

Natural Grocers by Vitamin Cottage, Inc.  
Form DEF 14A  
January 16, 2015  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**Natural Grocers by Vitamin Cottage, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:

(4)

Date Filed:

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**NATURAL GROCERS BY VITAMIN COTTAGE, INC.**

**12612 West Alameda Parkway**

**Lakewood, Colorado 80228**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on March 4, 2015**

To the Stockholders of Natural Grocers by Vitamin Cottage, Inc.

You are cordially invited to attend the 2015 Annual Meeting of Stockholders of Natural Grocers by Vitamin Cottage, Inc., a Delaware corporation (the Company). The meeting will be held on Wednesday, March 4, 2015, at 1:00 p.m. local time, in our Home Office Auditorium located at 12612 West Alameda Parkway, Lakewood, Colorado 80228 for the following purposes:

1. To elect the three Class III director nominees named in the Proxy Statement accompanying this Notice to serve on our Board of Directors (our Board) for three-year terms ending at the 2018 Annual Meeting of Stockholders.
2. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for our fiscal year ending September 30, 2015.
3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice. The record date for the 2015 Annual Meeting of Stockholders is January 7, 2015. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof. We are furnishing our proxy materials to all of our stockholders over the Internet, consistent with the Securities and Exchange Commission rule permitting us to do so, rather than in paper form in order to reduce our environmental impact and lower the costs of printing and distributing our proxy materials. We mailed our Notice Regarding the Availability of Proxy Materials on January 16, 2015. You may access our Proxy Statement and Annual Report to Stockholders for the fiscal year ended September 30, 2014 at <http://www.astproxyportal.com/ast/18556/> by following the instructions found on the Notice Regarding the Availability of Proxy Materials mailed to you. Our Annual Report to Stockholders contains financial and other information about us, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

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By Order of the Board

/s/ HEATHER ISELY  
Heather Isely

*Corporate Secretary*

Lakewood, Colorado

January 16, 2015

**You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote over the telephone or the Internet, as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. You may request paper copies of this Proxy Statement and the related proxy materials up to 14 days prior to the 2015 Annual Meeting of Stockholders by contacting our Corporate Secretary, Heather Isely, at 12612 West Alameda Parkway, Lakewood, Colorado 80228, and we will furnish the proxy materials to you within three business days. Even if you have voted by proxy, you may still vote in person if you attend the meeting.**

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**12612 West Alameda Parkway**

**Lakewood, Colorado 80228**

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**NATURAL GROCERS BY VITAMIN COTTAGE, INC.**

**12612 West Alameda Parkway**

**Lakewood, Colorado 80228**

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**PROXY STATEMENT**

**For the Annual Meeting of Stockholders**

**To Be Held on March 4, 2015**

*Except where the context otherwise requires or where otherwise indicated, all references herein to we, us, our, Natural Grocers, and the Company refer collectively to Natural Grocers by Vitamin Cottage, Inc., a Delaware corporation, and its consolidated subsidiaries.*

**Why did I receive a notice regarding the availability of proxy materials on the Internet?**

Under rules adopted by the United States Securities and Exchange Commission (the SEC), we are furnishing proxy materials to many of our stockholders on the Internet, rather than mailing printed copies of those materials to each stockholder. We sent a Notice of Internet Availability of Proxy Materials (the Notice) on January 16, 2015 to our stockholders of record as of January 7, 2015 (the Record Date) in connection with the solicitation of proxies by Natural Grocers by Vitamin Cottage, Inc., for use at the 2015 Annual Meeting of Stockholders or at any adjournments or postponements thereof (the Annual Meeting). All stockholders will have the ability to access our proxy materials on the Internet or to request a printed set of the proxy materials. You will not receive a printed copy of the proxy materials unless you request one. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice.

**When and where will the Annual Meeting be held?**

The Annual Meeting will be held on March 4, 2015, at 1:00 p.m. local time, in our Home Office Auditorium located at 12612 West Alameda Parkway, Lakewood, Colorado 80228. Directions to the Annual Meeting may be found at <http://investors.naturalgrocers.com/proxy notices>.

**What are the purposes of the Annual Meeting?**

The purposes of the Annual Meeting are to:

- elect the three Class III director nominees named herein to serve on our Board of Directors (our Board ) for three-year terms ending at the 2018 Annual Meeting of Stockholders;
- ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for our fiscal year ending September 30, 2015; and
- conduct any other business properly brought before the meeting.

**Who may vote at the Annual Meeting?**

Only stockholders of record at the close of business on the Record Date will be entitled to receive notice of and to vote at the Annual Meeting. As of the Record Date, 22,487,600 shares of common stock, \$0.001 par value per share, of the Company (the Common Stock ) were issued and outstanding. Stockholders are entitled to one vote for each share of Common Stock held as of the Record Date on any proposal presented at the Annual Meeting.

**How do I vote?**

*Stockholders of Record.* If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC ( AST ), you are considered a stockholder of record with respect to those shares, and the Notice has been sent directly to you. Please carefully consider the information contained in this Proxy Statement. Whether or not you plan to attend the meeting, we urge you to follow the instructions provided to you regarding how to vote so that we can be assured of having a quorum present at the meeting and so that your shares may be voted in accordance with your wishes even if you later decide not to attend the Annual Meeting. You may vote on the Internet at [www.voteproxy.com](http://www.voteproxy.com) by using the procedures and instructions described in the Notice. You may vote by telephone by calling 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 in foreign countries. You will need a touch tone telephone to vote by

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phone. Both Internet and telephone voting provide easy-to-follow instructions and have procedures designed to authenticate your identity and permit you to confirm that your voting instructions are accurately reflected. You may vote by mail by completing and mailing in a paper proxy card, which you must request by following the instructions contained in the Notice. If you attend the Annual Meeting, you may vote in person even if you have previously voted by phone or via the Internet or returned a proxy card by mail, and your in-person vote will supersede any vote previously cast.

*Street Name Holders.* If, like many stockholders of the Company, you hold your shares in street name through a broker, bank or other nominee rather than directly in your own name, you are considered the beneficial owner of those shares, and the Notice is being forwarded to you by your broker, bank or other nominee. Please carefully consider the information contained in this Proxy Statement and, whether or not you plan to attend the meeting, vote by one of the methods permitted by your bank or broker so that we can be assured of having a quorum present at the meeting and so that your shares may be voted in accordance with your wishes even if you later decide not to attend the Annual Meeting. Street name holders must follow voting instructions from their banks or brokers and may be able to vote by Internet or telephone if their banks or brokers make those methods available. If you are a street name holder and you wish to cast a vote in person at the meeting, you must contact your bank or broker to vote or obtain a proxy to vote your shares at the meeting.

**How can I revoke a previously submitted proxy?**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by: (a) filing with the Corporate Secretary of the Company, before the taking of the vote at the Annual Meeting, a written notice of revocation bearing a date later than the proxy; (b) properly casting a new vote via the Internet or by telephone at any time before the closure of the Internet or telephone voting facilities; (c) duly completing a later-dated proxy relating to the same shares and delivering it to the Corporate Secretary of the Company before the taking of the vote at the Annual Meeting; or (d) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy). If you are a street name holder, you must contact your brokerage firm or bank to change your vote or obtain a proxy to vote your shares if you wish to cast your vote in person at the meeting. Any written notice of revocation or subsequent proxy should be delivered to Natural Grocers by Vitamin Cottage, Inc., 12612 West Alameda Parkway, Lakewood, Colorado 80228, Attention: Heather Isely, Corporate Secretary, before the taking of the vote at the Annual Meeting.

**Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

**How many shares must be present at the Annual Meeting?**



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The representation in person or by proxy of at least a majority of the voting power of the outstanding shares of Common Stock entitled to vote on the business properly brought before the Annual Meeting is necessary to constitute a quorum for the transaction of business. Abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the Annual Meeting. A broker non-vote occurs when the entity holding shares in street name has not received voting instructions from the beneficial owner and either chooses not to vote those shares on a routine matter at the stockholders meeting or is not permitted to vote those shares on a non-routine matter.

### **How many votes are required to approve each proposal?**

For Proposal 1, the election of Class III directors, directors are elected by a plurality of the votes cast, either in person or represented by proxy. Therefore, the three director nominees who receive the greatest number of affirmative votes will be elected as directors. Cumulative voting by stockholders will not be permitted in the election of directors.

For Proposal 2, the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ended September 30, 2015 (fiscal 2015), an affirmative vote of a majority of the shares present, in person or represented by proxy, and voting on such matter is required for approval. While we are seeking stockholder approval as a matter of good governance, we are not required to do so. If the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2015 is not ratified by the stockholders, the adverse vote will be considered a direction to our audit committee to consider another independent registered public accounting firm for the next

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fiscal year. However, because of the difficulty in making any substitution of our independent registered public accounting firm so long after the beginning of the current fiscal year, the appointment for fiscal 2015 will stand, unless the audit committee finds other good reason for making a change.

The vote on each matter submitted to stockholders is tabulated separately. AST will tabulate the votes. Abstentions and broker non-votes are not considered voted for the particular matter and have the effect of reducing the number of affirmative votes required to achieve a majority for such matter by reducing the total number of shares from which the majority is calculated.

**How will executed proxies or shares held in street name be voted?**

All properly executed proxies submitted in time to be counted at the Annual Meeting will be voted at the Annual Meeting. Where a choice has been specified on the proxy with respect to the foregoing matters, the shares represented by the proxy will be voted in accordance with the specifications.

If you hold your shares in street name, you will receive instructions from your bank, broker or other nominee describing how to vote your shares. If you do not instruct your bank, broker or other nominee how to vote your shares, it may vote your shares as it decides as to each matter for which it has discretionary authority under the rules of the New York Stock Exchange ( NYSE ).

There are also non-discretionary matters for which banks, brokers and other nominees do not have discretionary authority to vote unless they receive timely instructions from you. When a bank, broker or other nominee does not have discretion to vote on a particular matter, you have not given timely instructions on how the bank, broker or other nominee should vote your shares, and the bank, broker or other nominee indicates it does not have authority to vote such shares on its proxy, a broker non-vote results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters.

Abstentions occur when stockholders are present at the Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which stockholders are voting.

If your shares are held in street name and you do not give voting instructions, the record holder, pursuant to Rule 452 of the NYSE, will not be permitted to vote your shares with respect to Proposal 1 (Election of Directors), and your shares will be considered broker non-votes with respect to this proposal. If your shares are held in street name and you do not give voting instructions, the record holder will nevertheless be entitled to vote your shares with respect to Proposal 2 (the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2015) in the discretion of the record holder.

**Is there other business to come before the Annual Meeting?**

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Aside from the election of directors and the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2015, the Board knows of no other matters to be presented at the Annual Meeting. If any other matter should be presented at the Annual Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board will be voted with respect thereto in accordance with the judgment of the persons named as attorneys-in-fact in the proxies.

### **How does the Board recommend that I vote?**

The Board unanimously recommends that you vote FOR the election of the three director nominees and FOR ratification of the appointment of KPMG LLP.

### **When are stockholder proposals due for next year's Annual Meeting?**

Pursuant to the various rules promulgated by the SEC, to be considered for inclusion in next year's proxy materials, you must follow the procedures set forth in Rule 14a-8 under the Exchange Act of 1934, as amended (the Exchange Act), and your proposal must be submitted in writing by September 19, 2015 to our Corporate Secretary at 12612 West Alameda Parkway, Lakewood, Colorado 80228. In addition to the requirements of the Exchange Act, if you wish to submit a nomination or proposal to be properly brought before the 2016 Annual Meeting of Stockholders that is not to be included in next year's proxy materials, you must comply with the advance notice provisions of our bylaws by giving timely notice in

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proper written form to our Corporate Secretary not less than 90 days nor more than 120 days prior to the anniversary of the 2015 Annual Meeting. The anniversary of the 2015 Annual Meeting will be March 4, 2016. Thus, you must submit such nomination or proposal no later than December 5, 2015 and no earlier than November 5, 2015.

**How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. In addition, final voting results will be published in a Current Report on Form 8-K that we expect to file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K within four business days after the meeting, we intend to file a Current Report on Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Current Report on Form 8-K to publish the final results.

**PROPOSAL 1 ELECTION OF CLASS III DIRECTORS**

Our Board currently consists of seven members. Our certificate of incorporation and bylaws divide our Board into three classes. One class is elected each year for a term of three years.

Our bylaws further provide that our Board will consist of a number of directors to be fixed from time to time by a resolution of the Board. Any increase or decrease in the number of directors must be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

The following table sets forth the class of which each member of the Board is a member, the year in which he or she first became a director, and whether or not he or she is independent, as defined under the rules of the NYSE. The sections of this Proxy Statement below entitled Executive Officers and Directors and Corporate Governance provide additional detail about the Board and its committees and our corporate governance.

<b>Class</b>	<b>Director's Name and Year First Became a Director</b>	<b>Independent</b>
Class I (term expires 2016)	Richard Hallé (2012)	Yes
	Elizabeth Isely (2012)	No
Class II (term expires 2017)	Michael T. Campbell (2012)	Yes
	Zephyr Isely (2012)	No
Class III (term expires 2015)	Heather Isely (2012)	No
	Kemper Isely (2012)	No
	Edward Cerkovnik (2013)	Yes

**Election of Three Class III Directors**

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The terms of our Class III directors will expire at the Annual Meeting. Accordingly, Ms. Heather Isely, Mr. Kemper Isely and Mr. Cerkovnik are standing for re-election to the Board as Class III directors.

The Board has nominated Ms. Heather Isely, and recommended that Ms. Heather Isely be re-elected to the Board as a Class III director, to hold such position until the annual meeting of stockholders to be held in the year 2018 and until her successor has been duly elected and qualified or until her earlier death, resignation or removal. Ms. Heather Isely is an Executive Vice President and the Secretary of the Company and, thus, is not independent under the rules of the NYSE.

In addition, the Board has nominated Mr. Kemper Isely, and recommended that Mr. Kemper Isely be re-elected to the Board as a Class III director, to hold such position until the annual meeting of stockholders to be held in the year 2018 and until his successor has been duly elected and qualified or until his earlier death, resignation or removal. Mr. Kemper Isely is a Co-President and the Chairman of the Board of the Company and, thus, is not independent under the rules of the NYSE.

Finally, the Board has nominated Mr. Cerkovnik, and recommended that Mr. Cerkovnik be re-elected to the Board as a Class III director, to hold such position until the annual meeting of stockholders to be held in the year 2018 and until his successor has been duly elected and qualified or until his earlier death, resignation or removal. The Board has determined that Mr. Cerkovnik is independent within the meaning of the director independence standards of the NYSE. In making this determination, the Board solicited and considered information from Mr. Cerkovnik regarding whether he, or any member of his immediate family, had a direct or indirect material interest in any transactions involving the Company, was involved in a commercial or investment relationship with the Company or received personal benefits from or on behalf of the Company outside the scope of such person's normal compensation.

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**Conclusion**

The Board knows of no reason why Ms. Heather Isely, Mr. Kemper Isely and Mr. Cerkovnik would be unable or unwilling to serve. However, if any of them should for any reason be unable or unwilling to serve, the proxies will be voted for the election of such other person for the office of director as the Board may recommend in the place of such nominee. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR Ms. Heather Isely, Mr. Kemper Isely and Mr. Cerkovnik.

This proposal for the election of directors relates solely to the election of three Class III directors and does not include any other matters relating to the election of directors, including, without limitation, the election of directors nominated by any stockholder of the Company.

**Recommendation of the Board**

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR RE-ELECTION OF THE FOREGOING NOMINEES TO SERVE AS MEMBERS OF THE DESIGNATED CLASS OF THE BOARD.

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote FOR each of the foregoing nominees to serve as a member of the designated class of the Board.

**PROPOSAL 2 RATIFICATION OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**General**

Our stockholders are being asked to ratify our audit committee's appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2015. KPMG LLP has served as the independent registered public accounting firm of the Company since 2012, and as the independent registered public accounting firm of Vitamin Cottage Natural Food Markets, Inc., a wholly owned subsidiary of the Company (the Operating Company), since 2010. The Company has engaged KPMG LLP to perform the audit of our financial statements as of and for the year ending September 30, 2015.

The audit committee is solely responsible for selecting our independent auditors. The Board has ratified the audit committee's appointment of our independent registered public accounting firm and is now seeking the stockholders' ratification of such appointment. Although stockholder ratification of the appointment of KPMG LLP is not required by law, the Board has determined that it is desirable to seek stockholder ratification as a matter of good corporate governance in view of the critical role played by independent registered public accounting firms in maintaining the

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integrity of financial controls and reporting. If the stockholders do not ratify the appointment of KPMG LLP, the audit committee will consider whether to engage another independent registered public accounting firm. Even if the selection is ratified, the audit committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and the best interests of our stockholders.

A representative of KPMG LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and to respond to appropriate questions.

### Principal Accounting Fees and Services

To the knowledge of management, neither KPMG LLP nor any of its members has any direct or material indirect financial interest in the Company or any connection with the Company in any capacity other than as our independent registered public accounting firm.

The following table presents fees for professional audit services rendered by KPMG LLP for the audits of the Company's annual consolidated financial statements for the fiscal years ended September 30, 2014 ( fiscal 2014 ) and 2013 ( fiscal 2013 ), and fees billed for other services rendered by KPMG LLP during those fiscal years. All of these services and fees were approved by the Board.

	2013		2014
Audit Fees(1)	\$ 441,300	\$	457,150
Audit-Related Fees(2)			
Tax Fees(3)	92,007		55,000
Total	\$ 533,307	\$	512,150

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(1) Audit Fees consist of fees billed for professional services rendered for the audit of our consolidated financial statements, as well as services that generally only our independent registered public accounting firm can reasonably provide, including services rendered in connection with SEC filings.

(2) Audit-Related Fees consist of fees billed for other professional services. No other services were provided in fiscal 2013 and 2014.

(3) Tax Fees consist primarily of fees billed for professional services rendered in connection with direct and indirect tax compliance requirements in domestic tax jurisdictions.

The charter of the audit committee provides that the audit committee shall approve the fees and compensation to be paid to the independent registered public accounting firm, and shall approve in advance any non-audit services to be performed by the independent registered public accounting firm. The audit committee currently complies with this requirement on an engagement-by-engagement basis. To that end, in December 2013 and December 2014, our audit committee approved the engagement and fees of KPMG LLP for assistance with respect to federal, state, local, franchise and other tax returns. All other services and fees of KPMG LLP in fiscal 2013 and fiscal 2014 were approved by our Board. Our audit committee was established in July 2012 in connection with our initial public offering, or IPO. During fiscal 2013, our audit committee considered and adopted policies and procedures for the review and pre-approval by the audit committee of all audit services and permissible non-audit services (including the fees and terms thereof) to be performed by our independent registered public accounting firm, and the rotation of the lead audit partner and concurring audit partner and hiring employees or former employers of our independent registered public accounting firm. Our audit committee has approved, in accordance with such policy and procedures, the rotation of the lead audit partner in fiscal 2013 and the retention of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2015.

**Recommendation of the Board**

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2015.

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2015.

**EXECUTIVE OFFICERS AND DIRECTORS**

Set forth below is information concerning our current executive officers and directors as of the date of this Proxy Statement. The business address of all of our executive officers and directors is 12612 West Alameda Parkway, Lakewood, Colorado 80228.



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<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Kemper Isely*	52	Chairman, Director and Co-President
Zephyr Isely	65	Director and Co-President
Heather Isely*	49	Director, Executive Vice President and Corporate Secretary
Elizabeth Isely	60	Director and Executive Vice President
Michael T. Campbell	70	Director
Edward Cerkovnik*	57	Director
Richard Hallé	50	Director
Sandra Buffa	62	Chief Financial Officer

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\* Nominee for re-election as a Director.

*Kemper Isely* has been a director and our Co-President since 1998. He joined the Company as an employee in 1977 and during his tenure with our Company has functioned as Store Manager, Warehouse Manager, Director of Marketing, Director of Purchasing, Director of Operations and Director of Finance.

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We believe Mr. Kemper Isely's qualifications to serve on our Board include his knowledge of our Company and the food retail industry and his years of leadership at our Company.

*Zephyr Isely* has been a director and our Co-President since 1998. He joined the Company as an employee in 1969 and during his tenure with our Company has functioned as Store Manager, Director of Receiving, Warehouse Manager, Director of Operations, Director of Purchasing, Director of Accounting, Manager of Payroll and Compensation and Director of Information Systems.

We believe Mr. Zephyr Isely's qualifications to serve on our Board include his knowledge of our Company and the food retail industry and his extensive management experience at our Company.

*Heather Isely* has been a director and our Executive Vice President and Corporate Secretary since 1998. Ms. Heather Isely joined the Company as an employee in 1989 and during her tenure with our Company has functioned as Produce Coordinator, Store Manager, Manager of Quality Control, Director of Nutrition Education, Manager of Operations, Manager of Compensation, Manager of Training and Director of Human Resources.

We believe Ms. Heather Isely's qualifications to serve on our Board include her knowledge of our Company and the food retail industry and prior management experience at our Company.

*Elizabeth Isely* has been a director and our Executive Vice President since 1998. Ms. Elizabeth Isely joined the Company as an employee in 1977 and during her tenure with our Company has functioned as Store Manager, Regional Manager, Director of Operations, Manager of Training and Director of New Store Openings.

We believe Ms. Elizabeth Isely's qualifications to serve on our Board include her knowledge of our Company and the food retail industry, her experience in opening our new stores and her extensive management experience at our Company.

*Michael T. Campbell* has been a director since the consummation of our IPO in 2012. Mr. Campbell has served as a member of the board of directors of Houston Wire & Cable Company (Nasdaq: HWCC) since 2008, has served as the chairman of its audit committee since 2009 and as a member of its nominating and corporate governance committee since 2012. Mr. Campbell has also been a member of the board of advisors of Lee Truck Equipment, Inc. (d/b/a Casper's Truck Equipment) since 2007. Mr. Campbell previously served in the technical support department of the national office of Deloitte & Touche LLP, and he was also the lead technical accounting and auditing partner in the Denver office prior to his retirement in June 2001.

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We believe that Mr. Campbell's qualifications to serve on the Board include his significant experience with financial reporting by public companies and his experience with mergers and acquisitions and capital markets transactions.

*Edward Cerkovnik* has been a director since July 23, 2013. Mr. Cerkovnik is a founder and President of Breckenridge Holding Company, the owner and operator of the Breckenridge Brewery & Pub concept, as well as other food and beverage concepts. He has served as an officer and director of Breckenridge Holding Company since its inception in 1994. In addition, Mr. Cerkovnik has been an active principal in other restaurant and commercial real estate projects since 1994. He is a former member of the Board of Directors of MediaShift, Inc.

We believe that Mr. Cerkovnik's qualifications to serve on the Board include his knowledge of the retail industry and significant experience in business ownership and operations.

*Richard Hallé* has been a director since October 17, 2012. Since 2011, Mr. Hallé has served as the Chief Financial Officer of The Berry Company, LLC in Englewood, Colorado, overseeing finance, including accounting, treasury, tax, planning, forecasting, budgeting and financial reporting. Previously, Mr. Hallé served as the Chief Financial Officer and Secretary of DTN Holding Company, Inc. in Omaha, Nebraska from 2003 to 2008 and as a Managing Director of FTI Consulting, Inc. from 2002 to 2003 where he developed business restructuring strategies.

We believe that Mr. Hallé's qualifications to serve on the Board include his significant experience in business operations, corporate finance and financial reporting.

*Sandra Buffa* has served as our Chief Financial Officer since 2008 when she joined our Company. Prior to joining our Company, from 2005 to 2007, Ms. Buffa worked at QCE, LLC, the parent company of the Quizno's restaurant chain, as its Chief Financial Officer. From 2001 to 2005, Ms. Buffa was the Chief Financial Officer of Mrs. Fields' Original Cookies,

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Inc. and also served as the Senior Vice President, Chief Financial Officer and Treasurer of its parent company from 2004 to 2005. Ms. Buffa was the President and Chief Operating Officer of Crabtree & Evelyn, Ltd. from 1998 to 1999 and its Chief Financial Officer in 1998. Ms. Buffa served as the Chief Financial Officer, Senior Vice President of Finance and Treasurer of Vista Optical from 1993 to 1998. Ms. Buffa began her career with the firm of PricewaterhouseCoopers, most recently as a Senior Audit Manager. Ms. Buffa is a Certified Public Accountant.

Kemper Isely, Zephyr Isely and Heather Isely are siblings. Elizabeth Isely was previously married to a member of the Isely family who is not currently involved in Company operations.

## CORPORATE GOVERNANCE

### Board of Directors

#### *Board Composition*

Our business and affairs are managed under the direction of our Board. Our Board currently has seven members, Kemper Isely, Zephyr Isely, Heather Isely, Elizabeth Isely, Michael T. Campbell, Edward Cerkovnik and Richard Hallé. Our bylaws provide that our Board consists of a number of directors to be fixed from time to time by a resolution of the Board.

Our certificate of incorporation and bylaws provide for a staggered, or classified, board of directors consisting of three classes of directors, each serving staggered three-year terms, as follows:

- Elizabeth Isely and Richard Hallé are Class I directors; their terms will expire at the annual meeting of stockholders to be held in 2016;
- Zephyr Isely and Michael T. Campbell are Class II directors; their terms will expire at the annual meeting of stockholders to be held in 2017; and
- Heather Isely, Kemper Isely and Edward Cerkovnik are Class III directors; their terms will expire at the Annual Meeting and they have been nominated for re-election at the Annual Meeting.

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Upon expiration of the term of a class of directors, directors for that class will be elected for a three-year term at the annual meeting of stockholders in the year in which that term expires. Each director's term continues until the election and qualification of his or her successor, or his or her earlier death, resignation or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The division of the Board into three classes with staggered three-year terms may delay or prevent stockholder efforts to effect a change in our management or a change in control.

A voting agreement entered into with or among our major stockholders is in effect and provides the Isely family with control over the election of directors. See "Certain Relationships and Related Party Transactions - Stockholders Agreement" in this Proxy Statement for a description of this agreement. Directors can be removed from our Board only for cause, as defined in our certificate of incorporation. Vacancies on our Board, and any new director positions created by the expansion of our Board, can be filled only by a majority of remaining directors then in office.

### *Board Leadership Structure and Risk Oversight*

The Chairman of our Board is also a Co-President of the Company. Because of his knowledge of and insight into our business, we believe Mr. Kemper Isely is in the best position to focus the attention of our independent directors on matters that are the most critical to our Company. We also believe that Mr. Kemper Isely's effectiveness in promoting the Company and forming new business relationships is significantly enhanced by his role as both the Chairman and a Co-President. Michael T. Campbell currently serves as the presiding director at executive sessions of the Board at which only non-management directors are present. We do not currently have a lead independent director.

Our Board administers its risk oversight function primarily through the audit committee, which oversees our risk management practices. The audit committee is responsible for, among other things, discussing with management on a regular basis our guidelines and policies that govern the process for risk assessment and risk management. These discussions include our major risk exposures and actions taken to monitor and control these exposures.

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*Controlled Company and Director Independence*

We have elected to avail ourselves of the controlled company exception under the corporate governance rules of the NYSE. Under NYSE rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance standards. Certain members of the Isely family holding over 50% of our common stock are parties to a stockholders agreement pursuant to which they control the election of our directors (the Stockholders Agreement), and we are therefore a controlled company. As a result, we have elected not to have a majority of independent directors on our Board, and we do not have a compensation committee composed entirely of independent directors as defined under the rules of the NYSE. Further, compensation for our executives and selection of our director nominees are not determined by a majority of independent directors as defined under the rules of the NYSE. The controlled company exception does not modify the independence requirements for the audit committee, and we are subject to, and have complied with, the requirements of the SEC and the NYSE, which require that our audit committee be composed of at least three members, each of whom is required to be independent.

Consistent with these requirements, after review of all relevant identified transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board has affirmatively determined that the following three directors are independent directors within the meaning of the applicable NYSE listing standards: Michael T. Campbell, Edward Cerkovnik and Richard Hallé. In making this determination, the Board found that none of these directors had a material or other disqualifying relationship with the Company. Kemper Isely, our Co-President; Zephyr Isely, our Co-President; Heather Isely, our Executive Vice President and Corporate Secretary; and Elizabeth Isely, our Executive Vice President, are not independent directors. Each is an employee of the Company and a party to the Stockholders Agreement.

*Emerging Growth Company*

We are an emerging growth company, as defined in the Jumpstart Our Business Startups (JOBS) Act, and we may take advantage of certain exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies. For so long as we are an emerging growth company, we will, among other things:

- not be required to comply with the auditor attestation requirements regarding internal control over financial reporting;
- not be required to hold a nonbinding advisory stockholder vote on executive compensation;
- not be required to seek stockholder approval of any golden parachute payments; and
- be subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

*Communications with the Board*

The Board welcomes questions or comments about our Company and its operations. Interested parties and stockholders may contact the Board as a whole, our non-management directors (including the presiding director at executive sessions of the Board at which only non-management directors are present), or any one or more individual directors by sending a letter to the intended recipient's attention c/o Natural Grocers by Vitamin Cottage, Inc. Attention: Corporate Secretary, 12612 West Alameda Parkway, Lakewood, Colorado 80228. The Corporate Secretary will maintain a record of all such communications and promptly forward to the Chairman of the Board those that the Corporate Secretary believes require immediate attention. The Corporate Secretary will periodically provide the Chairman of the Board with a summary of all such communications. The Chairman of the Board will notify the Board or the chairs of the relevant committees of the Board of those matters that he believes are appropriate for further action or discussion.

*Meetings of the Board*

The Board met four times during fiscal 2014. Each Board member attended 100% of the aggregate number of meetings of the Board and of the committees on which he or she served, held during the portion of the last fiscal year for which he or she was a director or committee member. During fiscal 2014, our Board held four executive sessions at which only non-management directors were present. Pursuant to our Corporate Governance Guidelines, our directors are expected

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to attend meetings of the Board and all committees on which they sit (including separate meetings of non-management directors), with the understanding that, on occasion, a director may be unable to attend a meeting in person or by teleconference. It is the Company's policy to encourage directors to attend the Annual Meeting and all members of the Board attended our 2014 annual meeting. We were incorporated in Delaware on April 9, 2012, and the 2015 Annual Meeting will be our third annual meeting of stockholders.

**Committees of the Board**

Our Board has two committees: an audit committee and a compensation committee. The committees were established in July 2012 in connection with our IPO and our listing on the NYSE. Each committee member is appointed by the Board and will serve until his or her successor is elected and qualified, unless he or she is earlier removed or resigns. The following table provides membership and meeting information for fiscal 2014 for each of our Board committees:

Name	Independent?	Audit Committee	Compensation Committee
Mr. Kemper Isely	No		Member
Mr. Zephyr Isely	No		
Ms. Heather Isely	No		Chair
Ms. Elizabeth Isely	No		
Mr. Michael T. Campbell	Yes	Chair	Member
Mr. Edward Cerkovnik	Yes	Member	Member
Mr. Richard Hallé	Yes	Member	
Total meetings in fiscal 2014		6	3

***Audit Committee***

Our audit committee assists our Board in fulfilling its oversight responsibilities over our financial reporting and internal control processes. The committee is responsible for, among other things:

- overseeing management's maintenance of the reliability and integrity of our accounting policies and financial reporting and our disclosure practices;
- overseeing management's establishment and maintenance of processes to assure that an adequate system of internal control is functioning;
- overseeing management's establishment and maintenance of processes to assure our compliance with all applicable laws, regulations and corporate policies;



- reviewing and approving related party transactions;
- reviewing our annual and quarterly financial statements prior to their filing and prior to the release of earnings; and
- reviewing the performance of the independent accountants and making decisions regarding the appointment or termination of the independent accountants and considering and approving any non-audit services proposed to be performed by the independent accountants.

Mr. Campbell, Mr. Cerkovnik and Mr. Hallé currently serve on the audit committee, with Mr. Campbell serving as the chair of the audit committee. Mr. Campbell, one of our independent directors, is our audit committee financial expert as defined under applicable SEC rules. The audit committee has the power to investigate any matter brought to its attention within the scope of its duties and to retain counsel for this purpose where appropriate.

The audit committee met six times during fiscal 2014. During fiscal 2014, our audit committee held four executive sessions at which only non-management directors were present. Our Board has adopted a written charter for our audit committee, which is available on our corporate website at [www.naturalgrocers.com](http://www.naturalgrocers.com).

#### **Report of the Audit Committee**

The audit committee is responsible for overseeing our accounting and financial reporting functions. The audit committee relies on the expertise and knowledge of management and the Company's independent auditors in carrying out its oversight responsibilities. Management is responsible for the Company's financial reporting process, including its system of

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internal controls, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The independent auditors are responsible for auditing those financial statements and issuing a report thereon.

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed the audited financial statements for the fiscal year ended September 30, 2014 with management of the Company and with KPMG LLP, the Company's independent registered public accounting firm. The audit committee also reviewed and discussed with KPMG LLP the quarterly financial statements for each quarter during fiscal 2014 and the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, issued by the Public Company Accounting Oversight Board (the PCAOB).

In addition, the audit committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountants' communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm the accounting firm's independence. The audit committee also considered whether the provision of non-audit services by the independent registered public accounting firm to the Company for the fiscal year ended September 30, 2014 is compatible with maintaining KPMG LLP's independence.

Based on the foregoing, the audit committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

Respectfully submitted,

Michael T. Campbell (Committee Chair)

Edward Cerkovnik

Richard Hallé

The material in the above report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

*Compensation Committee*

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Our compensation committee is responsible for, among other things:

- reviewing our compensation practices and policies, including equity benefit plans and incentive compensation;
- reviewing key employee compensation policies;
- monitoring performance and compensation of our employee-directors, officers and other key employees;
- preparing recommendations and periodic reports to the Board concerning these matters; and
- overseeing the preparation of any disclosure relative to compensation practices.

Ms. Heather Isely, Mr. Campbell, Mr. Cerkovnik and Mr. Kemper Isely, each serves on the compensation committee, with Ms. Heather Isely serving as the chair of the compensation committee.

The compensation committee met three times during fiscal 2014. During fiscal 2014, our compensation committee held one executive session at which only non-management directors were present. Our Board has adopted a written charter for our compensation committee, which is available on our corporate website at [www.naturalgrocers.com](http://www.naturalgrocers.com).

In April 2012, our Board retained the outside consulting firm Frederic W. Cook & Co., Inc., or F. W. Cook, as our independent compensation consultant to assist in developing our approach to executive officer and Board compensation. This engagement occurred prior to the creation of our compensation committee. As part of this engagement, F. W. Cook assisted in the development of the competitive compensation program for our independent board members. We engaged F.W. Cook to provide additional independent compensation consultation services during fiscal 2014, including an executive compensation study. Prior to our IPO, our Board historically set compensation for our named executive officers, including with respect to

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their own compensation. Our Co-Presidents have provided, and we expect that our Co-Presidents will continue to provide, recommendations to our compensation committee regarding pay levels for all executive officers. In fulfilling its responsibilities, our compensation committee may delegate its authority to subcommittees, including subcommittees consisting solely of one or more employees of the Company, to the extent permitted by applicable law.

**Report of the Compensation Committee**

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis ( CD&A ) contained in this Proxy Statement. Based on this review and discussion, the compensation committee has recommended to the Board that the CD&A be included in this Proxy Statement.

Respectfully submitted,

Heather Isely (Committee Chair)

Michael T. Campbell

Edward Cerkovnik

Kemper Isely

**Process for Recommending Candidates for Election to the Board Directors**

We do not have a nominating committee. Instead, our Board is responsible for recommending director candidates for election. This is appropriate, in the opinion of the Board, because we are a controlled company under NYSE rules and certain members of the Isely family hold over 50% of our common stock and control the election of our directors.

Additionally, our Board will consider director candidates recommended by stockholders, provided that stockholders making such recommendations comply with the advance notice procedures contained in section 2 of our bylaws. The Board did not receive any director recommendations from stockholders for consideration at the Annual Meeting.

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The Board will evaluate candidates properly recommended by stockholders based on the same criteria applied to other director nominees, with one exception. Specifically for such candidates, the Board may consult with certain members of the Isely family who are parties to a Stockholders Agreement, pursuant to which they control the election of our directors, to ensure that such nominees will make a meaningful contribution to the Board and are likely to receive the approving vote of the holders of a majority of the outstanding common stock.

As described in the Company's Corporate Governance Guidelines, the Board identifies candidates based on the following criteria:

- judgment, character, expertise, skills and knowledge useful to the oversight of the Company's business;
- diversity of viewpoints, backgrounds and experiences;
- business or other relevant experience; and
- the extent to which the candidate's expertise, skills, knowledge and experience with that of the other Board members will build a Board that is effective, collegial and responsive to the needs of the Company.

As described above, the Board considers the diversity of viewpoints, backgrounds and experiences in identifying and evaluating director nominees, but does not have a formal policy with regard to diversity.

The Board identifies director nominees based on the above criteria by consulting with other industry leaders and members of the business community.

### **Corporate Governance Guidelines**

In July 2012, the Board adopted Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities. These guidelines are a flexible framework within which the Board may conduct its business. Moreover, they help to align the interests of directors and management with those of the Company's stockholders. In greater detail, the Corporate Governance Guidelines set forth the practices the Board intends to follow with respect to, among other matters, Board composition and selection, board meetings and involvement of senior management, executive officer performance

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evaluation and succession planning, and board committees and compensation. The Corporate Governance Guidelines reflect NYSE and SEC rules and requirements. The Corporate Governance Guidelines, as well as the charters for each committee of the Board, may be viewed at the Company's website at [www.naturalgrocers.com](http://www.naturalgrocers.com).

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information as of January 13, 2015, regarding beneficial ownership of our common stock by:

- each person known to us to beneficially own more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership for the purposes of the following table is determined in accordance with the rules and regulations of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting thereof, or to dispose or direct the disposition thereof, or has the right to acquire such powers within 60 days. Shares of common stock issuable within 60 days to a person are deemed outstanding for purposes of computing the percentage of shares owned by such person, but are not deemed outstanding for purposes of computing the percentage of shares owned by any other person.

To our knowledge, except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them and none of the shares shown as beneficially owned by the named executive officers or directors has been pledged as security.

The address for each person named in the table below is c/o Natural Grocers by Vitamin Cottage, Inc., 12612 West Alameda Parkway, Lakewood, Colorado 80228.

**Shares of Common  
Stock Beneficially**

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Beneficial Owner	Owned(1)	
	#	%
<b>5% Stockholders:</b>		
Isely Family Group(2)	13,321,988	59.2%
CTVC, LLC(2)(3)	1,037,939	4.6%
<b>Named Executive Officers and Directors:</b>		
Kemper Isely(2)(4)	3,303,085	14.7%
Zephyr Isely(2)(5)	3,360,867	15.0%
Heather Isely(2)(6)	1,148,510	5.1%
Elizabeth Isely(2)(7)	1,264,306	5.6%
Sandra Buffa	155,616	*
Michael T. Campbell (director)(8)	10,302	*
Edward Cerkovnik (director)(8)	5,630	*
Richard Hallé (director)(8)	11,250	*
Executive officers and directors as a group (8 persons)	13,504,786	60.1%

\* Represents less than 1%

(1) This table is based upon information supplied by officers, directors, principal stockholders and the Schedule 13D filed by members of the Isely family voting group with the SEC on August 6, 2012, as amended on February 28, 2014. As of the date of this Proxy Statement, no other stockholders had filed Schedules 13D or 13G with respect to their ownership of our common stock. Unless otherwise indicated in the footnotes to this table, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 22,487,600 shares of our common stock outstanding on January 13, 2015, adjusted as required by rules promulgated by the SEC.

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(2) In connection with the reorganization transactions effected in connection with our IPO, each of Kemper Isely, Zephyr Isely, Heather Isely, Elizabeth Isely, certain trusts or entities controlled by one or more of them, certain other Isely family members, certain custodial accounts controlled by Anthony Andueza but benefiting other Isely family members, and certain entities controlled by Mr. Andueza or Mark Gauthier but owned by the above named Iselys and their family members (directly or indirectly through trusts) entered into a Stockholders Agreement pursuant to which they agreed to, among other things, limitations on the sale of their shares of our common stock and to vote all of their shares of common stock in the election of directors as directed by a majority of Kemper Isely, Zephyr Isely, Heather Isely and Elizabeth Isely. The parties to the agreement may therefore be deemed to share voting and investment power over the shares subject to the agreement and be members of a group for beneficial ownership reporting purposes with respect to such shares. The number of shares identified as beneficially owned by the Isely Family Group includes 391,549 shares not subject to the voting provisions of the Stockholders Agreement that are held in trusts or entities benefiting or established by Isely family members, over which Mr. Andueza or Mr. Gauthier has sole voting and investment power.

(3) Consists of shares of common stock held for the benefit of the Isely Children's Trust and its beneficiaries. Mr. Andueza is the sole manager of CTVC, LLC with sole voting and investment power over the shares of common stock held by it and thus CTVC, LLC disclaims beneficial ownership of the shares. The number of shares identified as beneficially owned by CTVC, LLC excludes shares of common stock deemed to be beneficially owned by it solely because of the Stockholders Agreement described above in note 2.

(4) Includes 3,107,402 shares beneficially owned directly by Mr. Kemper Isely, 91,938 shares owned directly by the LaRock and Luke Isely Trust, with respect to which Mr. Kemper Isely shares voting and investment power with Mr. Zephyr Isely as co-trustee of the trust, and 103,745 shares held by Mr. Andueza as custodian under the Colorado Uniform Transfer to Minors Act, or UTMA, for Mr. Kemper Isely's son Ritchie K. Isely, who shares Mr. Kemper Isely's permanent residence. The number of shares identified as beneficially owned by Mr. Kemper Isely excludes shares of common stock deemed to be beneficially owned by him solely because of the Stockholders Agreement described above in note 2.

(5) Includes 3,165,184 shares beneficially owned directly by Mr. Zephyr Isely and 91,938 shares owned directly by the LaRock and Luke Isely Trust, with respect to which Mr. Zephyr Isely shares voting and investment power with Mr. Kemper Isely as co-trustee of the trust, and 103,745 shares held by Mr. Andueza as custodian under the UTMA for Mr. Zephyr Isely's child Dyami Cy Isely-Parvanta, who shares Mr. Zephyr Isely's permanent residence. The number of shares identified as beneficially owned by Mr. Zephyr Isely excludes shares of common stock deemed to be beneficially owned by him solely because of the Stockholders Agreement described above in note 2.

(6) Includes 941,020 shares beneficially owned directly by Ms. Heather Isely and 207,490 shares held by Mr. Andueza as custodian under the UTMA for Ms. Heather Isely's children Masala A. Isely-Rice and Charles L. Isely-Rice, each of whom shares Ms. Heather Isely's permanent residence. The number of shares identified as beneficially owned by Ms. Heather Isely excludes shares of common stock deemed to be beneficially owned by her



solely because of the Stockholders Agreement described above in note 2.

(7) Includes 1,264,306 shares beneficially owned directly by Ms. Elizabeth Isely. The number of shares identified as beneficially owned by Ms. Elizabeth Isely excludes shares of common stock deemed to be beneficially owned by her solely because of the Stockholders Agreement described above in note 2.

(8) Includes 1,186 restricted stock units granted to each of Messrs. Campbell, Hallé and Cerkovnik which will vest within 60 days, specifically March 5, 2015.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, during fiscal 2014 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with, except that: (i) the Form 4 relating to Ms. Sandra Buffa's sale of 2,243 shares of common stock on December 31, 2013 was filed one day late on January 6, 2014 and (ii) the Form 4 relating to Ms. Heather Isely's purchase of 410 shares of common stock on May 12, 2014 and her purchase of 9,590 shares of common stock on May 14, 2014 was filed four and two days late, respectively, on May 20, 2014.

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

The following discussion relates to the compensation of our Co-Presidents, our Chief Financial Officer, and our other two most highly compensated executive officers for the fiscal year ended September 30, 2014 (collectively referred to as our named executive officers or NEOs), including the overall principles underlying our executive compensation policies.

Our NEOs for fiscal 2014 were:

- Kemper Isely, Chairman and Co-President
  
- Zephyr Isely, Co-President
  
- Heather Isely, Executive Vice President and Corporate Secretary
  
- Elizabeth Isely, Executive Vice President
  
- Sandra Buffa, Chief Financial Officer

*Objectives of our executive compensation program*

Hiring and retaining our officers and other key employees is critically important to ensure the continuity and stability required to grow our business. Our executive compensation and benefits program is designed to attract, retain, reward and create incentives for a highly talented and committed team of executive officers who share our vision and desire to work toward our goals.

Compensation decisions in fiscal 2014 regarding our NEOs were made by our compensation committee. Our compensation philosophy is to provide our NEOs with a compensation package that attracts, motivates and retains executive talent and aligns the interests of management with those of the stockholders. Our approach to executive compensation is intended to reward our NEOs for making strong individual contributions to our success and creating long-term value.

Consistent with this approach, for fiscal 2014 we did not establish a formal cash-based incentive plan for any of our executive officers other than our Chief Financial Officer. As further described below, the cash-based incentive compensation we paid to our Chief Financial Officer for fiscal 2014 was determined at the discretion of our compensation committee based on the achievement of quarterly and year-to-date targets for net income and earnings before interest, taxes, depreciation and amortization, or EBITDA, and a qualitative and subjective evaluation of individual performance and our business results.

*Executive compensation process*

*Compensation-setting process.* In April 2012, we retained F. W. Cook as our independent compensation consultant to assist in developing our approach to executive officer and board compensation. In fiscal 2014, we retained F.W. Cook to provide additional independent compensation consultation services, including an executive compensation study. Except for the services provided to the compensation committee, our compensation consultant does not provide any other services to the

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Company. The compensation committee has assessed the independence of the compensation consultant pursuant to the NYSE rules, and the Company concluded that the compensation consultant's work for the compensation committee did not raise any conflict of interest. Our Board created a compensation committee in July 2012 pursuant to the governance requirements of the NYSE. Our compensation committee consists of Ms. Heather Isely, Mr. Kemper Isely, Mr. Cerkovnik and Mr. Campbell. Our compensation committee reviewed executive compensation at its meeting on December 11, 2013 based on, among other factors, competitive market data. In addition to reviewing and approving executive compensation, our compensation committee's duties include administering our Omnibus Incentive Plan, which we adopted in July 2012.

*Role of management in setting compensation.* During fiscal 2014, our Co-Presidents and Executive Vice Presidents provided recommendations regarding pay levels for all executives, and we expect that these executive officers will continue to provide such input.

*Use of market data.* We did not use a peer group in setting fiscal 2014 executive compensation, and the compensation committee of our Board did not target compensation to specific benchmarks against any peer group companies.

In fiscal 2014, the compensation committee of our Board considered, among other factors in its review of executive compensation, market data recently compiled and analyzed by F.W. Cook from a 19 company peer group of retail, food, and natural product companies. F.W. Cook selected this peer group based on industry, size and growth potential. In terms of annual revenue and market capitalization, the Company was near the median of this peer group. The peer group was composed of the following companies:

AFC Enterprises, Inc.	Del Frisco's Restaurant Group, Inc.	Nutrisystem, Inc.
Annie's, Inc.	Fairway Group Holdings Corp.	PetMed Express, Inc.
Arden Group, Inc.	Francesca's Holdings Corporation	Ruth's Hospitality Group, Inc.
B&G Foods, Inc.	Hibbett Sports, Inc.	Vitacost.com, Inc.
Boulder Brands, Inc.	J&J Snack Foods Corp.	Vitamin Shoppe, Inc.
Chuy's Holdings, Inc.	Jamba, Inc.	Zumiez Inc.
	Krispy Kreme Doughnuts, Inc.	

The market data presented by F.W. Cook indicated that:

- The base salaries of our Co-Presidents and our Chief Financial Officer were at or near the median, and the base salaries of our Executive Vice Presidents were in the top quartile, of this peer group.
- The total target cash compensation (base salary plus target cash-based incentive compensation) of our Co-Presidents was in the bottom quartile of this peer group, the total target cash compensation of our Executive Vice Presidents was slightly above the median of this peer group, and the total target cash compensation of our Chief Financial Officer (the only NEO participating in our cash-based incentive plan during fiscal 2014) was slightly below the median of this peer group.

- Because no equity incentive awards were made to any of our NEOs during fiscal 2014, the total target direct compensation (base salary plus target cash-based incentive compensation plus equity compensation) of each of our NEOs was in the bottom quartile of this peer group.

*Primary elements of compensation; Compensation decisions for fiscal 2014*

*Base salary.* The overall compensation package consists solely of base salary for four of our NEOs. We believe that base salaries are of primary importance to our approach to executive compensation, allowing us to attract and retain our key executives, and reward consistent contributions to our long-term success, in a manner that does not encourage excessive risk taking by our executives. The compensation committee primarily based salaries of the NEOs on its collective experience and view of appropriate fixed pay in our geographic location and industry, which was supported for the Executive Vice Presidents and Chief Financial Officer by the market data described above. Additionally, the compensation committee took into account non-participation in our cash-based incentive compensation program by all of our NEOs, except Ms. Buffa, and the absence of a long-term incentive program. The compensation committee periodically reviews base salaries and takes into account individual performance, internal pay equity, historical compensation practice, incentive program participation and current equity ownership levels. However, our compensation committee may exercise its discretion in setting an executive's base salary, taking into account the quality of the executive's overall contribution to our success.

At fiscal year-end 2014, base salaries were as follows:

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- Kemper Isely, Co-President, \$607,800
- Zephyr Isely, Co-President, \$576,000
- Heather Isely, Executive Vice President, \$528,000
- Elizabeth Isely, Executive Vice President, \$528,000
- Sandra Buffa, Chief Financial Officer, \$345,000

No changes were made to the base salaries of our NEOs during fiscal 2014. On October 22, 2014, the compensation committee approved the following changes to Sandra Buffa's compensation arrangement: (i) Ms. Buffa's base salary was increased from \$345,000 to \$450,000 per annum and (ii) Ms. Buffa's cash-based incentive target level was reduced from 50% of her base salary to 33.33% of her base salary. Both these changes were made effective as of October 1, 2014.

*Incentive awards.* Based on the achievement of quarterly and year-to-date net income and EBITDA targets and a review of both business and individual performance during the fiscal year, cash payments may be approved for executives and other employees participating in our cash-based incentive plan. Achievement of quarterly and year-to-date net income and EBITDA goals is required before any determination is made regarding whether to make cash-based incentive compensation payments. The amount of any payment is based on set target levels and an assessment of the participant's contribution to our strategic objectives or financial results during a particular quarter. If a quarterly and year-to-date net income and EBITDA goal is not met, cash-based incentive compensation payments are limited to levels that can be funded while still allowing the Company to meet its goals, regardless of whether or not strategic or individual performance goals have been met. Even if a quarterly and year-to-date net income and EBITDA goal is achieved, we reserve the sole discretion to reduce payments or not make any cash-based incentive compensation payments to the extent deemed reasonable and prudent under the circumstances.

Ms. Buffa was the only NEO participating in our cash-based incentive plan during fiscal 2014. Cash-based incentive compensation target levels for Ms. Buffa were set in accordance with her employment agreement. Specifically, Ms. Buffa's cash-based incentive target level for fiscal 2014 was set at 50% of her base salary, if the minimum quarterly and year-to-date net income and EBITDA goals were reached for each quarter during the fiscal year. The net income and EBITDA goals were met in full for the first quarter of fiscal 2014, resulting in funding for Ms. Buffa's cash-based incentive compensation at 50% of her base salary for that quarter. The net income and EBITDA goals were partially met for the second quarter of fiscal 2014, resulting in funding for Ms. Buffa's cash-based incentive at less than 50% of her base salary for that quarter. The net income and EBITDA goals were not met for the third and fourth quarters of fiscal 2014, resulting in no payment of cash-based incentive compensation to Ms. Buffa for those quarters. As of October 1, 2014, Ms. Buffa's cash-based incentive target level was reduced from 50% of her base salary to 33.33% of her base salary.

*Equity compensation.* We currently do not have a long-term equity incentive program in place and have not granted any equity awards under such a program. Given that a majority of our NEOs are part of the Isely family and have a substantial ownership stake in the Company, we believe that they already have sufficient long-term incentive, and an equity compensation program for them is not necessary.

We adopted an Omnibus Incentive Plan in July 2012. To promote the long-term success of the Company and the creation of shareholder value, in August 2013 the compensation committee approved and the Company granted 61,975 restricted stock units, totaling approximately \$2.1 million in stock compensation, to certain employees who were not executive officers. Since August 2013, our compensation committee has approved, and the Company has granted, a total of 16,828 additional restricted stock units under the Omnibus Incentive Plan, totaling approximately \$295,000 in stock compensation, to certain employees who were not executive officers or directors. These restricted stock units vested 20% at grant date and, subject to continuing service and minimum hours, vest 20% annually over each of the four years following their grant.

During fiscal 2014, we awarded 1,186 restricted stock units under the Omnibus Incentive Plan to each of our independent directors, Messrs. Campbell, Cerkovnik and Hallé. Those restricted stock units will vest on March 5, 2015. No other awards were made under the Omnibus Incentive Plan during fiscal 2014.

In addition, under our Chief Financial Officer's employment agreement, Ms. Buffa received restricted stock units equal to 1.2% of the fully diluted shares of the Company at the time of the completion of our IPO (including any exercise of the underwriters' over-allotment option) (rounded to the nearest whole share), subject to the following terms:

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- Two-thirds (or 178,442 restricted stock units) vested immediately upon completion of the IPO and settled in 156,136 shares of common stock of the Company and \$334,579 in cash.

- The remaining one-third of the grant (or 89,221 restricted stock units) vested in three equal installments as follows: the first installment vested on January 25, 2013; the second installment vested on July 25, 2013; and the third installment vested on January 25, 2014. Such restricted stock units settled in shares of common stock.

*Severance and change in control arrangements.* Ms. Buffa's employment agreement was amended and restated on January 14, 2015. Under her amended and restated employment agreement, Ms. Buffa is entitled to severance pay upon her involuntary termination without cause or voluntary resignation for good reason (as each such term is defined in the employment agreement). See Executive Compensation Employment Agreement in this Proxy Statement for a description of such severance arrangement and the other amounts payable to Ms. Buffa upon her separation from service with the Company. The Company does not have any agreements with the other NEOs that provide for cash severance payments upon termination of employment or in connection with a change in control.

*Retirement plan and other benefits and perquisites.* Our NEOs are eligible to participate in our employee benefit plans provided for all Company employees. These benefits include a 401(k) plan with discretionary matching employer contributions, group health and life insurance, and short-term and long-term disability insurance. We also provide all of our employees with Vitamin Bucks (store credit accrued at \$0.75 per hour up to 40 hours per week) and birthday bonus pay (equivalent to a single work day). We may also provide our NEOs with a limited range of perquisites on a case-by-case basis that may include, among other things, spousal insurance and reimbursement for any out-of-pocket medical insurance expenses.

*Stock ownership guidelines.* We do not have specific equity or other security ownership requirements or guidelines for NEOs. However, given management's significant equity stake in the Company, we do not believe ownership guidelines are needed at this time.

*Recoupment policy.* We currently do not have a recoupment policy to adjust or recover bonuses or incentive compensation paid to executive officers where such bonuses or payments were based on financial statements that were subsequently restated or otherwise amended in a manner that would have reduced the size of such bonuses or payments.

*Tax and accounting considerations.* We do not require executive compensation to be tax deductible for our Company, but instead balance the cost and benefits of tax deductibility to comply with our executive compensation goals. For example, Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, generally disallows a tax



deduction to a publicly held corporation for compensation in excess of \$1 million paid in any taxable year to its named executive officers, other than the chief financial officer, unless the compensation qualifies as performance-based compensation within the meaning of the Code. Our compensation committee considers the deductibility of compensation, but is authorized to approve compensation that is not deductible when it believes that such payments are appropriate to attract and retain executive talent.

*Risks from compensation policies and practices.* Given the current equity ownership levels of our NEOs, the relative simplicity of our current compensation program and its weighting towards base salary, a fixed component of compensation, we do not believe that risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on us.

#### **Summary Compensation Table**

The following table provides information concerning the compensation earned by our Co-Presidents, Chief Financial Officer, and each of the two other most highly paid executive officers during the fiscal years ended September 30, 2014 and 2013.

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Name and Principal Position (a)	Fiscal Year (b)	Salary (\$) (c)	Stock Awards (\$) (e)	Non-Equity Incentive Plan Compensation (\$) (g)	All Other Compensation (\$)(1) (i)	Total (\$) (j)
Kemper Isely, Co-President	2014	607,800			15,666	623,466
	2013	607,800			15,676	623,476
Zephyr Isely, Co-President	2014	576,000			14,106	590,106
	2013	576,000			14,116	590,116
Heather Isely, Executive Vice President	2014	528,000			14,489	542,489
	2013	528,000			14,499	542,499
Elizabeth Isely, Executive Vice President	2014	528,000			15,666	543,666
	2013	516,000			15,676	543,676
Sandra Buffa, Chief Financial Officer	2014	345,000		58,889	12,093	415,982
	2013	335,000		127,921	12,382	475,303

(1) Includes 401(k) retirement benefit matching contributions, Vitamin Bucks, and Company paid medical insurance premiums.

As described above under Compensation Discussion and Analysis - Primary elements of compensation; Compensation decisions for fiscal 2014 Equity Compensation, in June 2008, the Company issued 267,663 restricted stock unit awards to Sandra Buffa, our Chief Financial Officer. Such restricted stock grant (the CFO Award) was in accordance with the terms of Ms. Buffa's employment agreement, which was signed in June 2008 and provided that she was entitled to receive a grant of restricted stock units equal to 1.2% of the fully diluted shares of the Company in connection with an IPO by the Company. Two-thirds of the CFO Award vested immediately upon completion of our IPO and was settled in a combination of common stock and cash. The remaining one-third of the CFO Award vested in three equal installments on January 25, 2013, July 25, 2013 and January 25, 2014 and was settled 100% in shares of common stock. The taxable value of the CFO Award that settled in fiscal 2013 was \$1,645,217. The taxable value of the CFO Award that settled in fiscal 2014 was \$1,123,912.

**Grants of Plan-Based Awards**

During fiscal 2014, our named executive officers did not receive any plan-based equity awards. Ms. Buffa was eligible to receive a cash-based incentive award during fiscal 2014 pursuant to her employment agreement, as shown in the table below. The cash-based incentive award actually paid to Ms. Buffa during fiscal 2014 was \$58,889.

Name (a)	Grant Date (b)	Estimated Payouts Under Non-Equity Incentive Plan Awards			Estimated Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards (\$/Sh) (k)	Grant Date Fair Value of Stock and Option Awards (\$) (l)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)				
Sandra Buffa		0	172,500								

**Outstanding Equity Awards at Fiscal Year-End**

All restricted stock units awarded to Ms. Buffa under the Omnibus Incentive Plan had vested as of the end of fiscal 2014. Other than Ms. Buffa, none of our NEOs has received an award under the Omnibus Incentive Plan.

**Option Exercises and Stock Vested**

The following table provides information regarding restricted stock units that vested during fiscal 2014 with respect to Ms. Buffa. Other than Ms. Buffa, none of our NEOs held any equity awards that vested or exercised any options during the year ended September 30, 2014.

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**OPTION EXERCISES AND STOCK VESTED IN FISCAL 2014**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
(a)	(b)	(c)	(d)	(e)
Sandra Buffa			29,741(1)	1,123,912(2)

(1) Represents restricted stock units issued to Ms. Buffa pursuant to the terms of her employment agreement that vested on January 25, 2014 and were settled in shares of common stock.

(2) Value realized on vesting was calculated by multiplying the number of shares underlying the restricted stock units by the opening price on the date of settlement. For the 29,741 shares of common stock that settled on January 27, 2014, that price was \$37.79.

**Pension Benefits**

None of our NEOs participates in any qualified or non-qualified pension benefit plan sponsored by us.

**Nonqualified Deferred Compensation**

None of our NEOs participates in any nonqualified deferred compensation plan sponsored by us.

**Employment Agreement**

We are a party to an employment agreement with our Chief Financial Officer, Sandra Buffa. Under the employment agreement, Ms. Buffa is entitled to participate in our annual and long-term incentive compensation and all standard employee benefit plans or programs, including personal time off, our 401(k) plan, our medical and dental insurance plans, Vitamin Bucks and employee discounts. Ms. Buffa is employed on an at-will basis, and, subject to applicable law, her employment may be terminated either by Ms. Buffa or by the Company at any time, for any reason, or no reason, and with or without cause. Under the employment agreement, Ms. Buffa received grants of restricted stock units as described under Compensation Discussion and Analysis - Primary elements of compensation; Compensation decisions for fiscal 2014 - Equity compensation. All such restricted stock units have vested. Ms. Buffa is subject to a confidentiality covenant that extends indefinitely and

non-solicitation and non-compete covenants that extend for one year from termination of employment.

Ms. Buffa's employment agreement was amended and restated on January 14, 2015. Under the terms of the amended and restated employment agreement, Ms. Buffa will be compensated as follows: (i) for the fiscal year ending September 30, 2015, Ms. Buffa's base salary will equal \$450,000 per annum and her cash-based incentive target level will equal 33.33% of her base salary; (ii) for the fiscal year ending September 30, 2016, Ms. Buffa's base salary will equal \$560,000 per annum and her cash-based incentive target level will equal 25% of her base salary; (iii) for the fiscal year ending September 30, 2017, Ms. Buffa's base salary will equal \$680,000 per annum and her cash-based incentive target level will equal 17.65% of her base salary; and (iv) for the period commencing October 1, 2017 and ending on December 31, 2017, Ms. Buffa's base salary will equal \$66,667 per month and she will receive no cash incentive compensation. For the period commencing January 1, 2018 and ending December 31, 2019, Ms. Buffa will receive a base salary of \$250,000 per annum with no cash-based incentive compensation, and she will be required to provide services to the Company only on a part-time basis. If Ms. Buffa remains employed by the Company through December 31, 2017, the Company will pay to Ms. Buffa deferred compensation in two lump sum payments, each in the amount of \$700,000, on January 1, 2018 and January 1, 2019 (the "Deferred Compensation Payments").

If the Company terminates Ms. Buffa's employment without cause or she resigns with good reason (as those terms are defined in the amended and restated employment agreement), Ms. Buffa will be entitled to receive the Deferred Compensation Payments and, provided the effective date of termination is on or before December 31, 2017, the Company will also pay Ms. Buffa severance in an amount equal to: (i) her then-current base salary for the lesser of 12 months or the remainder of the period through December 31, 2017, plus (ii) 50% of her target annual cash-based incentive compensation,

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plus (iii) an amount equal to the cost of COBRA coverage for a period of 12 months. If Ms. Buffa separates from service with the Company after January 1, 2018 by reason of death, disability (as that term is defined in the amended and restated employment agreement), termination by the Company without cause or termination by Ms. Buffa for good reason, Ms. Buffa (or her beneficiary) will promptly (and in no event later than the last day of the year in which such separation from service occurs) be paid a lump sum equal to the amount of base annual salary Ms. Buffa would have been paid had she continued to perform services for the Company until December 31, 2019. If Ms. Buffa's employment with the Company ends on or before December 31, 2017 due to her death or disability, Ms. Buffa (or her beneficiary) will receive a prorated amount of the Deferred Compensation Payments based on the number of months during the period January 1, 2015 through December 31, 2017 that Ms. Buffa worked prior to her death or disability. If Ms. Buffa's employment with the Company is terminated for any reason after December 31, 2017, Ms. Buffa (or her beneficiary) will still be entitled to receive the Deferred Compensation Payments. If Ms. Buffa's employment with the Company is terminated for cause prior to December 31, 2017, Ms. Buffa will forfeit all rights to the Deferred Compensation Payments.

We do not have any employment agreements with any other NEO, and no payments would have to be made or benefits provided by the Company to any other NEO upon a change in control.

**Potential Payments Upon Termination or Change in Control**

The following table describes the potential payments and benefits triggered by a termination of Ms. Buffa's employment by us without cause, or by Ms. Buffa for good reason, or a change in control, assuming her employment was terminated or the change of control occurred on September 30, 2014. None of our NEOs other than Ms. Buffa is contractually entitled to any severance payments as a result of any termination or change in control.

Name	Circumstance	Cash Payment (\$)(1)	Medical / Insurance Benefits (\$)	Acceleration of Equity Awards (\$)	Other (\$)(2)	Total (\$)
Sandra Buffa	Termination without cause or for good reason	431,250	12,018		7,298	450,566
	Change of control					

(1) Amount represents severance payment equal to Ms. Buffa's current base salary plus 50% of the target value of non-equity incentive awards pursuant to the terms of Ms. Buffa's employment agreement as in effect on September 20, 2014. Ms. Buffa's employment agreement was amended and restated on January 14, 2015. See Executive Compensation Employment Agreement in this Proxy Statement for a description of the severance provisions set out in Ms. Buffa's amended and restated employment agreement and the other amounts payable to Ms. Buffa upon her separation from service with the Company.

(2) Includes accrued amounts through any other Company benefit, including accrued vacation and other vested benefits the named executive officer is entitled to receive that are generally available to all full-time employees.

**DIRECTOR COMPENSATION**

During fiscal 2012, our Board engaged the outside consulting firm F. W. Cook to help develop compensation policies for our independent directors. Our engagement of F.W. Cook during fiscal 2014 concerned compensation of our executive officers and did not include a further review of our director compensation.

Only those directors who are considered independent directors under the rules of the NYSE receive compensation from us for their service on our Board. For fiscal 2014, our independent directors, Mr. Campbell, Mr. Cerkovnik and Mr. Hallé, were compensated for their service as directors as follows:

- a base annual retainer of \$30,000;
  
- an additional annual retainer of \$15,000 for serving as the chair of our audit committee and \$10,000 for serving as the chair of our compensation committee, if applicable;
  
- an additional annual retainer of \$5,000 for serving as a member of our audit committee, if applicable; and
  
- an additional annual retainer of \$5,000 for serving as a member of our compensation committee, if applicable.

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In December 2014, the disinterested members of the Board decided to increase the annual base retainer for our independent directors to \$40,000, effective as of the Annual Meeting.

The presiding director at executive sessions of the Board at which only non-management directors are present receives no additional compensation for such service. If our Board were to appoint a lead independent director, such director would receive an additional annual retainer of \$15,000.

In addition, each independent director is granted, on an annual basis, a number of restricted stock units under the Omnibus Incentive Plan. In fiscal 2013 and fiscal 2014, the number of restricted stock units awarded to each independent director equaled the number of shares of our common stock having a value of \$50,000 (based on the closing price of our common stock on the NYSE on the date of grant). Such awards were granted on the date of our annual meeting of stockholders, or a pro rata portion in the case of a mid-year appointment granted on the date of such appointment. In December 2014, the disinterested members of the Board decided to increase the value of the annual grant of restricted stock to each independent director to \$60,000 (based on the closing price of our common stock on the NYSE on the date of grant), effective as of the Annual Meeting. The restricted stock units granted to our independent directors fully vest on the first anniversary of the date of grant if the director does not have a termination of Service, as defined in the Omnibus Incentive Plan, and are settled in shares of our common stock. Our independent directors are subject to equity ownership guidelines approved by our Board, requiring each independent director to, within five years of their initial election to our Board, achieve holdings in our equity securities, including vested and unvested restricted stock units, with a value equal to three times the annual cash retainer received. We also reimburse our directors for reasonable expenses incurred to attend meetings of our Board or any committee of our Board.

**DIRECTOR COMPENSATION FOR FISCAL 2014**

The following table shows for the fiscal year ended September 30, 2014 the compensation for all non-employee directors of the Company:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Michael T. Campbell	50,000(1)	50,000(2)					100,000
Edward Cerkovnik	36,667(3)	50,000(2)					86,667
Richard Hallé	35,000(4)	50,000(2)					85,000

(1) Represents a base annual retainer of \$30,000 and an additional annual retainer of \$15,000 for serving as the chair of our audit committee and an annual retainer of \$5,000 for serving as a member of the compensation committee.



(2) Represents the full grant date fair value as of March 5, 2014 of 1,186 restricted stock units granted to each of Mr. Campbell, Cerkovnik and Hallé. Those units will vest on March 5, 2015.

(3) Represents a pro-rata portion of each of the base annual retainer of \$30,000, additional annual retainer of \$5,000 for serving as the member of our audit committee and annual retainer of \$5,000 for serving as a member of our compensation committee. Mr. Cerkovnik was appointed to our Board on July 23, 2013.

(4) Represents a base annual retainer of \$30,000 and an additional annual retainer of \$5,000 for serving as the member of our audit committee.

#### **Compensation Committee Interlocks and Insider Participation**

None of our executive officers currently serves, or in the past year has served, as a member of the board or compensation committee of any entity that has one or more executive officers serving on our Board or compensation committee. Ms. Heather Isely was chairperson of, and Mr. Kemper Isely served on, our compensation committee during fiscal 2014. Both are executive officers of the Company. Mr. Kemper Isely and Ms. Heather Isely are party to certain related party transactions with the Company, as described in this Proxy Statement under CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

Table of Contents**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS***Securities Authorized for Issuance Under Equity Compensation Plans*

The following table provides certain information with respect to the Company's Omnibus Incentive Plan, which was the only equity compensation plan in effect as of September 30, 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1) (a)	Weighted-average exercise price of outstanding options, warrants and rights(2) (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	37,194	\$ 34.77	752,403
Total	37,194	\$ 34.77	752,403

(1) Represents restricted stock units granted as of September 30, 2014, that will vest between March 5, 2015 and August 13, 2017 and will be settled in shares of common stock.

(2) Represents weighted average grant date fair value. Includes 1,186 restricted stock units granted to each of Mr. Campbell, Mr. Hallé and Mr. Cerkovnik with a grant date fair value of \$42.16 per unit. The grant date fair values have been determined in accordance with Accounting Standards Codification Topic 718, *Stock Compensation*. Refer to Note 12 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS****Relationship with the Isely Family**

Members of the Isely family controlled all of the voting power of our outstanding common stock prior to our IPO. As of January 13, 2015, members of the Isely family and certain trusts, accounts or entities controlled by them or for the benefit of them owned and controlled approximately 57.3% of our common stock. Due to their holdings of common stock, members of the Isely family are able to continue to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, an amendment of our certificate of incorporation (except when a class vote is required by law), any merger or consolidation requiring common stockholder approval, and a sale of all or substantially all of the Company's assets. In addition, members of the Isely family have the ability to prevent

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change-in-control transactions as long as they maintain voting control of the Company. The Isely family is not subject to any contractual obligation to retain its controlling interest in us.

### **Stockholders Agreement**

Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely, Ms. Elizabeth Isely, certain trusts or entities controlled by them and certain other Isely family members or trusts, accounts and entities controlled by or for the benefit of them have entered into a Stockholders Agreement pursuant to which they have agreed to, among other things, certain voting agreements and limitations on the sale of shares of our common stock. Most, but not all, of the parties to the Stockholders Agreement are subject to the limitations on voting, while all of the parties to the agreement are subject to the limitations on sale.

Parties subject to the voting provisions of the agreement have agreed that they will vote all of their common stock in the election of directors as directed by at least three of Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely and Ms. Elizabeth Isely. If two or more of Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely and Ms. Elizabeth Isely were to die or if at least three of them are unable to reach an agreement 20 days prior to the relevant meeting, the voting direction will be given by a majority of the independent directors. Isely voting group members have agreed to cast and submit by proxy to us their votes in a manner consistent with these voting provisions at least five days prior to the scheduled date of any annual or special meeting of stockholders. As of January 13, 2015, Isely voting group members owned, directly or indirectly, 12,885,597 shares, or 57.3% of our total outstanding stock.

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Parties subject to the limitations on the sale of shares of our common stock have agreed not to transfer any shares of our common stock except pursuant to the permitted transfer provisions of the Stockholders Agreement. As of January 13, 2015, Isely family members subject to the limitations on sale owned, directly or indirectly, 13,321,988 shares, or 59.24% of our total outstanding stock.

The Stockholders Agreement expires on the date upon which 50% or more of our fully-diluted stock is owned by persons other than the Isely voting members. The Stockholders Agreement may be amended, modified, supplemented or restated by the written agreement of parties holding 85% of the shares of the Company that are held by all of the parties to the Stockholders Agreement.

Disputes that relate to the subject matter of the Stockholders Agreement are subject to arbitration pursuant to the terms of that agreement.

**Registration Rights**

In connection with our IPO, we entered into a registration rights agreement with certain members of the Isely family pursuant to which we granted them registration rights with respect to 13,859,561 shares of common stock owned by them. These rights include demand registration rights, shelf registration rights and piggyback registration rights, as well as customary indemnification. All fees, costs and expenses related to any registration under the agreement will be borne by us, other than stock transfer taxes and underwriting discounts or commissions.

*Demand registration rights.* The registration rights agreement grants the Isely family demand registration rights. We are required, upon the written request of any two or more of Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely and Ms. Elizabeth Isely, to use our commercially reasonable efforts to effect registration of shares requested to be registered by the Isely family as soon as practicable after receipt of the request. However, we are not required to effect any such demand registration within 180 days after the effective date of a previous demand registration, to effect a demand registration on Form S-1 after we have effected three such demand registrations, or to comply with any registration demand unless the anticipated aggregate offering amount equals or exceeds \$75.0 million.

*Shelf registration rights.* The registration rights agreement grants the Isely family shelf registration rights. Under the terms of the registration rights agreement, any two or more of Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely and Ms. Elizabeth Isely may demand that we file a shelf registration statement with respect to those shares requested to be registered by the Isely family. Upon such demand, we are required to use our commercially reasonable efforts to effect such registration.

*Piggyback registration rights.* The registration rights agreement grants the Isely family piggyback registration rights. If we register any of our securities either for our own account or for the account of other security holders, the holders of these shares are entitled to include their shares in the registration.

**Lease Agreements**

The Operating Company is a party to real estate leases with members of the Isely family or entities controlled by the Isely family. In February 2012, the Operating Company entered into a lease for one store with an entity ultimately controlled by Mr. Kemper Isely and Mr. Zephyr Isely (the Land Trust Lease). The Operating Company also has seven store lease agreements with an entity owned by Mr. Kemper Isely, Mr. Zephyr Isely, Ms. Heather Isely and Ms. Elizabeth Isely, along with several other related family members (the Chalet Leases). We believe that the Operating Company's leases with related parties as described in this paragraph, which our audit committee approved in accordance with our policies and procedures for related party transactions, generally reflect the prevailing market lease terms and rental rates at the time the Operating Company entered into them.

The following table presents the amounts paid by us under the lease agreements described above for fiscal 2014.

	<b>Fiscal year ended September 30, 2014</b>	
Amount paid under the Land Trust Lease	\$	306,000
Amount paid under the Chalet Leases	\$	1,296,000

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**Commercial Relationship with Anthony Andueza**

Mr. Andueza controls certain entities and custodial accounts owned by members of the Isely family and is a party to the Stockholders Agreement in that capacity. As a result, Mr. Andueza is deemed to beneficially own more than 5% of the Company's common stock, as described above in the section entitled SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. Randal Optimal Nutrients, LLC, or Randal, sells dietary supplements to the Company for one of our private label brands. Mr. Andueza is the account representative responsible for our account with Randal. In fiscal 2014, Randal sold approximately \$1,364,000 in dietary supplements to the Company. We believe that Mr. Andueza received sales commissions of approximately \$136,000 for those sales. Mr. Andueza also purchased approximately six advertisements for Randal products in our *Health Hotline*® newsletter in fiscal 2014 at a cost of approximately \$18,750. Members of the Isely family requested that Mr. Andueza act as a custodian for Isely family entities and custodial accounts because of their longstanding friendship with Mr. Andueza. Our audit committee approved the commissions and payments described above in accordance with our policies and procedures for related party transactions.

**Procedures for Related Party Transactions**

Our Board has adopted a written code of ethics for our Company, which is publicly available on our website at [www.naturalgrocers.com](http://www.naturalgrocers.com). Under our code of ethics, our employees, officers, directors and consultants are discouraged from entering into any transaction that may cause a conflict of interest for us. In addition, they are required to report any potential conflict of interest, including related party transactions, anonymously to a third party hotline or to their supervisor, an executive officer member or the Company's Disclosure and Ethics Committee, or the Company's General Counsel, who will review and summarize the proposed transaction for our audit committee.

Our audit committee is required by its charter to review and approve related party transactions. In fulfillment of that responsibility, our audit committee has adopted Policies and Procedures for Related Party Transactions (the Policy). The Policy defines a Related Party Transaction to include (with certain exceptions) any transaction, proposed transaction or series of similar transactions in which the Company was or is to be a participant and the amount involved exceeds \$120,000 during any fiscal year, and in which any Related Party (defined to include any executive officer, director, director nominee, person owning more than 5% of our common stock or their immediate family members) has or will have a direct or indirect material interest. The chair of the audit committee and the Company's General Counsel are required to be notified of any actual or intended Related Party Transaction. The full audit committee is required to review each Related Party Transaction. The audit committee may approve or ratify a Related Party Transaction only if it determines such transaction is in the best interests of the Company and its stockholders.

**OTHER MATTERS**

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board

/s/ HEATHER ISELY  
Heather Isely

*Corporate Secretary*

January 16, 2015

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014 is available without charge upon written request to: Corporate Secretary, 12612 West Alameda Parkway, Lakewood, Colorado 80228.



























