

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

FORM 10-Q

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

For the quarterly period ended September 27, 2015

Commission File Number: 001-36029



**Sprouts Farmers Market, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**32-0331600**

(I.R.S. Employer  
Identification No.)

**5455 East High Street, Suite 111**

**Phoenix, Arizona 85054**

(Address of principal executive offices and zip code)

**(480) 814-8016**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

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 ☒

As of November 3, 2015, there were outstanding 153,590,850 shares of the registrant's common stock, \$0.001 par value per share.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 27, 2015**

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## Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as 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 Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, and our other filings with the Securities and Exchange Commission. 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.*

*As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the “Company,” “Sprouts,” “we,” “us” and “our” refer to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries.*

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	September 27, 2015	December 28, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 132,000	\$ 130,513
Accounts receivable, net	24,997	14,091
Inventories	161,789	142,793
Prepaid expenses and other current assets	11,279	11,152
Deferred income tax asset	31,806	35,580
Total current assets	361,871	334,129
Property and equipment, net of accumulated depreciation	482,317	454,889
Intangible assets, net of accumulated amortization	193,207	194,176
Goodwill	368,078	368,078
Other assets	19,082	17,801
Total assets	\$ 1,424,555	\$ 1,369,073
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 138,656	\$ 112,877
Accrued salaries and benefits	23,436	29,687
Other accrued liabilities	41,077	41,394
Current portion of capital and financing lease obligations	14,625	29,136
Current portion of long-term debt	—	7,746
Total current liabilities	217,794	220,840
Long-term capital and financing lease obligations	116,668	121,562
Long-term debt	160,000	248,611
Other long-term liabilities	95,469	74,071
Deferred income tax liability	17,980	18,600
Total liabilities	607,911	683,684
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Undesignated preferred stock; \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 200,000,000 shares authorized, 153,589,350 and 151,833,334 shares issued and outstanding, September 27, 2015 and December 28, 2014, respectively	154	152
Additional paid-in capital	573,526	543,048
Retained earnings	242,964	142,189
Total stockholders' equity	816,644	685,389
Total liabilities and stockholders' equity	\$ 1,424,555	\$ 1,369,073

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

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net sales	\$ 903,069	\$ 766,415	\$ 2,662,728	\$ 2,232,831
Cost of sales, buying and occupancy	641,612	540,367	1,879,839	1,558,876
Gross profit	261,457	226,048	782,889	673,955
Direct store expenses	177,990	148,633	518,561	430,019
Selling, general and administrative expenses	27,075	24,015	74,492	69,594
Store pre-opening costs	1,825	3,684	7,105	7,051
Store closure and exit costs	167	60	1,711	393
Income from operations	54,400	49,656	181,020	166,898
Interest expense	(3,685)	(6,157)	(13,990)	(19,144)
Other income	171	281	345	477
Loss on extinguishment of debt	-	(1,138)	(5,481)	(1,138)
Income before income taxes	50,886	42,642	161,894	147,093
Income tax provision	(18,900)	(16,577)	(61,119)	(57,144)
Net income	\$ 31,986	\$ 26,065	\$ 100,775	\$ 89,949
Net income per share:				
Basic	\$ 0.21	\$ 0.17	\$ 0.66	\$ 0.60
Diluted	\$ 0.21	\$ 0.17	\$ 0.65	\$ 0.58
Weighted average shares outstanding:				
Basic	153,585	150,241	153,071	149,227
Diluted	155,952	154,306	155,841	153,879

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

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Total Stockholders' Equity
<b>Balances at December 29, 2013</b>	147,616,560	\$ 147	\$ 479,127	\$ 34,497	\$ 513,771
Net income	—	—	—	107,692	107,692
Issuance of shares under option plans	4,216,774	5	11,307	—	11,312
Excess income tax benefit for exercise of options	—	—	47,261	—	47,261
Tax effect of forfeiture of vested options in equity	—	—	(2)	—	(2)
Equity-based compensation	—	—	5,355	—	5,355
<b>Balances at December 28, 2014</b>	151,833,334	\$ 152	\$ 543,048	\$ 142,189	\$ 685,389
Net income	—	—	—	100,775	100,775
Issuance of shares under option plans	1,756,016	2	6,120	—	6,122
Excess income tax benefit for exercise of options	—	—	19,584	—	19,584
Equity-based compensation	—	—	4,774	—	4,774
<b>Balances at September 27, 2015</b>	<u>153,589,350</u>	<u>\$ 154</u>	<u>\$ 573,526</u>	<u>\$ 242,964</u>	<u>\$ 816,644</u>

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

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(IN THOUSANDS)**

	<b>Thirty-Nine Weeks Ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 100,775	\$ 89,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	50,665	40,586
Accretion of asset retirement obligation and closed facility reserve	251	755
Amortization of financing fees and debt issuance costs	617	1,152
Loss on disposal of property and equipment	1,257	1,038
Equity-based compensation	4,776	4,194
Loss on extinguishment of debt	5,481	1,138
Deferred income taxes	3,155	13,067
Changes in operating assets and liabilities:		
Accounts receivable	(11,150)	(4,654)
Inventories	(18,996)	(21,848)
Prepaid expenses and other current assets	(25)	1,617
Other assets	(444)	(5,474)
Accounts payable	28,641	7,094
Accrued salaries and benefits	(6,251)	3,374
Other accrued liabilities and income taxes payable	(370)	5,814
Other long-term liabilities	20,709	13,499
Net cash provided by operating activities	<u>179,091</u>	<u>151,301</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(97,390)	(96,099)
Proceeds from sale of property and equipment	49	232
Net cash used in investing activities	<u>(97,341)</u>	<u>(95,867)</u>
<b>Cash flows from financing activities</b>		
Proceeds from revolving credit facility	260,000	—
Payments on revolving credit facility	(100,000)	—
Payments on term loan	(261,250)	(55,250)
Payments on capital lease obligations	(492)	(426)
Payments on financing lease obligations	(2,575)	(2,186)
Payments of deferred financing costs	(1,896)	—
Cash from landlord related to financing lease obligations	—	577
Excess tax benefit for exercise of stock options	19,584	35,041
Proceeds from the exercise of stock options	6,366	7,605
Net cash used in financing activities	<u>(80,263)</u>	<u>(14,639)</u>
Net increase in cash and cash equivalents	1,487	40,795
Cash and cash equivalents at beginning of the period	130,513	77,652
Cash and cash equivalents at the end of the period	<u>\$ 132,000</u>	<u>\$ 118,447</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 14,174	\$ 18,164
Cash paid for income taxes	35,075	3,982
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property and equipment in accounts payable	\$ 11,141	\$ 12,156
Property acquired through capital and financing lease obligations	9,899	9,113

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

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation**

Sprouts Farmers Market, Inc., a Delaware corporation, through its subsidiaries, 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. The "Company" is used to refer collectively to Sprouts Farmers Market, Inc. and unless the context otherwise requires, its subsidiaries.

The accompanying unaudited consolidated financial statements include the accounts of the Company in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission in instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position, results of operations and cash flows for the periods indicated. All material intercompany accounts and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results for any other interim period or for a full fiscal year. The information included in these consolidated financial statements and notes thereto should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the fiscal year ended December 28, 2014 included in the Company's Annual Report on Form 10-K, filed on February 26, 2015.

The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The Company reports its results of operations on a 52- or 53-week fiscal calendar ending on the Sunday closest to December 31. Fiscal year 2015 is a 53-week year, and Fiscal year 2014 was a 52- week year. The Company reports its results of operations on a 13-week quarter, except for 53-week fiscal years. The fourth quarter of fiscal 2015 will include 14 weeks.

The Company has one reportable and one operating segment.

The Company's business is subject to modest seasonality. Average weekly sales fluctuate throughout the year and are typically highest in the first half of the fiscal year. Produce, which contributed 25% of the Company's net sales for the thirty-nine weeks ended September 27, 2015, is generally more available in the first six months of the fiscal year due to the timing of peak growing seasons.

During thirteen weeks ended June 28, 2015, the Company obtained sufficient historical redemption data for its gift card program to make a reasonable estimate of the ultimate redemption patterns and breakage rate. Accordingly, the Company recognized \$0.1 million and \$0.8 million of gift card breakage as a component of net sales in the accompanying Consolidated Statements of Operations for the thirteen and thirty-nine weeks ended September 27, 2015, respectively.

During the thirteen weeks ended September 27, 2015, the Company changed its store inventory count procedure and no longer counted each store at the end of the quarter. Previously the Company had counted inventory at each store at or near the balance sheet date and therefore recorded no estimate for shrink. The Company now counts store inventories on a rotational basis throughout the quarter. The change in timing necessitates making an estimate for shrink between the count date for each store and the reporting date. Accordingly, the inventory balance in the accompanying Consolidated Balance Sheets includes a \$3.8 million inventory shrink reserve as of September 27, 2015.

All dollar amounts are in thousands, unless otherwise noted.



**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**2. Recently Issued Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 amends previous guidance related to the criteria for reporting a disposal as a discontinued operation by elevating the threshold for qualification for discontinued operations treatment to a disposal that represents a strategic shift that has a major effect on an organization's operations or financial results. This guidance also requires expanded disclosures for transactions that qualify as a discontinued operation and requires disclosure of individually significant components that are disposed of or held for sale but do not qualify for discontinued operations reporting. This guidance is effective prospectively for all disposals or components initially classified as held for sale in periods beginning on or after December 15, 2014, with early adoption permitted. The Company's adoption of this guidance did not have a material effect on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU No. 2014-09 provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, and estimating the amount of variable consideration to include in the transaction price attributable to each separate performance obligation. This guidance will be effective for the Company for its fiscal year 2017. The FASB recently deferred the effective date of this guidance by one year, with early adoption permitted. The Company is currently evaluating the potential impact of this guidance.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU No. 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. This guidance will be effective for the Company for its fiscal year 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance will be effective for the Company for its fiscal year 2017. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently evaluating the potential impact of this guidance.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU No. 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. This guidance will be effective for the Company for its fiscal year 2016. Early adoption is permitted. The amendment may be adopted either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Company is currently evaluating the potential impact of this guidance.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." ASU No. 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business; less reasonably predictable costs of completion, disposal and transportation. This guidance will be effective for the Company for its fiscal year 2017. The Company is currently evaluating the potential impact of this guidance.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations: Simplifying the Accounting For Measurement Period Adjustments." ASU No. 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance will be effective for the Company for its fiscal year 2016. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

No other new accounting pronouncements issued or effective during the period had, or are expected to have, a material impact on the Company's consolidated financial statements.

**3. Fair Value Measurements**

The Company records its financial assets and liabilities in accordance with the framework for measuring fair value in accordance with GAAP. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in the impairment analysis of goodwill, indefinite-lived intangible assets and long-lived assets and in the valuation of store closure and exit costs.

The determination of fair values of certain tangible and intangible assets for purposes of the Company's goodwill impairment evaluation as described above was based upon a step zero assessment. Closed facility reserves are recorded at net present value to approximate fair value which is classified as Level 3 in the hierarchy. The estimated fair value of the closed facility reserve is calculated based on the present value of the remaining lease payments and other charges using a weighted average cost of capital, reduced by estimated sublease rentals. The weighted average cost of capital was estimated using information from comparable companies and management's judgment related to the risk associated with the operations of the stores.

Cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued salaries and benefits and other accrued liabilities approximate fair value because of the short maturity of those instruments. Based on open market transactions comparable to the Credit Facility (as defined in Note 6, "Long-Term Debt"), the fair value of the long-term debt, including current maturities, approximates carrying value as of September 27, 2015. Based on open market transactions comparable to the Former Term Loan (as defined in Note 6, "Long-Term Debt"), the fair value of the long-term debt, approximates carrying value as of December 28, 2014. The Company's estimates of the fair value of long-term debt (including current maturities) were classified as Level 2 in the fair value hierarchy.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**4. Accounts Receivable**

A summary of accounts receivable is as follows:

	As Of	
	September 27, 2015	December 28, 2014
Vendor	\$ 15,207	\$ 8,246
Receivables from landlords	6,808	1,993
Other	2,982	3,852
<b>Total</b>	<b>\$ 24,997</b>	<b>\$ 14,091</b>

The Company had recorded allowances for certain vendor receivables of \$0.1 million and \$0.3 million at September 27, 2015 and December 28, 2014, respectively.

Other receivables at December 28, 2014 included amounts receivable for payroll taxes and exercise prices for options exercised but for which the cash was not received by the balance sheet date.

**5. Accrued Salaries and Benefits**

A summary of accrued salaries and benefits is as follows:

	As Of	
	September 27, 2015	December 28, 2014
Accrued payroll	\$ 9,228	\$ 9,196
Vacation	8,970	7,476
Bonus	4,295	12,138
Other	943	877
<b>Total</b>	<b>\$ 23,436</b>	<b>\$ 29,687</b>

**6. Long-Term Debt**

A summary of long-term debt is as follows:

Facility	Maturity	Interest Rate	As Of	
			September 27, 2015	December 28, 2014
Senior secured debt				
\$450.0 million Credit Facility	April 17, 2020	Variable	\$ 160,000	\$ —
Former Term Loan, net of original issue discount	April 23, 2020	Variable	—	\$ 256,357
Former Revolving Credit Facility	April 23, 2018	Variable	—	—
Total debt			160,000	256,357
Less current portion			—	(7,746)
Long-term debt, net of current portion			\$ 160,000	\$ 248,611

Current portion of long-term debt is presented net of issue discount of \$1.0 million as of December 28, 2014. The non-current portion of long-term debt is presented net of issue discount of \$3.9 million as of December 28, 2014.

**Senior Secured Revolving Credit Facility**

*April 2015 Refinancing*

On April 17, 2015, the Company's subsidiary, Sprouts Farmers Markets Holdings, LLC ("Intermediate Holdings"), as borrower, entered into a credit agreement (the "Credit Agreement") to replace the Former Revolving Credit Facility and Former Term Loan (each as defined below). The Credit

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Agreement provides for a revolving credit facility with an initial aggregate commitment of \$450.0 million (the "Credit Facility"), which may be increased from time to time pursuant to an expansion feature set forth in the Credit Agreement.

Concurrently with the closing of the Credit Agreement, the Company borrowed \$260.0 million to pay off its existing \$257.8 million Former Term Loan (the "April 2015 Refinancing"), and to terminate all commitments under its existing senior secured credit facility, dated April 23, 2013 (the "Former Credit Facility") and to pay transaction costs related to the April 2015 Refinancing. Such repayment resulted in a \$5.5 million loss on extinguishment of debt due to the write-off of deferred financing costs and original issue discount. No amounts were outstanding under the Former Revolving Credit Facility on April 17, 2015. The remaining proceeds of loans made under the Credit Facility were used for general corporate purposes.

The Company capitalized debt issuance costs of \$2.3 million related to the Credit Facility, which are being amortized on a straight-line basis to interest expense over the five-year term of the Credit Facility.

The Credit Agreement also provides for a letter of credit subfacility and a \$15.0 million swingline facility. Letters of credit issued under the Credit Agreement reduce the borrowing capacity of the Credit Facility. Letters of credit totaling \$2.5 million have been issued as of September 27, 2015, primarily to support the Company's insurance programs.

***Guarantees***

Obligations under the Credit Facility are guaranteed by the Company and all of its current and future wholly-owned material domestic subsidiaries, and are secured by first-priority security interests in substantially all of the assets of the Company and its subsidiary guarantors, including, without limitation, a pledge by the Company of its equity interest in Intermediate Holdings.

***Interest and Fees***

Loans under the Credit Facility bear interest, at the Company's option, either at adjusted LIBOR plus 1.25% per annum, or a base rate plus 0.25% per annum. The interest rate margins are subject to adjustment pursuant to a pricing grid based on the Company's total gross leverage ratio, as defined in the Credit Agreement. Under the terms of the Credit Agreement, the Company is obligated to pay a commitment fee on the available unused amount of the Credit Facility commitments equal to 0.15% per annum.

Outstanding letters of credit under the Credit Facility are subject to a participation fee of 1.25% per annum and an issuance fee of 0.125% per annum.

***Payments and Prepayments***

The Credit Facility is scheduled to mature, and the commitments thereunder will terminate on April 17, 2020, subject to extensions as set forth in the Credit Agreement.

The Company may repay loans and reduce commitments under the Credit Agreement at any time in agreed-upon minimum principal amounts, without premium or penalty (except LIBOR breakage costs, if applicable).

Following the closing of the Credit Facility and the initial borrowing of \$260.0 million, the Company made a total of \$100.0 million of principal payments on the Credit Facility, which reduced the Company's total outstanding debt to \$160.0 million at September 27, 2015.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

***Covenants***

The Credit Agreement contains financial, affirmative and negative covenants. The negative covenants include, among other things, limitations on the Company's ability to:

- incur additional indebtedness;
- grant additional liens;
- enter into sale-leaseback transactions;
- make loans or investments;
- merge, consolidate or enter into acquisitions;
- pay dividends or distributions;
- enter into transactions with affiliates;
- enter into new lines of business;
- modify the terms of debt or other material agreements; and
- change its fiscal year

Each of these covenants is subject to customary and other agreed-upon exceptions.

In addition, the Credit Agreement requires that the Company and its subsidiaries maintain a maximum total net leverage ratio not to exceed 3.00 to 1.00 and minimum interest coverage ratio not to be less than 1.75 to 1.00. Each of these covenants is tested on the last day of each fiscal quarter, starting with the fiscal quarter ended June 28, 2015.

The Company was in compliance with all applicable covenants under the Credit Agreement as of September 27, 2015.

***Former Credit Facility***

On April 23, 2013, Intermediate Holdings, as borrower, refinanced (the "April 2013 Refinancing") its prior revolving credit facility and prior term loan, by entering into the Former Credit Facility. The Former Credit Facility provided for a \$700.0 million term loan (the "Former Term Loan") and a \$60.0 million senior secured revolving credit facility (the "Former Revolving Credit Facility").

The Former Term Loan, with a maturity date in April 2020, required quarterly principal payments, in an aggregate amount equal to 1.00% of the original principal balance, with the balance due on the final maturity date.

All amounts outstanding under the Former Term Loan bore interest, at the Company's option, at a rate per annum equal to LIBOR (with a 1.00% floor with respect to Eurodollar borrowings under the Term Loan), adjusted for statutory reserves, plus a margin equal to 3.00%, or an alternate base rate, plus a margin equal to 2.00%, as set forth in the Former Credit Facility.

The Former Credit Facility included the \$60.0 million Former Revolving Credit Facility with a maturity date in April 2018. The Former Revolving Credit Facility included letter of credit and \$5.0 million swingline loan subfacilities. Letters of credit issued under the Former Revolving Credit Facility reduced the borrowing capacity on the Former Credit Facility.

Interest terms on the Former Revolving Credit Facility were the same as the Former Term Loan.

The Company capitalized debt issuance costs of \$1.1 million related to the Former Revolving Credit Facility, which were being amortized to interest expense over the term of the Former Revolving Credit Facility.

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Under the terms of the Former Credit Facility, the Company was obligated to pay a commitment fee on the available unused amount of the Former Revolving Credit Facility commitments equal to 0.50% per annum.

**7. Closed Facility Reserves**

The following is a summary of closed facility reserve activity during the thirty-nine weeks ended September 27, 2015 and fiscal year ended December 28, 2014:

	September 27, 2015	December 28, 2014
Beginning balance	\$ 1,785	\$ 4,713
Additions	1,144	688
Usage	(1,004)	(3,204)
Adjustments	389	(412)
Ending balance	<u>\$ 2,314</u>	<u>\$ 1,785</u>

Additions made during 2015 include remaining lease payments for the corporate support office relocation, and usage during 2015 primarily related to lease payments made during the period for closed stores. Additions made during 2014 related to the closure and relocation of one store and to the closure and relocation of the Texas warehouse, and usage during 2014 related to lease payments made during the period for closed stores.

**8. Income Taxes**

The Company's effective tax rate for the thirteen weeks ended September 27, 2015 and September 28, 2014 was 37.1% and 38.9%, respectively. The primary reasons for the decrease in the effective tax rate were an increase in the enhanced deduction for charitable donations of food inventory and a decrease in the effective state income tax rate.

The Company's effective tax rate for the thirty-nine weeks ended September 27, 2015 and September 28, 2014 was 37.8% and 38.9%, respectively. The primary reasons for the decrease in the effective tax rate were an increase in the enhanced deduction for charitable donations of food inventory and a decrease in the effective state income tax rate.

Excess tax benefits associated with stock option exercises and vested restricted stock units are credited to stockholders' equity. The Company uses the tax law ordering approach of intraperiod allocation to allocate the benefit of windfall tax benefits based on provisions in the tax law that identify the sequence in which those amounts are utilized for tax purposes. The income tax benefits resulting from stock awards that were credited to stockholders' equity were \$19.6 million for the thirty-nine weeks ended September 27, 2015, which included \$0.1 million of income tax benefits related to stock award activity prior to 2015. The excess tax benefits are not credited to stockholders' equity until the deduction reduces income taxes payable.

**9. Related-Party Transactions**

A member of the Company's board of directors is an investor in a company that is a supplier of coffee to the Company. During the thirteen weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$2.3 million and \$2.0 million, respectively. During the thirty-nine weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$7.1 million and \$5.8 million, respectively. At September 27, 2015 and September 28, 2014, the Company had recorded accounts payable due to this supplier of \$0.7 million and \$0.6 million, respectively.

On November 3, 2015, the Company entered into an agreement to purchase an airplane from this board member for \$7.5 million. The transaction is expected to close during November 2015, subject to customary pre-closing inspection.

Another member of the Company's board of directors purchased stock in a technology supplier to the Company in January 2015 and provided a loan to this company in May 2015. During the thirteen

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weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$1.7 million and \$1.3 million, respectively. During the thirty-nine weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$4.8 million and \$4.2 million, respectively. At September 27, 2015 and September 28, 2014, the Company had recorded accounts payable due to this supplier of \$0.2 million and zero, respectively.

This board member also provided a convertible loan to a technology supplier to the Company in September 2015. During the thirteen weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$0.2 million and \$0.3 million, respectively. During the thirty-nine weeks ended September 27, 2015 and September 28, 2014, purchases from this supplier were \$0.4 million and \$0.6 million, respectively. At both September 27, 2015 and September 28, 2014, the Company had recorded accounts payable due to this supplier of \$0.1 million.

#### **10. Commitments and Contingencies**

The Company is exposed to claims and litigation matters arising in the ordinary course of business and uses various methods to resolve these matters that are believed to best serve the interests of the Company's stakeholders. The Company's primary contingencies are associated with self-insurance obligations. Self-insurance liabilities require significant judgment and actual claim settlements and associated expenses may differ from the Company's current provisions for loss.

#### **11. Stockholders' Equity**

##### ***Secondary Offering***

On March 10, 2015, certain of the Company's stockholders completed a secondary public offering of 15,847,800 shares of common stock (the "March Secondary Offering"). The Company did not sell any shares in or receive any proceeds of the March Secondary Offering.

#### **12. Net Income Per Share**

The computation of net income per share is based on the number of weighted average shares outstanding during the period. The computation of diluted net income per share includes the dilutive effect of share equivalents consisting of incremental shares deemed outstanding from the assumed exercise of options, assumed vesting of restricted stock units ("RSUs") and assumed vesting of performance stock awards ("PSAs").

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

	<b>Thirteen Weeks Ended</b>		<b>Thirty-Nine Weeks Ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>	<b>September 27, 2015</b>	<b>September 28, 2014</b>
Basic net income per share:				
Net income	\$ 31,986	\$ 26,065	\$ 100,775	\$ 89,949
Weighted average shares outstanding	153,585	150,241	153,071	149,227
Basic net income per share	\$ 0.21	\$ 0.17	\$ 0.66	\$ 0.60
Diluted net income per share:				
Net income	\$ 31,986	\$ 26,065	\$ 100,775	\$ 89,949
Weighted average shares outstanding	153,585	150,241	153,071	149,227
Dilutive effect of equity-based awards:				
Assumed exercise of options to purchase shares	2,360	4,065	2,739	4,652
Restricted stock units	7	—	31	—
Weighted average shares and equivalent shares outstanding	155,952	154,306	155,841	153,879
Diluted net income per share	\$ 0.21	\$ 0.17	\$ 0.65	\$ 0.58

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For the thirteen weeks ended September 27, 2015, the computation of diluted net income per share does not include 2.9 million options as those options would have been antidilutive or were unvested performance-based options and 0.1 million RSUs as those RSUs would have been antidilutive, and 0.1 million for PSAs. For the thirteen weeks ended September 28, 2014, the computation of diluted net income per share does not include 1.0 million options, as those options would have been antidilutive or were unvested performance-based options.

For the thirty-nine weeks ended September 27, 2015 the computation of diluted net income per share does not include 0.8 million options, as those options would have been antidilutive or were unvested performance-based options, and 0.1 million for PSAs. For the thirty-nine weeks ended September 28, 2014, the computation of diluted net income per share does not include 1.0 million options, as those options would have been antidilutive or were unvested performance-based options.

### **13. Equity-Based Compensation**

#### ***2013 Incentive Plan***

The Company's board of directors adopted, and its equity holders approved, the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "2013 Incentive Plan"). The 2013 Incentive Plan became effective July 31, 2013 in connection with the Company's initial public offering (IPO) and replaced the Sprouts Farmers Markets, LLC Option Plan (the "2011 Option Plan") (except with respect to outstanding options to acquire shares under the 2011 Option Plan). The 2013 Incentive Plan and 2011 Option Plan are collectively referred to as the "Option Plans". The 2013 Incentive Plan serves as the umbrella plan for the Company's stock-based and cash-based incentive compensation programs for its directors, officers and other team members. On May 1, 2015, the Company's stockholders approved the material terms of the performance goals under the 2013 Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code.

On March 11, 2015, under the 2013 Incentive Plan, the Company granted to certain officers and team members time-based options to purchase an aggregate of 277,833 shares of common stock at an exercise price of \$34.33 per share, with a grant date fair value of \$9.42 per share. The Company also granted an aggregate of 87,394 RSUs (as described below), each with a grant date fair value of \$34.33, and 71,753 PSAs (as described below), each with a grant date fair value of \$34.33.

On May 21, 2015, under the 2013 Incentive Plan, the Company granted to independent members of its board of directors time-based options to purchase an aggregate of 14,492 shares of common stock at an exercise price of \$30.30 per share, with a grant date fair value of \$8.28 per share. The Company also granted to the independent directors an aggregate of 3,896 RSUs, each with a grant date fair value of \$30.30.

On August 11, 2015, under the 2013 Incentive Plan, the Company granted to certain officers, an independent member of its board of directors, and certain team members time-based options to purchase an aggregate of 2,138,899 shares of common stock at an exercise price of \$20.98 per share, with a grant date fair value of \$5.79 per share. The Company also granted an aggregate of 5,660 RSUs, each with a grant date fair value of \$20.98 to an independent member of its board of directors and certain team members.

The aggregate number of shares of common stock that may be issued to team members and directors under the 2013 Incentive Plan may not exceed 10,089,072. Shares subject to awards granted under the 2013 Incentive Plan which are subsequently forfeited, expire unexercised or are otherwise not issued will not be treated as having been issued for purposes of the share limitation. At September 27, 2015, there were 3,046,737 options outstanding under the 2013 Incentive Plan.

#### ***2011 Option Plan***

In May 2011, the Company adopted the 2011 Option Plan to provide team members or directors of the Company with options to acquire shares of the Company. The Company had authorized 12,100,000



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shares for issuance under the 2011 Option Plan. Options may no longer be issued under the 2011 Option Plan. At September 27, 2015, there were 4,410,452 options outstanding under the 2011 Option Plan.

**Options**

The Company uses the Black-Scholes option pricing model to estimate the fair value of options at grant date. Options vest in accordance with the terms set forth in the grant letter and vary depending on if they are time-based or performance-based.

Time-based options generally vest ratably over a period of 12 quarters (three years) and performance-based options vest over a period of three years based on financial performance targets set for each year.

**RSUs**

The fair value of RSUs is based on the closing price of the Company's common stock on the grant date. RSUs generally vest annually over a period of two or three years from the grant date.

**PSAs**

PSAs are restricted shares or RSUs that are subject to the Company achieving certain earnings per share performance targets, as well as additional time-vesting conditions. The fair value of PSAs is based on the closing price of the Company's common stock on the grant date. The performance conditions must be met, or the PSAs are cancelled. If the performance conditions are met, the PSAs vest 50 percent at each of the second and third anniversary of the grant date.

**Equity-based Compensation Expense**

Equity-based compensation expense was reflected in the consolidated statements of operations as follows:

	<b>Thirteen Weeks Ended</b>		<b>Thirty-nine Weeks Ended</b>	
	<b>September 27, 2015</b>	<b>September 28, 2014</b>	<b>September 27, 2015</b>	<b>September 28, 2014</b>
Cost of sales, buying and occupancy	\$ 187	\$ 152	\$ 418	\$ 546
Direct store expenses	294	215	762	580
Selling, general and administrative expenses	1,861	832	3,594	3,068
Equity-based compensation expense before income taxes	2,342	1,199	4,774	4,194
Income tax benefit	(885)	(480)	(1,804)	(1,678)
Net equity-based compensation expense	<u>\$ 1,457</u>	<u>\$ 719</u>	<u>\$ 2,970</u>	<u>\$ 2,516</u>

As of September 27, 2015 and December 28, 2014, there were approximately 7.5 million and 6.9 million options outstanding, of which 2.8 million and 0.9 million were unvested options, respectively.

At both September 27, 2015 and December 28, 2014, there were approximately 0.1 million unvested RSUs outstanding.

As of September 27, 2015 and December 28, 2014, there were approximately 0.1 million and no unvested PSAs, respectively.

As of September 27, 2015 total unrecognized compensation expense related to outstanding options was \$15.1 million which, if the applicable service and performance conditions are fully met, is expected to be recognized over the next 2.4 years on a weighted-average basis.

As of September 27, 2015, total unrecognized compensation expense related to outstanding RSUs was \$3.7 million which, if the service conditions are fully met, is expected to be recognized over the next 1.6 years on a weighted-average basis.

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As of September 27, 2015, total unrecognized compensation expense related to outstanding PSAs was \$2.5 million which, if the performance conditions are fully met, is expected to be recognized over the next 2.0 years on a weighted-average basis. If performance conditions are not met, no expense will be recorded for the PSAs for which the conditions were not met. As of September 27, 2015, it was not expected that the performance conditions would be met and no expense had been recorded for the PSAs.

During the thirty-nine weeks ended September 27, 2015 and September 28, 2014, the Company received \$6.4 million and \$7.6 million, respectively, in cash proceeds from the exercise of options.

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

*You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K filed February 26, 2015 with the Securities and Exchange Commission. All dollar amounts included below are in thousands, unless otherwise noted.*

### Business Overview

Sprouts Farmers Market, Inc. 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 216 stores in thirteen states as of September 27, 2015, we are one of the largest specialty retailers of 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.

### Outlook

We are pursuing a number of strategies designed to continue our growth, including expansion of our store base, driving comparable store sales growth 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. We opened 24 stores and relocated one store during 2014. We expect to continue to expand our store base with 27 store openings planned in fiscal 2015, of which 26 have opened as of the date of this Quarterly Report on Form 10-Q. 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 aim to achieve 14% annual new store growth for at least the next five years.

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 efforts and our in-store education. 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."

### **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 investment funds affiliated with, and co-investment vehicles managed by, Apollo Management VI, L.P., and added 43 stores by merging with Henry's Holdings, LLC and its Sun Harvest-brand stores. Our merger with Henry's Holdings, LLC and new store openings 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 Farmers Markets, Inc. and extended our footprint into New Mexico, Nevada, Oklahoma and Utah. In August 2013, we completed an initial public offering ("referred to as our IPO") and our common stock began trading on the NASDAQ Global Select Market. Since the IPO, we have continued to expand, adding stores in our existing markets and extending into Kansas, Georgia, Missouri, Alabama and Tennessee.

### **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. The third quarters of fiscal 2015 and 2014 were thirteen-week periods ended September 27, 2015 and September 28, 2014, 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. In the second quarter of 2015, we determined that we had sufficient data to estimate gift card breakage. We began recording an allowance for breakage on gift cards based on historical experience, and recorded \$0.8 million of gift card breakage related to prior period gift card sales. 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. 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. We also include sales from relocated stores immediately after relocation. These practices may differ from the methods that other retailers use to calculate similar measures.

Net sales are affected by store openings and closings and comparable store sales growth. 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 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.

#### ***Selling, general and administrative expenses***

Selling, general and administrative expenses primarily consist of salaries and benefits costs, equity-based compensation, advertising 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 and other occupancy costs 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 and estimates of other occupancy costs 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 and other occupancy costs included in the closed facility 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 facility reserve relate primarily to changes in actual or estimated subtenant income and changes in actual lease payments and other occupancy costs 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**

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

## Results of Operations for Thirteen Weeks Ended September 27, 2015 and September 28, 2014

The following tables set forth our unaudited results of operations 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. All dollar amounts are in thousands, unless otherwise noted.

	Thirteen weeks ended	
	September 27, 2015	September 28, 2014
<b>Unaudited Quarterly Consolidated Statement of Operations Data:</b>		
Net sales	\$ 903,069	\$ 766,415
Cost of sales, buying and occupancy	641,612	540,367
Gross profit	261,457	226,048
Direct store expenses	177,990	148,633
Selling, general and administrative expenses	27,075	24,015
Store pre-opening costs	1,825	3,684
Store closure and exit costs	167	60
Income from operations	54,400	49,656
Interest expense	(3,685)	(6,157)
Other income	171	281
Loss on extinguishment of debt	—	(1,138)
Income before income taxes	50,886	42,642
Income tax provision	(18,900)	(16,577)
Net income	<u>\$ 31,986</u>	<u>\$ 26,065</u>

	Thirteen weeks ended	
	September 27, 2015	September 28, 2014
<b>Comparable store sales growth(1)</b>	5.8%	9.0%
<b>Other Operating Data:</b>		
Stores at beginning of period	208	177
Opened	8	14
Stores at end of period	<u>216</u>	<u>191</u>

(1) See the explanation of “Comparable store sales growth” above under “Components of Operating Results – Net Sales.”

### Comparison of Thirteen Weeks Ended September 27, 2015 to Thirteen Weeks Ended September 28, 2014

#### Net sales

	Thirteen weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net sales	\$ 903,069	\$ 766,415	\$ 136,654	18%
Comparable store sales growth	5.8%	9.0%		

Net sales increased during the thirteen weeks ended September 27, 2015 as compared to the thirteen weeks ended September 28, 2014, primarily as a result of (i) new store openings after September 28, 2014 and (ii) sales growth at stores operated prior to September 28, 2014. New store openings after September 28, 2014 contributed \$78.0 million, or 57%, of the increase in net sales during the thirteen weeks ended September 27, 2015. Additionally, \$58.7 million, or 43%, of the increase came from comparable store sales growth and new store openings during fiscal 2014 not yet reflected in comparable store sales.

### **Cost of sales, buying and occupancy and gross profit**

	Thirteen weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net sales	\$ 903,069	\$ 766,415	\$ 136,654	18%
Cost of sales, buying and occupancy	641,612	540,367	101,245	19%
Gross profit	261,457	226,048	35,409	16%
Gross margin	29.0%	29.5%	(0.5)%	

Cost of sales, buying and occupancy increased during the thirteen weeks ended September 27, 2015 compared to the thirteen weeks ended September 28, 2014, primarily due to the increase in sales from new store openings and comparable store sales growth, as discussed above. Gross profit increased \$40.3 million as a result of increased sales volume, offset by a decrease of \$4.9 million related to decreased margin. The gross margin decrease was primarily driven by continued price investments in certain categories.

### **Direct store expenses**

	Thirteen weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Direct store expenses	\$ 177,990	\$ 148,633	\$ 29,357	20%
Percentage of net sales	19.7%	19.4%	0.3%	

Direct store expenses increased \$29.4 million, due to \$19.0 million of direct store expenses related to stores opened since September 28, 2014 and a \$10.4 million increase in direct store expenses associated with stores operated prior to September 28, 2014. Direct store expenses, as a percentage of net sales, increased 30 basis points due to timing of capitalization of store development expense, higher investments in employee training and higher labor costs at new stores. This was partially offset by lower utilization of medical benefits and lower bonus expense.

### **Selling, general and administrative expenses**

	Thirteen weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Selling, general and administrative expenses	\$ 27,075	\$ 24,015	\$ 3,060	13%
Percentage of net sales	3.0%	3.1%	(0.1)%	

The increase in selling, general and administrative expenses included \$1.0 million in share-based compensation expense due to management transitions during the quarter, \$0.8 million in corporate payroll to support growth, \$0.6 million for advertising expense to support growth into new markets, \$0.6 million due to a credit for software expense in the prior year, \$0.5 million for IT maintenance, and other less significant increases in expense. These increases were partially offset by \$1.0 million lower bonus expense due to lower expected attainment and \$0.9 million of secondary offering expense in the prior year.

### **Store pre-opening costs**

Store pre-opening costs were \$1.8 million for the thirteen weeks ended September 27, 2015 and \$3.7 million for the thirteen weeks ended September 28, 2014. Store pre-opening costs in the thirteen weeks ended September 27, 2015 included \$1.7 million related to opening eight stores during that period and \$0.1 million associated with stores expected to open subsequent to quarter end. Store pre-opening costs in the thirteen weeks ended September 28, 2014 included \$3.6 million related to opening 14 stores during that period and \$0.1 million associated with stores opened subsequent to quarter end.



**Interest expense**

Interest expense decreased to \$3.7 million for the thirteen weeks ended September 27, 2015 from \$6.2 million for the thirteen weeks ended September 28, 2014. The decrease in interest expense is due to lower principal balances on both the current Credit Facility and Former Revolving Credit Facility combined with the lower interest rate on our Credit Facility after the April 2015 Refinancing.

**Loss on extinguishment of debt**

In the thirteen weeks ended September 28, 2014, we made a voluntary principal payment of \$50.0 million and wrote-off \$1.1 million of deferred financing costs and original issue discount related to that portion of the Former Term Loan.

**Income tax provision**

Income tax provision increased to \$18.9 million for the thirteen weeks ended September 27, 2015 from \$16.6 million for the thirteen weeks ended September 28, 2014, primarily related to an increase in income before income taxes. Our effective income tax rate decreased to 37.1% in the thirteen weeks ended September 28, 2015 from 38.9% in the thirteen weeks ended September 28, 2014. The primary reasons for the decrease in the effective tax rate were an increase in the enhanced deduction for charitable donations of food inventory, an increase in the prior year tax credits and a decrease in the effective state income tax rate.

**Net income**

	Thirteen weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net income	\$ 31,986	\$ 26,065	\$ 5,921	23%
Percentage of net sales	3.5%	3.4%	0.1%	

Net income growth was driven by sales growth and reduced interest expense, offset by decreased gross margin.

## Results of Operations for Thirty-Nine Weeks Ended September 27, 2015 and September 28, 2014

The following tables set forth our unaudited results of operations 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. All dollar amounts are in thousands, unless otherwise noted.

	Thirty-nine weeks ended	
	September 27, 2015	September 28, 2014
<b>Unaudited Quarterly Consolidated Statement of Operations Data:</b>		
Net sales	\$ 2,662,728	\$ 2,232,831
Cost of sales, buying and occupancy	1,879,839	1,558,876
Gross profit	782,889	673,955
Direct store expenses	518,561	430,019
Selling, general and administrative expenses	74,492	69,594
Store pre-opening costs	7,105	7,051
Store closure and exit costs	1,711	393
Income from operations	181,020	166,898
Interest expense	(13,990)	(19,144)
Other income	345	477
Loss on extinguishment of debt	(5,481)	(1,138)
Income before income taxes	161,894	147,093
Income tax provision	(61,119)	(57,144)
Net income	\$ 100,775	\$ 89,949

	Thirty-nine weeks ended	
	September 27, 2015	September 28, 2014
<b>Comparable store sales growth(1)</b>	5.2%	10.4%
<b>Other Operating Data:</b>		
Stores at beginning of period	191	167
Closed	(1)	—
Opened	26	24
Stores at end of period	216	191

(1) See the explanation of “Comparable store sales growth” above under “Components of Operating Results – Net Sales.”

### Comparison of Thirty-Nine Weeks Ended September 27, 2015 to Thirty-Nine Weeks Ended September 28, 2014

#### Net sales

	Thirty-nine weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net sales	\$ 2,662,728	\$ 2,232,831	\$ 429,897	19%
Comparable store sales growth	5.2%	10.4%		

Net sales increased during the thirty-nine weeks ended September 27, 2015 as compared to the thirty-nine weeks ended September 28, 2014, primarily as a result of (i) sales growth at stores operated prior to September 28, 2014 and (ii) new store openings after September 28, 2014. During the thirty-nine weeks ended September 27, 2015, \$260.6 million, or 61%, of the increase came from comparable store

sales growth and new store openings during fiscal 2014 not yet reflected in comparable store sales. Additionally, new store openings after September 28, 2014 contributed \$169.3 million, or 39 %, of the increase in net sales during the thirty-nine weeks ended September 27, 2015.

### **Cost of sales, buying and occupancy and gross profit**

	Thirty-nine weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net sales	\$ 2,662,728	\$ 2,232,831	\$ 429,897	19%
Cost of sales, buying and occupancy	1,879,839	1,558,876	320,963	21%
Gross profit	782,889	673,955	108,934	16%
Gross margin	29.4%	30.2%	(0.8)%	

Cost of sales, buying and occupancy increased during the thirty-nine weeks ended September 27, 2015 compared to the thirty-nine weeks ended September 28, 2014, primarily due to the increase in sales from new store openings and comparable store sales growth, as discussed above. Gross profit increased \$129.8 million as a result of increased sales volume, offset by a decrease of \$20.8 million related to decreased margin. The gross margin decrease was primarily driven by continued price investments in certain categories.

### **Direct store expenses**

	Thirty-nine weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Direct store expenses	\$ 518,561	\$ 430,019	\$ 88,542	21%
Percentage of net sales	19.5%	19.3%	0.2%	

Direct store expenses increased \$88.5 million, due to \$48.5 million of direct store expenses related to stores opened since September 28, 2014 and a \$40.0 million increase in direct store expenses associated with stores operated prior to September 28, 2014. Direct store expenses, as a percentage of net sales, increased 20 basis points primarily due to higher depreciation, higher investments in employee training and labor costs at new stores. These increases were partially offset by lower utilization of medical benefits and lower bonus expense.

### **Selling, general and administrative expenses**

	Thirty-nine weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Selling, general and administrative expenses	\$ 74,492	\$ 69,594	\$ 4,898	7%
Percentage of net sales	2.8%	3.1%	(0.3)%	

The increase in selling, general and administrative expenses included \$4.4 million for advertising expense to support growth into new markets, \$3.1 million for corporate payroll to support growth and internalize outsourced functions, \$1.1 million increase in IT maintenance, \$0.9 million for regional administration expense due to additional store count and growth into new regions, \$0.8 million increase in depreciation for our new corporate headquarters; these increases were partially offset by \$3.6 million decrease in bonus expense due to lower expected attainment and lower than expected actual payments for the prior fiscal year, \$2.0 million less secondary offering expense in current year and a \$0.9 million decrease in expense related to internalizing outsourced functions. Selling, general and administrative expenses decreased as a percent of net sales primarily driven by lower bonus expense partially offset by higher advertising costs for new stores and corporate payroll.

### **Store pre-opening costs**

Store pre-opening costs were \$7.1 million for both the thirty-nine weeks ended September 27, 2015 and the thirty-nine weeks ended September 28, 2014. Store pre-opening costs in the thirty-nine weeks ended September 27, 2015 included \$6.9 million related to opening 26 stores during that period and \$0.2 million associated with stores expected to open subsequent to quarter end. Store pre-opening costs in the thirty-nine weeks ended September 28, 2014 included \$6.8 million related to opening 24 stores and relocating one store during that period and \$0.3 million associated with stores expected to open subsequent to quarter end.

### **Store closure and exit costs**

Store closure and exit costs for the thirty-nine weeks ended September 27, 2015 includes \$1.7 million for the relocation of our support office and adjustments for prior reserves. Store closure and exit costs for the thirty-nine weeks ended September 28, 2014 included costs related to the relocation of one store, a \$1.2 million favorable adjustment to reserves for settlement with landlord, offset by changes in reserves for stores and facilities already closed and ongoing expenses related to prior closures. Additionally, we determined that we should have been recording accretion expense for store closure reserves and liability for certain occupancy costs. We made a correcting entry of \$0.9 million to adjust the liability for closed stores to include such accretion and liability for certain occupancy costs for prior periods. The effect of this entry was not material to any period.

### **Interest expense**

Interest expense decreased to \$14.0 million for the thirty-nine weeks ended September 27, 2015 from \$19.1 million for the thirty-nine weeks ended September 28, 2014. The decrease in interest expense is due to the lower principal balances on both the current Credit Facility and Former Revolving Credit Facility combined with the lower interest rate on our Credit Facility after the April 2015 Refinancing.

### **Loss on extinguishment of debt**

In the thirty-nine weeks ended September 27, 2015, we recorded a loss on extinguishment of debt totaling \$5.5 million related to the write-off of deferred financing costs and issue discount in the April 2015 Refinancing. In the thirty-nine weeks ended September 28, 2014, we made a voluntary principal payment of \$50.0 million and wrote-off \$1.1 million of deferred financing costs and original issue discount related to that portion of the term loan.

### **Income tax provision**

Income tax provision increased to \$61.1 million for the thirty-nine weeks ended September 27, 2015 from \$57.1 million for the thirty-nine weeks ended September 28, 2014, primarily related to an increase in income before income taxes. Our effective income tax rate decreased to 37.8% in the thirty-nine weeks ended September 27, 2015 from 38.9% in the thirty-nine weeks ended September 28, 2014. The primary reasons for the decrease in the effective tax rate were an increase in the enhanced deduction for charitable donations of food inventory, an increase in the prior year tax credits and a decrease in the effective state income tax rate.

### **Net income**

	Thirty-nine weeks ended		Change	% Change
	September 27, 2015	September 28, 2014		
Net income	\$ 100,775	\$ 89,949	\$ 10,826	12%
Percentage of net sales	3.8%	4.0%	(0.2)%	

Net income growth was driven by sales growth and reduced interest expense, offset by decreased gross margin, loss on extinguishment of debt, and increases in advertising expense to support our growth into new markets.

## Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below, as well as our cash and cash equivalents at the end of each period:

	Thirty-nine weeks ended	
	September 27, 2015	September 28, 2014
Cash and cash equivalents at end of period	\$ 132,000	\$ 118,447
Cash provided by operating activities	\$ 179,091	\$ 151,301
Cash used in investing activities	\$ (97,341)	\$ (95,867)
Cash used in financing activities	\$ (80,263)	\$ (14,639)

Since inception, we have financed our operations primarily through cash generated from our operations, sales of our equity and borrowings under our credit facilities. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures primarily for opening new stores, remodel and maintenance capital expenditures, and debt service. We believe that our existing cash and cash equivalents, and cash anticipated to be generated by operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including new store openings, remodel and maintenance capital expenditures at existing stores, store initiatives and other corporate capital expenditures and activities. Our cash and cash equivalents position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within days from the related sale. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be adversely affected.

### **Operating Activities**

Net cash provided by operating activities increased \$27.8 million to \$179.1 million for the thirty-nine weeks ended September 27, 2015 compared to \$151.3 million for the thirty-nine weeks ended September 28, 2014. The thirty-nine weeks ended September 27, 2015 includes the impact of stores opened since September 28, 2014.

### **Investing Activities**

Net cash used in investing activities was \$97.3 million for the thirty-nine weeks ended September 27, 2015 compared to \$95.9 million for the thirty-nine weeks ended September 28, 2014. The increase in cash used for investing activities is primarily related to increased capital expenditures for new store openings, sales enhancing initiatives, our new support office, store remodels and maintenance capital expenditures.

Capital expenditures consist primarily of investments in new stores, including leasehold improvements and store equipment, annual maintenance capital expenditures to maintain the appearance of our stores, sales enhancing initiatives and other corporate investments.

We expect capital expenditures of approximately \$105 million in fiscal 2015, net of estimated landlord tenant improvement allowances, primarily to fund investments in new stores, remodels, maintenance capital expenditures and corporate capital expenditures. We expect to fund our capital expenditures with cash on hand, cash generated from operating activities and, if required, borrowings under our Credit Facility.

### **Financing Activities**

Net cash used in financing activities was \$80.3 million for the thirty-nine weeks ended September 27, 2015 compared to cash used in financing activities of \$14.6 million for the thirty-nine weeks ended September 28, 2014. The change in cash used in financing activities of \$65.6 million is related to an increase in the net paydown of debt of \$46.0 million, a \$15.5 million decrease of excess tax benefits from

the exercise of stock options, \$1.9 million of deferred financing costs paid in our April 2015 Refinancing, and a \$1.2 million decrease in proceeds from the exercise of stock options.

### **Long-Term Debt and Credit Facilities**

See Note 6 "Long-Term Debt" of our unaudited consolidated financial statements for a description of our Credit Facility and our Former Credit Facility.

### **Contractual Obligations**

We are committed under certain capital leases for the rental of certain buildings and land and certain operating leases for rental of facilities and equipment. These leases expire or become subject to renewal clauses at various dates through 2032.

The following table summarizes our lease obligations as of September 27, 2015, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Capital and financing lease obligations(1)	\$ 160,896	\$ 24,958	\$ 37,819	\$ 29,683	\$ 68,436
Operating lease obligations(1)	1,274,667	101,271	231,625	221,928	719,843
<b>Totals</b>	<b>\$ 1,435,563</b>	<b>\$ 126,229</b>	<b>\$ 269,444</b>	<b>\$ 251,611</b>	<b>\$ 788,279</b>

- (1) Represents estimated payments for capital and financing and operating lease obligations as of September 28, 2015. Capital and financing lease obligations and operating lease obligations are presented gross without offset for subtenant rentals. We have subtenant agreements under which we will receive \$1.5 million for the period of less than one year, \$2.4 million for years one to three, \$1.4 million for years four to five, and \$1.4 million for the period beyond five years.

We have other contractual commitments and debt, which were presented under Contractual Obligations in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, and for which there have not been material changes since that filing through September 27, 2015. As discussed in Note 6 to the unaudited consolidated financial statements we entered into the Credit Facility with an initial balance of \$260.0 million which will mature in April 2020. As of September 27, 2015, the outstanding balance on the Revolving Credit Facility was \$160.0 million.

### **Off-Balance Sheet Arrangements**

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

### **Impact of Inflation**

Inflation and deflation in the prices of food and other products we sell may affect our sales, gross profit and gross margin. The short-term impact of inflation and deflation is largely dependent on whether or not the effects are passed through to our customers, which is subject to competitive market conditions.

Food inflation and deflation is affected by a variety of factors and our determination of whether to pass on the effects of inflation or deflation to our customers is made in conjunction with our overall pricing and marketing strategies. Although we may experience periodic effects on sales, gross profit and gross margins as a result of changing prices, we do not expect the effect of inflation or deflation to have a material impact on our ability to execute our long-term business strategy.

## 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. Produce, which contributed approximately 25% of our net sales for the thirty-nine weeks ended September 27, 2015, is generally more available in the first six months of our fiscal year due to the timing of peak growing seasons.

## Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include, but are not limited to, those related to inventory, lease assumptions, self-insurance reserves, sublease assumptions for closed facilities, goodwill and intangible assets, impairment of long-lived assets, fair values of equity-based awards and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

During the thirteen weeks ended September 27, 2015, we changed our store inventory count procedure and no longer count inventory at the end of the quarter for each store. Accordingly, the inventory balance in the accompanying unaudited Consolidated Balance Sheets includes a \$3.8 million shrink reserve as of September 27, 2015. There have been no other substantial changes to these estimates or the policies related to them during the thirty-nine weeks ended September 28, 2015. For a full discussion of these estimates and policies, see "Critical Accounting Estimates" in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

## Recently Issued Accounting Pronouncements

See Note 2 "Recently Issued Accounting Pronouncements" to our accompanying unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q.

We have determined that all other recently issued accounting standards will not have a material impact on our financial statements, or do not apply to our operations.

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

As described in Note 6, "Long-Term Debt" to our unaudited consolidated financial statements located elsewhere in this Quarterly Report on Form 10-Q, we have a Credit Facility that bears interest at a rate based in part on LIBOR. Accordingly, we are exposed to fluctuations in interest rates. Based on the \$160.0 million principal outstanding under our Credit Facility as of September 27, 2015, each hundred basis point change in LIBOR would result in a change in interest expense by \$1.6 million annually.

This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

## Item 4. Controls and Procedures.

### *Evaluation of Disclosure Controls and Procedures*

We maintain a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our Chief Executive

Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures under the Exchange Act as of September 27, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

***Changes in Internal Control Over Financial Reporting***

During the quarterly period ended September 27, 2015, there were no changes in our internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

### Item 1. 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 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 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 referenced below, together with all of the other information in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes. Any of those risks could materially and adversely affect our business, operating results, 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.*

There have been no material changes to the Risk Factors described under “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

### Item 5. Other Information.

On November 4, 2015, our board of directors adopted an Executive Severance and Change in Control Plan (the “Plan”) to provide benefits and payments to certain of our senior executive officers if their employment is terminated under certain circumstances. The Plan covers senior executive officers designated by the compensation committee of our board of directors, including our named executive officers (other than our chief executive officer) that do not otherwise have employment agreements which specifically provide for severance. In addition, if one of our senior executive officers designated for participation in the Plan has an employment agreement and his or her employment is terminated in connection with a change in control under circumstances providing for change in control severance benefits under the Plan (as described below), the senior executive officer is eligible to receive change in control severance benefits under the Plan, rather than severance benefits under the applicable employment agreement.

In the event that a Plan participant’s employment is terminated by us due to elimination of job position, reduction in force or restructuring, or by a participant due to relocation, and such termination does not constitute a termination in connection with a change in control described below and is not within 12 months of the participant’s date of hire, (a) our chief financial officer and chief operating officer will be eligible to receive continued payments of base salary for two years and COBRA premium reimbursement for two years (or, if earlier, until the participant is no longer eligible for COBRA coverage), the aggregate amount of the annual bonus amounts received in respect of the prior two completed fiscal years, and a prorated bonus based on actual performance for the fiscal year in which termination occurs; and (b) other participants will be eligible to receive continued payments of base salary for one year and COBRA premium reimbursement for one year (or, if earlier, until the participant is no longer eligible for COBRA coverage), an amount equal to the participant’s target bonus at the time of termination, and a prorated bonus based on actual performance for the fiscal year in which termination occurs.

In the event that a Plan participant’s employment is terminated by us without cause or by the participant for good reason (each as defined by the Plan) upon or during the 24 month period following a change in control (as defined by the Plan), Plan participants will be eligible to receive continued payments of base salary for two years and COBRA premium reimbursement for two years (or, if earlier, until the participant is no longer eligible for COBRA coverage), as well as an amount equal to the participant’s target bonus at the time of termination.

The foregoing summary of the Plan does not purport to be complete and is qualified in its entirety by reference to the Plan, filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

### ***Airplane Purchase***

On November 3, 2015, we entered into an agreement to purchase an airplane (the "Purchase Agreement") from an entity controlled by Shon Boney, a member of our board of directors, for \$7.5 million, which is below the estimated market value we obtained from a third party appraisal of the airplane. The transaction is expected to close during November 2015, subject to customary pre-closing inspection.

The foregoing summary of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

### **Item 6. Exhibits.**

Exhibit Number	Description
10.1	Executive Severance and Change in Control Plan
10.2	Aircraft Purchase Agreement, dated November 3, 2015, by and between Sprouts Farmers Markets Holdings, LLC and CJ Leasing Services LLC
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## SIGNATURES

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

### SPROUTS FARMERS MARKET, INC.

Date: November 5, 2015

By: /s/ Susannah Livingston  
Name: Susannah Livingston  
Title: Interim Chief Financial Officer  
(Principal Financial Officer)

## EXHIBIT INDEX

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**SPROUTS FARMERS MARKET, INC.**

**EXECUTIVE SEVERANCE  
AND CHANGE IN CONTROL PLAN**

**(Effective November 4, 2015)**

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## **INTRODUCTION**

Sprouts Farmers Market, Inc. (" Sprouts ") has established the Executive Severance and Change in Control Plan (the " Plan ") to provide financial assistance to certain senior executive officers of Sprouts whose employment is terminated under certain circumstances. The severance and other benefits payable under the Plan apply to covered terminations of employment occurring after November 3, 2015. This document outlines the terms and conditions of the Plan, and shall serve as both the plan document and summary plan description for the Plan, as those terms are defined under the Employee Retirement Income Security Act of 1974, as amended (" ERISA ").

The Plan is the only severance pay plan, program or policy of Sprouts applicable to Eligible Executives (as defined below) and supersedes all other severance plans, programs, policies, understandings and agreements, express or implied, written or oral with respect to the Eligible Executives; provided that, if there is a written employment agreement between Sprouts or any of its affiliates on the one hand, and an Eligible Executive on the other hand, which specifically provides for severance, then the terms of such employment agreement will control and the applicable individual will have no right to any payments or benefits under the Plan, except in the event that a Change in Control Termination (as defined below) occurs, in which case such Eligible Executive's rights to severance will be determined in accordance with the Plan, and such Eligible Executive shall not be entitled to receive any severance under the applicable employment agreement unless the severance terms of the applicable employment agreement are more favorable to the Eligible Executive in which case the terms of the employment agreement shall govern.

## **DEFINITIONS**

" Base Salary " shall mean an Eligible Executive's base pay immediately preceding termination (or if greater, immediately preceding any reduction giving rise to Good Reason (if applicable)), less applicable withholdings and deductions. Base Salary shall not include incentive compensation, bonuses, or any other payments.

" Code " shall mean the Internal Revenue Code of 1986, as amended from time to time.

" Cause " shall have the meaning set forth in any effective employment agreement between Sprouts or any of its subsidiaries or affiliates on the one hand, and an Eligible Executive on the other hand, or if no such employment agreement is in effect that contains a definition of "Cause", then Cause shall mean the occurrence of any one or more of the following events: (1) a conviction of or pleading guilty to (a) a felony, or (b) a misdemeanor that causes or is reasonably likely to cause material harm to the business, financial condition or operating results of Sprouts or any of its affiliates; (2) theft, embezzlement or fraud committed by an Eligible Executive in connection with the performance of an Eligible Executive's job duties; (3) engaging in any activity that gives rise to a material conflict with Sprouts or any of its affiliates; (4) the misappropriation of any material business opportunity of Sprouts or any of its subsidiaries or affiliates; (5) any material failure to comply with, observe or carry out the rules, regulations, policies, directions, codes of ethics and/or conduct and restrictions applicable to team members generally or established or approved by the Board from time to time for executive officers of Sprouts or any of its subsidiaries or affiliates, including (without limitation), in any case, those regarding conflicts of interest; and (6) substance abuse or use of illegal drugs that materially impairs the performance of an Eligible Executive's job duties or causes or is likely to cause material harm to the business, financial condition or operating results of Sprouts or any of its affiliates. In order to terminate an Eligible Executive for Cause, (i) Sprouts must deliver a written notice of its intent to terminate the Eligible Executive for Cause, (ii) the Eligible Executive must be given a reasonable opportunity to cure any such acts or omissions (if curable) that constitute "Cause" within 30 days after receipt of such notice, and (iii) the Eligible Executive must have failed to timely cure any such acts or omissions.

" Change in Control " shall mean: (1) any event occurs the result of which is that any "Person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the " Exchange Act "), becomes the "beneficial owner", as defined in Rules 13d-3 and 13d-5 under the Exchange Act, directly or indirectly, of more than 50% of the voting stock of Sprouts or any successor company thereto, including, without limitation, through a merger or consolidation or purchase of voting



stock of Sprouts; provided that the transfer of 100% of the voting stock to a Person that has an ownership structure identical to that of Sprouts prior to such transfer, such that Sprouts becomes a wholly-owned subsidiary of such Person, shall not be treated as a Change in Control; (2) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by such Board or whose nomination for election by the stockholders of Sprouts was approved by a vote of a majority of the directors of Sprouts then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board then in office; (3) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of Sprouts and its consolidated subsidiaries taken as a whole to any Person or group of related Persons; or (4) the adoption of a plan relating to the liquidation or dissolution of Sprouts.

“Change in Control Period” shall mean the period beginning on the occurrence of a Change in Control and continuing for 24 months thereafter.

“Change in Control Termination” shall mean: (1) termination of an Eligible Executive's employment by Sprouts without Cause; or (2) termination of an Eligible Executive's employment by the Eligible Executive for Good Reason, in either case, during the Change in Control Period. A Change in Control termination shall not occur pursuant to the preceding clause (1) if: (a) such termination occurs on account of the Eligible Executive's death or total and permanent disability, as reasonably determined in good faith by Sprouts; or (b) an Eligible Executive's employment terminates as a result of a sale of assets only if (i) the Successor assumes the obligations hereunder; (ii) the Eligible Executive is offered employment by the Successor following the Change in Control; and (iii) such offer provides the Eligible Executive with base salary equal to that provided immediately prior to the Change in Control, the same title as immediately prior to the Change in Control, and a principal place of employment within 50 miles from the then-current location of the principal office of Sprouts in Phoenix, Arizona immediately prior to the Change in Control.

“Eligible Executive” shall mean each senior executive officer designated by the Compensation Committee of the Board of Directors of Sprouts for participation in the Plan from time to time.

“Good Reason” shall have the meaning ascribed thereto in any effective employment agreement between Sprouts or any of its subsidiaries or affiliates on the one hand, and an Eligible Executive on the other hand, or if no such employment agreement is in effect that contains a definition of “Good Reason”, then Good Reason shall mean the occurrence of any of the following: (1) material reduction in an Eligible Executive's base salary or target annual bonus opportunity; (2) adverse change in an Eligible Executive's job title; provided, however, that a change in an Eligible Executive's duties or responsibilities without a change in an Eligible Executive's job title shall not constitute “Good Reason”; or (3) a requirement that an Eligible Executive work at any office or location more than 50 miles from the location of the then current principal office of Sprouts in Phoenix, Arizona (excluding normal travel responsibilities). In order for an Eligible Executive to terminate employment for Good Reason, the Eligible Executive must provide Sprouts with at least 30 days' prior written notice specifying in reasonable detail the reason therefor, and Sprouts shall have a reasonable opportunity to cure any such Good Reason within 15 days after receipt of such notice. If Sprouts is not seeking to cure, it shall not be obligated to allow the Eligible Executive to continue performing duties for Sprouts during the 15-day cure period and may, in its sole discretion, accelerate such termination of employment to any date during the 15-day cure period. An Eligible Executive may not terminate employment for Good Reason regarding any act or omission of which the Eligible Executive had actual notice for 90 days or more prior to giving notice of termination for “Good Reason”.

“Involuntary Termination” shall mean the termination of an Eligible Executive's employment, other than a termination of employment which constitutes a Change in Control Termination: (1) by Sprouts due to: (a) elimination of the Eligible Executive's position; (b) reduction-in-force; or (c) restructuring; or (2) by the Eligible Executive due to a change in the Eligible Executive's principal place of employment to a location that is more than 50 miles from the Eligible Executive's then-current principal place of employment. An Involuntary Termination shall not occur if such termination occurs within 12-months following an Eligible

Executive's date of hire or on account of the Eligible Executive's death or total and permanent disability, as reasonably determined in good faith by Sprouts.

" Person " means and includes any individual, partnership, joint venture, corporation, limited liability company, estate, trust or other entity.

" Release " shall mean a release of claims against Sprouts, Sprouts, and other subsidiaries or affiliates of Sprouts in the form provided by Sprouts; provided that , if the Eligible Executive experiences a Change in Control Termination, the release shall be substantially in the form used by Sprouts immediately prior to the Change in Control, with such changes as Sprouts determines are necessary to comply with applicable law.

" Senior Executive Officer " shall mean the Chief Executive Officer, President/Chief Operating Officer, Chief Legal Officer, Chief Information Officer, Chief Marketing Officer, Chief Development Officer, Chief Human Resources Officer, Executive Vice President of Operations, and any other senior executive officer designated as such by the Compensation Committee of the Board of Directors of Sprouts from time to time.

" Successor " shall mean any corporation or unincorporated entity or group of corporations or unincorporated entities which acquires ownership, directly or indirectly, through merger, consolidation, purchase or otherwise, of the stock or the assets of Sprouts, triggering a Change in Control, and which assumes and agrees to perform this Plan by operation of law, or otherwise . A Successor may also include a subsidiary or parent of such entity to the extent such subsidiary or parent is the employing entity of an Eligible Executive following the date of a Change in Control.

### **BENEFITS**

**Involuntary Termination** . In the event an Eligible Executive experiences an Involuntary Termination, in addition to any accrued but unpaid salary and amounts required by applicable law, the Eligible Executive will be entitled to the following severance benefits based on the Eligible Executive's position, subject to the conditions described below and the other terms and provisions of the Plan:

<b>Position</b>	<b>Severance Period</b>	<b>Cash Severance</b>	<b>COBRA Premium Reimbursement</b>
CEO, COO and CFO	2 years	(1) Continued payments of Base Salary during the Severance Period, which will be paid consistent with Sprouts' customary payroll practices, but no less frequently than monthly.  (2) An aggregate amount equal to the sum of the annual bonuses paid to the Eligible Executive in respect of the past 2 completed fiscal years, payable in equal installments over the Severance Period as and when payments are made pursuant to clause (1) above.  (3) A prorated portion of the annual bonus (based on the period of actual employment during the fiscal year in which termination occurs) to which the Eligible Executive would have been entitled, if any, had the Eligible Executive worked the full fiscal year during which the termination occurred (the " <u>Prorated Bonus</u> "), which will be paid at the same time that annual bonuses are paid to active employees of Sprouts but no later than March 15 of the calendar year following the calendar year in which termination of employment occurs.	During the Severance Period (or if earlier, until the date the Eligible Executive ceases to be eligible to receive coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA")), Sprouts will reimburse the Eligible Executive for the Eligible Executive's applicable COBRA premiums.*

Other Senior Executive Officers	1 year	<p>(1) Continued payments of Base Salary during the Severance Period, which will be paid consistent with Sprouts' customary payroll practices, but no less frequently than monthly.</p> <p>(2) An amount equal to the Eligible Executive's target annual bonus at the time of termination, payable in equal installments over the Severance Period as and when payments are made pursuant to clause (1) above.</p> <p>(3) The Prorated Bonus, which will be paid at the same time that annual bonuses are paid to active Executives of Sprouts but no later than March 15 of the calendar year following the calendar year in which termination of employment occurs.</p>	During the Severance Period (or if earlier, until the date the Eligible Executive ceases to be eligible to receive coverage under COBRA), Sprouts will reimburse the Eligible Executive for the Eligible Executive's applicable COBRA premiums.*
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\*In the event that Sprouts' payment of COBRA premiums under the Plan would violate the nondiscrimination rules of the Patient Protection and Affordable Care Act of 2010, as amended ("PPACA") or cause Sprouts or an Eligible Executive to incur adverse tax consequences or penalties under PPACA or otherwise, the parties agree to reform this provision, to the extent practicable, to avoid such adverse tax consequences or penalties while maintaining the intended economic benefit to the Eligible Executive.

**Change in Control Termination.** In the event that an Eligible Executive experiences a Change in Control Termination, in addition to any accrued but unpaid salary and amounts required by applicable law, the Eligible Executive will be entitled to the following severance benefits, based on the date the Eligible Executive began employment with Sprouts, subject to the conditions described below and the other terms and provisions of the Plan:

Position	Severance Period	Cash Severance	COBRA Premium Reimbursement
CEO	3 years	<p>(1) Continued payments of Base Salary during the Severance Period, which will be paid consistent with Sprouts' customary payroll practices, but no less frequently than monthly.</p> <p>(2) An amount equal to the sum of the target annual bonuses paid to the Eligible Executive in respect of the past 3 completed fiscal years, payable in equal installments over the Severance Period as and when payments are made pursuant to clause (1) above.</p>	During the Severance Period (or if earlier, until the date the Eligible Executive ceases to be eligible to receive coverage under COBRA), Sprouts will reimburse the Eligible Executive for the Eligible Executive's applicable COBRA premiums.*

Other Senior Executive Officers	2 years	<p>(1) Continued payments of Base Salary during the Severance Period, which will be paid consistent with Sprouts' customary payroll practices, but no less frequently than monthly.</p> <p>(2) An amount equal to the Eligible Executive's target annual bonus at the time of termination (or if greater, immediately preceding the Change in Control), payable in equal installments over the Severance Period as and when payments are made pursuant to clause (1) above.</p>	During the Severance Period (or if earlier, until the date the Eligible Executive ceases to be eligible to receive coverage under COBRA), Sprouts will reimburse the Eligible Executive for the applicable COBRA premiums.*
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\*In the event that Sprouts' payment of COBRA premiums under the Plan would violate the nondiscrimination rules of the Patient Protection and Affordable Care Act of 2010, as amended ("PPACA") or cause Sprouts or an Eligible Executive to incur adverse tax consequences or penalties under PPACA or otherwise, the parties agree to reform this provision, to the extent practicable, to avoid such adverse tax consequences or penalties while maintaining the intended economic benefit to the Eligible Executive.

The Plan Administrator has the sole discretion to determine whether an Eligible Executive's termination of employment constitutes an Involuntary Termination or a Change in Control Termination.

In the event of an Involuntary Termination or a Change in Control Termination, cash severance payments will begin on the effective date of the Release; provided that, if termination of an Eligible Executive's employment occurs within 50 days following the end of the calendar year, payments will begin on the later of: (1) the effective date of the Release; or (2) January 2 of the year following the year in which termination of Eligible Executive's employment occurs; provided further that, the first payment will include any amounts that would otherwise have been paid to the Eligible Executive between the date of termination and the date of the first payment in accordance with Sprouts' customary payroll practices.

**Death During the Severance Period**. In the event an Eligible Executive dies following an Involuntary Termination or a Change in Control Termination but prior to the payment of all benefits payable under the Plan, any remaining cash severance payments will be made to the Eligible Executive's surviving spouse in a lump sum within 60 days following the Eligible Executive's death. If there is no surviving spouse at the time of an Eligible Executive's death, the amounts shall be paid to the legal representative of the Eligible Executive's estate. Medical plan coverage will be made available to an Eligible Executive's surviving spouse and covered dependents to the extent required under COBRA; provided that, COBRA premium reimbursements shall continue to be provided, to the extent applicable, for any remaining portion of the Severance Period.

#### **ELIGIBILITY TO RECEIVE BENEFITS**

Subject to the conditions and limitations of this section and elsewhere in the Plan, an Eligible Executive shall be entitled to the severance benefits described herein only upon satisfaction of all the following conditions (and all other applicable conditions contained in the Plan):

- (1) the Eligible Executive experiences an Involuntary Termination or a Change in Control Termination;
- (2) the Eligible Executive timely executes without modification and does not revoke a Release within 50 days following the Eligible Executive's termination date (or such earlier period as may be specified in the Release);

- (3) if requested by Sprouts or any of its subsidiaries or affiliates, the Eligible Executive delivers an acceptable resignation letter in respect of all offices, directorships and fiduciary positions in which the Eligible Executive was serving;
- (4) the Eligible Executive reasonably cooperates in transitioning the Eligible Executive's work;
- (5) the Eligible Executive returns any property of Sprouts or its subsidiaries or affiliates which has come into the Eligible Executive's possession or control; and
- (6) if notified by Sprouts of his or her termination of employment, the Eligible Executive remains actively at work through his or her Company-determined last day of employment.

**Exclusions.** Each Eligible Executive shall cease to be entitled to benefits under the Plan, upon the earliest to occur of the following:

- (1) the date an Eligible Executive is re-employed if the Eligible Executive is re-hired by Sprouts or an affiliate in a comparable position while receiving severance benefits;
- (2) the Eligible Executive's breach of any provision of the Release, the Plan or any applicable confidentiality, non-compete, and/or non-solicitation agreement;
- (3) the revocation, invalidity, unenforceability, or untimely execution of the Release; or
- (4) in the event of an Involuntary Termination, Sprouts (or any of its subsidiaries or affiliate) discovers information that would have permitted Sprouts to terminate the Eligible Executive's employment for Cause.

If severance benefits cease because of a Cause determination or a breach of the Release or any applicable confidentiality, non-compete, and/or non-solicitation agreement, Sprouts shall have the right to require that the Eligible Executive repay to the full value of any previously received benefits. The remedies described in this paragraph are in addition to any other remedies that may be available to Sprouts in the event of the occurrence of any of the circumstances described in this paragraph.

#### **ADDITIONAL TAX CONSIDERATIONS**

**Section 409A.** The Plan is intended to comply with Code Section 409A. To the extent required by Code Section 409A, all amounts to be paid upon a termination of employment under the Plan may only be paid upon a "separation from service", as defined by Code Section 409A. If an Eligible Executive is a "specified employee" within the meaning of Code Section 409A (which generally includes officers with annual compensation above a specified amount) at the time of termination of employment, to the extent necessary to comply with Code Section 409A, any payment under the Plan shall be delayed for a period of six months after termination of employment. The Plan Administrator will notify an Eligible Executive if a delay in payments is necessary. Payment of such delayed amount shall be made in a lump sum within 10 days after the end of the six-month period. However, if the Eligible Executive dies during the postponement period prior to the payment of the delayed amounts, the amounts delayed on account of Code Section 409A shall be paid to the Eligible Executive's surviving spouse (or, if there is no surviving spouse at the time of an Eligible Executive's death, the legal representative of Eligible Executive's estate) within 60 days after the date of death.

For purposes of the limitations on nonqualified deferred compensation under Code Section 409A, each payment of compensation under the Plan shall be treated as a separate payment of compensation. Any amounts payable solely on account of an involuntary separation from service within the meaning of Code Section 409A shall be excludible from the requirements of Code Section 409A of the Code, either as involuntary separation pay or as short-term deferral amounts to the maximum possible extent. Any reimbursements or in-kind benefits provided under the Plan shall be made or provided in accordance with the requirements of Code Section 409A, including, where applicable, the requirement that: (1) any reimbursement is for expenses incurred during the period of time specified in the Plan; (2) the amount of expenses eligible for reimbursement, or in kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in kind benefits to be provided, in any other calendar year; (3) the reimbursement of an eligible expense will be made no later than the last day of the calendar year

following the year in which the expense is incurred; and (4) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit.

In no event shall Sprouts or any of its subsidiaries or affiliates have any liability in respect of any adverse tax consequences that an Eligible Executive may incur by reason of operation of Code Section 409A.

**Section 280G.** Payments under the Plan shall be made without regard to whether the deductibility of such payments would be limited or precluded by Code Section 280G, and without regard to whether such payments (or any other payments) would subject an Eligible Executive to the federal excise tax levied on certain "excess parachute payments" under Code Section 4999; provided however, that if the value of all payments to or for an Eligible Executive's benefit (whether under the Plan or otherwise), after reduction for all state and federal taxes (including the tax described in Code Section 4999, if applicable) with respect to such payments ("total after-tax payments"), would be increased by the limitation or elimination of any payment under the Plan, amounts payable under the Plan shall be reduced to the extent, and only to the extent, necessary to maximize an Eligible Executive's total after-tax payments. All determinations to be made under this paragraph shall be made by a nationally recognized accounting or consulting firm selected by Sprouts immediately prior to the Change in Control, and shall be made at the sole expense of Sprouts.

Any reduction in payments required by Code Section 280G shall be applied based on the applicable payment date. Reductions shall be made in reverse chronological order such that the payment or benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first payment or benefit to be reduced (with reductions made pro-rata in the event payments or benefits are owed at the same time). In no event shall an Eligible Executive have any discretion with respect to the ordering of payment reductions.

#### **OTHER COMPANY BENEFIT AND COMPENSATION PLANS**

**Equity.** In the event of an Involuntary Termination or a Change in Control Termination, all outstanding equity awards will be governed by the terms of the applicable equity plans and award agreement(s).

**Paid Time Off.** An Eligible Executive shall receive payment in respect of any accrued but unused vacation and/or other paid time off which exists as of the Eligible Executive's termination date within 15 days following the Eligible Executive's termination date or such earlier date required by applicable law.

**Other Benefits.** Except as otherwise required by applicable law or as specifically provided by the terms of an Executive benefit plan, each Eligible Executive shall cease active participation in all Executive benefit and compensation plans and programs of Sprouts and its subsidiaries and affiliates as of the employment termination date, including all retirement, welfare, incentive, bonus and other similar plans, policies, programs and arrangements. For example, an Eligible Executive will not continue to be covered under Sprouts' life insurance and disability plans and will no longer be eligible to participate in Sprouts' 401(k) plan, even though the Eligible Executive may be receiving severance pay. Each Eligible Executive's rights under any such plans, policies, programs and arrangements shall be governed by the terms and conditions thereof.

#### **ADMINISTRATION**

**Plan Administrator.** Sprouts is the plan administrator (" the Plan Administrator ") of the Plan. Sprouts has appointed its Human Resources Compensation Committee (" HRCC ") to act on its behalf as Plan Administrator. The Plan Administrator has authority to control and manage the operation and administration of the Plan.

**Powers and Duties.** The Plan Administrator has the absolute authority in its sole discretion to construe and interpret the terms of the Plan (and any related or underlying documents or policies), and to determine and resolve all factual and other questions relating to eligibility to participate in the Plan, the right to and amount of any benefit payable under the Plan to any individual and the date on which any individual ceases to be an Eligible Executive. All such interpretations and determinations (including

factual determinations) of the Plan Administrator shall be final and binding upon all parties and persons affected thereby. The Plan Administrator may appoint one or more individuals and delegate such of its powers and duties as it deems desirable to any such individual(s), in which case every reference herein made to the Plan Administrator shall be deemed to mean or include the appointed individual(s) as to matters within their jurisdiction. The Plan Administrator shall maintain records of this Plan's administration and shall be responsible for the handling, processing and payment of any claims for benefits under the Plan.

### **CLAIMS**

**Claim**. If an Eligible Executive, an Eligible Executive's surviving spouse, an Eligible Executive's estate or any other person believes that he or she is being denied a benefit to which he or she is entitled (hereinafter referred to as "**Claimant**"), the Claimant or his or her duly authorized representative may file a written request for that benefit with the Plan Administrator setting forth his or her claim. The request must be filed with the Plan Administrator within 365 days of the Eligible Executive's termination and addressed to:

Sprouts Human Resources Compensation Committee  
Attn: Chief Human Resources Officer  
SFM, LLC Severance Plan Administration  
5455 E. High Street, Suite 111  
Phoenix, AZ 85054

**Claim Decision**. Upon receipt of a claim, the Plan Administrator will advise the Claimant that a reply will be forthcoming within a reasonable period of time, but not later than 90 days, and will, in fact, deliver such reply within such period. However, the Plan Administrator may extend the reply period for an additional 90 days under special circumstances. If the reply period is extended, the Plan Administrator shall advise the Claimant in writing during the initial 90-day period indicating the special circumstances requiring an extension and the date by which the Plan Administrator expects to render the benefit determination, and any other information needed to process the claim. If the claim is denied in whole or in part, the Plan Administrator will tender a written opinion, using language calculated to be understood by the Claimant, setting forth the following:

- (1) The specific reason or reasons for the denial;
- (2) The specific references to pertinent Plan provisions on which the denial is based;
- (3) A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation as to why such material or such information is necessary;
- (4) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review, including a statement of the Claimant's right to submit the claim for arbitration in accordance with the Mutual Binding Arbitration Agreement signed by the parties following an adverse benefit determination on review; and
- (5) The time limits for requesting a review of the denial and for the actual review of the denial, as described below.

**Request for Review**. Sprouts shall appoint a review committee (the "**Review Committee**") to act on its behalf as Plan Administrator to hear any requests for review of denied claims. Within 60 days after the Claimant receives the written opinion denying his or her claim, the Claimant may file a written request for review with the Plan Administrator, at the following address:

Sprouts Farmers Market, Inc.  
Attn: Review Committee for the Executive Severance and Change in Control Plan  
5455 E. High Street, Suite 111  
Phoenix, AZ 85054

If the Claimant does not request a review by the Review Committee within this 60-day period, he or she shall be barred and estopped from challenging the determination. The Claimant or his or her duly

authorized representative who submits a request for review may submit written comments, documents, records or other information relating to the denied claim, which information shall be considered in the review under this paragraph without regard to whether such information was submitted or considered in the initial benefit determination. The Claimant or his or her duly authorized representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information which: (i) was relied upon by the Plan Administrator in making its initial claims decision, (ii) was submitted, considered or generated in the course of the Plan Administrator making its initial claims decision, without regard to whether such instrument was actually relied upon by the Plan Administrator in making its decision, or (iii) demonstrates compliance by the Plan Administrator with its administrative processes and safeguards designed to ensure and to verify that benefit claims determinations are made in accordance with governing Plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants.

**Review of Decision**. Within a reasonable period of time, ordinarily not later than 60 days after the receipt of a request for review, the Review Committee will review the Plan Administrator's prior determination. If special circumstances require that the 60-day time period be extended, the Review Committee will notify the Claimant within the initial 60-day period, indicating the special circumstances requiring an extension and the date by which the Review Committee expects to render its decision on review, which shall be as soon as possible but not later than 120 days after receipt of the request for review. If the Review Committee makes an adverse benefit determination on review, the Review Committee will render a written opinion, using language calculated to be understood by the Claimant, setting forth the following:

- (1) The specific reason or reasons for the denial;
- (2) The specific references to pertinent Plan provisions upon which the denial is based;
- (3) A statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information which: (i) were relied upon by the Review Committee in making its decision, (ii) were submitted, considered or generated in the course of the Review Committee making its decision, without regard to whether such instrument was actually relied upon by the Review Committee in making its decision, or (iii) demonstrates compliance by the Review Committee with its administrative processes and safeguards designed to ensure and to verify that benefit claims determinations are made in accordance with governing Plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants; and
- (4) A statement of the Claimant's right to submit the claim for arbitration in accordance with the Mutual Binding Arbitration Agreement signed by the parties.

**Plan Administrator's Authority**. The Plan Administrator shall have sole and absolute discretionary authority to determine a Claimant's eligibility for severance or other benefits under the Plan and to interpret the terms of the Plan. Benefits under the Plan will be provided only if the Plan Administrator decides in its discretion that the Claimant is entitled to those benefits. The decision of the Plan Administrator shall be final and binding upon Sprouts and the Claimant.

#### **GENERAL PROVISIONS**

**Amendment and Termination**. Sprouts shall have the right to amend or terminate the Plan, in whole or in part, at any time in its sole discretion with or without notice. Provided, however: (1) any amendment or termination adopted after the occurrence of a Change in Control that negatively impacts an Eligible Executive's benefit amount or eligibility shall not become effective as to such Eligible Executive before the expiration of the Change in Control Period; and (2) any amendment or termination of the Plan after the end of the Change in Control Period may not negatively impact an Eligible Executive who experiences a Change in Control Termination prior to the effective date of such amendment or termination of the Plan.

**Successors**. This Plan shall inure to the benefit of and be binding upon Sprouts and any Successor. The Plan is personal to the Eligible Executive, and the Eligible Executive does not have the right to assign the Plan or any interest therein.



**Not a Contract of Employment**. The Plan does not create a contract of employment, give any Eligible Executive the right to continued employment, or change the at-will nature of any Eligible Executive's employment with Sprouts.

**Effect on Other Benefits**. Benefits under the Plan shall not be taken into account as current compensation under any retirement or other benefit plan, program, or arrangement sponsored or maintained by Sprouts or its subsidiaries or affiliates, unless such plan, program or arrangement expressly requires otherwise.

**Unfunded Plan**. Any payment made by Sprouts under the Plan shall be made from Sprouts' general assets. No person shall have or acquire any interest in any assets of Sprouts by virtue of the provisions of the Plan. Sprouts' obligation to pay severance benefits under the Plan shall be an unfunded and unsecured promise to pay money. In no event shall a person's rights to receive those payments be greater than those of any other unsecured creditor of Sprouts.

**Offset**. If an Eligible Executive has any debt, obligation or other liability owing to Sprouts or its subsidiaries or affiliates of any nature whatsoever at the time that a benefit becomes payable, Sprouts may offset the amount owed by the Eligible Executive against the amount of the severance benefit otherwise payable under the Plan, to the extent permitted by Section 409A of the Code and other applicable law.

**Withholding of Taxes**. Sprouts will withhold from any benefit payable under the Plan all federal, state, local or other taxes as may be deemed necessary or desirable to assure compliance with any law, governmental regulation or ruling.

**Applicability**. Benefits made available under the Plan are neither an accrued or vested entitlement nor in consideration for services rendered, and the payment of any severance benefit is conditioned upon an Eligible Executive's satisfaction of the requirements of the Plan.

**Arbitration**. All complaints, charges, claims, controversies, disputes, counts, or causes of action of any nature (collectively, "claims"), including fiduciary breach and other statutory claims under ERISA, as well as claims for benefits, are subject to mandatory arbitration as set forth the separate Mutual Binding Arbitration Agreement entered into between an Eligible Executive and Sprouts or any of its subsidiaries or affiliates. It is further understood that such agreement contains a waiver of class, collective, and representative action claims, and that neither party will assert, participate in, or join in any class, collective or representative action. Provided, however, the scope of the arbitrator's review of a denial of benefits claim shall be limited to the facts contained in the administrative record.

**Liability**. Except to the extent otherwise required by applicable law, (1) no member of the HRCC or the Review Committee, and no officer, director or employee of Sprouts or its subsidiaries or affiliates shall be liable for any action or inaction with respect to his or her functions under the Plan; and (2) no member of the HRCC or the Review Committee shall be personally liable merely by virtue of any instrument executed by him or her or on his or her behalf as a member of the HRCC or the Review Committee.

**Indemnification**. Sprouts shall indemnify, to the full extent permitted by law and the applicable Certificate of Incorporation and By-laws (but only to the extent not covered by insurance) its officers and directors (and any Executive involved in carrying out the functions of Sprouts under the Plan) and each member of the HRCC and the Review Committee against any expenses, including amounts paid in settlement of a liability, which are reasonably incurred in connection with any legal action to which such person is a party by reason of his or her duties or responsibilities with respect to the Plan, except to the extent prohibited by law or to the extent such actions or inactions shall be adjudged as gross negligence, willful misconduct or fraud in the performance of his or her duties.

**Governing Law**. The Plan shall be construed, governed and administered in accordance with the laws of the State of Arizona, without regard to its conflict of law principles, to the extent such laws are not preempted by ERISA.

**Severability** . If any provision of the Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and such provision shall, to the extent possible, be modified in such manner as to be valid and enforceable but so as to most nearly retain the intent of Sprouts. If such modification is not possible, the Plan shall be construed and enforced as if such provision had not been included in the Plan.

**Notices** . Any notice required or permitted to be given under the provisions of the Plan shall be in writing. If a notice is mailed to an Eligible Executive, it shall be sent by United States first class mail, postage prepaid, addressed to the recipient's last known address as shown on Sprouts' records. The date of mailing shall be deemed the date of notice.

#### **ERISA PROVISIONS**

**Plan Name** . The Plan is known as the Sprouts Farmers Market, Inc. Executive Severance and Change in Control Plan.

**Plan Sponsor and Employer Whose Executives are Covered by the Plan** .

Sprouts Farmers Market, Inc.  
5455 E. High Street, Suite 111  
Phoenix, AZ 85054

**Employer Identification Number** . Sprouts' Employer Identification Number is 32-0331600.

**Plan Number** . The three-digit number assigned to the Plan by Sprouts for identification purposes is 001.

**Type of Plan and Plan Administration** . The Plan is a severance pay plan, which is a welfare benefit plan under ERISA. Benefits are self-administered.

**Plan Administrator** . Sprouts is the Plan Administrator for purposes of ERISA, and its name, address and telephone number are as follows:

Sprouts Farmers Market, Inc.  
Attn: Sprouts Severance Plan Administrator  
5455 E. High Street, Suite 111  
Phoenix, AZ 85054  
(480) 814-8016

**Agent for Service of Legal Process** . The name and address of the designated agent for service of legal process under the Plan is:

Corporation Service Company  
2711 Centerville Rd., Suite 400  
Wilmington, DE 19801

Service of legal process may also be made on the Plan Administrator.

**Type of Funding and Contributions** . The Plan is unfunded and has no trust. Severance benefits will be paid from Sprouts' general assets.

**Plan Year** . For purposes of maintaining the Plan's fiscal records, the Plan year begins on January 1 and ends on December 31 of each calendar year.

**Statement of ERISA Rights** . Participants in the Plan are entitled to certain rights and protections under ERISA. ERISA provides that participants are entitled to:

Receive Information About Your Plan and Benefits

Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Executive Benefits Security Administration.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

#### Prudent Actions by Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of all Plan participants and beneficiaries. No one, including Sprouts or any other person, may fire any participant or otherwise discriminate against any participant in any way to prevent him or her from obtaining benefits or exercising his or her rights under ERISA.

#### Enforce Your Rights

If a participant's claim for benefits is denied or ignored, in whole or in part, the participant has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps a participant can take to enforce the above rights. For instance, if a participant requests a copy of Plan documents or the latest annual report from the Plan and does not receive them within 30 days, he or she may submit the claim to arbitration in accordance with the Mutual Binding Arbitration Agreement signed by the parties. In such a case, the arbitrator may require the Plan Administrator to provide the materials and pay the participant up to \$110 a day until he or she receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If a participant has a claim for benefits which is denied or ignored, in whole or in part, he or she may submit the claim to arbitration in accordance with the Mutual Binding Arbitration Agreement signed by the parties. If it should happen that Plan fiduciaries misuse the Plan's money, or if a participant is discriminated against for asserting his or her rights, he or she may seek assistance from the U.S. Department of Labor, or he or she may submit the claim to arbitration in accordance with the Mutual Binding Arbitration Agreement signed by the parties. The arbitrator will decide who should pay costs and legal fees. If the participant is successful, the arbitrator may order the person the participant has sued to pay these costs and fees. If the participant loses, the arbitrator may order him or her to pay these costs and fees, for example, if it finds that the participant's claim is frivolous.

#### Assistance with Your Questions

Any participant who has questions about the Plan should contact the Plan Administrator. Any participant who has any questions about this statement or about his or her rights under ERISA, or needs assistance in obtaining documents from the Plan Administrator, should contact the nearest Area Office of the Executive Benefits Security Administration, U.S. Department of Labor, listed in the telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. A participant may also obtain certain publications about his or her rights and responsibilities under ERISA by calling the publications hotline of the Executive Benefits Security Administration.

## AIRCRAFT PURCHASE AGREEMENT

This **AIRCRAFT PURCHASE AGREEMENT** (this “Agreement”) is entered into and effective on the 3<sup>rd</sup> day of November 2015, by and between SPROUTS FARMERS MARKETS HOLDINGS, LLC, a limited liability company organized and existing under the laws of the State of Delaware (“Purchaser”), and CJ LEASING SERVICES LLC, a limited liability company organized and existing under the laws of California (“Seller”).

### W I T N E S S E T H:

**WHEREAS**, Seller owns the Aircraft described and referred to herein;

**WHEREAS**, Purchaser desires to purchase the Aircraft from Seller; and

**WHEREAS**, Purchaser and Seller now desire to enter into this Agreement for the purpose of setting forth all of the terms and conditions pursuant to which Purchaser shall buy and accept and Seller shall cause the sale and delivery of the Aircraft.

**NOW, THEREFORE**, in consideration of these premises and the mutual covenants and agreements herein contained, the Parties agree as follows:

### ARTICLE I. DEFINITIONS

1.1 The following terms shall have the following meanings for all purposes of this Agreement:

**“Aircraft”** means the Airframe, the Engines, the Parts, the Ancillary Items, and the Aircraft Documents.

**“Aircraft Documents”** means a current and valid United States Standard Airworthiness Certificate, and all logbooks, manuals, and maintenance records pertaining to the Airframe, or the Engines that are in Seller’s possession.

**“Airframe”** means that certain Cessna 525C aircraft bearing U.S. registration number N601FM, and manufacturer’s serial number 525C0148, together with any and all Parts incorporated or installed in or attached thereto.

**“Ancillary Items”** means all equipment of whatever nature including without limitation engine covers and loose equipment that is associated with the Airframe or the Engines and that is in Seller’s possession.

**“Business Day”** means any day of the year in which banks are not authorized or required to close in New York City, New York.

**“Cape Town Treaty”** means collectively the Convention on International Interests in Mobile Equipment, the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment, the Regulations for the International Registry, and the International Registry Procedures, together with all other rules, amendments, supplements, and revisions thereto.

**“Closing”** means the consummation of the purchase and sale transaction contemplated by this Agreement.

**“Closing Date”** has the meaning ascribed to the term in Section 3.1.

**“Delivery Location”** means Scottsdale, Arizona or another mutually agreed-upon location within the 48 contiguous United States.

**“Delivery Receipt”** means an Aircraft Delivery Receipt in the form of Exhibit A attached hereto.

**“Engines”** means two (2) Williams FJ44-4A engines bearing manufacturer’s serial numbers 211308 and 211309, together with any and all Parts incorporated or installed in or attached thereto.

**“Escrow Agent”** means Insured Aircraft Title Service, Inc.

**“Escrow and Title Search Fee”** means the amount of five thousand, five hundred United States Dollars (USD\$5,500), inclusive of International Registry search and registration charges other than fees and charges for a Party to register as a Transacting User Entity which shall be borne by such Party.

**“Event of Default”** has the meaning ascribed to the term in Section 7.5.1.

**“FAA”** means the Federal Aviation Administration.

**“FAA Bill of Sale”** means an FAA Aeronautical Center Form 8050-2 Aircraft Bill of Sale, a copy of which is attached hereto as Exhibit B.

**“FAA Civil Aviation Registry”** means the FAA Civil Aviation Registry, Aircraft Registration Branch, Mike Monroney Aeronautical Center, 6500 South MacArthur Boulevard, Oklahoma City, Oklahoma 73169.

**“International Registry”** means the International Registry of Mobile Assets established pursuant to the Cape Town Treaty.

**“Lien”** means any lien, mortgage, security interest, lease or other charge or encumbrance or claim or right of others, including, without limitation, rights of others under any engine or parts interchange, loan, lease, or pooling agreement.

**“Lien Holder”** means any person, corporation, limited liability company or other entity possessing a Lien interest in the Aircraft.

**“Lien Release”** means a document in form acceptable to Purchaser which, when filed in the records of the FAA Civil Aviation Registry, will cause a recorded Lien affecting the Aircraft to be terminated and released.

**“Parties”** means Purchaser and Seller collectively.

**“Parts”** means all appliances, components, parts, avionics, instruments, appurtenances, accessories, furnishings or other equipment of whatever nature (other than a complete Engine or engine) incorporated or installed in or attached to the Airframe or any Engine.

**“Party”** means a party to this Agreement.

**“Professional User”** and **“Professional User Entity”** have the meanings ascribed to the terms in Section 2.1.6 of the Registry Regulations.

**“Purchase Price”** means the amount of Seven Million Five Hundred Thousand United States Dollars (US\$7,500,000.00).

**“Registry Regulations”** means the Regulations for the International Registry, which may be obtained online through the International Registry’s website at <https://www.internationalregistry.aero>.

**“Transacting User”** and **“Transacting User Entity”** have the meanings ascribed to the terms in Section 2.1.11 of the Registry Regulations.

**“Warranty Bill of Sale”** means the form of Warranty Bill of Sale attached hereto as Exhibit C.

## **ARTICLE II. AGREEMENT TO BUY AND SELL**

- 2.1 **Agreement to Sell and Buy** . For and in consideration of the Purchase Price, and subject to the terms and conditions set forth herein, Seller hereby agrees to sell and deliver the Aircraft to Purchaser, and Purchaser hereby agrees to purchase and accept delivery of the Aircraft from Seller.
- 2.2 **Escrow Agent** . The Parties hereby agree to appoint Escrow Agent as document holder and stakeholder for the sale and purchase of the Aircraft. Purchaser and Seller shall each pay one-half (½) of the Escrow and Title Search Fees.

## **ARTICLE III. CLOSING AND CLOSING PROCEDURES**

- 3.1 **Date and Time of Closing** . The Closing shall occur at or about 10:00 a.m. PST on the 3<sup>rd</sup> Business Day after Purchaser confirms that the pre-closing deliveries specified in Section 3.2 below have been delivered, unless another date and time shall be mutually agreed upon by the Parties (such date being the “Closing Date”).
- 3.2 **Pre-Closing Deliveries** .
- 3.2.1 Prior to the Closing, Escrow Agent shall prepare and deliver to Purchaser and Seller title reports for the Airframe and each Engine, which reports shall include relevant information from both the FAA Civil Aviation Registry and the International Registry.
  - 3.2.2 Prior to the Closing, Seller shall deliver to the Escrow Agent an undated, but otherwise fully executed, FAA Bill of Sale, and Warranty Bill of Sale.
  - 3.2.3 Prior to the Closing, Seller shall cause each Lien Holder, if any, to deliver each of the following to the Escrow Agent:
    - 3.2.3.1 An undated, but otherwise fully executed Lien Release which, when filed in the FAA Civil Aviation Registry, will cause such Lien Holder’s Lien on the Aircraft to be terminated and released.

- 3.2.3.2 A written statement indicating the total amount in United States Dollars that must be paid to such Lien Holder to secure the release and termination of such Lien Holder's Lien.
- 3.2.3.3 Wiring instructions for payment of such amount.
- 3.2.4 Prior to the Closing, Purchaser shall deliver each of the following to the Escrow Agent:
  - 3.2.4.1 An undated Delivery Receipt for the Aircraft, undated but otherwise fully executed (except that hours, landings and cycle data may be left blank).
  - 3.2.4.2 Funds in an amount equal to the sum of the Purchase Price.
- 3.2.5 Prior to the Closing, Seller shall position the Aircraft at the Delivery Location.
- 3.2.6 If requested by Purchaser under Section 3.6.1, prior to the Closing, Seller and Purchaser shall each register as a Transacting User Entity with the International Registry and shall each appoint an Administrator; and the Administrator for each of Seller and Purchaser shall appoint the Escrow Agent as their Professional User Entity with the International Registry for purposes of registering contracts of sale regarding the Airframe and each Engine in favor of Purchaser, and any other related actions.
- 3.3 **Conditions Precedent to Seller's Obligations** . Seller's obligation to sell and deliver the Aircraft to Purchaser on the Closing Date shall be subject to the following conditions precedent:
  - 3.3.1 At the time of Closing, Purchaser shall not be in breach or default of any of Purchaser's obligations arising under this Agreement.
  - 3.3.2 At the time of Closing, all of Purchaser's representations set forth in Section 4.2 shall be true and accurate.
  - 3.3.3 Prior to the Closing, Purchaser shall have delivered to the Escrow Agent an undated, but otherwise fully executed Delivery Receipt (except that hours, landings and cycle data may be left blank), and the Purchase Price.
  - 3.3.4 If requested by Purchaser under Section 3.6.1, prior to the Closing, Purchaser shall have registered as a Transacting User Entity with the International Registry and shall have appointed an Administrator; and Purchaser's Administrator shall have appointed the Escrow Agent as Purchaser's Professional User Entity with the International Registry.
  - 3.3.5 Purchaser shall, at its cost, be permitted to carry out a pre-purchase inspection of the Aircraft , the scope of which shall be limited to an Aircraft and records survey, a borescope of the engines and a test flight (collectively, the "Inspection") to be conducted at Cessna Citation Service Center, Mesa, Arizona or other mutually acceptable inspection facility ("Inspection Facility"). All expenses for the Inspection including the direct costs of the test flight (which shall equal the actual fuel cost and direct crew charges subject to the limits on the amount of reimbursements as set forth by FAR 91.501) shall be at the Purchaser's sole expense. During any test flight, care, custody, command and control of the Aircraft shall at all times remain with Seller, through Seller's pilot or a pilot that is acceptable to Seller, in Seller's sole discretion. The Inspection shall be completed within 10 business days of the date first above written (unless another date and time shall be mutually agreed upon by the Parties). Purchaser shall notify Seller of its acceptance or rejection no later than 24 hours following the completion of the Inspection. Provided that Purchaser timely provides its acceptance of the Aircraft ("Technical Acceptance") then Seller shall be responsible for the cost of the correction of all airworthiness discrepancies identified during the Inspection by the Inspection Facility ("Discrepancies"), unless otherwise agreed upon in writing between the Purchaser and Seller. The parties hereto agree that any items which are not Discrepancies shall be the sole responsibility of Purchaser.
- 3.4 **Conditions Precedent to Purchaser's Obligations** . Purchaser's obligation to purchase and accept delivery of the Aircraft from Seller on the Closing Date shall be subject to the following conditions precedent:
  - 3.4.1 At the time of Closing, Seller shall not be in breach or default of any of Seller's obligations arising under this Agreement.
  - 3.4.2 At the time of Closing, all of Seller's representations set forth in Section 4.1 shall be true and accurate.
  - 3.4.3 Prior to the Closing, Seller shall have delivered to the Escrow Agent an undated, but otherwise fully executed, FAA Bill of Sale, and Warranty Bill of Sale.
  - 3.4.4 Prior to the Closing, Seller shall have caused each Lien Holder to deliver to the Escrow Agent an undated, but otherwise fully executed Lien Release, together with a written statement indicating the total amount in United States Dollars that must be paid to such Lien Holder to secure the release and termination of such Lien Holder's Lien, and wiring instructions for payment of such amount.

- 3.4.5 If requested by Purchaser under Section 3.6.1, prior to the Closing, Seller shall have registered as a Transacting User Entity with the International Registry and shall have appointed an Administrator; and Seller's Administrator shall have appointed the Escrow Agent as Seller's Professional User Entity with the International Registry.
- 3.4.6 Seller shall repair at its cost, all Discrepancies reported by the Inspection Facility.
- 3.5 **Closing** . Subject to the condition that all the Conditions Precedent set forth in Section 3.3 and Section 3.4 have been satisfied or waived, at the date and time of the Closing determined in accordance with Section 3.1, the Parties shall perform the following actions, all of which collectively shall constitute the Closing:
- 3.5.1 Seller shall deliver the Aircraft to Purchaser at the Delivery Location at Seller's expense. The Aircraft shall be in an airworthy condition, with no known damage history other than as disclosed to Purchaser. All aircraft systems must be functioning within normal limits and current on its maintenance with all airworthiness directives and mandatory service bulletins accomplished at a certified Cessna Aircraft Service Center. If applicable, Seller shall also deliver assign and transfer any and all manufacture warranty contracts and maintenance and service programs relating to the Aircraft or any equipment applicable thereto to the extent that such warranties and programs are assignable, including, without limitation, any ProParts or TAP Elite account balances.
- 3.5.2 Purchaser shall accept delivery of the Aircraft from Seller at the Delivery Location.
- 3.5.3 Seller and Purchaser shall commence a conference call with Escrow Agent, and each Lien Holder if applicable, during which Seller, Purchaser and such Lien Holder, as applicable, shall instruct the Escrow Agent to perform the following tasks:
- 3.5.3.1 Seller shall instruct the Escrow Agent to date and file the FAA Bill of Sale in the FAA Civil Aviation Registry; to discharge any registration with the International Registry by Seller of any international interest in the Aircraft; and to consent on behalf of Seller to Purchaser's registration with the International Registry of an international interest in the Aircraft.
- 3.5.3.2 Purchaser shall instruct the Escrow Agent to register an international ownership interest in the Aircraft in favor of Purchaser; to release to any Lien Holder that portion of the Purchase Price necessary to secure the release and termination of each Lien Holder's Lien in the Aircraft which exists as of the Closing Date; to date (and fill in any missing hours, landings and cycle data with date provided by Purchaser and Seller) and deliver the Delivery Receipt to Seller; and to release to Seller the Purchase Price, less the sum of (i) any amounts paid to any Lien Holders, and (ii) one-half of the Escrow and Title Search Fee which shall be retained by Escrow Agent.
- 3.5.3.3 Lien Holder, if any, shall instruct the Escrow Agent to date and file such Lien Holder's respective Lien Release; provided, however, that a Lien Holder need not participate in the Closing conference call if such Lien Holder has provided to Escrow Agent written instructions authorizing Escrow Agent to date and file such Lien Holder's respective Lien Release at the time of the Closing.
- 3.6 **International Registry Matters** .
- 3.6.1 If requested by the Purchaser in writing at least ten (10) Business Days prior to Closing, Seller shall apply to the International Registry for approval as a Transacting User Entity, and at or after the Closing Seller shall either provide its consent, or shall designate Escrow Agent as Seller's Professional User Entity for the purpose of providing consent, to the registration by Purchaser of a contract of sale evidencing the transfer of title to the Aircraft to Purchaser.
- 3.6.2 Purchaser shall have no right to, and hereby agrees that it will not, register, consent to or allow any third party to register any contract of sale, prospective contract of sale, international interest or prospective international interest under the Cape Town Treaty with respect to the airframe or the Engines on the Aircraft until after the Closing has been completed in accordance with the provisions of Section 3.5 and title to the Aircraft has been conveyed to Purchaser.
- 3.6.3 In the event that any contract of sale, prospective contract of sale, international interest or prospective international interest has been filed or registered against the Aircraft by Purchaser or any person claiming by, through, under or in connection with Purchaser in breach of Section 3.6.2, Purchaser shall discharge or cause the discharge of any such filing or registration immediately after written notice from Seller or the Escrow Agent to Purchaser. Purchaser agrees that Seller shall have all of the rights available to it under law or in equity, including the right of specific performance, to enforce Purchaser's performance of its obligations hereunder. Notwithstanding anything in this Agreement to the contrary, Purchaser agrees to be responsible for and upon demand to indemnify Seller for and to hold Seller harmless from and against any and all claims, demands, liabilities, damages, losses and judgments (including legal fees and all expenses) arising out of any breach by Purchaser of any of its obligations under this Section 3.6. This indemnity obligation shall survive the termination of this Agreement for any reason.

#### ARTICLE IV. REPRESENTATIONS AND WARRANTIES

**4.1 Seller's Representations and Warranties** . Seller hereby represents and warrants as follows:

- 4.1.1 Seller is a limited liability company duly formed, validly existing, and in good standing under the laws of the State of California, possessing perpetual existence as a legal entity, having the capacity to sue and be sued in its own name, having full power, legal right and authority to carry on its business as currently conducted, and to execute, deliver and perform the provisions of this Agreement.
- 4.1.2 The execution, delivery, and performance by Seller of its obligations under this Agreement, and the sale of the Aircraft, have been duly authorized by all necessary action on behalf of Seller and do not conflict with or result in any breach of any of the terms or constitute a default under any document, instrument, or agreement to which Seller is a party.
- 4.1.3 The person executing this Agreement on behalf of Seller has full power and authority to do so.
- 4.1.4 This Agreement constitutes the legal, valid and binding obligation of Seller and is enforceable against Seller in accordance with its terms.
- 4.1.5 Seller owns exclusive, legal, beneficial, good, and marketable title to the Aircraft, free and clear of all Liens.
- 4.1.6 At the time of the Closing, Seller shall convey to Purchaser exclusive, legal, beneficial, good, and marketable title to the Aircraft, free and clear of all Liens whatsoever.

**4.2 Purchaser's Representations and Warranties** . Purchaser hereby represents and warrants as follows:

- 4.2.1 Purchaser is a limited liability company duly formed, validly existing, and in good standing under the laws of the State of Delaware, possessing perpetual existence as a legal entity, having the capacity to sue and be sued in its own name, having full power, legal right and authority to carry on its business as currently conducted, and to execute, deliver and perform the provisions of this Agreement.
- 4.2.2 The execution, delivery, and performance by Purchaser of its obligations under this Agreement, and the acquisition of the Aircraft, have been duly authorized by all necessary action on behalf of Purchaser and do not conflict with or result in any breach of any of the terms or constitute a default under any document, instrument, or agreement to which Purchaser is a party.
- 4.2.3 The person executing this Agreement on behalf of Purchaser has full power and authority to do so.
- 4.2.4 This Agreement constitutes the legal, valid and binding obligation of Purchaser and is enforceable against Purchaser in accordance with its terms.

#### ARTICLE V. DISCLAIMER AND LIMITATION OF LIABILITY

- 5.1 PURCHASER ACKNOWLEDGES THAT THE AIRCRAFT IS BEING SOLD AND DELIVERED TO PURCHASER IN "AS IS, WHERE IS, AND WITH ALL FAULTS" CONDITION, AND THAT ALL DELIVERY CONDITIONS SPECIFIED IN THIS AGREEMENT SHALL EXPIRE AND BE OF NO FURTHER FORCE OR EFFECT AS OF THE CLOSING. SELLER DOES NOT MAKE, GIVE, OR EXTEND, AND PURCHASER HEREBY DISCLAIMS AND RENOUNCES, ANY AND ALL WARRANTIES OR REPRESENTATIONS OF ANY KIND OR NATURE WHATSOEVER, EXPRESS OR IMPLIED, WHETHER ARISING IN LAW, IN EQUITY, IN CONTRACT, OR IN TORT, AND INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY, AIRWORTHINESS, DESIGN, CONDITION, OR FITNESS FOR A PARTICULAR USE. IN NO EVENT MAY EITHER PARTY BE HELD LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES OF ANY KIND.

#### ARTICLE VI. TAXES AND EXPENSES

- 6.1 **Taxes** . Neither the Purchase Price of the Aircraft nor any other payments to be made by Purchaser under this Agreement includes, and Purchaser shall be responsible for, shall indemnify and hold harmless Seller against, and shall pay promptly when due, or shall provide Seller an appropriate certificate or affidavit in form and substance acceptable to Seller asserting and representing that Purchaser is entitled to an applicable exemption, exception, or exclusion from, any and all sales taxes, use taxes, retail taxes, excise taxes, or other taxes, duties, and fees of any and every kind or nature whatsoever that may be imposed on Purchaser, Seller, or both, by any federal, national, state, county, local, or other governmental authority, as a result of the sale or delivery of the Aircraft to, or the purchase, use, storage or other consumption of the Aircraft by, Purchaser, except solely for any taxes attributed to Seller's income. Purchaser's obligations under this Section 6.1 shall survive delivery and acceptance of the Aircraft.



- 6.2 **Transaction Costs and Expenses** . Except as otherwise expressly set forth herein, each Party shall be solely responsible for its own transactions costs and expenses associated with the transactions contemplated by this Agreement.

## ARTICLE VII. MISCELLANEOUS

- 7.1 **Termination Without Cause** . This Agreement may be terminated without cause at any time before the Closing only by the mutual written agreement of Seller and Purchaser. The rights of the Parties upon such termination shall be set forth in the mutual written agreement of Seller and Purchaser.
- 7.2 **Continuing Obligations** . Each Party shall take, or cause to be taken, such actions, and will execute and deliver, or cause to be executed and delivered, such additional documents and instruments, and will do, or cause to be done, all such actions as are necessary, convenient, proper, or advisable, prior to, in conjunction with, and after the Closing, to effectuate the transactions contemplated in this Agreement.
- 7.3 **Risk of Loss** . Seller shall bear all risk of loss, damage, or destruction of the Aircraft occurring prior to the Closing. Purchaser shall bear all risk of loss, damage, or destruction of the Aircraft occurring subsequent to the Closing. Notwithstanding any contrary provision of this Agreement, if at any time prior to the Closing the Aircraft is destroyed or damaged beyond economic repair, as determined by Seller and Purchaser in their mutual, reasonable discretion, this Agreement shall terminate and neither Party shall have any further obligation to the other.
- 7.4 **Defaults and Remedies** .
- 7.4.1 **Events of Default** . If any one or more of the following events of default (each an “Event of Default”) shall occur, then this Agreement may, at the option of the Party not in default, be terminated:
- 7.4.1.1 If Purchaser shall default in the due and punctual payment of any sum due to Seller, which default shall continue for three (3) days after Seller’s delivery of written notice of default.
- 7.4.1.2 If either Party shall default in the performance of any of the provisions contained in this Agreement, which default shall continue for ten (10) days after receipt of written notice of default by the defaulting Party.
- 7.4.1.3 If either Party shall file a voluntary petition in bankruptcy, or shall be adjudicated as bankrupt, or insolvent, or shall file any petition or answer seeking any reorganization, composition, readjustment, liquidation or similar relief for itself under any present or future statutes, law or regulation, or shall seek or consent to or acquiesce in, the appointment of any trustee, or shall make any general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due.
- 7.4.1.4 If a petition shall be filed against either Party seeking any reorganization, composition, readjustment, liquidation or similar relief under any present or future statute, law or regulation, and shall remain undismissed or unstayed for an aggregate of sixty (60) days (whether or not consecutive), or if any trustee, receiver or liquidator of either Party is appointed, which appointment shall remain unvacated, or unstayed for an aggregate of sixty (60) days (whether or not consecutive).
- 7.4.2 **Purchaser’s Remedies** . Upon the occurrence of an Event of Default by Seller, and provided Purchaser is not then in breach or default of this Agreement, Purchaser shall have the option to terminate this Agreement by written notice to Seller, and Seller shall reimburse Purchaser for its costs directly related to the Inspection.
- 7.4.3 **Seller’s Remedies** . Upon the occurrence of an Event of Default by Purchaser, and provided Seller is not then in breach or default of this Agreement, Seller shall have the option to terminate this Agreement by written notice to Purchaser and Escrow Agent.
- 7.4.4 **Exclusive Remedies** . Upon an Event of Default, the termination of this Agreement and payment of obligations expressly stated in this Agreement are intended to be exclusive of any other remedy existing at law or in equity or by statute or otherwise. Purchaser shall file no lien or contract of sale for the Aircraft on the International Registry prior to Closing and in no event may either Party bring an action for specific performance or damages in excess of obligations expressly stated in this Agreement, provided this limitation of damages shall not apply to a breach of Seller’s representations set forth in Section 4.1.5, 4.1.6 or the Warranty Bill of Sale.
- 7.5 **Amendments** . The provisions of this Agreement may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by both parties hereto.

- 7.6 **Severability** . Any provision of this Agreement that may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.
- 7.7 **Assignment** . Neither Party may assign any of its rights or delegate any of its obligations hereunder without the prior written consent of the other Party; provided that Purchaser may, at any time, assign its rights or delegate its obligations hereunder to a subsidiary of Purchaser.
- 7.8 **Successor and Assigns** . This Agreement shall inure to the benefit of and be binding upon each of the Parties hereto and their respective successors and assigns.
- 7.9 **Headings and References** . The division of this Agreement into sections, and the insertion of headings, are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- 7.10 **Counterparts** . This Agreement may be fully executed in two (2) or more separate counterparts by each of the Parties hereto, both such counterparts together constituting but one and the same instrument. Such counterparts may be exchanged via facsimile transmission (or similar electronic means) provided that immediately following such transmission, each Party shall forward an executed original copy of the counterpart to the other Party by first class mail or courier.
- 7.11 **Notices** . All communications, declarations, demands, consents, directions, approvals, instructions, requests and notices required or permitted by this Agreement shall be in writing and shall be deemed to have been duly given or made when delivered personally, or in the case of documented overnight delivery service or registered or certified mail, return receipt requested, delivery charge or postage prepaid, on the date shown on the receipt therefor, in each case at the address set forth below:

If to Purchaser: Sprouts Farmers Markets Holdings, LLC  
c/o Sprouts Famers Market, Inc.  
5455 E. High Street #111  
Phoenix, AZ 85054  
Attn: General Counsel  
Fax: (480) 339-5997

If to Seller: CJ LEASING SERVICES LLC  
8193 Run of the Knolls  
San Diego, CA 92127  
Attn: Mr. Shon Boney

with a copy to: Procopio, Cory, Hargreaves & Savitch LLP  
12544 High Bluff Drive, Suite 300  
San Diego, CA 92130  
Attn: Eli Mansour  
Tel: (858) 720-6336  
Fax: (858) 523-4310

If to Escrow Agent: Insured Aircraft Title Service, Inc.  
4848 S.W. 36th Street  
Oklahoma City, OK 73179  
Attn: Kirk Woford  
Tel: (405) 681-6663

Seller shall provide to Purchaser a copy of all communications, declarations, demands, consents, directions, approvals, instructions, requests and notices sent by Seller to Escrow Agent, and Purchaser shall provide to Seller a copy of all communications, declarations, demands, consents, directions, approvals, instructions, requests and notices sent by Purchaser to Escrow Agent.

- 7.12 **Attorney Fees** . In the event it becomes necessary to enforce the terms of this Agreement by litigation or otherwise, the prevailing Party shall be entitled to recover its reasonable attorney fees and court costs, including any such fees or costs arising from subsequent appeals and efforts to execute on any judgment.

- 7.13 **Non-Waiver** . Any failure at any time of either Party to enforce any provision of this Agreement shall not constitute a waiver of such provision or prejudice the right of such Party to enforce such provision at any subsequent time.
- 7.14 **Entire Agreement** . The Parties agree that the terms and conditions of this Agreement constitute the entire agreement between the Parties. This Agreement supersedes all prior agreements between the Parties, express or implied.
- 7.15 **Brokers Fees and Expenses** . Seller agrees to indemnify and hold Purchaser harmless from and against any claims made by any broker or other party claiming an interest in the Aircraft or the Purchase Price arising from an actual or alleged relationship or agreement with Seller. Purchaser agrees to indemnify and hold Seller harmless from and against any claims made by any broker or other party claiming an interest in the Aircraft or the Purchase Price arising from an actual or alleged relationship or agreement with Purchaser.
- 7.16 **Force Majeure** . Seller shall not be liable for any failure of or delay in the delivery of the Aircraft to Purchaser, for the period that such failure or delay is due to acts of god or the public enemy; war, insurrection or riots; fires, governmental actions; strikes or labor disputes; inability to obtain Aircraft materials, accessories, equipment, or parts from the vendors; or any other cause beyond Seller's absolute control. Upon the occurrence of any such event, the time require for performance by Seller of its obligations arising under this Agreement shall be extended by a period equal to the duration of such event.
- 7.17 **Time is of the Essence** . Time shall be of the essence for all events contemplated hereunder.
- 7.18 **Agreement Negotiated** . The parties to this Agreement are sophisticated and have been represented or had the opportunity to be represented in connection with the negotiation and performance of this Agreement. The parties agree that no presumptions relating to the interpretation of contracts against the drafter of any particular clause should or may be applied in this case and, therefore, waive their effects.
- 7.19 **Confidentiality** . The terms and conditions of this Agreement, and all writings, discussions, and negotiations in connection with the transaction contemplated by this Agreement (including, without limitation, the fact that discussions and negotiations have been conducted by the parties), shall remain strictly confidential and shall not be disclosed by either party, without the prior written consent of the other party, except that (1) each party shall be entitled to disclose the terms and conditions of this Agreement to such party's attorneys, accountants, consultants, and other advisors performing services for such party with respect to or affected by the transaction contemplated by this Agreement; and (2) Purchaser shall be entitled to publicly disclose the terms and conditions of this Agreement as may be required in its parent company's filings with the Securities and Exchange Commission, or as otherwise required by applicable laws, rules or regulations.
- 7.20 **1031 Exchange** . Seller and/or Purchaser may intend to exchange other aircraft of like kind for the Aircraft within the meaning of Section 1031 of the Internal Revenue Code, as amended, and hereby reserve the right to assign their respective rights and interests, but not their obligations, hereunder to a qualified intermediary as provided in Reg. 1.1031 (k)-1(g)(4) on or before the Closing Date and the other party hereby consents to any such assignment. The Parties shall cooperate in order to complete a qualifying like kind exchange, provided that the other Party shall incur no additional liability, cost or expense to do so.

#### ARTICLE VIII. GOVERNING LAW AND DISPUTES

- 8.1 **Governing Law** . This Agreement has been negotiated and delivered in the State of California and shall in all respects be governed by, and construed in accordance with, the laws of the State of California, including all matters of construction, validity and performance, without giving effect to its conflicts of law provisions.
- 8.2 **Jurisdiction and Venue** . Exclusive jurisdiction and venue over any and all disputes between the Parties arising under this Agreement shall be in, and for such purpose each Party hereby submits to the jurisdiction of, the state and federal courts serving the State of California.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**IN WITNESS WHEREOF** , the undersigned Parties have caused this **Aircraft Purchase Agreement** to be executed, delivered and effective as of the date first above written.

**Seller:**

CJ LEASING SERVICES LLC

By: /s/ Shon Boney

Print: Shon Boney

Title: Manager

**Purchaser:**

SPROUTS FARMERS MARKETS HOLDINGS, LLC

By: /s/ Amin Maredia

Print: Amin Maredia

Title: CEO

[Signature Page to Aircraft Purchase Agreement]

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## CONSENT AND JOINDER

Purchaser and Seller have appointed Escrow Agent as document holder and stakeholder for the sale and purchase of the Aircraft, and the Escrow Agent accepts such appointment for and in consideration of the Escrow and Title Search Fee. The Parties acknowledge that the Escrow Agent is acting as a document holder and stakeholder only, its duties being purely ministerial, at their request and for their convenience, that the Escrow Agent shall not be deemed to be the agent or trustee for either of the Parties, and that the Escrow Agent shall not be liable to either of the Parties for any act or omission unless it involves willful misconduct or gross negligence on its part. Purchaser and Seller shall each pay one-half (½) of the Escrow and Title Search Fee.

The undersigned does hereby consent to and join in the foregoing Agreement hereby agreeing to act as Escrow Agent in accordance with the provisions of the Agreement applicable to the Escrow Agent.

**Insured Aircraft Title Service, Inc.**

By: /s/ Kirk Woford  
Print: Kirk Woford  
Title: President

[Signature Page to Aircraft Purchase Agreement]

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Amin N. Maredia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2015

/s/ Amin N. Maredia

Amin N. Maredia  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Susannah Livingston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2015

/s/ Susannah Livingston

Susannah Livingston

Interim Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended September 27, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amin N. Maredia, Chief Executive Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2015

/s/ Amin N. Maredia

Amin N. Maredia

Chief Executive Officer

(Principal Executive Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended September 27, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susannah Livingston, Interim Chief Financial Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2015

/s/ Susannah Livingston

Susannah Livingston

Interim Chief Financial Officer

(Principal Financial Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.