Testimony
Before the Subcommittee on Securities, Insurance, and Investment
By Alan Lewis, Director of Special Projects, Natural Grocers by Vitamin Cottage, Inc.

United States Senate
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Chairman Tester, Ranking Member Johanns, Members of the Subcommittee:

Thank you for the opportunity to testify about the impact of the Jumpstart our Business Startups Act (the "JOBS Act") on Natural Grocers by Vitamin Cottage, Inc. ("Natural Grocers") and its ability to raise capital to support job creation and contribute to the economic growth of the nation. As Director of Special Projects at Natural Grocers and an active member of our IPO team, I participated in drafting the Registration Statement on Form S-1 and in making decisions about using certain beneficial provisions found in the Jobs Act. I am also an active member of NIRI, the National Investor Relations Institute, and I provide ongoing investor relations support within Natural Grocers. I welcome this opportunity to answer your questions and provide you with additional information on how the JOBS Act affected our company's growth prospects during and after our Initial Public Offering in July 2012.

Natural Grocers is in many ways the quintessential American business success story. Starting from humble mom-and-pop beginnings in the 1950's, we have grown to operate over 70 grocery stores employing over 2,000 people in thirteen states while staying true to our original founding mission: helping people stay healthy through better food and nutrition. To support this mission, we scrupulously review every product before we agree to sell it. Our standards for natural groceries do not allow artificial ingredients such as colors, flavors, preservatives, or sweeteners or dangerous ingredients like hydrogenated fats. We are also committed to sustainable agriculture using minimal chemical inputs, so we only sell USDA certified organic produce in our stores.

Beyond providing only clean healthy food, however, we are committed to help consumers become better informed about how nutrition directly impacts their health and wellness. To this end we staff our stores with full time credentialed nutritionists and offer classes, advice and reference materials on various health topics. We present complex scientific information using accessible language to give people a basic understanding of the principles of good nutrition so they feel empowered to make proactive decisions. It is probably not an overstatement to say that Natural Grocers endeavors to support the American healthcare system by improving our customers' diets so they can better avoid expensive chronic diseases as well as achieve better outcomes from medical treatment.

In 1998, Natural Grocers was acquired from its founders by their four children. Over the following ten years they grew the business through long hours and hard work, depending on internal cash flow and bank loans for capital. Subsequently, they carefully hired additional professional staff and began putting in place the sophisticated accounting, technology and operational infrastructure needed to support a robust expansion strategy.

Beginning in 2009, in the midst of the recent economic downturn, our leadership team began laying the groundwork to raise outside capital through an initial public offering. The grocery business is highly fragmented and competitive, and success in the industry partially depends on maintaining economies of scale, controlling administrative costs, and securing volume purchasing discounts. Our decision to seek additional capital was partly based on the need to increase our ability to capture these competitive advantages by expanding our store base.

Concurrent to our own internal strategic planning process, in 2009 (and before) Congress began addressing the need for economic stimulus by proposing a number of bills designed to prompt public and private investment to generate new jobs. A number of these initiatives were eventually passed into law in the form of the JOBS Act, which was signed into law just when Natural Grocers was preparing to submit its Registration Statement on Form S-1 to the SEC in anticipation of an IPO during the summer of 2012.

Many of the key provisions of the JOBS Act were anticipated and welcomed by our legal, accounting and investment banking advisors. We clearly qualified as an “emerging growth company”. As a group, we paused to consider which opportunities we would take advantage of, keeping in mind we would likely be among the first companies to launch an IPO under this new regulatory regime, and that investors might be skeptical of some of the new relaxed rules. We decided to take advantage of the confidential filing provision and, temporarily, some of the reduced financial reporting requirements. We decided not to "opt out" of maintaining compliance with new or revised accounting standards. We will discuss our experience with each of these decisions below. We did not contemplate utilizing any methods to “Test the Waters” for the offering because the provision was simply too new.

The IPO Market Environment in 2012

Before we start, let me remind you that all statements made in this testimony other than statements of historical fact are forward-looking statements. All forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those described in the forward-looking statements because of factors such as industry, business strategy, goals and expectations concerning our market position, the economy, future operations, margins, profitability, capital expenditures, liquidity and capital resources, other financial and operating information and other risks detailed in the Form 10-K filed by Natural Grocers for the year-ended September 30, 2012. The information we present is accurate as of the date of this testimony. Natural Grocers undertakes no obligation to update forward-looking statements.

Chairman Tester has asked me to describe our experience filing confidentially and using some of the reduced compliance provisions under the JOBS Act. My testimony today will explain why we chose to do so and how these measures helped us in our efforts to raise capital.

To begin, it is worth remembering that the summer of 2012 saw the first substantial thawing of the financial markets after four very difficult years. IPOs were few and far between and not always successful. Some registration statements had been filed publicly on EDGAR but later postponed indefinitely. Facebook's difficult IPO in May 2012 - just before our road show was to begin -- weighed heavily on the markets. Still, interest rates on cash continued to be at or near zero, so investors were looking for quality companies to buy into.

Confidential Filing

Within this unsure market environment, the ability to file our Form S-1 confidentially and proceed with the SEC staff's comment process before ever making our filing public was extraordinarily helpful. We continued to survey the strength of the market while simultaneously preparing our registration statement for public EDGAR filing. Because we were able to file confidentially, our trade practice and financial statement disclosures contained within the S1 were not telegraphed to our competitors unnecessarily or unnecessarily early. Had the Form S-1 not been treated confidentially, Natural Grocers could have decreased its competitive advantage due to a lengthy delay in our IPO because of a soft market. Confidential filing allowed us to better orchestrate the timing of the road show and IPO successfully, despite unpredictable and skittish financial markets.

For our company, confidential submission greatly reduced the complexity, stress and risk of undertaking a public offering.

Two Years Minimum Required Audited Financial Statements

The second opportunity provided us by the JOBS Act was to reduce the number of years of audited financial statements from five years to two. After much deliberation, our team decided to disclose audited financial statements for fiscal years 2009, 2010, and 2011, plus interim unaudited financial statements for the first nine months of fiscal year 2012. (Our IPO took place during the last quarter of our fiscal year 2012, which ended on September 30th, so audited year-to-date financials were not yet available.) After consulting with our investment bankers, we felt that the 2007 and 2008 financial statements did not add significant context, color or detail to our company growth story. Nor did they help communicate the viability of our future growth strategy. Furthermore, there were complexities around presenting the 2007 and 2008 financial statements due to a change in fiscal year and a change in audit firm. Audited 2007 and 2008 financial statements could have been included in our S-1, but only with significant delays and additional costs.

We had some concern that analysts and investors might be wary of the reduced reporting requirement, There were a number of inquiries by analysts and investors about the potential significance of the missing 2007 and 2008 fiscal year reporting. However, the absence of those historical financial statements did not seem to impact the ultimate success of our offering.

The following sections describe certain other optional, reduced or delayed disclosure and accounting requirements offered by the Job Act that Natural Grocers did not implement during its IPO.

Exemption from Certain Sarbanes-Oxley Requirements

The Sarbanes-Oxley Act of 2002 addressed numerous additional regulations in corporate auditing, internal controls and accountability. SOX Section 103 created new requirements for audits and auditors, and SOX Section 404 set new standards for assessment of internal controls. Both sections were considered controversial among some because of the high cost of compliance, and, in turn, the greater burden those costs place on smaller companies relative to their revenue. The JOBS Act granted an exemption to qualified emerging growth companies from potential future requirements to rotate audit firms and for audit firms to provide supplemental information about how the audit was conducted, among other requirements. The JOBS Act also exempted emerging growth companies from compliance with internal control, evaluation and reporting requirements in Section 404 of Sarbanes-Oxley. Natural Grocers determined it would continue to maintain compliance with Sections 103 and 404 of Sarbanes Oxley.

Opting Out of New or Revised Accounting Standards

Section 107 of the Jobs Act allows emerging growth companies to make a one-time decision to comply with all new or revised accounting standards or to temporarily opt out of keeping up with new and revised rules. The intent of this provision appears to be to reduce the cost and burden associated with complex accounting rule changes. We acknowledge that ongoing compliance with the myriad rule changes can be costly. It may also present a significant distraction to company management of an emerging growth company that is focused on key growth drivers rather than finicky accounting rules. Natural Grocers opted to not elect into this provision upon its initial filing.

Dodd-Frank Executive Pay Disclosures

The JOBS Act also amended the Investor Protection and Securities Reform Act of 2010, commonly referred to as Dodd-Frank, by exempting emerging growth companies from the executive compensation disclosures required under Section 953 of Dodd-Frank. Natural Grocers did not take advantage of this exemption because we did not see any advantage to doing so. On the contrary, we believe our executives are paid fairly relative to our industry benchmarks and their individual roles and responsibilities. An extensive disclosure regarding compensation for our executives begins on page 93 of the prospectus contained in our Registration Statement on Form S-1.

A Successful IPO for Natural Grocers and its Investors

Our IPO was a success on many levels. Our IPO priced at the high end of our range and the stock price held a healthy but reasonable premium on the first day of trading and thereafter. As one financial commentator stated in an article titled *The Greedy Sit Out an IPO*, "[Natural Grocers] has begun its publicly traded life in an environment of fair and balanced trading […] How refreshing." [1]

The company used the proceeds from its IPO to pay off its outstanding term loan and pay down its credit facility while retaining some cash reserves to fund additional new store growth. During our last quarterly earnings announcement on August 7, 2013, we noted the Company had a total 70 Natural Grocers stores operating in 13 states, two additional stores planned for the fourth quarter of fiscal 2013, and 15 new stores planned for fiscal 2014. Our revenue and unit growth, supported by capital provided by public shareholders, has created hundreds of new, well paid, full-time jobs—all which qualify for our 401k plan and affordable health care benefits.

There were other benefits to being a publicly traded company. As a company traded on the New York Stock Exchange, our stature in the national financial press was elevated the moment we rang The Opening Bell™ above the floor of the Exchange. We now appear in news coverage on an equal footing with many of our larger peer competitors. Our company news is more widely circulated and referenced as a benchmark for the natural foods industry. Our higher profile has allowed us to take part in significant public policy debates at a level where our views and perspectives are better heard and acknowledged. We believe this national recognition of Natural Grocers' approach to product standards and dedication to consumer education and community outreach has provided welcome public awareness of, and affinity for, our brand as we enter new markets.

Success of the JOBS Act of 2012

In conclusion, we believe that the JOBS Act is a successful piece of legislation. Key provisions of the JOBS Act enabled Natural Grocers to successfully navigate the financial markets and do exactly what the JOBS Act intended: grow our company and add jobs to the American economy.

Thank you, again, for your support of American business and job growth, and for allowing me to be here today to present the perspective of Natural Grocers on the JOBS Act. I am happy to answer any questions that you might have.

1. "http://www.smallcapnetwork.com/The-Greedy-Sit-Out-an-IPO-How-Refreshing-NYSE-NGVC/s/via/14/article/view/p/mid/1/id/917/

Background Information

About Natural Grocers

Natural Grocers by Vitamin Cottage (NYSE:NGVC), founded in Colorado by Margaret & Philip Isely in 1955, was built on the premise that consumers should have access to affordable, high-quality foods and dietary supplements, along with nutrition knowledge to help them support their own health. The family-run store has since grown into a successful national chain with locations across Colorado, Texas, Utah, Wyoming, Oklahoma, Missouri, New Mexico, Montana, Kansas, Idaho, Nebraska, Arizona and Oregon—employing over 2000 people. The company went public in July 2012; however, Isely family members continue to manage the company, building on the foundation of their parents' business. Natural Grocers' popularity and success can be traced back to its founding principles: providing customers with high quality products at every day affordable prices.

Our Competitive Strengths

We believe we are well-positioned to capitalize on favorable natural and organic grocery and dietary supplement industry dynamics as a result of the following competitive strengths:

Strict focus on high-quality natural and organic grocery products and dietary supplements. We offer high-quality products and brands, including an extensive selection of widely-recognized natural and organic food, dietary supplements, body care products, pet care products and books. We offer our customers an average of approximately 19,500 SKUs of natural and organic products per store, including an average of approximately 7,000 SKUs of dietary supplements. We believe this product offering enables our customers to utilize our stores for all of their grocery and dietary supplement purchases. In our grocery departments, we only sell USDA certified organic produce and do not approve for sale products that are known to contain artificial colors, flavors, preservatives, sweeteners, or partially hydrogenated or hydrogenated oils. Consistent with this strategy, our merchandise selection does not include conventional products or merchandise that does not meet our strict quality guidelines. Our store managers enhance our robust product offering by customizing their stores' selections to address the preferences of local customers. All products undergo a stringent review process to ensure the products we sell meet our strict quality guidelines, which helps us generate long-term relationships with our customers based on transparency and trust.

Engaging customer service experience based on education and empowerment. We strive to consistently offer exceptional customer service in a shopper-friendly environment, which we believe creates a differentiated shopping experience and generates repeat visits from our loyal customer base. Our customer service model is focused on providing free nutrition education to our customers. This focus provides an engaging retail experience while also empowering our customers to make informed decisions about their health. We offer our science-based nutrition education through our trained associates, *Health Hotline* ® newsletter and sales flyer, one-on-one nutrition health coaching and nutrition classes. Our commitment to nutrition education and customer empowerment is emphasized throughout our entire organization, from executive management to store associates. Every store also maintains a *Nutritional Health Coach* SM position. The *Nutritional Health Coach* is responsible for training our store associates and educating our customers in accordance with applicable local, state and federal regulations. Each *Nutritional Health Coach* must have earned a degree or certificate in nutrition, human sciences or a related field from an accredited school, complete continuing education in nutrition, and be thoroughly committed to fulfilling our mission. Substantially all of our *Nutritional Health Coaches* are full-time employees. We believe our *Nutritional Health Coach* position is unique within our industry and represents a key element of our customer service model.

Scalable operations and replicable, cost-effective store model. We believe our scalable operating structure, attractive new store model, flexible real estate strategy and disciplined approach to new store development allow us to maximize store performance and quickly grow our store base. Our store model is successful in highly competitive markets and has supported significant growth outside of our original Colorado geography. We believe our supply chain and infrastructure are scalable and will accommodate significant growth based on the ability of our primary distribution relationships to effectively service our planned store locations. Our investments in overhead and information technology infrastructure, including purchasing, receiving, inventory, point of sale, warehousing, distribution, accounting, reporting and financial systems support this growth. In addition, we have established effective site selection guidelines, as well as scalable procedures, to enable us to open a new store within approximately nine months from the time of site selection. Our limited offering of prepared foods also reduces real estate costs, labor costs and perishable inventory shrink and allows us to quickly leverage our new store opening costs.

Experienced and committed team with proven track record. Our executive management team has an average of 35 years of experience in the natural grocery industry, while our entire management team has an average of over 27 years of relevant experience. Since the second generation of the Isely family assumed control of the business in 1998, we have grown our store count from 11 to 59 stores as of September 30, 2012 while remaining dedicated to our founding principles. Over their tenure, members of our executive management team have been instrumental in establishing a successful, scalable operating model, generating consistently strong financial results and developing an effective site selection and store opening process. The depth of our management experience extends beyond our home office. As of September 30, 2012, 42% of our store managers at comparable stores (stores open for 13 months or longer) have tenures of over four years with us, and our store and department managers at these stores have average tenures of three to four years with us. In addition, we have a track record of promoting store management personnel from within. We believe our management's experience at all levels will allow us to continue to grow our store base while improving operations and driving efficiencies.

Our Growth Strategies

We are pursuing several strategies to continue our profitable growth, including:

Expand our store base. We intend to continue expanding our store base through new store openings in existing markets, as well as penetrating new markets, by leveraging our core competencies of site selection and efficient store openings. Based upon our operating experience and research conducted for us by customer analytics firm The Buxton Company, we believe the entire U.S. market can support at least 1,100 Natural Grocers stores, including approximately 200 additional Natural Grocers stores in the 13 states in which we currently operate or have signed leases.

Increase sales from existing customers. We have achieved positive comparable store sales growth for over 40 consecutive quarters. In order to increase our average ticket and the number of customer transactions, we plan to continue offering an engaging customer experience through science-based nutrition education and a differentiated merchandising strategy of delivering affordable, high-quality natural and organic grocery products and dietary supplements. We also plan to utilize targeted marketing efforts to our existing customers, which we anticipate will drive customer transactions and convert occasional, single-category customers into core, multi-category customers.

Grow our customer base. We plan to continue building our brand awareness, which we anticipate will grow our customer base. We believe offering nutrition education has historically been one of our most effective marketing efforts to reach new customers and increase the demand for natural and organic groceries and dietary supplements in our markets. We intend to enhance potential customers' nutrition knowledge through targeted marketing efforts, including the distribution of our *Health Hotline* newsletter and sales flyer, the Internet and social media, as well as an expansion of our educational outreach efforts in schools, businesses and communities, offering lectures, classes, printed and online educational resources and publications, health fairs and community wellness events. In addition to offering nutrition education, we intend to attract new customers with our everyday affordable pricing and to build community awareness through our support of local vendors and charities.

Improve operating margins. We expect to continue to improve our operating margins as we benefit from investments we have made in fixed overhead and information technology, including the implementation of an SAP enterprise resource planning system in fiscal year 2010. We anticipate these investments will support our long-term growth strategy with only a modest amount of additional capital. We expect to achieve economies of scale through sourcing and distribution as we add more stores, and we intend to optimize performance, maintain appropriate store labor levels and effectively manage product selection and pricing to achieve additional margin expansion.

Forward-Looking Statements

Except for the historical information contained herein, statements in this document are "forward-looking statements" and are based on current expectations and assumptions that are subject to risks and uncertainties. All statements that are not statements of historical facts are forward-looking statements. Actual results could differ materially from those described in the forward-looking statements because of factors such as our industry, business strategy, goals and expectations concerning our market position, the economy, future operations, margins, profitability, capital expenditures, liquidity and capital resources, other financial and operating information and other risks detailed in the Company's Form 10-K for the year-ended September 30, 2012, as amended by Form 10-K/A (Form 10-K) and our subsequent quarterly reports on Form 10-Q. The information contained herein speaks only as of its date and the Company undertakes no obligation to update forward-looking statements.

For further information regarding risks and uncertainties associated with our business, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" sections of our SEC filings, including, but not limited to, our Form 10-K and our subsequent quarterly reports on Form 10-Q, copies of which may be obtained by contacting investor relations at 303-986-4600 or by visiting our website at http://Investors.NaturalGrocers.com.