Fresh Market, Inc.
Form 424B3
April 29, 2011
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-173005

Prospectus

11,919,058 shares

The Fresh Market, Inc.

Common stock

The selling stockholders are selling 11,919,058 shares of our common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on The NASDAQ Global Select Market under the symbol TFM . On April 27, 2011, the last reported sale price of our common stock on The NASDAQ Global Select Market was $43.50 per share.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 9 of this prospectus.

	Per share	Total
Public offering price	$ 42.50	$ 506,559,965.00
Underwriting discount	$ 1.4875	$ 17,729,598.77
Proceeds, before expenses, to the selling stockholders	$ 41.0125	$ 488,830,366.23

The underwriters may also purchase up to an additional 1,787,858 shares from the selling stockholders, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about May 3, 2011.

Joint Book-Running Managers

J.P. Morgan **BofA Merrill Lynch**

Morgan Stanley **William Blair & Company** **RBC Capital Markets**

The date of this prospectus is April 28, 2011.

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We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

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Prospectus summary

This summary contains a brief overview of the key aspects of this offering. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, including the risks discussed under Risk Factors and the financial statements and notes thereto included elsewhere in this prospectus. Some of the statements in this summary constitute forward-looking statements. See Special Note Regarding Forward-Looking Statements .

Our company

The Fresh Market is a high-growth specialty retailer focused on creating an extraordinary food shopping experience for our customers. Since opening our first store in 1982, we have offered high-quality food products, with an emphasis on fresh, premium perishables and an uncompromising commitment to customer service. We seek to provide an attractive, convenient shopping environment while offering our customers a compelling price-value combination. As of March 18, 2011, we operated 101 stores in 20 states, primarily in the Southeast, Midwest and Mid-Atlantic United States.

Our business is characterized by the following key elements:

- *Differentiated food shopping experience.* We provide a differentiated shopping experience that generates customer loyalty and favorable word-of-mouth publicity. We combine fresh, carefully-selected, high-quality food products focused on perishable categories, with a level of customer attention that we believe is superior to conventional grocers, and we strive to create a neighborhood grocer atmosphere.

- *Smaller-box format and flexible real estate strategy.* Our stores average approximately 21,000 square feet, compared to the approximately 40,000 to 60,000 square foot stores operated by many conventional supermarkets. Within this relatively smaller size, we focus on higher-margin food categories and strive to deliver a more personal level of service and a more enjoyable shopping experience.

- *Disciplined, comprehensive approach to planning and merchandising.* We provide comprehensive support to our stores that includes employee training and scheduling, store design and layout, merchandising programs, product sourcing, and numerous inventory management systems, primarily focused on perishables. We believe our disciplined, comprehensive approach allows us to quickly integrate newly-hired employees, deliver predictable financial performance and expand our store base while delivering a consistent shopping experience.

We believe our high-quality perishable food offerings and smaller, customer-friendly store environment are the key drivers of our differentiated, profitable business model. We strive to offer an extraordinary shopping experience based on quality, consistency, fairness and integrity for our customers and employees.

For the year ended December 31, 2010, our sales were $974.2 million, an increase of 13.0% from the year ended December 31, 2009. Our income from operations was $40.9 million for the year ended December 31, 2010, a decrease of 23.0% from the year ended December 31, 2009. Our adjusted income from operations, which excludes the impact of certain charges related to our

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initial public offering, was $69.7 million, an increase of 31.3% from the year ended December 31, 2009. Adjusted income from operations is a non-GAAP financial measure. See Summary Financial Information and Other Data for our discussion of adjusted income from operations and a reconciliation to reported income from operations.

Recent developments

We have experienced positive sales and earnings performance, consistent with management expectations, during our fiscal first quarter through the date of this prospectus. In addition, our change from a calendar year reporting basis to a fiscal year basis will change the historical seasonality of its quarters. For instance, fiscal first quarter of 2011 will include the traditionally strong Easter sales period and will not include the traditionally slower month of January whereas the first quarter of 2010 (on a calendar basis) had the opposite impact. Likewise, the fourth fiscal quarter of 2011 will include the traditionally slower month of January whereas the fourth quarter of 2010 (on a calendar basis) did not. Therefore, if performance to date continues, we expect that earnings per share for the current fiscal quarter will exceed 2010 first quarter pro forma earnings per share of $0.20 (on a calendar basis). Our earnings for the first quarter of 2010 are presented on a pro forma basis to give effect to our conversion from an S-corporation to a C-corporation in connection with our initial public offering. For a discussion of our presentation of earnings on a pro forma basis, see Summary Financial Information and Other Data, Selected Historical Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Our competitive strengths

We attribute our success in large part to the following competitive strengths:

Outstanding food quality, store environment and customer service. We are dedicated to delivering a superior shopping experience that exceeds our customers expectations by offering fresh, premium products and providing a high level of customer service. Our high-quality food offerings are the result of our careful selection of distinct products. Additionally, our stores are designed to delight our customers senses with an aesthetically pleasing environment.

Business well positioned for changing consumer trends. We believe that our company is well positioned to capitalize on evolving consumer preferences and other trends currently shaping the food retail industry, which include:

- a growing emphasis on the customer shopping experience;
- an increasing consumer focus on healthy eating choices and fresh, quality offerings;
- an improving perception of private-label product quality; and
- an increasing number of older people, a demographic that is expected to account for a disproportionately higher share of food-at-home spending by households.

Highly-profitable smaller-box format. Since our founding, we have exclusively operated a smaller-box format, which has proven to be highly profitable. Within this format, we focus on higher-margin food categories. Our disciplined, exclusive focus on the smaller-box format leads to consistent execution across our store base, which we believe allows us to generate higher operating margins than conventional supermarkets.

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***Scalable operations and replicable store model**.* We believe that our infrastructure, including our management systems and distribution network, enables us to replicate our profitable store format and differentiated shopping experience. We expect this infrastructure to be capable of supporting significant expansion. We outsource substantially all of our logistics functions to third-party distributors or vendors whom we expect to have sufficient capacity to accommodate our anticipated growth. Each of our stores utilizes standard product display fixtures that enable us to successfully replicate our customers shopping experience.

Experienced management team with proven track record. Our executive management team has extensive experience across a broad range of industries and is complemented by merchandising and operations management with extensive food retail experience. Our team employs an analytical, data-driven approach to decision-making that is designed to encourage innovation and stimulate continuous improvement throughout the organization.

Our growth strategy

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

***Expand our store base**.* We intend to continue to expand our store base and penetrate new markets. We view expansion as a core competency and have more than tripled our store count since 2000. Based upon our operating experience and research conducted for us by The Buxton Company, a customer analytics research firm, we believe that the U.S. market can support at least 500 The Fresh Market stores operating under our current format.

Drive comparable store sales. We aim to increase our comparable store sales by generating growth in the number and size of customer transactions at our existing stores. In order to increase the number of customer transactions at our stores, we plan to continue to offer a differentiated food shopping experience, which we believe leads to favorable word-of-mouth publicity, and provide distinctive, high-quality products to generate new and repeat visits to our stores.

Increase our highly-attractive operating margins. We intend to continue to increase our highly-attractive operating margins through scale efficiencies, improved systems, continued cost discipline and enhancements to our merchandise offerings. Our anticipated store growth will permit us to benefit from economies of scale in sourcing products and will allow us to leverage our existing infrastructure, corporate overhead and fixed costs to reduce labor and supply chain management costs as a percentage of sales.

Risks affecting our business

While we have set forth our competitive strengths and growth strategies above, food retail is a large and competitive industry and our business involves numerous risks and uncertainties. These risks include the possibility that our competitors may be more successful than us at attracting customers.

Investing in our common stock involves substantial risk. The factors that could adversely affect our results and performance are discussed under the heading Risk Factors immediately following this summary. Before you invest in our common stock, you should carefully consider all of the information in this prospectus, including matters set forth under the heading Risk Factors .

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Terms used in this prospectus

As used in this prospectus, the term the Berry family means (1) Ray Berry and the Estate of Beverly Berry; (2) various lineal descendants of Ray Berry and spouses and adopted children of such descendants; (3) various trusts for the benefit of individuals described in clauses (1) and (2) and their trustees; and (4) various entities owned or controlled, directly or indirectly, by the individuals and trusts described in clauses (1), (2) and (3).

Principal executive offices

The Fresh Market, Inc. is incorporated in Delaware. Our principal executive offices are located at 628 Green Valley Road, Suite 500, Greensboro, North Carolina 27408, and our telephone number at this address is (336) 272-1338. Our website is *www.thefreshmarket.com*. **Information on, or accessible through, our website is not a part of, and is not incorporated into, this prospectus.**

Industry and market data

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market opportunity, is based on information from independent industry organizations, such as The Nielsen Company (Nielsen), Nielsen TDLinx and 2010 Progressive Grocer Market Research, McKinsey & Company, the Food Marketing Institute, The Buxton Company and other third-party sources (including industry publications, surveys and forecasts), and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable. We have not independently verified any third-party information. While we believe the market opportunity information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of the future performance of the industry in which we operate and our future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Risk Factors . These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

We use *The Fresh Market* and *The Fresh Market* logo, among others, as our trademarks. This prospectus may refer to brand names, trademarks, service marks and trade names of other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective owners.

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The offering

Selling stockholders	The Berry family.
Shares offered by the selling stockholders	11,919,058 shares.
	13,706,916 shares if the underwriters exercise their overallotment option in full.
Shares to be outstanding immediately after this offering	47,991,045 shares.
Voting rights	One vote per share.
Use of proceeds	The selling stockholders will receive all of the net proceeds from the sale of the shares offered hereby. We will not receive any proceeds from this offering.
Dividend policy	We have not paid any dividends since our initial public offering. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends for the foreseeable future. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors our board of directors deems relevant.
Risk factors	You should carefully read and consider the information set forth under Risk Factors , together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.
The NASDAQ Global Select Market listing	Our common stock is listed on The NASDAQ Global Select Market under the symbol TFM .

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Summary financial information and other data

The following tables set forth our summary financial information and other data, as well as certain pro forma information and adjusted financial results that reflect the impact of certain charges related to our initial public offering and the income tax effect of our conversion from an S-corporation to a C-corporation. In addition, the following tables present certain summary financial information and other data with respect to the 30-day transition period ended January 30, 2011, which resulted from the recent change to the end of our fiscal year from December 31 of each year to the last Sunday in January of each year.

The historical balance sheet data as of December 31, 2009 and 2010, and as of January 30, 2011, and the historical statement of income data for the years ended December 31, 2008, 2009 and 2010, and for the 30-day period ended January 30, 2011, have been derived from our audited financial statements, which are included elsewhere in this prospectus. The historical balance sheet data as of December 31, 2008 has been derived from our audited financial statements as of December 31, 2008, which are not included in this prospectus. Our financial statements as of and for the years ended December 31, 2009 and 2010, and as of and for the 30-day period ended January 30, 2011, were audited by Ernst & Young LLP, independent registered public accounting firm, and our financial statements as of and for the year ended December 31, 2008, were audited by Grant Thornton LLP, independent registered public accounting firm. Our historical results are not necessarily indicative of results to be expected for any future period.

The information presented below should be read in conjunction with Capitalization , Selected Historical Financial and Other Data , Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and related notes, which are included elsewhere in this prospectus.

			Year ended	One month ended January 30,
	December 31, 2008	December 31, 2009	December 31, 2010	2011
Statement of Income Data:				
Sales	$ 797,805	$ 861,931	$ 974,213	$ 78,149
Cost of goods sold	554,969	585,360	654,986	53,302
Gross profit	242,836	276,571	319,227	24,847
Selling, general and administrative expenses	180,765	191,250	244,378	17,623
Store closure and exit costs	562	4,361	792	37
Depreciation	24,482	27,880	33,122	2,729
Income from operations	37,027	53,080	40,935	4,458
Interest expense	5,267	3,806	2,374	87
Other income, net	(123)	(236)	(170)	(1)
Income before provision for income taxes	31,883	49,510	38,731	4,372
Recognition of net deferred tax liabilities upon C-corporation conversion			19,125	
Tax provision (benefit), current year	326	308	(3,309)	1,712
Net income	$ 31,557	$ 49,202	$ 22,915	$ 2,660
Net income per share				
Basic and diluted	$ 0.66	$ 1.03	$ 0.48	$ 0.06
Dividends declared per common share(1)	$ 0.54	$ 0.42	$ 1.00	$
Shares used in computation of net income per share,				
Basic	47,991,045	47,991,045	47,991,045	47,991,045
Diluted	47,991,045	47,991,045	48,059,882	48,095,459

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	December 31, 2008	December 31, 2009	Year ended December 31, 2010	One month ended January 30, 2011
Pro Forma Data (unaudited):				
Income before provision for income taxes	$ 31,883	$ 49,510	$ 38,731	
Pro forma provision for income taxes(2)	12,489	19,299	15,113	
Pro forma net income(2)	$ 19,394	$ 30,211	$ 23,618	
Pro forma net income per share(2)				
Basic and diluted	$ 0.40	$ 0.63	$ 0.49	
Pro forma weighted average common shares outstanding (Unaudited):				
Basic	47,991,045	47,991,045	47,991,045	
Diluted	47,991,045	47,991,045	48,059,882	
Adjusted Data (unaudited)(3):				
Adjusted selling, general and administrative expenses			$ 215,557	
Adjusted income from operations			$ 69,756	
Adjusted net income			$ 41,193	
Other Operating Data (unaudited):				
Number of stores at end of period	86	92	100	100
Comparable store sales growth for period(4)	(1.5)%	(1.1)%	5.0%	1.4%
Gross square footage at end of period (in thousands)	1,811	1,955	2,129	2,129
Average comparable store size (gross square feet)(5)	20,641	20,936	21,205	21,273
Comparable store sales per gross square foot during period(5)	$ 498	$ 472	$ 481	$ 37
Balance Sheet Data (end of period):				
Total assets	$ 233,550	$ 235,541	$ 258,002	$ 258,857
Total long-term debt	$ 130,000	$ 98,200	$ 82,450	$ 81,850
Total stockholders equity	$ 37,905	$ 68,302	$ 69,212	$ 72,077

(1) Dividends declared per common share represent dividends declared and paid prior to our initial public offering. The Company currently expects to retain future earnings, if any, for use in the operation and expansion of our business and does not anticipate paying any cash dividends in the foreseeable future. See Dividend Policy for a discussion of our dividend policy.

(2) Prior to our initial public offering completed in November 2010, we were treated as an S-corporation for U.S. federal income tax purposes. As a result, the Company s income was not subject to U.S. federal income taxes or state income taxes in those states where S-corporation status is recognized. In general, the corporate income or loss of an S-corporation is allocated to its stockholders for inclusion in their federal income tax returns and state income tax returns in those states where S-corporation status is recognized. The Company s S-corporation status terminated on November 9, 2010 in connection with its initial public offering and the Company became subject to additional entity-level taxes that are reflected in the financial statements from November 9, 2010 to December 31, 2010. The pro forma provision for income taxes reflects combined federal and state income taxes on a pro forma basis, as if the Company had been treated as a C-corporation for the entire year, using blended statutory federal and state income tax rates of 39.2% in 2008 and 39.0% in each of 2009 and 2010. The tax rate reflects the sum of the federal statutory rate and a blended state rate based on the Company s calculation of income apportioned to each state for each period.

(3) In addition to presenting our financial results in conformity with GAAP within this prospectus, we are also presenting 2010 results on an adjusted basis in order to exclude the impact of certain charges related to our initial public offering and the tax effect of converting from an S-corporation to a C-corporation in connection with our initial public offering. Specifically, 2010 results include share-based compensation expense and related payroll tax expense arising from the vesting of equity awards at the time of the initial public offering, as well as income tax charges incurred in order to establish beginning deferred tax balances arising from our conversion from an S-corporation to a C-corporation. Additionally, from January 1, 2010 and through November 8, 2010, we did not incur corporate income tax due to our S-corporation status. Our adjusted results exclude the impact of the charges related to our initial public offering and reflect a pro forma provision for corporate income taxes for the portion of 2010 that we had S-corporation status. These adjusted financial results are non-GAAP financial measures. We believe that the presentation of adjusted financial results facilitates an understanding of our operations without the one-time impact associated with our initial public offering and with a consistent presentation for corporate income taxes. Non-GAAP financial measures

should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

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The following tables provide an unaudited reconciliation of adjusted selling, general and administrative expenses, adjusted income from operations and adjusted net income, each of which is a non-GAAP financial measure, to selling, general and administrative expenses, income from operations and net income in accordance with GAAP:

(amounts in thousands)	**2010**
Selling, general and administrative expenses	$ 244,378
Share-based compensation and related payroll tax expense associated with our initial public offering	$ (28,821)
Adjusted selling general and administrative expense	$ 215,557

(amounts in thousands)		**2010**
Income from operations	$	40,935
Share-based compensation and related payroll tax expense associated with our initial public offering	$	28,821
Adjusted income from operations	$	69,756

			2010
(amounts in thousands, except per share amounts)	**Net income**		**Diluted earnings per share**
Net income	$ 22,915	$	0.48
Share-based compensation expense(a)	17,575		0.37
Recognition of net deferred tax liabilities upon C-corporation conversion	19,125		0.40
Tax provision(b)	(18,422)		(0.39)
Adjusted net income	$ 41,193	$	0.86

(a) Represents share based compensation expense of $28.8 million including related payroll taxes incurred in connection with our initial public offering, net of tax benefit.

(b) Represents estimated income taxes from January 1, 2010 to November 8, 2010, the time period we were an S-corporation, using a blended statutory rate of 39.0%, which reflects combined federal and state income taxes, as if we had been treated as a C-corporation.

(4) Our practice is to include sales from a store in comparable store sales beginning on the first day of the sixteenth full month following the store s opening. 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. There may be variations in the way that our competitors calculate comparable or same store sales. As a result, data in this prospectus regarding our comparable store sales may not be comparable to similar data made available by our competitors. The 30-day period ended January 30, 2011 had one less day than the same period for 2010, which negatively impacted the comparison by 3.4%. For further discussion, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5)

Average comparable store size and comparable store sales per gross square foot are calculated using the gross square footage and sales for stores included within our comparable store base for each month during the given period.

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Risk factors

This offering and an investment in our common stock involve a high degree of risk. You should consider carefully the risks described below, together with the financial and other information contained in this prospectus, before you decide to purchase shares of our common stock. If any of the following risks actually occur, our business, financial condition, results of operations, cash flow and prospects could be materially and adversely affected. As a result, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock.

Risks related to our business

We may not be able to successfully implement our growth strategy on a timely basis or at all. Additionally, new stores may place a greater burden on our existing resources and adversely affect our existing business.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. Successful implementation of this strategy depends upon, among other things:

- the identification of suitable sites for store locations;
- the negotiation of acceptable lease terms;
- the ability to continue to attract customers to our stores largely through favorable word-of-mouth publicity, rather than through conventional advertising;
- the hiring, training and retention of skilled store personnel;
- the identification and relocation of experienced store management personnel;
- the effective management of inventory to meet the needs of our stores on a timely basis;
- the availability of sufficient levels of cash flow or necessary financing to support our expansion; and
- the ability to successfully address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

We, or our third party vendors, may not be able to adapt our distribution, management information and other operating systems to adequately supply products to new stores at competitive prices so that we can operate the stores in a successful and profitable manner. We do not participate in many of the traditional marketing activities of conventional food retailers, but instead rely primarily on favorable word-of-mouth publicity to drive sales. We cannot assure you that we will continue to grow through new store openings or through favorable word-of-mouth publicity in the future. Although we believe, based upon our experience and research conducted by a third-party research firm, that the U.S. market can support at least 500 The Fresh Market stores operating under our current format, we anticipate that it will take years to grow our store count to that number. We cannot assure you that we will grow our store count to at least 500 stores. Additionally, our proposed expansion will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our existing business less effectively, which in turn could cause deterioration in the

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financial performance of our existing stores. Further, new store openings in markets where we have existing stores may result in reduced sales volumes at our existing stores in those markets. If we experience a decline in performance, we may slow or discontinue store openings, or we may decide to close stores that we are unable to operate in a profitable manner. In the past ten years, we have closed two stores before the expiration of their primary lease terms. If we fail to successfully implement our growth strategy, including by opening new stores, our financial condition and operating results may be adversely affected.

Our new store base, or stores opened or acquired in the future, may not achieve sales and operating levels consistent with our mature store base on a timely basis or at all or may negatively impact our results.

We have actively pursued new store growth in existing and new markets and plan to continue doing so in the future. Our growth continues to depend, in part, on our ability to open and operate new stores successfully. New stores may not achieve sustained sales and operating levels consistent with our mature store base on a timely basis or at all. This may have an adverse effect on our financial condition and operating results. In addition, if we acquire stores in the future, we may not be able to successfully integrate those stores into our existing store base and those stores may not be as profitable as our existing stores.

We cannot assure you that our new store openings will be successful or result in greater sales and profitability for the company. New stores build their sales volume and their customer base over time and, as a result, generally have lower gross margin rates and higher operating expenses, as a percentage of sales, than our more mature stores. There may be a negative impact on our results from a lower contribution of new stores, along with the impact of related pre-opening and applicable store management relocation costs. Any failure to successfully open and operate new stores in the time frames and at the costs estimated by us could result in a decline of the price of our common stock.

Our inability to maintain or improve levels of comparable store sales could cause our stock price to decline.

We may not be able to maintain or improve the levels of comparable store sales that we have experienced in the recent past. In addition, our overall comparable store sales have fluctuated in the past and will likely fluctuate in the future. A variety of factors affect comparable store sales, including consumer preferences, competition, economic conditions, pricing, in-store merchandising-related activities and our ability to source and distribute products efficiently. In addition, many specialty retailers have been unable to sustain high levels of comparable store sales growth during and after periods of substantial expansion. These factors may cause our comparable store sales results to be materially lower than in recent periods, which could harm our business and result in a decline in the price of our common stock.

Our inability to maintain or increase our operating margins could adversely affect the price of our stock.

We intend to continue to increase our operating margins through scale efficiencies, improved systems, continued cost discipline and enhancements to our merchandise offerings. If we are unable to successfully manage the potential difficulties associated with store growth, we may not be able to capture the scale efficiencies that we expect from expansion. If we are not able to continue to capture scale efficiencies, improve our systems, continue our cost discipline and

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enhance our merchandise offerings, we may not be able to achieve our goals with respect to operating margins. In addition, if we do not adequately refine and improve our various ordering, tracking and allocation systems, we may not be able to increase sales and reduce inventory shrinkage. As a result, our operating margins may stagnate or decline, which could adversely affect the price of our stock.

Economic conditions that impact consumer spending could materially affect our business.

Ongoing economic uncertainty continues to negatively affect consumer confidence and discretionary spending. Our results of operations may be materially affected by changes in overall economic conditions that impact consumer confidence and spending, including discretionary spending. This risk may be exacerbated if customers choose lower-cost alternatives in response to economic conditions. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, tax rates, fuel and energy costs and other matters could reduce consumer spending or cause consumers to shift their spending to lower-priced competitors. As a result, our results of operations could be materially adversely affected.

We face competition in our industry, and our failure to compete successfully may have an adverse effect on our profitability and operating results.

Food retail is a competitive industry. Our competition varies and includes national, regional and local conventional supermarkets, national superstores, alternative food retailers, natural foods stores, smaller specialty stores, and farmers markets. Each of these stores competes with us on the basis of product selection, product quality, customer service, price or a combination of these factors. In addition, some competitors are aggressively expanding their number of stores or their product offerings. In their new or remodeled stores, our competitors often increase the space allocated to perishable food and specialty food categories, which are our core categories. Some of these competitors may have been in business longer or may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting and selling their products. As competition in certain areas intensifies or competitors open stores within close proximity to one of our stores, our results of operations may be negatively impacted through a loss of sales, reduction in margin from competitive price changes or greater operating costs. Further, any attempt by a competitor to copy or mimic our smaller-box format or operating model could materially impact our business, results of operations and financial condition by causing a decrease in our market share and our sales and operating results. Increased competition may also make employee retention more difficult and raise our cost of hiring and retaining qualified employees.

We may be unable to protect or maintain our intellectual property, including* The Fresh Market *trademark, which could result in customer confusion and adversely affect our business.

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. In particular, our trademarks, including our registered *The Fresh Market*, *Experience the Food* and *TFM* trademarks, are valuable assets that reinforce our customers favorable perception of our stores.

From time to time, third parties have used names similar to ours, have applied to register trademarks similar to ours and, we believe, have infringed or misappropriated our intellectual property rights. Third parties have also, from time to time, opposed our trademarks and challenged our intellectual property rights. We respond to these actions on a case-by-case basis. The outcomes of these actions have included both negotiated out-of-court settlements as well as litigation.

As part of our ongoing efforts to protect our intellectual property rights, on February 2, 2010, we filed a Notice of Opposition with the United States Patent and Trademark Office, Trademark Trial and Appeal Board (the TTAB) in response to an application filed by Associated Food Stores, Inc. (Associated), which operates supermarkets under the name A Fresh Market in Utah, to register the trademark A Fresh Market . Associated subsequently filed an answer and counterclaim on March 15, 2010, in which it, among other things, sought to cancel our registrations for the trademarks *The Fresh Market* and *The Fresh Market* Name and Design, alleging that we cannot prevent other entities from registering confusingly similar marks to ours, because our marks are generic names for the goods and services for which they are registered. On March 18, 2011, the TTAB granted a Motion on Consent to Withdraw and Dismiss, which dismissed all proceedings before the TTAB. In the Motion the parties consented and stipulated to (1) Associated s withdrawal with prejudice of its application to register the trademark A Fresh Market and (2) Associated s withdrawal without prejudice of its counterclaim to cancel our registrations based on its allegations that the registered *The Fresh Market* and *The Fresh Market* Name and Design trademarks are generic names for the goods and services described in our registrations. Despite the conclusion of these proceedings with Associated, there may be future disputes with Associated or others regarding our trademark rights.

In the ordinary course of our business, we evaluate the branding of our stores and products and how they are perceived by our customers. As part of this evaluation, we regularly develop new marks and explore using existing marks in new ways. Whether or not our *The Fresh Market* trademark rights are challenged in the future, we may decide (1) to continue to use *The Fresh Market* name and related design, (2) to use our other existing trademarks on a wider or different basis or (3) to develop new trademarks, which could also incorporate *The Fresh Market* name. If we undertake such an effort, we cannot assure you that it would be successful in strengthening our brand or improving our brand recognition or image to our customers, and any such initiative runs the risk of harming our brand recognition or image and, in turn, our business. We believe, however that the strength of our business is driven by the distinct and superior food shopping experience we offer our customers, and therefore believe that we will be able to expand our business and pursue our growth strategy even if *The Fresh Market* trademark and related design mark are impaired.

Our success depends upon our ability to source and market new products to meet our high standards and customer preferences and our ability to offer our customers an aesthetically pleasing shopping environment.

Our success depends on our ability to source and market new products that both meet our standards for quality and appeal to customers preferences. A small number of our employees, including our in-house merchants, are primarily responsible for both sourcing products that meet our high specifications and identifying and responding to changing customer preferences. Failure to source and market such products, or to accurately forecast changing customer preferences, could lead to a decrease in the number of customer transactions at our stores and a decrease in the amount customers spend when they visit our stores. In addition, the sourcing of our products is dependent, in part, on our relationships with our vendors. If we are unable to maintain these relationships we may not be able to continue to source products at competitive prices that both meet our standards and appeal to our customers. We also attempt to create a pleasant and appealing shopping experience. If we are not successful in creating a pleasant and appealing shopping experience we may lose customers to our competitors. If we do not succeed in maintaining good relationships with our vendors, introducing and sourcing new products that consumers want to buy or are unable to provide a pleasant and appealing shopping environment or maintain our level of customer service, our sales, operating margins and market share may decrease, resulting in reduced profitability.

Our stores rely heavily on sales of perishable products, and ordering errors or product supply disruptions may have an adverse effect on our profitability and operating results.

We have a significant focus on perishable products. Sales of perishable products accounted for approximately two-thirds of our total sales in 2010. We rely on various suppliers and vendors to provide and deliver our perishable product inventory on a continuous basis. We could suffer significant product inventory losses in the event of the loss of a major supplier or vendor, disruption of our distribution network, extended power outages, natural disasters or other catastrophic occurrences. We have implemented certain systems to ensure our ordering is in line with demand. We cannot assure you, however, that our ordering system will always work efficiently, in particular in connection with the opening of new stores, which have no, or a limited, ordering history. If we were to over-order, we could suffer inventory losses, which would negatively impact our operating results. Furthermore, we could suffer significant product inventory losses in the event of the loss of a major supplier or vendor, disruption of our distribution network, extended power outages, natural disasters or other catastrophic occurrences.

Increased commodity prices and availability may impact profitability.

Many of our products include ingredients such as wheat, corn, oils, cocoa and other commodities. Commodity prices worldwide have been increasing. While commodity price inputs do not typically represent the substantial majority of our product costs, any increase in commodity prices may cause our vendors to seek price increases from us. Although we typically are able to mitigate vendor efforts to increase our costs, we may be unable to continue to do so, either in whole or in part. In the event we are unable to continue mitigating our vendor efforts to obtain price increases, we may in turn consider raising our prices, and our customers may be deterred by any such price increases. Our profitability may be impacted through increased costs to us which may impact gross margins, or through reduced revenue as a result of a decline in the number and average size of customer transactions.

The current geographic concentration of our stores creates an exposure to local economies, regional downturns or severe weather or catastrophic occurrences that may materially adversely affect our financial condition and results of operations.

We currently operate 24 stores in Florida, making Florida our largest market and representing 24% of our total stores. We also have store concentration in North Carolina and Georgia, operating 15 stores and 11 stores in those states, respectively. As a result, our business is currently more susceptible to regional conditions than the operations of more geographically diversified competitors, and we are vulnerable to economic downturns in those regions. Any unforeseen events or circumstances that negatively affect these areas could materially adversely affect our revenues and profitability. These factors include, among other things, changes in demographics and population.

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Severe weather conditions and other catastrophic occurrences in areas in which we have stores or from which we obtain products may materially adversely affect our results of operations. Such conditions may result in physical damage to our stores, loss of inventory, closure of one or more of our stores, inadequate work force in our markets, temporary disruption in the supply of products, delays in the delivery of goods to our stores and a reduction in the availability of products in our stores. Any of these factors may disrupt our businesses and materially adversely affect our financial condition and results of operations.

Our business could be harmed by a failure of our information technology, administrative or outsourcing systems.

We rely on our information technology, administrative and outsourcing systems to effectively manage our business data, communications, supply chain, order entry and fulfillment and other business processes. The failure of our information technology, administrative or outsourcing systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business to suffer. In addition, our information technology and administrative and outsourcing systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, viruses and security breaches, including breaches of our transaction processing or other systems that could result in the compromise of confidential customer data. Any such damage or interruption could have a material adverse effect on our business, cause us to face significant fines, customer notice obligations or costly litigation, harm our reputation with our customers, require us to expend significant time and expense developing, maintaining or upgrading our information technology, administrative or outsourcing systems or prevent us from paying our suppliers or employees, receiving payments from our customers or performing other information technology, administrative or outsourcing services on a timely basis. Data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new federal and state laws and legislative proposals addressing data privacy and security, as well as increased data protection obligations imposed on merchants by credit card issuers. As a result, we may become subject to more extensive requirements to protect the customer information that we process in connection with the purchase of our products.

Energy costs are a significant component of our operating expenses and increasing energy costs, unless offset by more efficient usage or other operational responses, may impact our profitability.

We utilize gas, water, sewer and electricity in our stores and our third-party logistics providers use gas and diesel in the trucks that deliver products to our stores. Increases in energy costs, whether driven by increased demand, decreased or disrupted supply or an anticipation of any such events will increase the costs of operating our stores and may increase the costs of our products. We may not be able to recover these rising costs through increased prices charged to our customers, and any increased prices may exacerbate the risk of customers choosing lower-cost alternatives. In addition, if we are unsuccessful in attempts to protect against these increases in energy costs through long-term energy contracts, improved energy procurement, improved efficiency and other operational improvements, the overall costs of operating our stores will increase which would impact our profitability.

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We are substantially dependent on a few key third-party vendors to provide logistical services for our stores, including services related to inventory replenishment and the storage and transportation of many of our products. A disruption in these relationships or a key distribution center, or a failure to renew or replace existing contractual relationships, may have a negative effect on our results of operations and financial condition.

We currently rely upon independent third-party service providers for all product shipments to our stores. In particular, we rely on one third-party service provider to provide key services related to inventory management, warehousing and transportation, and, as a result, much of our inventory is stored at a single warehouse maintained by this provider. See Business Sourcing and Distribution . Products sourced and distributed through this provider accounted for approximately 56% of the merchandise we purchased during 2010, and, therefore, our relationship with this provider is important to us. Our current five-year contract with this provider expires during 2012, unless we and the provider agree to renew the agreement on mutually agreeable terms. Although we have not experienced difficulty in our inventory management, warehousing and transportation to date with this third-party service provider, interruptions could occur in the future. Further, although we expect that this third-party vendor, and our other key vendors, will have sufficient capacity to accommodate our anticipated growth, it or they may not have the resources or desire to do so. Any significant disruptions in our relationship with this provider or the single distribution center this provider uses to service our stores, or our relationships with our other key vendors, including due to their inability to accommodate our growth, or any failure to renew or replace our existing contractual relationship with our largest logistics provider, would make it difficult for us to continue to operate our existing business or pursue our growth plans until we execute replacement agreements or develop and implement self- distribution processes. While we believe that other third-party service providers could provide similar services on reasonable terms, they are limited in number and we cannot assure you that we would be able to find a replacement distributor on a timely basis or that such distributor would be able to fulfill our demands on commercially reasonable terms, which could have a material adverse effect on our results of operations and financial condition.

We may experience negative effects to our reputation from real or perceived quality or health issues with our food products, which could have an adverse effect on our operating results.

We believe customers count on us to provide them with fresh, high-quality food products. Concerns regarding the safety of our food products or the safety and quality of our food supply chain could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of food, even if the basis for the concern is outside of our control. Adverse publicity about these concerns, whether or not ultimately based on fact, and whether or not involving products sold at our stores, could discourage consumers from buying our products and have an adverse effect on our operating results. Furthermore, the sale of food products entails an inherent risk of product liability claims, product recall and the resulting negative publicity. Food products containing contaminants could be inadvertently distributed by us and, if processing at the consumer level does not eliminate them, these contaminants could result in illness or death. We cannot assure you that product liability claims will not be asserted against us or that we will not be obligated to perform product recalls in the future. Any such claims, recalls or adverse publicity with respect to our private-label products may have an even greater negative effect on our sales and operating results, in addition to generating adverse publicity for our private label brand.

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Any lost confidence on the part of our customers would be difficult and costly to reestablish. Any such adverse effect could be exacerbated by our position in the market as a purveyor of fresh, high-quality food products and could significantly reduce our brand value. Issues regarding the safety of any food items sold by us, regardless of the cause, could have a substantial and adverse effect on our sales and operating results.

The loss of key employees could negatively affect our business.

A key component of our success is the experience of our key employees, including our President and Chief Executive Officer, Craig Carlock, our Senior Vice President Real Estate and Development, Randy Kelley, our Senior Vice President Store Operations, Sean Crane, and our Senior Vice President Merchandising and Marketing, Marc Jones. These employees have extensive experience in our industry and are familiar with our business, systems and processes. The loss of services of one or more of our key employees could impair our ability to manage our business effectively. We do not maintain key person insurance on any employee.

In addition to these key employees, we have other employees in positions, including those employees responsible for our merchandising and operations departments, that, if vacant, could cause a temporary disruption in our business until such positions are filled.

Union attempts to organize our employees could negatively affect our business.

None of our employees are currently subject to a collective bargaining agreement. As we continue to grow, and enter different regions, unions may attempt to organize all or part of our employee base at certain stores or within certain regions. Responding to such organization attempts may distract management and employees and may have a negative financial impact on individual stores, or on our business as a whole.

Our management has limited experience managing a public company and our current resources may not be sufficient to fulfill our public company obligations.

As a result of our initial public offering in November, 2010, we are subject to various regulatory requirements, including those of the Securities and Exchange Commission (the SEC) and The NASDAQ Stock Market. These requirements include record keeping, financial reporting and corporate governance rules and regulations. Our management team has limited experience in managing a public company and, historically, has not had the resources typically found in a public company. Our internal infrastructure may not be adequate to support our increased reporting obligations and we may be unable to hire, train or retain necessary staff and may be reliant on engaging outside consultants or professionals to overcome our lack of experience or employees. Our business could be adversely affected if our internal infrastructure is inadequate, we are unable to engage outside consultants or are otherwise unable to fulfill our public company obligations.

The terms of our revolving credit facility may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.

Our revolving credit facility contains, and any additional debt financing we may incur would likely contain, covenants that restrict our operations, including limitations on our ability to grant liens, incur additional debt, pay dividends, redeem our common stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. A failure by us to comply with the covenants or financial ratios contained in our revolving credit facility could result in an event of default, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the unsecured revolving credit facility. If the indebtedness under our revolving credit facility were to be accelerated, our future financial condition could be materially adversely affected.

We will require significant capital to fund our expanding business, which may not be available to us on satisfactory terms or at all.

To support our expanding business and pursue our growth strategy, we will utilize significant amounts of cash generated by our operations to pay our lease obligations, build out new store space, purchase inventory, pay personnel, further invest in our infrastructure and facilities, and pay for the increased costs associated with operating as a public company. We primarily depend on cash flow from operations and borrowings under our revolving credit facility to fund our business and growth plans. If our business does not generate sufficient cash flow from operations to fund these activities, and sufficient funds are not otherwise available to us under our revolving credit facility, we may need additional equity or debt financing. If such financing is not available to us, or is not available to us on satisfactory terms, our ability to operate and expand our business or to respond to competitive pressures would be limited and we could be required to delay, significantly curtail or eliminate planned store openings or operations or other elements of our growth strategy.

We may incur additional indebtedness in the future which could adversely affect our financial health and our ability to react to changes to our business.

We may incur additional indebtedness in the future. Any increase in the amount of our indebtedness could require us to divert funds identified for other purposes for debt service and impair our liquidity position. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we will be able to take any of such actions on a timely basis, on terms satisfactory to us or at all. Our level of indebtedness has important consequences to you and your investment in our common stock.

For example, our level of indebtedness may:

- require us to use a substantial portion of our cash flow from operations to pay interest and principal on our debt, which would reduce the funds available to us for working capital, capital expenditures and other general corporate purposes;

- limit our ability to pay future dividends;

- limit our ability to obtain additional financing for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy;

- heighten our vulnerability to downturns in our business, the food retail industry or in the general economy and limit our flexibility in planning for, or reacting to, changes in our business and the food retail industry; or

- prevent us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our store base and product offerings.

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We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in amounts sufficient to enable us to make payments on our indebtedness or to fund our operations.

As a result of our recent initial public offering, our costs have increased significantly and our management is required to devote substantial time to complying with public company regulations.

We have historically operated our business as a private company. In November 2010, we completed an initial public offering. As a result, we are required to incur additional legal, accounting, compliance and other expenses that we did not incur as a private company. We are obligated to file with the SEC annual and quarterly information and other reports that are specified in Section 13 and other sections of the Securities Exchange Act of 1934, as amended (the Exchange Act). In addition, we are also subject to other reporting and corporate governance requirements, including certain requirements of The NASDAQ Stock Market, and certain provisions of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the regulations promulgated thereunder, which impose significant compliance obligations upon us. We must be certain that we have the ability to institute and maintain a comprehensive compliance function; established internal policies; ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis; design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with Sarbanes-Oxley; involve and retain outside counsel and accountants in the above activities and maintain an investor relations function.

Sarbanes-Oxley, as well as rules subsequently implemented by the SEC and The NASDAQ Stock Market, have imposed increased regulation and disclosure and have required enhanced corporate governance practices of public companies. Our efforts to comply with evolving laws, regulations and standards in this regard are likely to result in increased administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. These changes require a significant commitment of additional resources. We may not be successful in implementing or maintaining these requirements, any failure of which could materially adversely affect our business, results of operations and financial condition. In addition, if we fail to implement or maintain the requirements with respect to our internal accounting and audit functions, our ability to continue to report our operating results on a timely and accurate basis could be impaired. If we do not implement or maintain such requirements in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC or The NASDAQ Stock Market. Any such action could harm our reputation and the confidence of investors and customers in our company and could materially adversely affect our business and cause our share price to fall.

Failure to establish and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley could have a material adverse effect on our business and stock price.

As a public company, beginning in fiscal 2011, we will be required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of Sarbanes-Oxley, which will require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm that addresses the effectiveness of internal control over financial reporting. During the course of our testing, we may identify deficiencies that we may not be able to remediate in time to meet our deadline for compliance with Section 404. Testing and maintaining internal control can divert our

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management s attention from other matters that are important to the operation of our business. We also expect the regulations to increase our legal and financial compliance costs, make it more difficult to attract and retain qualified officers and members of our board of directors, particularly to serve on our audit committee, and make some activities more difficult, time consuming and costly. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 or our independent registered public accounting firm may not be able or willing to issue an unqualified report on the effectiveness of our internal control over financial reporting. If we conclude that our internal control over financial reporting is not effective, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations because there is presently no precedent available by which to measure compliance adequacy.

In connection with the initial public offering we reviewed our accounting policies. As part of this review, and in connection with audits of our financial statements for certain prior periods, our independent registered public accountants identified three material weaknesses in our internal control over financial reporting related to our accounting for (1) compensated absences of our employees, which we had not been accruing over the service period during which the entitlement was earned, (2) license revenue with respect to sales of sushi, and (3) the reversal of certain non-cash compensation expenses in 2007 which, based on the timing of formal documentation, should have been recorded in 2008. We corrected these accounting treatments and restated our prior year financial statements and reflected these changes in our Registration Statement on Form S-1 initially filed May 3, 2010 in connection with our initial public offering.

If we are unable to conclude that we have effective internal control over financial reporting, our independent auditors are unable to provide us with an unqualified report as required by Section 404 or we are required to restate our financial statements, we may fail to meet our public reporting obligations and investors could lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

Prior to our initial public offering, we were treated as an S-corporation under Subchapter S of the Internal Revenue Code, and claims of taxing authorities related to our prior status as an S-corporation could harm us.

Prior to November 9, 2010, we were treated as an S-corporation. If the unaudited, open tax years in which we were an S-corporation are audited by the Internal Revenue Service, and we are determined not to have qualified for, or to have violated, our S-corporation status, we will be obligated to pay back taxes, interest and penalties, and we do not have the right to reclaim tax distributions we have made to our stockholders during those periods. These amounts could include taxes on all of our taxable income while we were an S-corporation. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition.

We have entered into tax indemnification agreements with certain members of the Berry family and could become obligated to make payments to them for any additional federal, state or local income taxes assessed against them for fiscal periods prior to the initial public offering.

Prior to November 9, 2010, we were treated as an S-corporation. In the event of an adjustment to our reported taxable income for a period or periods prior to termination of our S-corporation status, our stockholders at that time could be liable for additional income taxes for those prior periods. Therefore, we have entered into tax indemnification agreements with our stockholders

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prior to the offering. Pursuant to the tax indemnification agreements, we agreed that upon filing any tax return (amended or otherwise), or in the event of any restatement of our taxable income, in each case for any period during which we were an S-corporation, we will make a payment to each stockholder on a pro rata basis in an amount sufficient so that the stockholder with the highest incremental estimated tax liability (calculated as if the stockholder would be taxable on its allocable share of our taxable income at the highest applicable federal, state and local tax rates and taking into account all amounts we previously distributed in respect of taxes for the relevant period) receives a payment equal to its incremental tax liability. We also agreed to indemnify the stockholders for any interest, penalties, losses, costs or expenses (including reasonable attorneys fees) arising out of any claim under the agreements.

Risks related to this offering

If our stock price declines after this offering, you could lose a significant part of your investment.

The market price of our stock may be influenced by many factors, some of which are beyond our control, including those described above in Risks Related to Our Business and the following:

- the failure of securities analysts to cover or continue to cover our common stock after this offering;
- changes in financial estimates by securities analysts;
- the inability to meet the financial estimates of analysts who follow our common stock;
- the failure to meet, or delay in meeting, our growth targets;
- strategic actions by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- variations in our quarterly operating results and those of our competitors;
- general economic and stock market conditions;
- risks related to our business and our industry, including those discussed above;
- changes in conditions or trends in our industry, markets or customers;
- terrorist acts;
- future sales of our common stock or other securities;

- investor perceptions of the investment opportunity associated with our common stock relative to other investment alternatives; and

- guidance, if any, that we provide to the public, any changes in this guidance or our failure to meet this guidance.

As a result of these factors, investors in our common stock may not be able to resell their shares at or above the offering price or may not be able to resell them at all. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the trading volume of our common stock is low.

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Future sales, or the perception of future sales, of our common stock may depress the price of our common stock.

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock in the market after this offering, including shares that might be offered for sale by the Berry family. The sales, or the perception that these sales might occur, could depress the market price. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Upon completion of this offering, we will have 47,991,045 shares of common stock outstanding. The 15,151,220 shares sold in our initial public offering and the shares offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended (the Securities Act), except for any shares of common stock that may be held or acquired by our directors, executive officers or other affiliates (including the Berry family), the sale of which will be restricted under the Securities Act.

The Berry family has the right to require us to file registration statements registering additional sales of shares of common stock or to include sales of such shares of common stock in registration statements that we may file for ourselves or other stockholders. In order to exercise these registration rights, the Berry family must satisfy the conditions discussed in Certain Relationships and Related Party Transactions Registration Rights . Subject to compliance with applicable lock-up restrictions, shares of common stock sold under these registration statements can be freely sold in the public market. In the event such registration rights are exercised and a large number of shares of common stock are sold in the public market, such sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital. Additionally, we will bear all expenses in connection with any such registrations (other than stock transfer taxes and underwriting discounts or commissions). See Certain Relationships and Related Party Transactions Registration Rights .

In connection with this offering, we, our directors and executive officers and the Berry family have each agreed to lock-up restrictions, meaning that we and they and their permitted transferees will not be permitted to sell any shares of our common stock for 90 days after the date of this prospectus, subject to the exceptions discussed in Shares Eligible for Future Sale Lock-Up Arrangements , without the prior consent of J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated. J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated may, in their sole discretion and without notice, release all or any portion of the shares of our common stock from the restrictions in any of the lock-up agreements described above. See Underwriting .

Also, in the future, we may issue shares of our common stock in connection with investments or acquisitions. The amount of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding shares of our common stock.

After this offering, the Berry family may continue to have substantial influence over us, which may limit your ability to influence corporate matters or result in actions that you do not believe to be in our interests or your interests.

Following this offering, the Berry family will beneficially own, in the aggregate, approximately 42% of our outstanding common stock, or approximately 38% of our outstanding common stock

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if the underwriters exercise their option to purchase additional shares from us in full. As a result, the Berry family may be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors, a merger, consolidation or sale of all or substantially all of our assets and any other significant transaction.

This concentrated ownership of outstanding common stock may limit your ability to influence corporate matters, and the interests of the Berry family may not coincide with our interests or your interests. As a result, we may take actions that you do not believe to be in our interests or your interests and that could depress our stock price.

We do not intend to pay cash dividends on our common stock for the foreseeable future, and as a result, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We have not paid any dividends since our initial public offering. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends for the foreseeable future. In addition, our ability to declare and pay cash dividends is restricted by our revolving credit facility. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal requirements, and restrictions in our debt agreements and other factors our board of directors deems relevant. As a result, capital appreciation, if any, of our common stock will be your sole source of potential gain for the foreseeable future. The market price for our common stock after this offering might not exceed the price that you pay for our common stock in this offering.

If securities or industry analysts do not publish or continue to public research or reports about our business, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrades our stock or if our operating results do not meet their expectations, our stock price could decline.

Anti-takeover provisions in our charter documents could discourage, delay or prevent a change of control of our company and may result in an entrenchment of management and diminish the value of our common stock.

Several provisions of our certificate of incorporation and bylaws could make it difficult for our stockholders to change the composition of our board of directors, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that our stockholders may consider favorable. See Description of Capital Stock .

These provisions include:

- a staggered, or classified, board of directors;
- authorizing our board of directors to issue blank check preferred stock without stockholder approval;

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- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholders from acting by written consent after the Berry family ceases to own more than 50% of the total voting power of our shares; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

These anti-takeover provisions could substantially impede the ability of our common stockholders to benefit from a change in control and, as a result, could materially adversely affect the market price of our common stock and your ability to realize any potential change-in-control premium.

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Special note regarding forward-looking statements

This prospectus includes forward-looking statements in addition to historical information. These forward-looking statements are included throughout this prospectus, including in the sections entitled Prospectus Summary , Risk Factors , Management s Discussion and Analysis of Financial Condition and Results of Operations , Business, Compensation Discussion and Analysis, and Certain Relationships and Related Party Transactions , and 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 and other financial and operating information. We have used the words anticipate , assume , believe , continue , could , estimate , expect , intend , may , plan , potential , predict , pro
terms and phrases to identify forward-looking statements in this prospectus.

The forward-looking statements contained in this prospectus 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, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that these factors include those described in Risk Factors . 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 prospectus speaks only as of the date on which we make it. 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 any applicable securities laws.

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Use of proceeds

The selling stockholders will receive all of the net proceeds from the sale of the shares offered hereby. We will not receive any proceeds from this offering.

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Dividend policy

We have not paid any dividends since our initial public offering. We currently expect to retain future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends for the foreseeable future. In addition, our ability to declare and pay cash dividends is restricted by our revolving credit facility. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors deemed relevant by our board of directors.

In the past, distributions to our stockholders consisted of both distributions to enable our stockholders to pay their tax obligations resulting from our S-corporation status and discretionary distributions subject to limitations in our revolving credit facility. In 2008, we paid cash dividends of $1.1 million, $11.6 million, $4.8 million and $1.1 million on January 10, April 14, June 12 and September 12, respectively, in order to enable our stockholders to pay their tax obligations and also made discretionary distributions to our stockholders of $3.6 million, $0.4 million and $3.4 million on January 16, March 18 and April 11, respectively. In 2009, we paid cash dividends of $2.1 million and $0.2 million on April 7 and December 16, respectively, in order to enable our stockholders to pay their tax obligations and also made discretionary distributions to our stockholders of $4.4 million, $4.9 million, $4.7 million and $3.9 million on April 8, April 17, July 13 and October 14, respectively. In 2010, we paid cash dividends of $1.7 million, $12.3 million, $4.0 million, $4.6 million and $8.2 million on January 14, April 13, June 11, September 15 and November 4, respectively, in order to enable our stockholders to pay their tax obligations and also made discretionary distributions to our stockholders of $6.5 million, $5.4 million, $1.8 million and $3.7 million on January 15, April 15, July 13 and October 7, respectively.

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Capitalization

The following table sets forth our cash and cash equivalents and capitalization as of January 30, 2011. In connection with this offering we will incur certain issuance costs, consisting of various registration, printing and professional services fees. We will expense these costs as incurred.

You should read this table in conjunction with Selected Historical Financial and Other Data , Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and related notes included elsewhere in this prospectus.

(In thousands)		**As of January 30, 2011**
Cash and cash equivalents	$	7,867
Long-term debt	$	81,850
Stockholders equity:		
Common stock $0.01 par value, 200,000,000 shares authorized, 47,911,045 shares issued and outstanding		481
Additional paid-in capital		95,852
Accumulated other comprehensive loss interest rate swaps		(674)
Retained earnings		(23,582)
Total stockholders equity		72,077
Total capitalization	$	153,927

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Selected historical financial and other data

The following tables set forth our selected historic financial and other data, as well as certain pro forma information and adjusted financial results that reflect the impact of certain charges related to our initial public offering and the income tax effect of our conversion from an S-corporation to a C-corporation. In addition, the following tables present selected historical financial and other data with respect to the 30-day transition period ended January 30, 2011, which resulted from the recent change to the end of our fiscal year from December 31 of each year to the last Sunday in January of each year.

The historical balance sheet data as of December 31, 2009 and 2010, and as of January 30, 2011, and the historical statement of income data for the years ended December 31, 2008, 2009 and 2010, and for the 30-day period ended January 30, 2011, have been derived from our audited financial statements, which are included elsewhere in this prospectus. The historical balance sheet data as of December 31, 2007 and 2008, and the historical statement of income data for the year ended December 31, 2007 have been derived from our audited financial statements not included in this prospectus. Our financial statements as of and for the years ended December 31, 2009 and 2010, and as of and for the 30-day period ended January 30, 2011, were audited by Ernst & Young LLP, independent registered public accounting firm, and our financial statements as of and for the year ended December 31, 2007 and 2008 were audited by Grant Thornton LLP, independent registered public accounting firm. Our historical results are not necessarily indicative of results to be expected for any future period.

The historical balance sheet data as of December 31, 2006, and the historical statements of income data for the year ended December 31, 2006, have been derived from our unaudited financial statements that are not included in this prospectus.

You should read the selected historical financial and other data in conjunction with the information included under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and related notes included elsewhere in this prospectus. Our historical results set forth below are not necessarily indicative of results to be expected for any future period.

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(dollars in thousands, except share and per share amounts)	December 31, 2006 (unaudited)	December 31, 2007	December 31, 2008	December 31, 2009	Year ended December 31, 2010	One month ended January 30, 2011
Statement of Income Data:						
Sales	$ 589,262	$ 728,414	$ 797,805	$ 861,931	$ 974,213	$ 78,149
Cost of goods sold	414,897	506,458	554,969	585,360	654,986	53,302
Gross profit	174,365	221,956	242,836	276,571	319,227	24,847
Selling, general and administrative expenses	137,425	164,731	180,765	191,250	244,378	17,623
Store closure and exit costs		2,151	562	4,361	792	37
Depreciation	12,954	19,163	24,482	27,880	33,122	2,729
Income from operations	23,986	35,911	37,027	53,080	40,935	4,458
Interest expense	3,427	5,469	5,267	3,806	2,374	87
Other income, net	(28)	(48)	(123)	(236)	(170)	(1)
Income before provision for income taxes	20,587	30,490	31,883	49,510	38,731	4,372
Recognition of net deferred tax liabilities upon C-corporation conversion					19,125	
Tax provision (benefit), current year	258	201	326	308	(3,309)	1,712
Net income	$ 20,329	$ 30,289	$ 31,557	$ 49,202	$ 22,915	$ 2,660
Net income per share						
Basic and diluted	$ 0.42	$ 0.63	$ 0.66	$ 1.03	$ 0.48	$ 0.06
Dividends declared per common share(1)	$ 0.32	$ 0.36	$ 0.54	$ 0.42	$ 1.00	$
Shares used in computation of net income per share,						
Basic	47,991,045	47,991,045	47,991,045	47,991,045	47,991,045	47,991,045
Diluted	47,991,045	47,991,045	47,991,045	47,991,045	48,059,882	48,095,459
Pro Forma Data (unaudited):						
Income before provision for income taxes	$ 20,587	$ 30,490	$ 31,883	$ 49,510	$ 38,731	
Pro forma provision for income taxes(2)	8,041	11,919	12,489	19,299	15,113	
Pro forma net income(2)	$ 12,546	$ 18,571	$ 19,394	$ 30,211	$ 23,618	
Pro forma net income per share (Unaudited)(2)						
Basic and diluted	$ 0.26	$ 0.39	$ 0.40	$ 0.63	$ 0.49	
Adjusted Data (unaudited)(3):						
Adjusted selling, general and administrative expenses					$ 215,557	
Adjusted income from operations					$ 69,756	
Adjusted net income					$ 41,193	

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(dollars in thousands, except share and per share amounts)	December 31, 2006 (unaudited)	December 31, 2007	December 31, 2008	December 31, 2009	Year ended December 31, 2010	One month ended January 30, 2011
Other Operating Data (unaudited):						
Number of stores at end of period	63	77	86	92	100	100
Comparable store sales growth for period(4)	7.0%	4.5%	(1.5)%	(1.1)%	5.0%	1.4%
Gross square footage at end of period (in thousands)	1,267	1,584	1,811	1,955	2,129	2,129
Average comparable store size (gross square feet)(5)	19,004	19,786	20,641	20,936	21,205	21,273
Comparable store sales per gross square foot at end of period	$ 529	$ 533	$ 498	$ 472	$ 481	$ 37
Balance Sheet Data (end of period):						
Total assets	$ 147,557	$ 187,695	$ 233,550	$ 235,541	$ 258,002	$ 258,857
Total long-term debt	$ 66,500	$ 92,670	$ 130,000	$ 98,200	$ 82,450	$ 81,850
Total stockholders equity	$ 22,387	$ 34,242	$ 37,905	$ 68,302	$ 69,212	$ 72,077

(1) Dividends declared per common share represent dividends declared and paid prior to our initial public offering. The Company currently expects to retain future earnings, if any, for use in the operation and expansion of our business and does not anticipate paying any cash dividends in the foreseeable future. See Dividend Policy for a discussion of our dividend policy.

(2) Prior to our initial public offering completed in November 2010, we were treated as an S-corporation for U.S. federal income tax purposes. As a result, the Company s income was not subject to U.S. federal income taxes or state income taxes in those states where S-corporation status is recognized. In general, the corporate income or loss of an S-corporation is allocated to its stockholders for inclusion in their federal income tax returns and state income tax returns in those states where S-corporation status is recognized. The Company s S-corporation status terminated on November 9, 2010 in connection with its initial public offering and the Company became subject to additional entity-level taxes that are reflected in the financial statements from November 9, 2010 to December 31, 2010. The pro forma provision for income taxes reflects combined federal and state income taxes on a pro forma basis, as if the Company had been treated as a C-corporation for the entire year, using blended statutory federal and state income tax rates of 39.1% in each of 2006 and 2007, 39.2% in 2008 and 39.0% in each of 2009 and 2010. The tax rate reflects the sum of the federal statutory rate and a blended state rate based on the Company s calculation of income apportioned to each state for each period.

(3) In addition to presenting our financial results in conformity with GAAP within this prospectus, we are also presenting 2010 results on an adjusted basis in order to exclude the impact of certain charges related to our initial public offering and the tax effect of converting from an S-corporation to a C-corporation in connection with our initial public offering. Specifically, 2010 results include share-based compensation expense and related payroll tax expense arising from the vesting of equity awards at the time of the initial public offering, as well as income tax charges incurred in order to establish beginning deferred tax balances arising from our conversion from an S-corporation to a C-corporation. Additionally, from January 1, 2010 and through November 8, 2010, we did not incur corporate income tax due to our S-corporation status. Our adjusted results exclude the impact of the charges related to our initial public offering and reflect a pro forma provision for corporate income taxes for the portion of 2010 that we had S-corporation status. These adjusted financial results are non-GAAP financial measures. We believe that the presentation of adjusted financial results facilitates an understanding of our operations without the one-time impact associated with our initial public offering and with a consistent presentation for corporate income taxes. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

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The following tables provide an unaudited reconciliation of adjusted selling, general and administrative expenses, adjusted income from operations and adjusted net income, each of which is a non-GAAP financial measure, to selling, general and administrative expenses, income from operations and net income in accordance with GAAP:

(amounts in thousands)	**2010**
Selling, general and administrative expenses	$ 244,378
Share-based compensation and related payroll tax expense associated with our initial public offering	$ (28,821)
Adjusted selling general and administrative expense	$ 215,557

(amounts in thousands)	**2010**
Income from operations	$ 40,935
Share-based compensation and related payroll tax expense associated with our initial public offering	$ 28,821
Adjusted income from operations	$ 69,756

		2010
(amounts in thousands, except per share amounts)	**Net income**	**Diluted earnings per share**
Net income	$ 22,915	$ 0.48
Share-based compensation expense(a)	17,575	0.37
Recognition of net deferred tax liabilities upon C-corporation conversion	19,125	0.40
Tax provision(b)	(18,422)	(0.39)
Adjusted net income	$ 41,193	$ 0.86

(a) Represents share based compensation expense of $28.8 million including related payroll taxes incurred in connection with our initial public offering, net of tax benefit.

(b) Represents estimated income taxes from January 1, 2010 to November 8, 2010, the time period we were an S-corporation, using a blended statutory rate of 39.0%, which reflects combined federal and state income taxes, as if we had been treated as a C-corporation.

(4) Our practice is to include sales from a store in comparable store sales beginning on the first day of the sixteenth full month following the store s opening. 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. There may be variations in the way that our competitors calculate comparable or same store sales. As a result, data in this prospectus regarding our comparable store sales may not be comparable to similar data made available by our competitors. The 30-day period ended January 30, 2011 had one less day than the same period for 2010, which negatively impacted the comparison by 3.4%. For further discussion, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

(5) Average comparable store size and comparable store sales per gross square foot are calculated using the gross square footage and sales for stores included within our comparable store base for each month during the given period.

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Management s discussion and analysis of financial condition and results of operations

This management s discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions associated with those statements. You should read the following discussion in conjunction with Selected Historical Financial and Other Data and our audited financial statements and related notes included elsewhere in this prospectus. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under "Special Note Regarding Forward-Looking Statements," Risk Factors, and included in other portions of this prospectus.

Overview

The Fresh Market is a high-growth specialty retailer focused on creating an extraordinary food shopping experience for our customers. Since opening our first store in 1982, we have offered high-quality food products, with an emphasis on fresh, premium perishables and an uncompromising commitment to customer service. We seek to provide an attractive, convenient shopping environment while offering our customers a compelling price-value combination. As of January 30, 2011, we operated 100 stores in 20 states, primarily in the Southeast, Midwest and Mid-Atlantic United States.

We believe several key differentiating elements of our business have enabled us to execute our strategy consistently and profitably across our expanding store base. We believe the differentiated shopping experience we provide has helped us to expand our business primarily through favorable word-of-mouth publicity. Within our smaller-box format, we focus on higher-margin food categories and strive to deliver a more personal level of service and a more enjoyable shopping experience. Further, our smaller-box format is adaptable to different retail sites and configurations and has facilitated our successful growth. Additionally, we believe our disciplined, comprehensive approach to planning and merchandising and the support we provide our stores allow us to deliver a consistent shopping experience and financial performance across our store base.

In addition to presenting the Company s financial results in conformity with U.S. generally accepted accounting principles (GAAP), the Company is also presenting 2010 results on an adjusted basis in order to exclude the impact of certain charges related to our initial public offering and the tax effect of converting from an S-corporation to a C-corporation in connection with our initial public offering. Adjusted results are non-GAAP financial measures. For a reconciliation of adjusted results to GAAP results and a discussion of why we use non-GAAP financial measures, see Results of Operations Non-GAAP Adjusted Financial Results and Results of Operations Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009 below.

Operating income for 2010 decreased $12.2 million, or 23.0%, to $40.9 million from $53.1 million in 2009. Share-based compensation and related payroll tax expense incurred in connection with our initial public offering reduced operating income in 2010 by $28.8 million compared to 2009. Net income for 2010 was $22.9 million, which includes the impact of the share-based compensation and related payroll tax expense incurred in connection with our initial public

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offering and the establishment of $19.1 million of beginning deferred tax balances, compared to net income for 2009 of $49.2 million. Diluted earnings per share for 2010 were $0.48 compared to diluted earnings per share for 2009 of $1.03.

Excluding the share-based compensation and related payroll tax expense incurred in connection with our initial public offering, adjusted operating income increased $16.6 million, or 31.3%, to $69.7 million in 2010 from $53.1 million in 2009. Additionally, excluding the establishment of beginning deferred tax balances, adjusted net income increased 36.4% to $41.2 million in 2010 from pro forma net income of $30.2 million in 2009. Diluted adjusted earnings per share increased 36.5% to $0.86 in 2010 compared to diluted pro forma earnings per share of $0.63 in 2009.

Through our effort to expand our store base, we have achieved strong growth in store count and operating results. We grew from 53 stores at December 31, 2005, to 100 stores at December 31, 2010, a compound annual growth rate (CAGR) of approximately 13.5%. Our sales increased from $459.7 million in 2005 to $974.2 million in 2010, a CAGR of 16.2%.

Outlook

We intend to continue our profitable growth by expanding our store base, driving comparable store sales and increasing our highly-attractive operating margins. Consistent with our history of growth, we intend to open new stores in existing markets and penetrate new markets. We view expansion of our store base as a core competency and have more than tripled our store count since 2000. We opened eight new stores in 2010 and believe there is a significant opportunity to continue to increase our number of stores. In addition, if attractive opportunities arise, we may acquire stores as a way to expand our store base and penetrate new markets. Our results of operations have been, and may continue to be, affected by the timing and number of new store openings, primarily because new stores generally have different performance profiles and greater variability in sales volumes than our mature stores.

We aim to increase our comparable store sales by generating growth in the number and size of customer transactions. Key elements of our strategy include increasing customer awareness, offering new and differentiated products and continuing to provide a distinctive in-store experience. We also intend to increase our operating margins through scale efficiencies, improved systems, continued cost discipline and enhancements to our merchandise offerings. We expect store growth will permit us to benefit from economies of scale in sourcing products and will allow us to leverage our existing infrastructure for scale efficiencies.

We believe that we are well-positioned to capitalize on evolving consumer preferences and other trends currently shaping the food retail industry. These trends include: a growing emphasis on the customer shopping experience; an increasing consumer focus on healthy eating choices and fresh, quality offerings, including regionally and locally sourced products; an improving perception of private-label product quality; and an increasing number of older people, a demographic that is expected to account for a disproportionately higher share of food-at-home spending by households.

We expect continued sales growth in fiscal 2011. The magnitude of expected growth could vary significantly due to overall economic and competitive conditions, and due to volatility in the supply and costs of commodities such as meat, cheese and produce. The Company expects that the development and maturation of new stores will also drive future sales growth. We anticipate opening an additional 12 to 14 new stores by the end of fiscal 2011 or early in fiscal 2012, in addition to remodeling two stores and relocating two stores during the same period.

How we assess the performance of our business

In assessing our performance, we consider a variety of performance and financial measures. The key measures that we assess to evaluate the performance of our business are set forth below:

Sales

Our sales comprise gross sales net of coupons, commissions and discounts. Sales include sales from all of our stores.

The food retail industry and our sales are affected by general economic conditions and seasonality, as well as the other factors, discussed below, that affect our comparable store sales. Consumer purchases of specialty food products are particularly sensitive to a number of factors that influence the levels of consumer spending, including economic conditions, the level of disposable consumer income, consumer debt, interest rates and consumer confidence. In addition, our business is seasonal and, as a result, our average weekly sales fluctuate during the year and are usually highest in the fourth quarter when customers make holiday purchases.

Improved economic conditions in 2010 resulted in improved sales, while adverse economic conditions resulted in lower sales in 2008 and 2009 due to decreased levels of consumer spending, disposable income and confidence. We believe that during 2008 and 2009, these factors led to decreases in both the number and average size of customer transactions at our comparable stores. The adverse effect on sales of the economic conditions in 2008 and 2009, however, was more than offset by growth in sales attributable to the new stores we opened in 2008 and 2009. In addition, growth in sales attributable to the new stores we opened in 2010 contributed significantly to improved sales.

Comparable store sales

Our practice is to include sales from a store in comparable store sales beginning on the first day of the sixteenth full month following the store s opening. We believe that comparability is achieved approximately fifteen months after opening. 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. There may be variations in the way that our competitors calculate comparable or same store sales. As a result, data in this prospectus regarding our comparable store sales may not be comparable to similar data made available by our competitors.

Various factors may affect comparable store sales, including:

- overall economic trends and conditions;
- consumer preferences and buying trends;
- our competition, including competitor store openings or closings near our stores;
- the pricing of our products, including the effects of inflation or deflation;
- the number of customer transactions at our stores;

- our ability to provide an assortment of distinctive, high-quality product offerings to generate new and repeat visits to our stores;
- the level of customer service that we provide in our stores;
- our in-store merchandising-related activities;
- our ability to source products efficiently;
- our opening of new stores in the vicinity of our existing stores; and
- the number of stores we open, remodel or relocate in any period.

As we continue to pursue our growth strategy, we expect that a significant percentage of our sales will continue to come from new stores not included in comparable store sales. Accordingly, comparable store sales is only one measure we use to assess our performance.

Gross profit

Gross profit is equal to our sales minus our cost of goods sold. Gross margin rate measures gross profit as a percentage of our sales. Cost of goods sold includes the direct costs of purchased merchandise, distribution and supply chain costs, buying costs, supplies and store occupancy costs. Store occupancy costs include rent, common area maintenance, real estate taxes, personal property taxes, insurance, licenses and utilities. The components of our cost of goods sold may not be identical to those of our competitors. As a result, data in this prospectus regarding our gross profit and gross margin rate may not be comparable to similar data made available by our competitors.

Our cost of goods sold is directly correlated with sales. Changes in the mix of products sold may also impact our gross margin rate.

Gross margin rate enhancements are driven by:

- economies of scale resulting from expanding our store base;
- reduced shrinkage as a percentage of sales; and
- productivity gains through process and program improvements.

In 2010, and during the adverse economic environment of 2008 and 2009, we were able to continue to improve our gross margin rate because our overall store growth allowed us to benefit from economies of scale. Our continued growth, at a time when many other purchasers of premium food products were not growing, further allowed us to benefit from greater purchasing power in sourcing products. Although not implemented in response to macroeconomic conditions, we have also benefited from our implementation of various technological and process improvements related to inventory management.

Selling, general and administrative expenses

Selling, general and administrative expenses consists of certain retail store and corporate costs, including compensation (both cash and share-based), benefit costs, pre-opening expenses, advertising and other direct store and corporate administrative costs. Share-based compensation expenses include those incurred in connection with our initial public offering as well as those arising from grants made under our 2010 Omnibus Incentive Compensation Plan. Pre-opening

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expenses are costs associated with the opening of new stores including recruiting, relocating and training personnel and other miscellaneous costs. Pre-opening costs and costs incurred for producing and communicating advertising are expensed when incurred.

Labor and corporate administrative costs generally decrease as a percentage of sales as sales increase. Accordingly, selling, general and administrative expenses as a percentage of sales is usually higher in lower volume quarters and lower in higher-volume quarters. Store-level labor costs are generally the largest component of our selling, general and administrative expenses. The components of our selling, general and administrative expenses may not be identical to those of our competitors. As a result, data in this prospectus regarding our selling, general and administrative expenses may not be comparable to similar data made available by our competitors. We expect that our selling, general and administrative expenses will increase in future periods due to our continuing store growth and in part due to additional legal, accounting, insurance and other expenses we expect to incur as a result of being a public company.

In 2009 and 2010, we continued the efforts we began in 2008, to reduce selling, general and administrative expenses. In 2010, we continued to refine labor scheduling and management staffing at our stores to better match employee staffing to expected customer traffic. In 2008 and 2009, we also implemented broad-based cost-savings measures at our corporate office.

These broad-based cost savings measures included a headcount reduction, reduced bonuses and merit pay increases, a reduction in our 401(k) matching contributions, reduced expenditures in connection with delivering corporate communications to our stores and reduced expenditures associated with travel and certain outside advisers.

In 2009, a stockholder of the Company granted stock options to certain key employees pursuant to separate arrangements between the stockholder and the respective employees. These options vested on November 4, 2010, in connection with our initial public offering and as a result we recognized share-based compensation expense of $28.4 million and payroll related tax expense of $0.4 million.

Income from operations

Income from operations consists of gross profit minus selling, general and administrative expenses, store closure and exit costs and depreciation.

Income taxes

Until November 9, 2010, we operated as an S-corporation, and did not pay federal corporate income tax or state corporate income tax in states that recognize S-corporation status. Instead, the stockholders of the S-corporation were responsible for income tax on the S-corporation s taxable income. Accordingly, our income tax provision in 2009 and for the portion of 2010 prior to our initial public offering only reflect state taxes owed by us in certain states in which we operate. Since November 9, 2010, we have operated as a C-corporation. In the fourth quarter of 2010, in connection with our conversion to a C-corporation, we recognized a $19.1 million charge to establish deferred tax balances.

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Change in fiscal year-end and transition period financial statements

On January 26, 2011 our Board of Directors approved a change in our fiscal year-end from a calendar year-end of December 31 to a fiscal year-end ending on the last Sunday of January commencing with fiscal 2011. In connection with the change of our fiscal year-end, we have a 30-day transition period from January 1, 2011 to January 30, 2011, the audited results of which are reported below.

We changed our fiscal year-end in order to offer more comparable quarterly and annual data to our investors. As a specialty retailer focused on foods, our operations are more active during the periods surrounding holidays and can be subject to seasonal differences in the event that holiday periods fall within a particular fiscal period one year and a different fiscal period in a subsequent year. By changing our fiscal year end, revenues, including the use of gift cards given as holiday gifts, in the months of December and January will now appear in the same fiscal quarter and fiscal year resulting in greater comparability of our period to period financial results regardless of whether significant shopping occurs at the end of December or the beginning of January. In addition, the Easter holiday and the time periods surrounding Easter, are significant shopping periods for us and the change in our fiscal year end means that these periods will always be in our first fiscal quarter rather than occurring variously from one year to the next in the first quarter or the second quarter. We believe that this change in fiscal year end will provide investors with a more comparable quarterly and annual picture of our Company s operations.

As a result of the change in our fiscal year end, our fiscal quarters, each of which will now consist of three periods of four, four and five weeks, will also end on different dates from prior periods. Accordingly, we expect to recast our prior quarters financial information in fiscal 2011 quarterly reports on Form 10-Q so that the prior period quarterly information is comparable to the quarterly information for fiscal 2011.

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Results of operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales.

(dollars in thousands, except share and per share amount)	December 31, 2008	December 31, 2009	Year ended December 31, 2010	One month period ended January 30, 2011
Statement of Income Data:				
Sales	$ 797,805	$ 861,931	$ 974,213	$ 78,149
Cost of goods sold	554,969	585,360	654,986	53,302
Gross profit	242,836	276,571	319,227	24,847
Selling, general and administrative expenses	180,765	191,250	244,378	17,623
Store closure and exit costs	562	4,361	792	37
Depreciation	24,482	27,880	33,122	2,729
Income from operations	37,027	53,080	40,935	4,458
Interest expense	5,267	3,806	2,374	87
Other income, net	(123)	(236)	(170)	(1)
Income before provision for income taxes	31,883	49,510	38,731	4,372
Recognition of net deferred tax liabilities upon C-corporation conversion				