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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2023

OR

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

COMMISSION FILE NUMBER: 001-35608

Natural Grocers by Vitamin Cottage, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**45-5034161** (I.R.S. Employer Identification No.)
12612 West Alameda Parkway **Lakewood, Colorado** (Address of principal executive offices)	80228 (Zip code)

(303) 986-4600
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	**NGVC**	**New York Stock Exchange**

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non –accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of July 31, 2023 was 22,737,861.

Natural Grocers by Vitamin Cottage, Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2023

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Except where the context otherwise requires or where otherwise indicated: (i) all references herein to ''we,'' ''us,'' ''our,'' ''Natural Grocers'' and the "Company'' refer collectively to Natural Grocers by Vitamin Cottage, Inc. and its consolidated subsidiaries and (ii) all references to a "fiscal year" refer to a year beginning on October 1 of the previous year and ending on September 30 of such year (for example, "fiscal year 2023" refers to the year from October 1, 2022 to September 30, 2023).

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Form 10-Q) includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 in addition to historical information. These forward-looking statements are included throughout this Form 10-Q, including in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." All statements that are not statements of historical fact, including those that relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources, future growth, pending legal proceedings and other financial and operating information, are forward looking statements. We may use the words "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "future," "target" and similar terms and phrases to identify forward-looking statements in this Form 10-Q.

The forward-looking statements contained in this Form 10-Q are based on management's current expectations and are subject to uncertainty and changes in circumstances. We cannot assure you that future developments affecting us will be those that we have anticipated. Actual results may differ materially from these expectations due to changes in global, national, regional or local political, economic, inflationary, deflationary, recessionary, business, interest rates, labor market, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that these factors include those referenced in Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022 (the Form 10-K). Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws. You are advised, however, to consult any disclosures we may make in our future reports filed with the Securities and Exchange Commission (the SEC). Our reports and other filings with the SEC are available at the SEC's website at *www.sec.gov*. Our reports and other filings with the SEC are also available, free of charge, through our website at *www.naturalgrocers.com*.

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PART I. Financial Information

Item 1. Financial Statements

NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except per share data)

		June 30, 2023	September 30, 2022
Assets			
Current assets:			
Cash and cash equivalents	$	8,576	12,039
Accounts receivable, net		8,873	10,496
Merchandise inventory		116,709	113,756
Prepaid expenses and other current assets		6,071	4,369
Total current assets		140,229	140,660
Property and equipment, net		162,312	157,179
Other assets:			
Operating lease assets, net		292,779	307,132
Finance lease assets, net		46,236	43,554
Deposits and other assets		406	452
Goodwill and other intangible assets, net		14,134	14,131
Total other assets		353,555	365,269
Total assets	$	656,096	663,108
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	72,755	71,283
Accrued expenses		22,938	26,737
Term loan facility, current portion		1,750	1,750
Operating lease obligations, current portion		34,839	34,735
Finance lease obligations, current portion		3,552	3,223
Total current liabilities		135,834	137,728
Long-term liabilities:			
Term loan facility, net of current portion		7,938	13,938
Operating lease obligations, net of current portion		281,189	295,064
Finance lease obligations, net of current portion		48,066	44,664
Deferred income tax liabilities, net		16,133	15,902
Total long-term liabilities		353,326	369,568
Total liabilities		489,160	507,296
Commitments (Note 13)			
Stockholders' equity:			
Common stock, $0.001 par value, 50,000,000 shares authorized, 22,743,895 and 22,690,188 shares issued at June 30, 2023 and September 30, 2022, respectively, and 22,736,344 and 22,690,188 shares outstanding at June 30, 2023 and September 30, 2022, respectively		23	23
Additional paid-in capital		58,725	58,072
Retained earnings		108,264	97,717
Common stock in treasury at cost, 7,551 shares at June 30, 2023		(76)	—
Total stockholders' equity		166,936	155,812
Total liabilities and stockholders' equity	$	656,096	663,108

See accompanying notes to unaudited interim consolidated financial statements.

NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended June 30,		Nine months ended June 30,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 281,791	266,309	845,493	815,419
Cost of goods sold and occupancy costs	200,401	192,750	602,907	586,341
Gross profit	81,390	73,559	242,586	229,078
Store expenses	62,631	60,124	191,419	179,065
Administrative expenses	9,308	7,459	26,166	22,924
Pre-opening expenses	367	325	1,069	550
Operating income	9,084	5,651	23,932	26,539
Interest expense, net	(848)	(603)	(2,478)	(1,692)
Income before income taxes	8,236	5,048	21,454	24,847
Provision for income taxes	(1,164)	(1,115)	(4,091)	(5,642)
Net income	$ 7,072	3,933	17,363	19,205
Net income per share of common stock:				
Basic	$ 0.31	0.17	0.76	0.85
Diluted	$ 0.31	0.17	0.76	0.84
Weighted average number of shares of common stock outstanding:				
Basic	22,734,375	22,676,882	22,722,712	22,659,042
Diluted	22,887,923	22,854,754	22,825,343	22,812,692

See accompanying notes to unaudited interim consolidated financial statements.

NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Operating activities:		
Net income	$ 17,363	19,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,426	21,088
Impairment of long-lived assets	930	95
Loss on disposal of property and equipment	104	57
Share-based compensation	1,046	887
Deferred income tax expense	231	274
Non-cash interest expense	14	17
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, net	2,188	(298)
Merchandise inventory	(2,953)	(10,783)
Prepaid expenses and other assets	(569)	(1,088)
Income tax receivable	(1,111)	(328)
Operating lease assets	24,730	23,795
(Decrease) increase in:		
Operating lease liabilities	(25,643)	(20,974)
Accounts payable	2,202	1,696
Accrued expenses	(3,799)	(4,138)
Net cash provided by operating activities	36,159	29,505
Investing activities:		
Acquisition of property and equipment	(23,241)	(15,925)
Acquisition of other intangibles	(1,133)	(2,293)
Proceeds from sale of property and equipment	76	16
Proceeds from property insurance settlements	—	184
Net cash used in investing activities	(24,298)	(18,018)
Financing activities:		
Borrowings under revolving facility	379,700	6,100
Repayments under revolving facility	(379,700)	(6,100)
Repayments under term loan facility	(6,000)	(6,000)
Finance lease obligation payments	(2,039)	(2,059)
Dividends to shareholders	(6,816)	(6,797)
Repurchase of common stock	(181)	—
Payments on withholding tax for restricted stock unit vesting	(288)	(393)
Net cash used in financing activities	(15,324)	(15,249)
Net decrease in cash and cash equivalents	(3,463)	(3,762)
Cash and cash equivalents, beginning of period	12,039	23,678
Cash and cash equivalents, end of period	$ 8,576	19,916
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 933	418
Cash paid for interest on finance lease obligations, net of capitalized interest of $183 and $222, respectively	1,542	1,340
Income taxes paid	5,006	5,315
Supplemental disclosures of non-cash investing and financing activities:		
Acquisition of property and equipment not yet paid	$ 6,246	3,642
Acquisition of other intangibles not yet paid	—	231
Property acquired through operating lease obligations	11,307	19,645
Property acquired through finance lease obligations	5,771	9,726

See accompanying notes to unaudited interim consolidated financial statements.

NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended June 30, 2023 and 2022
(Unaudited)
(Dollars in thousands, except per share data)

	Common stock – $0.001 par value					
	Shares outstanding	Amount	Additional paid-in capital	Retained earnings	Treasury stock	Total stockholders' equity
Balances September 30, 2022	22,690,188	$ 23	$ 58,072	$ 97,717	$ —	$ 155,812
Net income	—	—	—	4,407	—	4,407
Share-based compensation	—	—	239	—	—	239
Issuance of common stock	22,261	—	—	—	—	—
Cash dividend	—	—	—	(2,272)	—	(2,272)
Balances December 31, 2022	22,712,449	23	58,311	99,852	—	158,186
Net income	—	—	—	5,884	—	5,884
Share-based compensation	—	—	208	—	86	294
Issuance of common stock	23,076	—	—	—	—	—
Repurchase of common stock	(8,546)	—	—	—	(86)	(86)
Cash dividend	—	—	—	(2,271)	—	(2,271)
Balances March 31, 2023	22,726,979	23	58,519	103,465	—	162,007
Net income	—	—	—	7,072	—	7,072
Share-based compensation	—	—	206	—	19	225
Issuance of common stock	18,817	—	—	—	—	—
Repurchase of common stock	(9,452)	—	—	—	(95)	(95)
Cash dividend	—	—	—	(2,273)	—	(2,273)
Balances June 30, 2023	22,736,344	$ 23	$ 58,725	$ 108,264	$ (76)	$ 166,936

	Common stock – $0.001 par value				
	Shares outstanding	Amount	Additional paid-in capital	Retained earnings	Total stockholders' equity
Balances September 30, 2021	22,620,417	$ 23	$ 57,289	$ 85,419	$ 142,731
Net income	—	—	—	8,915	8,915
Share-based compensation	—	—	171	—	171
Issuance of common stock	23,473	—	—	—	—
Cash dividend	—	—	—	(2,263)	(2,263)
Balances December 31, 2021	22,643,890	23	57,460	92,071	149,554
Net income	—	—	—	6,357	6,357
Share-based compensation	—	—	201	—	201
Issuance of common stock	25,148	—	—	—	—
Cash dividend	—	—	—	(2,267)	(2,267)
Balances March 31, 2022	22,669,038	23	57,661	96,161	153,845
Net income	—	—	—	3,933	3,933
Share-based compensation	—	—	122	—	122
Issuance of common stock	19,957	—	—	—	—
Cash dividend	—	—	—	(2,267)	(2,267)
Balances June 30, 2022	22,688,995	$ 23	$ 57,783	$ 97,827	$ 155,633

See accompanying notes to unaudited interim consolidated financial statements.

NATURAL GROCERS BY VITAMIN COTTAGE, INC.

Notes to Unaudited Interim Consolidated Financial Statements

June 30, 2023 and 2022

1. Organization

Nature of Business

Natural Grocers by Vitamin Cottage, Inc. (Natural Grocers or the holding company) and its consolidated subsidiaries (collectively, the Company) operate retail stores that specialize in natural and organic groceries, dietary supplements and body care products. The Company operated 164 stores as of June 30, 2023 and September 30, 2022 in 21 states. The Company also has a bulk food repackaging facility and distribution center in Golden, Colorado.

2. Basis of Presentation and Summary of Significant Accounting Policies

Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial statements and are in the form prescribed by Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The information included in this Form 10-Q should be read in conjunction with Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included in the Form 10-K. The accompanying unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial results. Interim results are not necessarily indicative of results for any other interim period or for a full fiscal year. The Company reports its results of operations on a fiscal year ending September 30.

The accompanying unaudited consolidated financial statements include all the accounts of the holding company's wholly owned subsidiaries, Vitamin Cottage Natural Food Markets, Inc. (the operating company) and Vitamin Cottage Two Ltd. Liability Company (VC2). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has one reporting segment: natural and organic retail stores.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews its estimates on an ongoing basis, including those related to valuation of inventories, useful lives of long-lived assets for depreciation and amortization, impairment of finite-lived intangible assets, long-lived assets, and goodwill, lease assumptions, allowances for self-insurance reserves, deferred tax assets and liabilities, and litigation based on currently available information. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, "Income Taxes," Topic 740, "Simplifying the Accounting for Income Taxes" (ASU 2019-12). The new guidance simplified the accounting for income taxes by removing certain exceptions to the general principles and also simplified areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements, and interim recognition of enactment of tax laws or rate changes. The provisions of ASU 2019-12 were effective for the Company's first quarter of the fiscal year ending September 30, 2022. The adoption of this ASU did not have an impact on the Company's consolidated financial statements for the three and nine months ended June 30, 2023 and 2022.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform,” Topic 848, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (ASU 2020-04), which was subsequently amended by a standard update in December 2022. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. As amended, the guidance only applies to modifications made prior to December 31, 2024. On December 15, 2022, the Company amended the Credit Facility (as defined in Note 5 below) to, among other things, replace the LIBOR-based interest rate benchmark provisions with interest rate benchmark provisions based on the Secured Overnight Financing Rate (SOFR). The Company elected to apply ASU 2020-04’s amendments for contract modifications during the first quarter of the fiscal year ending September 30, 2023. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements for the three and nine months ended June 30, 2023.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses,” Topic 326, “Measurement of Credit Losses on Financial Instruments” (ASU 2016-13), subsequently amended by various standard updates. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information when determining credit loss estimates. ASU 2016-13 also requires financial assets to be measured net of expected credit losses at the time of initial recognition. ASU 2019-10, issued in November 2019, delayed the effective date of ASU 2016-13 for smaller reporting companies such as the Company. The provisions of ASU 2016-13 will be effective for the Company’s first quarter of the fiscal year ending September 30, 2024. Early adoption is permitted. The Company is evaluating the impact that the adoption of these provisions will have on its consolidated financial statements, but does not anticipate that these provisions will have material impacts on its consolidated financial statements.

3. Revenue Recognition

The nature of the goods the Company transfers to customers at the point of sale consists of merchandise purchased for resale. In these transactions, the Company acts as a principal and recognizes revenue (net sales) from the sale of goods when control of the promised goods is transferred to the customer. Control refers to the ability of the customer to direct the use of, and obtain substantially all the remaining benefits from, the transferred goods.

The Company’s performance obligations are satisfied upon the transfer of goods to the customer (at the point of sale), and payment from the customer is also due at that time. Transaction prices are considered fixed. Discounts provided to customers at the point of sale are recognized as a reduction in revenue as the goods are sold. Revenue excludes sales and usage-based taxes collected.

Proceeds from the sale of the Company’s gift cards are recorded as a liability at the time of sale and recognized as revenue when the gift cards are redeemed by the customer and the performance obligation is satisfied by the Company.

The balance of contract liabilities related to unredeemed gift cards was $1.6 million and $1.3 million as of June 30, 2023 and September 30, 2022, respectively. Revenue for each of the three months ended June 30, 2023 and 2022 includes $0.1 million that was included in the contract liability balance of unredeemed gift cards at September 30, 2022 and 2021, respectively. Revenue for the nine months ended June 30, 2023 and 2022 includes approximately $0.5 million and $0.8 million, respectively, that was included in the contract liability balance of unredeemed gift cards at September 30, 2022 and 2021, respectively.

Loyalty program points are accrued as deferred revenue at the retail value per point, net of estimated breakage based on historical redemption rates experienced within the loyalty program. Loyalty points are forfeited at the end of each calendar year.

The following table disaggregates the Company’s revenue by product category for the three and nine months ended June 30, 2023 and 2022, dollars in thousands and as a percentage of net sales:

	Three months ended June 30,				Nine months ended June 30,			
	2023		2022		2023		2022	
Grocery	$ 196,162	69%	186,626	70	590,650	70	567,469	70
Dietary supplements	58,183	21	54,461	20	174,860	21	170,668	21
Body care, pet care and other	27,446	10	25,222	10	79,983	9	77,282	9
	$ 281,791	100%	266,309	100	845,493	100	815,419	100

4. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if the Company's granted but unvested restricted stock units (RSUs) were to vest, resulting in the issuance of common stock that would then share in the earnings of the Company.

Presented below are basic and diluted EPS for the three and nine months ended June 30, 2023 and 2022, dollars in thousands, except per share data:

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Net income	$ 7,072	3,933	17,363	19,205
Weighted average number of shares of common stock outstanding	22,734,375	22,676,882	22,722,712	22,659,042
Effect of dilutive securities	153,548	177,872	102,631	153,650
Weighted average number of shares of common stock outstanding including effect of dilutive securities	22,887,923	22,854,754	22,825,343	22,812,692
Basic earnings per share	$ 0.31	0.17	0.76	0.85
Diluted earnings per share	$ 0.31	0.17	0.76	0.84

There were 11,575 and 155,380 non-vested RSUs for the three and nine months ended June 30, 2023, respectively, excluded from the calculation of diluted EPS as they were antidilutive. There were no non-vested RSUs for the three months ended June 30, 2022 and 11,666 non-vested RSUs for the nine months ended June 30, 2022 excluded from the calculation of diluted EPS as they were antidilutive.

5. Debt

Credit Facility

The Company is party to a Credit Facility, entered into on January 28, 2016 and subsequently amended, consisting of a $50.0 million revolving loan facility (the Revolving Facility) and a $35.0 million term loan facility (the Term Loan Facility, and together with the Revolving Facility, the Credit Facility). The operating company is the borrower under the Credit Facility and its obligations under the Credit Facility are guaranteed by the holding company and VC2. The Credit Facility is secured by a lien on substantially all of the Company's assets. The revolving commitment amount under the Revolving Facility is $50.0 million, including a $5.0 million sublimit for standby letters of credit. The Company has the right to borrow, prepay and re-borrow amounts under the Revolving Facility at any time prior to the maturity date without premium or penalty. The Credit Facility matures on November 13, 2024. Base rate loans under the Credit Facility bear interest at a fluctuating base rate, as determined by the lenders' administrative agent based on the most recent compliance certificate of the operating company and stated at the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate, and (iii) the Eurodollar rate plus 1.00%, less the lender spread based upon the Company's consolidated leverage ratio. Eurodollar rate borrowings under the Credit Facility bear interest based on SOFR for the interest period plus the lender spread based upon the Company's consolidated leverage ratio. The unused commitment fee is based upon the Company's consolidated leverage ratio. The Company is required to repay principal amounts outstanding under the Term Loan Facility in equal installments of approximately $0.4 million on the last day of each fiscal quarter, beginning on March 31, 2021 and ending on September 30, 2024, with the remaining principal amount payable on the maturity date. Amounts repaid on the Term Loan Facility may not be reborrowed.

The Credit Facility requires compliance with certain customary operational and financial covenants, including a consolidated leverage ratio. The Credit Facility also contains certain other customary limitations on the Company's ability to incur additional debt, guarantee other obligations, grant liens on assets and make investments or acquisitions, among other limitations. Additionally, the Credit Facility prohibits the payment of cash dividends to the holding company from the operating company without the administrative agent's consent, provided that so long as no default or event of default exists or would arise as a result thereof, the operating company may pay cash dividends to the holding company in an amount sufficient to allow the holding company to: (i) pay various audit, accounting, tax, securities, indemnification, reimbursement, insurance and other reasonable expenses incurred in the ordinary course of business and (ii) repurchase shares of common stock and pay dividends on the Company's common stock in an aggregate amount not to exceed $12.5 million during any fiscal year.

On November 18, 2020, the Company amended the Credit Facility to provide for the Term Loan Facility and to permit payment of a one-time dividend of up to $50.0 million no later than December 31, 2020. On December 15, 2022, the Company further amended the Credit Facility to (i) replace the LIBOR-based interest rate benchmark provisions with interest rate benchmark provisions based on SOFR and (ii) increase the Company's restricted payment capacity, allowing the Company to repurchase shares of common stock and pay dividends on its common stock in an aggregate amount not to exceed $12.5 million during any fiscal year.

The Company had no amounts outstanding under the Revolving Facility as of June 30, 2023 and September 30, 2022. The Company had undrawn, issued and outstanding letters of credit of $1.5 million and $1.1 million as of June 30, 2023 and September 30, 2022, respectively, which were reserved against the amount available for borrowing under the terms of the Revolving Facility. The Company had $48.5 million and $48.9 million available for borrowing under the Revolving Facility as of June 30, 2023 and September 30, 2022, respectively. The Company had $9.7 million outstanding under its fully drawn Term Loan Facility as of June 30, 2023.

As of June 30, 2023 and September 30, 2022, the Company was in compliance with all covenants under the Credit Facility.

Lease Obligations

As of June 30, 2023 and September 30, 2022, the Company had 24 and 21 leases that were classified as finance leases, respectively. No rent expense is recorded for these finance leases; rather, rental payments under such leases are recognized as a reduction of the lease obligation and as interest expense. The interest rate on finance lease obligations is determined at the commencement of the lease.

Interest

The Company incurred gross interest expense of $0.9 million and $0.7 million for the three months ended June 30, 2023 and 2022, respectively, and $2.7 million and $1.9 million for the nine months ended June 30, 2023 and 2022, respectively. Interest expense for the three and nine months ended June 30, 2023 and 2022 relates primarily to interest on finance lease obligations and the Credit Facility. The Company capitalized interest of $0.1 million for each of the three months ended June 30, 2023 and 2022 and $0.2 million for each of the nine months ended June 30, 2023 and 2022.

6. Stockholders' Equity

Share Repurchases

In May 2016, the Board of Directors (the Board) authorized a two-year share repurchase program pursuant to which the Company may repurchase up to $10.0 million in shares of the Company's common stock. The Board subsequently extended the share repurchase program – most recently in May 2022 – and the program will terminate on May 31, 2024. Repurchases under the Company's share repurchase program may be made from time to time at management's discretion on the open market or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act), subject to market conditions, applicable legal requirements and other relevant factors. Repurchases of common stock may also be made under a Rule 10b5-1 plan, which permits common stock to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The share repurchase program does not obligate the Company to purchase any particular amount of common stock and may be suspended, modified or discontinued by the Company without prior notice.

The following table summarizes share repurchase activity for the three and nine months ended June 30, 2023 and 2022 (in thousands, except number of shares acquired and average per share cost):

	Three months ended June 30,		Nine months ended June 30,	
	2023	**2022**	**2023**	**2022**
Number of common shares acquired	9,452	—	17,998	—
Average price per common share acquired (including commissions)	$ 10.12	—	10.07	—
Total cost of common shares acquired	$ 95	—	181	—

During the three and nine months ended June 30, 2023, the Company reissued 1,901 and 10,447 treasury shares previously acquired under its share repurchase program, respectively, at a cost of less than $0.1 million and $0.1 million, respectively, to partially satisfy the issuance of common stock pursuant to the vesting of certain restricted stock unit awards. At June 30, 2023 and September 30, 2022, the Company held 7,551 and no treasury shares, respectively.

Between July 1, 2023 and July 31, 2023 (the latest practical date for making the determination), the Company has not repurchased any additional shares of the Company's common stock. The dollar value of the shares of the Company's common stock that may yet be repurchased under the share repurchase program is $8.1 million.

Dividends

The Company paid quarterly cash dividends of $0.10 per share of common stock in each of the first three quarters of fiscal years 2023 and 2022.

7. Lease Obligations

The Company leases most of its stores, a bulk food repackaging facility and distribution center, and its administrative offices. The Company determines if an arrangement is a lease or contains a lease at inception. Lease terms generally range from 10 to 25 years, with scheduled increases in minimum rent payments.

Operating and finance lease liabilities represent the present value of lease payments not yet paid. Operating and finance lease assets represent the Company's right to use an underlying asset and are based upon the operating and finance lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives and impairment of operating and finance lease assets.

Most leases include one or more options to renew, with renewal terms normally expressed in periods of five- to ten-year increments. The exercise of lease renewal options is at the Company's sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that the Company will exercise that option.

Variable payments related to pass-through costs for maintenance, taxes and insurance or adjustments based on an index such as Consumer Price Index are not included in the measurement of the lease liability or asset and are expensed as incurred.

As most of the Company's lease agreements do not provide an implicit discount rate, the Company uses an estimated incremental borrowing rate, which is derived from third-party lenders, to determine the present value of lease payments. The Company uses other observable market data to evaluate the appropriateness of the rate derived from the lenders. The estimated incremental borrowing rate is based on the borrowing rate for a secured loan with a term similar to the expected term of the lease.

Leases are recorded at the commencement date (the date the underlying asset becomes available for use) for the present value of lease payments, less tenant improvement allowances received or receivable. Leases with a term of 12 months or less (short-term leases) are not presented on the balance sheet. The Company has elected to account for the lease and non-lease components as a single lease component for all current classes of leases.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company subleases certain real estate or portions thereof to third parties. Such subleases have all been classified as operating leases. Remaining lease terms extend through fiscal year 2030. Although some sublease arrangements provide renewal options, the exercise of sublease renewal options is at the sole discretion of the subtenant. The Company recognizes sublease income on a straight-line basis.

The Company has four operating leases with Chalet Properties, LLC (Chalet), one operating lease with the Isely Family Land Trust LLC (Land Trust) and one operating lease with FTVC, LLC (FTVC), each of which is a related party (see Note 12). The leases began at various times with the earliest commencing in November 1999, continue for various terms through May 2042 and include various options to renew. The terms and rental rates of these leases have been approved by our audit committee in accordance with our related party transaction policy. As of June 30, 2023, these leases accounted for $8.6 million of operating lease assets and $8.8 million of operating lease liabilities, of which $0.8 million was current, and are included in the disclosures below. Lease expense is recognized on a straight-line basis and was $0.3 million for each of the three months ended June 30, 2023 and 2022, and $0.9 million and $1.0 million for the nine months ended June 30, 2023 and 2022, respectively.

The components of total lease cost for the three and nine months ended June 30, 2023 and 2022 were as follows, dollars in thousands:

Lease cost	Classification	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Operating lease cost:					
	Cost of goods sold and occupancy costs	$ 11,013	10,749	32,884	32,199
	Store expenses	61	79	239	257
	Administrative expenses	86	81	245	228
	Pre-opening expenses	84	100	178	100
Finance lease cost:					
Depreciation of right-of-use assets	Store expenses	948	974	2,800	2,921
	Pre-opening expenses	127	77	313	117
Interest on lease liabilities	Interest expense, net	467	472	1,383	1,444
	Pre-opening expenses	132	79	342	118
Short-term lease cost	Store expenses	826	925	2,267	2,135
Variable lease cost	Cost of goods sold and occupancy costs (1)	1,747	1,490	4,852	4,358
Sublease income	Store expenses	(84)	(75)	(230)	(229)
Total lease cost		$ 15,407	14,951	45,273	43,648

1 Immaterial balances related to corporate headquarters and distribution center are included in administrative expenses and store expenses, respectively.

Additional information related to the Company's leases for the three and nine months ended June 30, 2023 and 2022 was as follows, dollars in thousands:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 11,623	11,228	34,459	29,963
Operating cash flows from finance leases	598	551	1,725	1,562
Financing cash flows from finance leases	682	732	2,039	2,059
Right-of-use assets obtained in exchange for new lease liabilities:				
Operating leases	10,551	13,074	11,307	19,645
Finance leases	4,119	5,597	5,771	9,726

Additional information related to the Company's leases as of June 30, 2023 and 2022 was as follows:

	June 30, 2023	June 30, 2022
Weighted-average remaining lease term (in years):		
Operating leases	10.4	10.8
Finance leases	14.3	14.1
Weighted-average discount rate:		
Operating leases	3.8%	3.7
Finance leases	4.9%	4.8

During the three and nine months ended June 30, 2023, the Company incurred impairment charges of $0.1 million and $0.9 million related to operating lease assets associated with an early store relocation, and an early store relocation and a store closure, respectively. During the nine months ended June 30, 2022, the Company incurred an impairment charge of $0.1 million related to an operating lease asset associated with an early store relocation.

Future lease payments under non-cancellable leases as of June 30, 2023 were as follows, dollars in thousands:

Fiscal year	Operating leases	Finance leases	Total
Remainder of 2023	$ 11,657	1,339	12,996
2024	45,719	6,023	51,742
2025	44,129	6,051	50,180
2026	41,203	6,093	47,296
2027	39,216	6,138	45,354
Thereafter	204,043	45,834	249,877
Total future undiscounted lease payments	385,967	71,478	457,445
Less imputed interest	(69,939)	(19,860)	(89,799)
Total reported lease liability	316,028	51,618	367,646
Less current portion	(34,839)	(3,552)	(38,391)
Noncurrent lease liability	$ 281,189	48,066	329,255

The table above excludes $2.3 million of legally binding minimum lease payments for leases that had been executed as of June 30, 2023 but whose terms had not yet commenced.

8. Property and Equipment

The Company had the following property and equipment balances as of June 30, 2023 and September 30, 2022, dollars in thousands:

	Useful lives (in years)	As of June 30, 2023	As of September 30, 2022
Construction in process	n/a	$ 13,178	8,651
Land	n/a	6,746	6,746
Buildings	16 – 40	46,412	43,010
Land improvements	1 – 24	2,038	1,822
Leasehold and building improvements	1 – 25	169,168	163,721
Fixtures and equipment	5 – 7	155,836	151,242
Computer hardware and software	3 – 5	27,210	25,545
		420,588	400,737
Less accumulated depreciation and amortization		(258,276)	(243,558)
Property and equipment, net		$ 162,312	157,179

Depreciation and amortization expense for the three and nine months ended June 30, 2023 and 2022 is summarized as follows, dollars in thousands:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Depreciation and amortization expense included in cost of goods sold and occupancy costs	$ 272	278	796	759
Depreciation and amortization expense included in store expenses	6,415	6,343	19,128	19,148
Depreciation and amortization expense included in administrative expenses	396	370	1,189	1,064
Depreciation and amortization expense included in pre-opening expenses	127	77	313	117
Total depreciation and amortization expense	$ 7,210	7,068	21,426	21,088

9. Goodwill and Other Intangible Assets

The Company had the following goodwill and other intangible asset balances as of June 30, 2023 and September 30, 2022, dollars in thousands:

	Useful lives (in years)	As of June 30, 2023	As of September 30, 2022
Amortizable intangible assets:			
Other intangibles	0.5 – 7	$ 12,956	11,965
Less accumulated amortization		(4,931)	(3,827)
Amortizable intangible assets, net		8,025	8,138
Other intangibles in process		499	369
Trademarks	Indefinite	389	389
Deferred financing costs, net	3 – 5	23	37
Total other intangibles, net		8,936	8,933
Goodwill	Indefinite	5,198	5,198
Total goodwill and other intangibles, net		$ 14,134	14,131

10. Accrued Expenses

The composition of accrued expenses as of June 30, 2023 and September 30, 2022 is summarized as follows, dollars in thousands:

	As of June 30, 2023	As of September 30, 2022
Payroll and employee-related expenses	$ 10,868	14,527
Accrued property, sales, and use tax payable	7,289	8,450
Accrued marketing expenses	534	153
Deferred revenue	2,045	1,757
Other	2,202	1,850
Total accrued expenses	$ 22,938	26,737

11. Income Taxes

Income taxes are accounted for in accordance with the provisions of Accounting Standards Codification Topic 740 “Income Taxes” (ASC 740). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

The Company’s effective income tax rate was 14.1% and 22.1% for the three months ended June 30, 2023 and 2022, respectively, and 19.1% and 22.7% for the nine months ended June 30, 2023 and 2022, respectively. The decrease in the effective income tax rate was primarily attributable to increased food donation deductions recorded during the three months ended June 30, 2023.

12. Related Party Transactions

The Company has ongoing relationships with related entities as noted below:

Chalet Properties, LLC: The Company has four operating leases (see Note 7) with Chalet. Chalet is owned by the Company’s four non-independent Board members: Kemper Isely, Zephyr Isely, Heather Isely and Elizabeth Isely, and other related family members. Rent paid to Chalet was $0.2 million for each of the three months ended June 30, 2023 and 2022 and $0.6 million and $0.7 million for the nine months ended June 30, 2023 and 2022, respectively.

Isely Family Land Trust LLC: The Company has one operating lease (see Note 7) with the Land Trust. The Land Trust is owned by the Isely Children's Trust and by the Margaret A. Isely Family Trust. Rent paid to the Land Trust was $0.1 million for each of the three months ended June 30, 2023 and 2022 and was $0.2 million for each of the nine months ended June 30, 2023 and 2022.

FTVC LLC: The Company has one operating lease (see Note 7) with FTVC, which is owned by the Company's four non-independent Board members and other related family members. Rent paid to FTVC was less than $0.1 million for each of the three months ended June 30, 2023 and 2022 and was less than $0.1 million for each of the nine months ended June 30, 2023 and 2022.

13. Commitments and Contingencies

In January 2020, a former assistant store manager filed a putative class action lawsuit in the United States District Court for the District of Colorado on behalf of current and former assistant store managers alleging that the Company violated the Fair Labor Standards Act (FLSA) and Colorado labor laws by misclassifying the assistant store managers as exempt. The alleged violations relate to failure to pay for overtime work. In November 2020, the court granted plaintiffs' motion for conditional certification with regard to the FLSA claim. In December 2022, pre-trial motions were filed by both parties, including a motion filed by the Company to decertify the FLSA collective action, which included 100 opt-in plaintiffs. In February 2023, the plaintiffs filed a motion seeking certification of a putative class with regard to alleged violations of Colorado labor laws, which the Company opposed. In May 2023, the court granted the Company's motion to decertify the FLSA collective action and denied plaintiffs' motion to certify a putative class of Colorado plaintiffs. Accordingly, while the named plaintiff's litigation and certain arbitration claims will proceed on an individual basis, the Company has determined that the likelihood of a material loss contingency is remote.

The Company is otherwise periodically involved in various legal proceedings that are incidental to the conduct of its business, including but not limited to employment discrimination claims, customer injury claims, and investigations. When the potential liability from a matter can be estimated and the loss is considered probable, the Company records the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations, and claims, the ultimate outcome may differ from the estimates. Although the Company cannot predict with certainty the ultimate resolution of any lawsuits, investigations, and claims asserted against it, management does not believe any currently pending legal proceeding to which the Company is a party will have a material adverse effect on its financial statements.

14. Subsequent Event

On August 2, 2023, the Board approved the payment of a quarterly cash dividend of $0.10 per share of common stock to be paid on September 13, 2023 to stockholders of record as of the close of business on August 28, 2023.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our unaudited consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and with the audited consolidated financial statements and notes thereto in our Form 10-K. This MD&A contains forward-looking statements. Refer to "*Forward-Looking Statements*" at the beginning of this Form 10-Q for an explanation of these types of statements. Summarized numbers included in this section, and corresponding percentage or basis point changes, may not sum due to the effects of rounding.

Company Overview

We operate natural and organic grocery and dietary supplement stores that are focused on providing high-quality products at affordable prices, exceptional customer service, nutrition education and community outreach. We offer a variety of natural and organic groceries, dietary supplements and body care products that meet our strict quality standards. We believe we have been at the forefront of the natural and organic foods movement since our founding. We are headquartered in Lakewood, Colorado. As of June 30, 2023, we operated 164 stores in 21 states, including Colorado, Arkansas, Arizona, Idaho, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. We also operate a bulk food repackaging facility and distribution center in Golden, Colorado.

Our stores range from approximately 7,000 to 16,000 selling square feet, and average approximately 11,000 selling square feet.

The growth in the organic and natural foods industry and growing consumer interest in health and nutrition have enabled us to continue to open new stores and enter new markets. During the five fiscal years ended September 30, 2022, we increased our store count at a compound annual growth rate of 3.2%. In fiscal year 2022, we opened three new stores, relocated/remodeled two stores and closed one store. We plan to open four new stores and relocate/remodel three stores in fiscal year 2023. As of the date of this report, we have signed leases for an additional five new stores that we plan to open in fiscal years 2023 and beyond. During the nine months ended June 30, 2023, we opened two new stores, relocated/remodeled one store, and closed two stores. Between July 1, 2023 and the date of this Form 10-Q, we did not open any new stores or relocate/remodel any stores.

Performance Highlights

Key highlights of our performance for the three and nine months ended June 30, 2023 are discussed briefly below and in further detail throughout this MD&A. Key financial metrics, including, but not limited to, daily average comparable store sales, are defined in the section "Key Financial Metrics in Our Business," presented later in this MD&A.

- *Net sales.* Net sales were $281.8 million for the three months ended June 30, 2023, an increase of $15.5 million, or 5.8%, compared to net sales of $266.3 million for the three months ended June 30, 2022. Net sales were $845.5 million for the nine months ended June 30, 2023, an increase of $30.1 million, or 3.7%, compared to net sales of $815.4 million for the nine months ended June 30, 2022.

- *Daily average comparable store sales.* Daily average comparable store sales for the three months ended June 30, 2023 increased 4.4% compared to the three months ended June 30, 2022. Daily average comparable store sales for the nine months ended June 30, 2023 increased 2.5% compared to the nine months ended June 30, 2022.

- *Net income.* Net income was $7.1 million for the three months ended June 30, 2023, an increase of $3.1 million, or 79.8%, compared to net income of $3.9 million for the three months ended June 30, 2022. Net income was $17.4 million for the nine months ended June 30, 2023, a decrease of $1.8 million, or 9.6%, compared to net income of $19.2 million for the nine months ended June 30, 2022.

- *EBITDA.* Earnings before interest, taxes, depreciation, and amortization (EBITDA) was $16.3 million for the three months ended June 30, 2023, an increase of $3.6 million, or 28.1%, compared to $12.7 million for the three months ended June 30, 2022. EBITDA was $45.4 million for the nine months ended June 30, 2023, a decrease of $2.3 million, or 4.8%, compared to $47.6 million for the nine months ended June 30, 2022. EBITDA is not a measure of financial performance under GAAP. Refer to the "Non-GAAP Financial Measures" section in this MD&A for a definition of EBITDA and a reconciliation of net income to EBITDA.

- *Adjusted EBITDA.* Adjusted EBITDA was $16.7 million for the three months ended June 30, 2023, an increase of $3.7 million, or 28.2%, compared to $13.0 million for the three months ended June 30, 2022. Adjusted EBITDA was $47.3 million for the nine months ended June 30, 2023, a decrease of $1.3 million, or 2.6%, compared to $48.6 million for the nine months ended June 30, 2022. Adjusted EBITDA is not a measure of financial performance under GAAP. Refer to the "Non-GAAP Financial Measures" section in this MD&A for a definition of Adjusted EBITDA and a reconciliation of net income to Adjusted EBITDA.

- *Liquidity.* As of June 30, 2023, cash and cash equivalents was $8.6 million, and there was $48.5 million available for borrowing under our Revolving Facility, net of undrawn, issued and outstanding letters of credit of $1.5 million.

Industry Trends and Economics

We have identified the following recent trends and factors that have impacted and may continue to impact our results of operations and financial condition:

- *Impact of broader economic trends and political environment.* The grocery industry and our sales are affected by general economic conditions, including, but not limited to, consumer spending, levels of disposable consumer income, consumer debt, interest rates, inflation or deflation, periods of recession and growth, the price of commodities, the political environment and consumer confidence. Furthermore, our ability to meet our labor needs, while controlling wage and labor-related costs, is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the workforce in the markets in which we are located, unemployment levels within those markets, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation, including unemployment benefits. A number of macroeconomic and global trends have impacted our business. The current labor market has impacted our ability to retain and attract store Crew members, and we continue to be challenged by labor shortages broadly impacting the retail industry. We have invested in increased wages for our store Crew members and may be required to do so in the future. As a result of current global supply chain issues, we have on occasion experienced shortages and delays in the delivery of certain products to our stores. We have taken steps to mitigate these disruptions to our supply chain, although certain products may be in relatively short supply or unavailable from time to time.

  During fiscal year 2022 and the first nine months of fiscal year 2023, the costs of certain goods we sell were impacted by levels of inflation higher than we have experienced in recent years, resulting in part from supply disruptions, the military conflict between Ukraine and Russia, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain, monetary policy actions, disruptions caused by the COVID-19 pandemic and the uncertain economic environment. In the aggregate, management estimates that the Company experienced annualized cost inflation of approximately 7% in the third quarter of fiscal year 2023. Cost inflation estimates are based on individual like items sold during the periods being compared. The impact of inflation on our sales and profitability is influenced in part by our ability to adjust our retail prices accordingly. While we have been able to mitigate this impact to date through our pricing strategies, we are unable to predict how long the current inflationary environment will continue or the impact of inflationary trends on consumer behavior and our sales and profitability in the future.

- *Opportunities in the growing natural and organic grocery and dietary supplements industry.* Our industry, which includes organic and natural foods and dietary supplements, continues to experience growth driven primarily by increased public interest in health and nutrition. Capitalizing on this opportunity, we continue to open new stores and enter new markets. We expect the rate of new store unit growth in the foreseeable future to be dependent upon economic and business conditions and other factors, including construction permitting and the availability of construction materials and equipment.

- *Competition.* The grocery and dietary supplement retail business is a large, fragmented and highly competitive industry, with few barriers to entry. Competition in the grocery industry is likely to intensify, and shopping dynamics may shift, as a result of, among other things, industry consolidation, expansion by existing competitors, and the increasing availability of grocery ordering, pick-up, and delivery options. In particular, the proposed merger of The Kroger Co. and Albertsons Companies, Inc., if consummated, would create a larger conventional supermarket retailer that could alter the competitive landscape of the grocery industry and adversely impact our ability to compete. These businesses compete with us on the basis of price, selection, quality, customer service, convenience, location, store format, shopping experience, ease of ordering and delivery or any combination of these or other factors. They also compete with us for products and locations. In addition, some of our competitors are expanding to offer a greater range of natural and organic foods. We also face internally generated competition when we open new stores in markets we already serve. We believe our commitment to carrying only carefully vetted, affordably priced and high-quality natural and organic products and dietary supplements, as well as our focus on providing nutrition education, differentiate us in the industry and provide a competitive advantage.

- *Consumer preferences.* Our performance is also impacted by trends regarding natural and organic products, dietary supplements and at-home meal preparation. Consumer preferences towards dietary supplements or natural and organic food products might shift as a result of, among other things, economic conditions, food safety perceptions, changing consumer choices and the cost of these products. A change in consumer preferences away from our offerings, including those resulting from higher retail prices for our products due to inflation, or reductions or changes in our offerings, could have a material adverse effect on our business. Additionally, negative publicity regarding the safety of dietary supplements, product recalls or new or stricter regulatory standards may adversely affect demand for the products we sell and could result in lower consumer traffic, sales and results of operations.

Outlook

We believe there are several key factors that have contributed to our success and will enable us to increase our comparable store sales and continue to profitably expand. These factors include a loyal customer base, increasing basket size, growing consumer interest in nutrition and wellness, a differentiated shopping experience that focuses on customer service, nutrition education, a convenient, clean and shopper-friendly retail environment, and our focus on high quality, affordable natural and organic groceries, dietary supplements and body care products.

We expect the rate of new store unit growth in the foreseeable future to be dependent upon economic and business conditions and other factors, including construction permitting and the availability of construction materials and equipment. We believe there are opportunities for us to continue to expand our store base, expand profitability and increase comparable store sales. However, future sales growth, including comparable store sales, and our profitability could vary due to increasing competitive conditions in the natural and organic grocery, dietary supplement and body care products industries and regional and general economic conditions, including inflationary or recessionary trends. We believe there are opportunities for increased leverage of costs and increased economies of scale in sourcing products. However, due to the fixed nature of certain of our costs (in particular, our rent obligations and related occupancy costs), our ability to leverage costs may be limited.

Our operating results may be affected by the above-described factors as well as a variety of other internal and external factors and trends described more fully in Item 1A - “Risk Factors” in our Form 10-K and Part II, Item 1A – “Risk Factors” in this Form 10-Q.

Key Financial Metrics in Our Business

In assessing our performance, we consider a variety of performance and financial measures. The key measures are as follows:

Net sales

Our net sales are comprised of gross sales net of discounts, in-house coupons, returns, and allowances. In comparing net sales between periods, we monitor the following:

- *Change in daily average comparable store sales.* We begin to include sales from a store in comparable store sales on the first day of the thirteenth full month following the store's opening. We monitor the percentage change in comparable store sales by comparing sales from all stores in our comparable store base for a reporting period against sales from the same stores for the same number of operating months in the comparable reporting period of the prior fiscal year. When a store that is included in comparable store sales is remodeled or relocated, we continue to consider sales from that store to be comparable store sales. Our comparable store sales data may not be presented on the same basis as our competitors. We use the term "new stores" to refer to stores that have been open for less than thirteen months. Daily average comparable store sales are comparable store sales divided by the number of selling days in each period. We use this metric to remove the effect of differences in the number of selling days we are open during the comparable periods (for example, as a result of leap years or the Easter holiday shift between quarters).

- *Transaction count.* Transaction count represents the number of transactions reported at our stores during the period and includes transactions that are voided, returned, and exchanged.

- *Average transaction size.* Average transaction size, or basket size, is calculated by dividing net sales by transaction count for a given time period. We use this metric to track the trends in average dollars spent in our stores per customer transaction.

Cost of goods sold and occupancy costs

Our cost of goods sold and occupancy costs include the cost of inventory sold during the period (net of discounts and allowances), shipping and handling costs, distribution and supply chain costs (including the costs of our bulk food repackaging facility), buying costs, shrink expense, third-party delivery fees and store occupancy costs. Store occupancy costs include rent, common area maintenance and real estate taxes. Depreciation expense included in cost of goods sold relates to depreciation of assets directly used at our bulk food repackaging facility. The components of our cost of goods sold and occupancy costs may not be identical to those of our competitors, and, as a result, our cost of goods sold and occupancy costs data included in this Form 10-Q may not be identical to those of our competitors and may not be comparable to similar data made available by our competitors. Occupancy costs as a percentage of net sales typically decrease as new stores mature and sales increase. Rent payments for leases classified as finance lease obligations are not recorded in cost of goods sold and occupancy costs. Rather, these rent payments are recognized as a reduction of the related obligations and as interest expense.

Gross profit and gross margin

Gross profit is equal to our net sales less our cost of goods sold and occupancy costs. Gross margin is gross profit as a percentage of net sales. Gross margin is impacted by changes in retail prices, product costs, occupancy costs and the mix of products sold, as well as the rate at which we open new stores.

Store expenses

Store expenses consist of store-level expenses, such as salary and benefits, share-based compensation, supplies, utilities, depreciation, advertising, bank credit card charges and other related costs associated with operations and purchasing support. Depreciation expense included in store expenses relates to depreciation for assets directly used at the stores, including depreciation on land improvements, leasehold improvements, fixtures and equipment and technology. Depreciation expenses on the right-of-use assets related to the finance leases of the stores are also considered store expenses. Additionally, store expenses include any gain or loss recorded on the disposal of fixed assets, primarily related to store relocations, as well as store closing costs. Store expenses also include long-lived asset impairment charges. The majority of store expenses consist of labor-related expenses, which we closely manage and which trend closely with sales. Labor-related expenses as a percentage of net sales tend to be higher at new stores compared to comparable stores, as new stores require a minimum level of staffing in order to maintain adequate levels of customer service combined with lower sales. As new stores increase their sales, labor-related expenses as a percentage of net sales typically decrease.

Administrative expenses

Administrative expenses consist of home office-related expenses, such as salary and benefits, share-based compensation, office supplies, hardware and software expenses, depreciation and amortization expense, occupancy costs (including rent, common area maintenance, real estate taxes and utilities), professional services expenses, expenses associated with our Board, expenses related to compliance with the requirements of regulations applicable to publicly traded companies, and other general and administrative expenses. Depreciation expense included in administrative expenses relates to depreciation for assets directly used at the home office including depreciation on land improvements, leasehold improvements, fixtures and equipment, and computer hardware and software.

Pre-opening expenses

Pre-opening expenses for new stores and relocations/remodels may include rent expense, salaries, advertising, supplies, and other miscellaneous costs incurred prior to the store opening. Rent expense is generally incurred from one to four months prior to a store's opening date for store leases classified as operating. For store leases classified as finance leases, we recognize pre-opening interest and depreciation expense. Other pre-opening expenses are generally incurred in the 60 days prior to the store opening. Certain advertising and promotional costs associated with opening a new store may be incurred both before and after the store opens. All pre-opening costs are expensed as incurred. Pre-opening expenses for remodels are incurred if the store is required to be closed due to the remodel.

Interest expense, net

Interest expense consists of the interest associated with finance lease obligations, net of capitalized interest, and our Credit Facility.

Income tax expense

Income taxes are accounted for in accordance with the provisions of ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. Income tax expense also includes excess tax benefits and deficiencies related to the vesting of restricted stock units.

Results of Operations

The following table presents key components of our results of operations expressed as a percentage of net sales for the periods presented:

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Statements of Income Data: *				
Net sales	100.0%	100.0	100.0	100.0
Cost of goods sold and occupancy costs	71.1	72.4	71.3	71.9
Gross profit	28.9	27.6	28.7	28.1
Store expenses	22.2	22.6	22.6	22.0
Administrative expenses	3.3	2.8	3.1	2.8
Pre-opening expenses	0.1	0.1	0.1	0.1
Operating income	3.2	2.1	2.8	3.3
Interest expense, net	(0.3)	(0.2)	(0.3)	(0.2)
Income before income taxes	2.9	1.9	2.5	3.0
Provision for income taxes	(0.4)	(0.4)	(0.5)	(0.7)
Net income	2.5%	1.5	2.1	2.4
**Figures may not sum due to rounding.*				
Number of stores at end of period	164	162	164	162
Number of new stores opened during the period	—	1	2	1
Number of stores relocated/remodeled during the period	1	—	1	1
Number of stores closed during the period	2	1	2	1
Twelve-month store unit growth rate	1.2%	0.6	1.2	0.6
Change in daily average comparable store sales	4.4%	2.5	2.5	3.5

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

The following table summarizes our results of operations and other operating data for the periods presented, dollars in thousands:

	Three months ended June 30,		Change In	
	2023	**2022**	**Dollars**	**Percent**
Statements of Income Data:				
Net sales	$ 281,791	266,309	15,482	5.8%
Cost of goods sold and occupancy costs	200,401	192,750	7,651	4.0
Gross profit	81,390	73,559	7,831	10.6
Store expenses	62,631	60,124	2,507	4.2
Administrative expenses	9,308	7,459	1,849	24.8
Pre-opening expenses	367	325	42	12.9
Operating income	9,084	5,651	3,433	60.8
Interest expense, net	(848)	(603)	(245)	40.6
Income before income taxes	8,236	5,048	3,188	63.2
Provision for income taxes	(1,164)	(1,115)	(49)	4.4
Net income	$ 7,072	3,933	3,139	79.8%

Net sales

Net sales increased $15.5 million, or 5.8%, to $281.8 million for the three months ended June 30, 2023 compared to $266.3 million for the three months ended June 30, 2022, due to an $11.7 million increase in comparable store sales and a $3.8 million increase in new store sales. Daily average comparable store sales increased 4.4% for the three months ended June 30, 2023 compared to the three months ended June 30, 2022. The daily average comparable store sales increase resulted from a 2.4% increase in daily average transaction size and a 1.9% increase in daily average transaction count. Comparable store average transaction size was $45.71 for the three months ended June 30, 2023. The increase in net sales during the three months ended June 30, 2023 was driven by transaction count, retail price increases, new store sales and marketing initiatives, including market-specific campaigns and {N}power® loyalty program offers that drove customer engagement.

Gross profit

Gross profit increased $7.8 million, or 10.6%, to $81.4 million for the three months ended June 30, 2023 compared to $73.6 million for the three months ended June 30, 2022. Gross profit reflects earnings after product and occupancy costs. Gross margin increased to 28.9% for the three months ended June 30, 2023 compared to 27.6% for the three months ended June 30, 2022. The increase in gross margin during the three months ended June 30, 2023 was driven by higher product margin attributed to effective pricing and promotions.

Store expenses

Store expenses increased $2.5 million, or 4.2%, to $62.6 million for the three months ended June 30, 2023 compared to $60.1 million for the three months ended June 30, 2022. Store expenses as a percentage of net sales were 22.2% and 22.6% for the three months ended June 30, 2023 and 2022, respectively. The decrease in store expenses as a percentage of net sales was primarily driven by expense leverage on sales, partially offset by higher labor expense as a result of increased wage rates.

Administrative expenses

Administrative expenses increased $1.8 million, or 24.8%, to $9.3 million for the three months ended June 30, 2023 compared to $7.5 million for the three months ended June 30, 2022. The increase in administrative expenses was primarily driven by higher compensation expense, software expense and technology amortization. Administrative expenses as a percentage of net sales were 3.3% and 2.8% for the three months ended June 30, 2023 and 2022, respectively.

Pre-opening expenses

Pre-opening expenses were $0.4 million for the three months ended June 30, 2023 compared to $0.3 million for the three months ended June 30, 2022.

Interest expense, net

Interest expense, net of capitalized interest, was $0.8 million for the three months ended June 30, 2023 compared to $0.6 million for the three months ended June 30, 2022.

Income taxes

Income tax expense increased less than $0.1 million for the three months ended June 30, 2023 to $1.2 million compared to $1.1 million for the three months ended June 30, 2022. The Company's effective income tax rate was 14.1% and 22.1% for the three months ended June 30, 2023 and 2022, respectively. The decrease in the effective income tax rate was primarily attributable to increased food donation deductions recorded during the three months ended June 30, 2023.

Net income

Net income was $7.1 million, or $0.31 diluted earnings per share, for the three months ended June 30, 2023 compared to $3.9 million, or $0.17 diluted earnings per share, for the three months ended June 30, 2022.

Nine months ended June 30, 2023 compared to the nine months ended June 30, 2022

The following table summarizes our results of operations and other operating data for the periods presented, dollars in thousands:

	Nine months ended June 30,		Change In	
	2023	**2022**	**Dollars**	**Percent**
Statements of Income Data:				
Net sales	$ 845,493	815,419	30,074	3.7%
Cost of goods sold and occupancy costs	602,907	586,341	16,566	2.8
Gross profit	242,586	229,078	13,508	5.9
Store expenses	191,419	179,065	12,354	6.9
Administrative expenses	26,166	22,924	3,242	14.1
Pre-opening expenses	1,069	550	519	94.4
Operating income	23,932	26,539	(2,607)	(9.8)
Interest expense, net	(2,478)	(1,692)	(786)	46.5
Income before income taxes	21,454	24,847	(3,393)	(13.7)
Provision for income taxes	(4,091)	(5,642)	1,551	(27.5)
Net income	$ 17,363	19,205	(1,842)	(9.6)%

Net sales

Net sales increased $30.1 million, or 3.7%, to $845.5 million for the nine months ended June 30, 2023 compared to $815.4 million for the nine months ended June 30, 2022, due to a $20.4 million increase in comparable store sales and an $11.5 million increase in new store sales, partially offset by a $1.8 million decrease in net sales related to store closures. Daily average comparable store sales increased 2.5% for the nine months ended June 30, 2023 compared to the nine months ended June 30, 2022. The daily average comparable store sales increase resulted from a 1.4% increase in daily average transaction size and a 1.1% increase in daily average transaction count. Comparable store average transaction size was $45.86 for the nine months ended June 30, 2023. The increase in net sales during the nine months ended June 30, 2023 was primarily driven by transaction count, retail price increases, new store sales and marketing initiatives, partially offset by a moderation of the pandemic trends experienced in the first six months of fiscal year 2022.

Gross profit

Gross profit increased $13.5 million, or 5.9%, to $242.6 million for the nine months ended June 30, 2023 compared to $229.1 million for the nine months ended June 30, 2022. Gross profit reflects earnings after product and occupancy costs. Gross margin increased to 28.7% for the nine months ended June 30, 2023 compared to 28.1% for the nine months ended June 30, 2022. The increase in gross margin during the nine months ended June 30, 2023 was driven by higher product margin, partially offset by higher shrink expense.

Store expenses

Store expenses increased $12.4 million, or 6.9%, to $191.4 million for the nine months ended June 30, 2023 compared to $179.1 million for the nine months ended June 30, 2022. Store expenses included an impairment charge of $0.9 million in the nine months ended June 30, 2023 related to a store closure and an early store relocation. Store expenses as a percentage of net sales were 22.6% and 22.0% for the nine months ended June 30, 2023 and 2022, respectively. The increase in store expenses as a percentage of net sales was primarily driven by higher labor expense as a result of increased wage rates and an impairment charge related to a store closure.

Administrative expenses

Administrative expenses increased $3.2 million, or 14.1%, to $26.2 million for the nine months ended June 30, 2023 compared to $22.9 million for the nine months ended June 30, 2022. The increase in administrative expenses was primarily driven by higher compensation expense, technology amortization and software expense. Administrative expenses as a percentage of net sales were 3.1% and 2.8% for the nine months ended June 30, 2023 and 2022, respectively.

Pre-opening expenses

Pre-opening expenses were $1.1 million for the nine months ended June 30, 2023 compared to $0.6 million for the nine months ended June 30, 2022.

Interest expense

Interest expense, net of capitalized interest, was $2.5 million for the nine months ended June 30, 2023 compared to $1.7 million for the nine months ended June 30, 2022.

Income taxes

Income tax expense decreased $1.6 million for the nine months ended June 30, 2023 to $4.1 million compared to $5.6 million for the nine months ended June 30, 2022. The Company’s effective income tax rate was 19.1% and 22.7% for the nine months ended June 30, 2023 and 2022, respectively. The decrease in the effective income tax rate was primarily attributable to increased food donation deductions recorded during the nine months ended June 30, 2023.

Net income

Net income was $17.4 million, or $0.76 diluted earnings per share, for the nine months ended June 30, 2023 compared to $19.2 million, or $0.84 diluted earnings per share, for the nine months ended June 30, 2022.

Non-GAAP financial measures

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP. We define EBITDA as net income before interest expense, provision for income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA as adjusted to exclude the effects of certain income and expense items that management believes make it more difficult to assess the Company’s actual operating performance, including certain items such as impairment charges, store closing costs, share-based compensation and non-recurring items.

The following table reconciles net income to EBITDA and Adjusted EBITDA, dollars in thousands:

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Net income	$ 7,072	3,933	17,363	19,205
Interest expense, net	848	603	2,478	1,692
Provision for income taxes	1,164	1,115	4,091	5,642
Depreciation and amortization	7,210	7,068	21,426	21,088
EBITDA	16,294	12,719	45,358	47,627
Impairment of long-lived assets	59	—	930	95
Share-based compensation	333	297	1,046	887
Adjusted EBITDA	$ 16,686	13,016	47,334	48,609

EBITDA increased 28.1% to $16.3 million for the three months ended June 30, 2023 compared to $12.7 million for the three months ended June 30, 2022. EBITDA decreased 4.8% to $45.4 million for the nine months ended June 30, 2023 compared to $47.6 million for the nine months ended June 30, 2022. EBITDA as a percentage of net sales was 5.8% and 4.8% for the three months ended June 30, 2023 and 2022, respectively. EBITDA as a percentage of net sales was 5.4% and 5.8% for the nine months ended June 30, 2023 and 2022, respectively.

Adjusted EBITDA increased 28.2% to $16.7 million for the three months ended June 30, 2023 compared to $13.0 million for the three months ended June 30, 2022. Adjusted EBITDA decreased 2.6% to $47.3 million for the nine months ended June 30, 2023 compared to $48.6 million for the nine months ended June 30, 2022. Adjusted EBITDA as a percentage of net sales was 5.9% and 4.9% for the three months ended June 30, 2023 and 2022, respectively. Adjusted EBITDA as a percentage of net sales was 5.6% and 6.0% for the nine months ended June 30, 2023 and 2022, respectively.

Management believes some investors' understanding of our performance is enhanced by including EBITDA and Adjusted EBITDA, which are non-GAAP financial measures. We believe EBITDA and Adjusted EBITDA provide additional information about: (i) our operating performance, because they assist us in comparing the operating performance of our stores on a consistent basis, as they remove the impact of non-cash depreciation and amortization expense as well as items not directly resulting from our core operations, such as interest expense and income taxes and (ii) our performance and the effectiveness of our operational strategies. Additionally, EBITDA is a component of a measure in our financial covenants under our Credit Facility.

Furthermore, management believes some investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry. Management believes that some investors' understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations. By providing these non-GAAP financial measures, together with a reconciliation from net income, we believe we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives.

Our competitors may define EBITDA and Adjusted EBITDA differently, and as a result, our measures of EBITDA and Adjusted EBITDA may not be directly comparable to EBITDA and Adjusted EBITDA of other companies. Items excluded from EBITDA and Adjusted EBITDA are significant components in understanding and assessing financial performance. EBITDA and Adjusted EBITDA are supplemental measures of operating performance that do not represent and should not be considered in isolation or as an alternative to, or substitute for, net income or other financial statement data presented in the consolidated financial statements as indicators of financial performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and Adjusted EBITDA do not reflect any depreciation or interest expense for leases classified as finance leases;
- EBITDA and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect share-based compensation, impairment charges, and store closing costs;

- EBITDA and Adjusted EBITDA do not reflect our tax expense or the cash requirements to pay our taxes; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements.

Due to these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA as supplemental information.

Liquidity and Capital Resources

Our ongoing primary sources of liquidity are cash generated from operations, current balances of cash and cash equivalents and borrowings under our Revolving Facility. Our Credit Facility consists of the $50.0 million Revolving Facility and the fully drawn $35.0 million Term Loan Facility. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures predominantly in connection with opening, relocating and remodeling stores, debt service, cash dividends, share repurchases and corporate taxes. As of June 30, 2023, we had $8.6 million in cash and cash equivalents and $48.5 million available for borrowing under our Revolving Facility. On November 18, 2020, we entered into the $35.0 million Term Loan Facility maturing November 13, 2024.

In May 2016, our Board authorized a two-year share repurchase program pursuant to which the Company may repurchase up to $10.0 million in shares of the Company's common stock. Our Board subsequently extended the share repurchase program – most recently in May 2022 – and the program will terminate on May 31, 2024. During the three and nine months ended June 30, 2023, we repurchased 9,452 shares and 17,998 shares at a cost of $0.1 million and $0.2 million, respectively. The dollar value of the shares of the Company's common stock that may yet be repurchased under the share repurchase program is $8.1 million. Potential future share repurchases under the share repurchase program could be funded by operating cash flow, excess cash balances or borrowings under our Revolving Facility. The timing and the number of shares repurchased, if any, will be dictated by our capital needs and stock market conditions.

On August 2, 2023, our Board approved the payment of a quarterly cash dividend of $0.10 per share of common stock to be paid on September 13, 2023 to stockholders of record as of the close of business on August 28, 2023. We paid quarterly cash dividends of $0.10 per share of common stock in each of the first three quarters of fiscal year 2023.

We plan to continue to open new stores in the future, which may require us to borrow additional amounts under the Revolving Facility from time to time. We believe that cash and cash equivalents, together with the cash generated from operations and the borrowing availability under our Revolving Facility, will be sufficient to meet our working capital needs and planned capital expenditures, including capital expenditures related to new store needs, repayment of debt, stock repurchases and dividends for the next 12 months and the foreseeable future. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within days from the related sale.

The following is a summary of our operating, investing and financing activities for the periods presented, dollars in thousands:

	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Net cash provided by operating activities	$ 36,159	29,505
Net cash used in investing activities	(24,298)	(18,018)
Net cash used in financing activities	(15,324)	(15,249)
Net decrease in cash and cash equivalents	(3,463)	(3,762)
Cash and cash equivalents, beginning of period	12,039	23,678
Cash and cash equivalents, end of period	$ 8,576	19,916

Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for non-cash items, including depreciation and amortization, impairment of long-lived assets, store closing costs, share-based compensation, and changes in deferred taxes, and the effect of working capital changes. Cash provided by operating activities increased $6.7 million, or 22.6%, to $36.2 million for the nine months ended June 30, 2023 compared to $29.5 million for the nine months ended June 30, 2022. The increase in cash provided by operating activities was primarily due to an increase in cash provided by working capital, partially offset by a decrease in cash provided by net income as adjusted for non-cash items.

Investing Activities

Net cash used in investing activities increased $6.3 million, or 34.9%, to $24.3 million for the nine months ended June 30, 2023 compared to $18.0 million for the nine months ended June 30, 2022. This increase was primarily the result of an increase in property and equipment acquisitions of $7.3 million, partially offset by a decrease in other intangibles acquisitions of $1.2 million during the nine months ended June 30, 2023 compared to the nine months ended June 30, 2022, primarily due to the impact of the timing of new store openings, relocations/remodels, and software projects under development.

We plan to spend approximately $3.7 million to $10.7 million on capital expenditures during the remainder of fiscal year 2023 primarily in connection with two new store openings and two store relocations/remodels. We anticipate that our new stores will require, on average, an upfront capital investment of approximately $2.4 million per store.

Acquisition of property and equipment not yet paid increased $2.6 million to $6.2 million for the nine months ended June 30, 2023 compared to $3.6 million for the nine months ended June 30, 2022 primarily due to the timing of payments related to new store openings and relocations/remodels.

Financing Activities

Net cash used in financing activities consists primarily of borrowings and repayments under our Credit Facility and dividends paid to stockholders. Net cash used in financing activities was $15.3 million for the nine months ended June 30, 2023 compared to $15.2 million for the nine months ended June 30, 2022.

Credit Facility

The revolving commitment amount under the Revolving Facility is $50.0 million, including a $5.0 million sub-limit for standby letters of credit. We borrowed $35.0 million under the Term Loan Facility in December 2020. The operating company is the borrower under the Credit Facility and its obligations under the Credit Facility are guaranteed by the holding company and Vitamin Cottage Two Ltd. Liability Company (VC2). The Credit Facility is secured by a lien on substantially all of the Company’s assets. The Company has the right to borrow, prepay and re-borrow amounts under the Revolving Facility at any time prior to the maturity date without premium or penalty. On November 18, 2020, we amended the Credit Facility to provide for the Term Loan Facility and permit payment of a one-time dividend of up to $50.0 million no later than December 31, 2020. On December 15, 2022, we further amended the Credit Facility to (i) replace the LIBOR-based interest rate benchmark provisions with interest rate benchmark provisions based on SOFR and (ii) increase the Company’s restricted payment capacity, allowing the Company to repurchase shares of common stock and pay dividends on its common stock in an aggregate amount not to exceed $12.5 million during any fiscal year.

Base rate borrowings under the Credit Facility bear interest at a fluctuating base rate as determined by the lenders’ administrative agent based on the most recent compliance certificate of the operating company and stated at the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate, and (iii) the Eurodollar rate plus 1.00%, less the lender spread based upon the Company’s consolidated leverage ratio. Eurodollar rate borrowings under the Credit Facility bear interest based on SOFR for the interest period plus the lender spread based upon the Company’s consolidated leverage ratio. The unused commitment fee is also based upon the Company’s consolidated leverage ratio. The Company is required to repay principal amounts outstanding under the Term Loan Facility in equal quarterly installments of approximately $0.4 million on the last day of each fiscal quarter, commencing on March 31, 2021 and ending on September 30, 2024. Amounts repaid on the Term Loan Facility may not be reborrowed.

The Credit Facility requires compliance with certain customary operational and financial covenants, including a consolidated leverage ratio. The Credit Facility also contains certain other customary limitations on the Company’s ability to incur additional debt, guarantee other obligations, grant liens on assets and make investments or acquisitions, among other limitations. Additionally, the Credit Facility prohibits the payment of cash dividends to the holding company from the operating company without the required lenders’ consent, provided that so long as no default exists or would arise as a result thereof, the operating company may pay cash dividends to the holding company in an amount sufficient to allow the holding company to: (i) pay various audit, accounting, tax, securities, indemnification, reimbursement, insurance and other reasonable expenses incurred in the ordinary course of business and (ii) repurchase shares of common stock and pay dividends on our common stock in an aggregate amount not to exceed $12.5 million during any fiscal year.

We had no amounts outstanding under the Revolving Facility as of June 30, 2023 and September 30, 2022. As of June 30, 2023 and September 30, 2022, we had undrawn, issued and outstanding letters of credit of $1.5 million and $1.1 million, respectively, which were reserved against the amount available for borrowing under the Revolving Facility. We had $48.5 million and $48.9 million available for borrowing under the Revolving Facility as of June 30, 2023 and September 30, 2022, respectively. We had $9.7 million of outstanding borrowings under the fully drawn Term Loan Facility as of June 30, 2023.

As of June 30, 2023 and September 30, 2022, the Company was in compliance with all covenants under the Credit Facility.

Share Repurchases

Certain information about the Company's share repurchases is set forth under the heading "Share Repurchases" in Note 6 of Notes to Unaudited Interim Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Recent Accounting Pronouncements

See Note 2 to the consolidated financial statements included in this Form 10-Q.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. Actual amounts may differ from these estimates. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. We evaluate our accounting policies and resulting estimates on an ongoing basis to make adjustments we consider appropriate under the facts and circumstances.

Critical accounting policies that affect our more significant judgments and estimates used in the preparation of our financial statements include accounting for income taxes, accounting for impairment of long-lived assets and accounting for leases, which are discussed in more detail under the caption “Critical Accounting Policies” under Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed above, on December 15, 2022, the Company amended the Credit Facility to, among other things, replace the LIBOR-based interest rate benchmark provisions with interest rate benchmark provisions based on SOFR. The transition from LIBOR to SOFR as the reference rate under the Credit Facility has not had, and is not expected to have in the future, a material effect on the Company’s liquidity or access to credit. There have been no other material changes regarding our market risk position from the information provided under Item 7A – “Quantitative and Qualitative Disclosures about Market Risk” in our Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officers and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our principal executive officers and principal financial and accounting officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

We periodically are involved in various legal proceedings, including discrimination and other employment-related claims, customer personal injury claims, investigations and other proceedings arising in the ordinary course of business. When the potential liability from a matter can be estimated and the loss is considered probable, we record the estimated loss. Due to uncertainties related to the resolution of lawsuits, investigations and claims, the ultimate outcome may differ from our estimates. Although we cannot predict with certainty the ultimate resolution of any lawsuits, investigations and claims asserted against us, we do not believe any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, prospects, financial condition, cash flows or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A, of our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

In May 2016, the Board authorized a two-year share repurchase program pursuant to which we may repurchase up to $10.0 million in shares of the Company's common stock. The Board subsequently extended the share repurchase program – most recently in May 2022 – and the program will terminate on May 31, 2024.

The following table summarizes share repurchase activity for the three months ended June 30, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
May 1, 2023 to May 31, 2023	7,725	$ 10.03	7,725	$ 8,166
June 1, 2023 to June 30, 2023	1,727	10.53	1,727	8,148
Total	9,452		9,452	

1 Average price paid per share includes commissions paid.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 5, 2012, File No. 333-182186)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on July 5, 2012, File No. 333-182186)
31.1	Certification of Kemper Isely, a Principal Executive Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification of Zephyr Isely, a Principal Executive Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002
31.3	Certification of Todd Dissinger, Principal Financial Officer Required Under Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Principal Executive Officers and Principal Financial Officer Required Under 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Natural Grocers by Vitamin Cottage, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2023 and September 30, 2022 (unaudited), (ii) Consolidated Statements of Income for the three and nine months ended June 30, 2023 and 2022 (unaudited), (iii) Consolidated Statements of Cash Flows for the nine months ended June 30, 2023 and 2022 (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended June 30, 2023 and 2022 (unaudited) and (v) Notes to Unaudited Interim Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† The certifications attached as Exhibit 32.1 that accompany this Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Natural Grocers by Vitamin Cottage, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized on August 3, 2023.

Natural Grocers by Vitamin Cottage, Inc.

By: /s/ KEMPER ISELY
Kemper Isely, Co-President
(Principal Executive Officer)

By: /s/ TODD DISSINGER
Todd Dissinger, Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Kemper Isely, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Grocers by Vitamin Cottage, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

/s/ Kemper Isely
Kemper Isely
Co-President and a Principal Executive Officer

Exhibit 31.2

CERTIFICATION

I, Zephyr Isely, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Grocers by Vitamin Cottage, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

/s/ Zephyr Isely
Zephyr Isely
Co-President and a Principal Executive Officer

Exhibit 31.3

CERTIFICATION

I, Todd Dissinger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Grocers by Vitamin Cottage, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2023

/s/ Todd Dissinger
Todd Dissinger
Chief Financial Officer and Principal Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Natural Grocers by Vitamin Cottage, Inc. (the “Company”) for the fiscal quarter ended June 30, 2023, Kemper Isely, Co-President and a Principal Executive Officer of the Company, Zephyr Isely, Co-President and a Principal Executive Officer of the Company, and Todd Dissinger, Chief Financial Officer and Principal Financial Officer of the Company, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2023

/s/ Kemper Isely
Kemper Isely
Co-President and a Principal Executive Officer

/s/ Zephyr Isely
Zephyr Isely
Co-President and a Principal Executive Officer

/s/ Todd Dissinger
Todd Dissinger
Chief Financial Officer and Principal Financial Officer