverage in payroll, lower utilization of medical benefits, leverage in depreciation and store level expenses.

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Selling, general and administrative expenses

	Fiscal 2014	Fiscal 2013	Change	% Change
		(dollars in thousands)		
Selling, general and administrative expenses	$ 95,397	$ 81,795	$ 13,602	17%
Percentage of net sales	3.2%	3.4%	(0.2)%	

The increase in selling, general and administrative expenses included $4.6 million of advertising expense due to additional new stores and new markets, $4.2 million of corporate payroll and benefits to support growth, $2.6 million of corporate bonus due to goal attainment, $1.8 million of regional expenses due to increased store count and expansion into new