

Fresh Market, Inc.  
Form 10-Q  
December 04, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 26, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-34940

THE FRESH MARKET, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)  
628 Green Valley Road, Suite 500  
Greensboro, NC  
(Address of principal executive offices)

56-1311233  
(I.R.S. Employer  
Identification No.)

27408  
(Zip Code)

(336) 272-1338

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of November 24, 2014 was 48,444,325 shares.

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The Fresh Market, Inc.

Form 10-Q

For the Thirteen and Thirty-Nine Weeks Ended October 26, 2014

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## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements in addition to historical information. We use words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “looking forward,” “may,” “plan,” “project,” “should,” “target,” “will” and “would” or any variations of these words or other words with similar meanings to identify such forward-looking statements. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These “forward looking statements” may relate to such matters as our industry, business strategy, goals and expectations concerning our market position, future operations, future performance or results, margins, profitability, capital expenditures, liquidity and capital resources, interest rates and other financial and operating information and the outcome of contingencies such as legal and administrative proceedings.

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 guarantee that the results and other expectations expressed, anticipated or implied in any forward-looking statement will be realized. The following are some of the factors that could cause actual future results to differ materially from those expressed in any forward-looking statements: changes in accounting estimates and assumptions and adjustments at the close of a fiscal quarter; unexpected expenses and risks associated with our business; our ability to remain competitive in the areas of merchandise quality, price, breadth of selection, customer service and convenience; the effective management of our merchandise buying and inventory levels; the quality and safety of food products and other items that we may sell; our ability to anticipate and/or react to changes in customer demand; changes in economic and financial conditions, including U.S. fiscal and monetary policy, and the resulting impact on consumer confidence; other changes in consumer confidence and spending; unexpected consumer responses to promotional programs; unusual, unpredictable and/or severe weather conditions, including their effect on our supply chain and our store operations; the effectiveness of our logistics and supply chain model, including the ability of our third-party logistics providers to meet our product demands and restocking needs on a cost competitive basis; the execution and management of our store growth, including the availability and cost of acceptable real estate locations for new store openings, the capital that we utilize in connection with new store development and the anticipated time between lease execution and store opening; the mix of our new store openings as between build to suit sites and second-generation, as-is sites and as between existing markets and newer markets; the actions of third parties involved in our store growth activities, including property owners, landlords, property managers, contractors, subcontractors, government agencies, and current tenants who occupy one or more of our proposed new store locations, all of whom may be impacted by their financial condition, their lenders, their activities outside of those focused on our new store growth and other tenants, customers and business partners of theirs; impairment of recorded goodwill and other long-lived assets; global economies and credit and financial markets; our ability to maintain the security of electronic and other confidential and/or personal information; serious disruptions and catastrophic events; competition; personnel recruitment and retention; acquisitions and divestitures, including the ability to integrate successfully any such acquisitions; information systems and technology; commodity, energy, fuel and other cost increases; compliance with laws, regulations and orders; changes in laws and regulations; outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith; tax matters; numerous other matters of national, regional and global scale, including those of a political, economic, business, and competitive nature; and other factors, many of which are beyond our control. 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. You should bear this in mind as you consider forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date hereof. 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 or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws. You are advised, however, to consult any further disclosures we may make in our future reports to the Securities and Exchange Commission, on our website, or otherwise.

## Part I. Financial Information

## Item 1. Financial Statements

The Fresh Market, Inc.

Consolidated Balance Sheets

(In thousands, except share amounts)

(unaudited)

|   | October 26,<br>2014 | January 26,<br>2014 |
|---|---------------------|---------------------|
| Assets  |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$19,860            | \$11,745            |
| Accounts receivable   | 8,114               | 11,098              |
| Inventories   | 64,532              | 55,656              |
| Prepaid expenses and other current assets   | 3,635               | 4,304               |
| Income tax benefit  | 6,599               | 1,692               |
| Deferred income taxes   | 8,850               | 3,267               |
| Total current assets  | 111,590             | 87,762              |
| Property and equipment, net   | 391,779             | 373,449             |
| Other assets  | 9,476               | 8,417               |
| Total assets  | \$512,845           | \$469,628           |
| Liabilities and stockholders' equity  |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable  | \$51,247            | \$46,942            |
| Accrued liabilities   | 71,339              | 63,694              |
| Total current liabilities   | 122,586             | 110,636             |
| Long-term debt  | —                   | 24,700              |
| Capital and financing lease obligations   | 29,968              | 26,069              |
| Closed store reserves   | 12,797              | 193                 |
| Deferred income taxes   | 2,300               | 12,017              |
| Deferred rent   | 13,322              | 13,460              |
| Deferred lease incentives   | 12,569              | 13,347              |
| Other liabilities   | 14,634              | 12,941              |
| Total noncurrent liabilities  | 85,590              | 102,727             |
| Commitments and contingencies (Notes 2 and 8)   |                     |                     |
| Stockholders' equity:   |                     |                     |
| Preferred stock – \$0.01 par value; 40,000,000 shares authorized, none issued   | —                   | —                   |
| Common stock – \$0.01 par value; 200,000,000 shares authorized, 48,294,776 and 48,260,804 shares issued and outstanding as of October 26, 2014 and January 26, 2014, respectively | 483                 | 483                 |
| Additional paid-in capital  | 118,588             | 113,029             |
| Retained earnings   | 185,598             | 142,753             |
| Total stockholders' equity  | 304,669             | 256,265             |
| Total liabilities and stockholders' equity  | \$512,845           | \$469,628           |

See accompanying notes to consolidated financial statements.

The Fresh Market, Inc.

Consolidated Statements of Comprehensive Income

(In thousands, except share and per share amounts)

(unaudited)

|   | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|---|------------------------------|---------------------|---------------------------------|---------------------|
|   | October 26,<br>2014          | October 27,<br>2013 | October 26,<br>2014             | October 27,<br>2013 |
| Sales   | \$419,450                    | \$364,457           | \$1,272,679                     | \$1,085,847         |
| Cost of goods sold (exclusive of depreciation shown separately) | 281,375                      | 242,400             | 842,723                         | 713,175             |
| Gross profit  | 138,075                      | 122,057             | 429,956                         | 372,672             |
| Operating expenses:   |                              |                     |                                 |                     |
| Selling, general and administrative expenses                    | 100,781                      | 88,865              | 299,048                         | 252,869             |
| Impairments and store closure costs                             | (2,728                       | ) 74                | 13,881                          | 347                 |
| Depreciation  | 15,694                       | 14,224              | 45,996                          | 39,266              |
| Income from operations  | 24,328                       | 18,894              | 71,031                          | 80,190              |
| Interest expense  | 1,086                        | 1,089               | 3,307                           | 2,554               |
| Income before provision for income taxes                        | 23,242                       | 17,805              | 67,724                          | 77,636              |
| Tax provision   | 8,358                        | 6,741               | 24,879                          | 28,818              |
| Net income  | \$14,884                     | \$11,064            | \$42,845                        | \$48,818            |
| Net income per share:   |                              |                     |                                 |                     |
| Basic   | \$0.31                       | \$0.23              | \$0.89                          | \$1.01              |
| Diluted   | \$0.31                       | \$0.23              | \$0.88                          | \$1.01              |
| Weighted-average common shares outstanding:                     |                              |                     |                                 |                     |
| Basic   | 48,291,724                   | 48,217,984          | 48,280,457                      | 48,191,399          |
| Diluted   | 48,480,657                   | 48,442,252          | 48,446,013                      | 48,389,426          |
| Comprehensive income:   |                              |                     |                                 |                     |
| Net income  | \$14,884                     | \$11,064            | \$42,845                        | \$48,818            |
| Other comprehensive income                                      | —                            | —                   | —                               | —                   |
| Total comprehensive income                                      | \$14,884                     | \$11,064            | \$42,845                        | \$48,818            |

See accompanying notes to consolidated financial statements.



The Fresh Market, Inc.  
Consolidated Statements of Stockholders' Equity  
(In thousands, except share amounts)  
(unaudited)

|   | Common Stock, \$0.01 par value  |                 |                                  |                      |                                  |
|---|---------------------------------|-----------------|----------------------------------|----------------------|----------------------------------|
|   | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
| Balance at January 27, 2013                                       | 48,144,620                      | \$482           | \$105,431                        | \$91,946             | \$197,859                        |
| Exercise of share-based awards                                    | 84,453                          | 1               | 2,058                            | —                    | 2,059                            |
| Issuance of common stock pursuant to restricted stock units       | 19,203                          | —               | —                                | —                    | —                                |
| Issuance of common stock pursuant to employee stock purchase plan | 5,290                           | —               | 226                              | —                    | 226                              |
| Vesting of restricted stock awards, non-employee directors        | 7,238                           | —               | —                                | —                    | —                                |
| Withholding tax on restricted stock unit vesting                  | —                               | —               | (494)                            | —                    | (494)                            |
| Share-based compensation  | —                               | —               | 5,239                            | —                    | 5,239                            |
| Tax benefit related to exercise of share-based awards             | —                               | —               | 569                              | —                    | 569                              |
| Net income  | —                               | —               | —                                | 50,807               | 50,807                           |
| Balance at January 26, 2014                                       | 48,260,804                      | \$483           | \$113,029                        | \$142,753            | \$256,265                        |
| Exercise of share-based awards                                    | 10,586                          | —               | 234                              | —                    | 234                              |
| Issuance of common stock pursuant to restricted stock units       | 6,609                           | —               | —                                | —                    | —                                |
| Issuance of common stock pursuant to employee stock purchase plan | 4,093                           | —               | 132                              | —                    | 132                              |
| Vesting of restricted stock awards, non-employee directors        | 8,554                           | —               | —                                | —                    | —                                |
| Vesting of executive restricted stock awards                      | 4,130                           | —               | —                                | —                    | —                                |
| Withholding tax on restricted stock unit vesting                  | —                               | —               | (162)                            | —                    | (162)                            |
| Share-based compensation  | —                               | —               | 5,513                            | —                    | 5,513                            |
| Tax shortfall related to exercise of share-based awards           | —                               | —               | (158)                            | —                    | (158)                            |
| Net income  | —                               | —               | —                                | 42,845               | 42,845                           |
| Balance at October 26, 2014                                       | 48,294,776                      | \$483           | \$118,588                        | \$185,598            | \$304,669                        |

See accompanying notes to consolidated financial statements.

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The Fresh Market, Inc.  
 Consolidated Statements of Cash Flows  
 (In thousands)  
 (unaudited)

|   | For the Thirty-Nine Weeks Ended |                     |
|---|---------------------------------|---------------------|
|   | October 26,<br>2014             | October 27,<br>2013 |
| Operating activities  |                                 |                     |
| Net income  | \$42,845                        | \$48,818            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                     |
| Depreciation and amortization   | 46,147                          | 39,432              |
| Loss on disposals of property and equipment                                       | 1,916                           | 13                  |
| Gain on assignment of capital lease   | (1,508                          | ) —                 |
| Share-based compensation  | 5,513                           | 4,256               |
| Excess tax shortfall (benefit) from share-based compensation                      | 158                             | (180                |
| Deferred income taxes   | (15,300                         | ) (2,513            |
| Change in assets and liabilities:   |                                 |                     |
| Accounts receivable   | 2,984                           | (2,090              |
| Inventories   | (8,876                          | ) (12,641           |
| Prepaid expenses and other assets   | (41                             | ) 3,221             |
| Income tax benefits   | (4,907                          | ) (1,948            |
| Accounts payable  | 4,305                           | 15,343              |
| Closed store reserves   | 14,018                          | —                   |
| Accrued and other liabilities   | 10,952                          | 12,907              |
| Net cash provided by operating activities   | 98,206                          | 104,618             |
| Investing activities  |                                 |                     |
| Purchases of property and equipment   | (64,478                         | ) (92,169           |
| Proceeds from sale of property and equipment                                      | 102                             | 76                  |
| Net cash used in investing activities   | (64,376                         | ) (92,093           |
| Financing activities  |                                 |                     |
| Borrowings on revolving credit facility   | 137,233                         | 376,132             |
| Payments made on revolving credit facility  | (161,933                        | ) (384,532          |
| Payments made on debt issuance costs  | (499                            | ) —                 |
| Payments made on capital and financing lease obligations                          | (562                            | ) (97               |
| Proceeds from issuance of common stock pursuant to employee stock purchase plan   | 132                             | 176                 |
| Excess tax (shortfall) benefit from share-based compensation                      | (158                            | ) 180               |
| Payments on withholding tax for restricted stock unit vesting                     | (162                            | ) (80               |
| Proceeds from exercise of share-based compensation awards                         | 234                             | 1,565               |
| Net cash used in financing activities   | (25,715                         | ) (6,656            |
| Net increase in cash and cash equivalents   | 8,115                           | 5,869               |
| Cash and cash equivalents at beginning of period                                  | 11,745                          | 8,737               |
| Cash and cash equivalents at end of period  | \$19,860                        | \$14,606            |

Supplemental disclosures of cash flow information:

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|   |          |          |
|---|----------|----------|
| Cash paid during the period for interest  | \$3,172  | \$1,308  |
| Cash paid during the period for taxes   | \$45,522 | \$39,265 |
| Non-cash investing and financing activities:  |          |          |
| Property and equipment acquired through capital and financing lease obligations during the period | \$5,884  | \$40,267 |

See accompanying notes to consolidated financial statements.

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The Fresh Market, Inc.  
 Notes to Consolidated Financial Statements  
 (In thousands, except share and per share data)  
 (unaudited)

## 1. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited consolidated financial statements of The Fresh Market, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission in instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended January 26, 2014. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods indicated. Interim results are not necessarily indicative of results that may be expected for a full fiscal year or future interim periods.

In certain instances, there are changes in the presentation of the consolidated financial statements to conform to the current year presentation.

The Company's wholly-owned subsidiaries are consolidated and all intercompany accounts and transactions are eliminated upon consolidation.

The Company reports its results of operations on a 52- or 53-week fiscal year ending on the last Sunday in January. Fiscal years 2014 and 2013 are 52-week fiscal years and each fiscal quarter consists of 13 weeks.

The Company has determined that it has only one reportable segment. The Company's revenues come from the sale of items at its specialty food stores. The Company's primary focus is on perishable food categories, which include meat, seafood, produce, deli, bakery, floral, sushi and prepared foods. Non-perishable categories consist of traditional grocery, frozen and dairy products as well as bulk, coffee, candy, beer and wine, and health and beauty. The following is a summary of the percentage for the sales of perishable and non-perishable items:

|                | For the Thirteen Weeks Ended |                     | For the Thirty-Nine Weeks Ended |                     |
|----------------|------------------------------|---------------------|---------------------------------|---------------------|
|                | October 26,<br>2014          | October 27,<br>2013 | October 26,<br>2014             | October 27,<br>2013 |
| Perishable     | 65.5%                        | 65.4%               | 65.9%                           | 66.0%               |
| Non-perishable | 34.5%                        | 34.6%               | 34.1%                           | 34.0%               |

### Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08), to change the criteria for determining which disposals can be presented as discontinued operations and enhance the related disclosure requirements. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014 with early adoption permitted for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. Upon adoption of this standard, the Company will be required to evaluate whether a disposal meets the discontinued operations requirements under ASU 2014-08. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an

amount that reflects the expected consideration received in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

### 1. Summary of Significant Accounting Policies (continued)

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). The guidance requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in FASB Accounting Standards Codification (ASC) 718, Compensation-Stock Compensation, as it relates to such awards. ASU 2014-12 is effective for annual reporting periods, and interim periods within those annual reporting periods, beginning after December 15, 2015 with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

### 2. Long-Term Debt

Long-term debt is as follows:

|  | October 26,<br>2014 | January 26,<br>2014 |
|--|---------------------|---------------------|
| Unsecured revolving credit note, with maximum available borrowings of \$175,000 at October 26, 2014 and January 26, 2014, interest payable monthly at one-month LIBOR plus a margin, with a total stated annual interest rate of 1.3% and 1.4% as of October 26, 2014 and January 26, 2014, respectively | \$—                 | \$24,700            |

On June 12, 2014, the Company entered into an unsecured revolving credit agreement with Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the several lenders party thereto (the "2014 Credit Agreement"). The 2014 Credit Agreement refinanced and replaced the Company's senior unsecured revolving credit facility under that certain Credit Agreement dated February 22, 2011, by and among the Company, as borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the several lenders party thereto (the "2011 Credit Agreement"). The 2011 Credit Agreement was terminated effective June 12, 2014 upon the Company entering into the 2014 Credit Agreement.

The 2014 Credit Agreement matures June 12, 2019 and is available to provide support for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions and issuance of letters of credit. While the Company currently has no material domestic subsidiaries, other entities will guarantee its obligations under the 2014 Credit Agreement if and when they become material domestic subsidiaries of the Company during the term of the 2014 Credit Agreement.

The 2014 Credit Agreement provides for total borrowings of up to \$175,000. Under the terms of the 2014 Credit Agreement, the Company is entitled to request an increase in the size of the facility by an amount not exceeding \$100,000 in the aggregate. If the existing lenders elect not to provide the full amount of a requested increase, or in lieu of accepting offers from existing lenders to increase their commitments, the Company may designate one or more other lenders to become a party to the 2014 Credit Agreement, subject to the approval of the Administrative Agent. The 2014 Credit Agreement includes a letter of credit sublimit of \$60,000, of which \$21,097 was outstanding at October 26, 2014, and the 2011 Credit Agreement included a letter of credit sublimit of \$25,000, of which \$13,667 was outstanding at January 26, 2014. The beneficiaries of these letters of credit are primarily the Company's workers' compensation and general liability insurance carriers. The 2014 Credit Agreement also includes a swing line sublimit of \$15,000.

At the Company's option, revolving loans under the 2014 Credit Agreement bear interest at (i) the London Interbank Offered Rate ("LIBOR") plus an applicable margin that ranges from 0.90% to 2.00%, (ii) the Eurodollar rate plus an applicable margin that ranges from 0.90% to 2.00%, or (iii) the base rate plus an applicable margin that ranges from 0% to 1.00%, where the base rate is defined as the greatest of: (a) the federal funds rate plus 0.50%, (b) Bank of America's prime rate, and (c) the Eurodollar rate plus 1.00%. As of October 26, 2014, there were no outstanding borrowings; as of January 26, 2014, all outstanding borrowings bore interest at LIBOR plus an applicable margin.

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The commitment fee calculated on the unused portions of the 2014 Credit Agreement ranges from 0.125% to 0.250% per annum.

The 2014 Credit Agreement contains a number of affirmative and restrictive covenants, including limitations on the Company's ability to grant liens, incur additional debt, pay dividends, redeem its common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions.

The Fresh Market, Inc.

Notes to Consolidated Financial Statements - (continued)

### 3. Fair Value Measurements

The FASB ASC 820, Fair Value Measurements, requires fair value measurements to be classified and disclosed in one of the following pricing categories:

Level 1 - Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets or liabilities.

Level 3 - Unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other accrued expenses approximate fair value because of their short maturity. The carrying amount of long-term debt approximates fair value because the advances under this instrument bear variable interest rates which reflect market changes to interest rates and contain variable risk premiums based on certain financial ratios achieved by the Company. The fair value estimate of our long-term debt is a Level 2 measurement.

#### Nonrecurring Fair Value Measurements

Certain assets are measured at fair value on a nonrecurring basis, including assets that are written down to fair value as a result of an impairment. The Company recorded lease obligation costs as a nonrecurring fair value measurement in connection with its store closure costs for the thirteen and thirty-nine weeks ended October 26, 2014. The Company did not record any other nonrecurring fair value measurements during the thirteen and thirty-nine weeks ended October 26, 2014.

### 4. Impairments and Store Closure Costs

#### Store Closure Costs

During the thirty-nine weeks ended October 26, 2014, the Company closed four stores and recorded charges primarily consisting of certain lease obligations, severance costs, and losses on the disposal of assets associated with the closed stores. The Company expects to incur approximately \$13,000 in store closure and exit costs in fiscal 2014 relating to these stores. Total expected costs are subject to change in future periods based on revisions to assumptions and estimates.

During the thirteen weeks ended October 26, 2014, the Company recorded a net benefit of \$2,728 to impairments and store closure costs of which approximately \$2,900 related to a gain on the assignment of a capital lease and changes in estimates related to its lease commitments for previously closed stores. The net benefit was recorded to the "Impairments and store closure costs" line item on the accompanying Consolidated Statements of Comprehensive Income. The Company incurred approximately \$14,300 of total store closure and exit costs during the thirty-nine weeks ended October 26, 2014, with \$13,881 recorded to the "Impairments and store closure costs" line item and approximately \$400 for the liquidation of inventory recorded to other line items on the accompanying Consolidated Statements of Comprehensive Income. The \$13,881 recorded to the "Impairments and store closure costs" line item consisted of: (i) approximately \$13,500 in connection with closing of four stores and other events affecting closed stores during the thirty-nine weeks ended October 26, 2014; and (ii) ongoing expenses for closed stores.

Impairments and store closure costs for the thirteen and thirty-nine weeks ended October 26, 2014 and October 27, 2013 were as follows:

|                                     | For the Thirteen Weeks Ended |                  | For the Thirty-Nine Weeks Ended |                  |
|-------------------------------------|------------------------------|------------------|---------------------------------|------------------|
|                                     | October 26, 2014             | October 27, 2013 | October 26, 2014                | October 27, 2013 |
| Lease obligation costs              | \$(1,541                     | ) \$70           | \$11,800                        | \$329            |
| Gain on assignment of capital lease | (1,508                       | ) —              | (1,508                          | ) —              |
| Employee and severance costs        | 1                            | —                | 768                             | —                |
| Loss on disposal of assets          | 98                           | —                | 1,852                           | —                |
| Other charges                       | 222                          | 4                | 969                             |                  |