

Natural Grocers by Vitamin Cottage, Inc.
Form DEF 14A
January 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

Natural Grocers by Vitamin Cottage, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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NATURAL GROCERS BY VITAMIN COTTAGE, INC.

12612 West Alameda Parkway

Lakewood, Colorado 80228

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on March 7, 2018

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

You are cordially invited to attend the 2018 Annual Meeting of Stockholders (the “Annual Meeting”) of Natural Grocers by Vitamin Cottage, Inc., a Delaware corporation (the “Company”). The Annual Meeting will be held on Wednesday, March 7, 2018, at 1:00 p.m. local time, in our Home Office Auditorium located at 12612 West Alameda Parkway, Lakewood, Colorado 80228 for the following purposes:

1. To elect the three Class III director nominees named in the Proxy Statement accompanying this Notice to serve on our Board of Directors (our “Board”) for three-year terms ending at the 2021 Annual Meeting of Stockholders.
2. To ratify the appointment of KPMG LLP as the Company’s independent registered public accounting firm for our fiscal year ending September 30, 2018.
3. To approve, on an advisory basis, the compensation paid to our named executive officers.
4. To hold an advisory vote on the frequency of future stockholder advisory votes regarding the compensation of our named executive officers.
5. To transact such other business as may be properly come before the Annual Meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice. The record date for the Annual Meeting is January 12, 2018. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any adjournment thereof. We are furnishing our proxy materials to all of our stockholders over the Internet, consistent with the Securities and Exchange Commission rule permitting us to do so, rather than in paper form in order to reduce our environmental impact and lower the costs of printing and distributing our proxy materials. We mailed our Notice Regarding the Availability of Proxy Materials on January 19, 2018. You may access our Proxy Statement and Annual Report to Stockholders for the fiscal year ended September 30, 2017 at <http://www.astproxyportal.com/ast/18556/> by following the instructions found on the Notice Regarding the Availability of Proxy Materials mailed to you. Our Annual Report to Stockholders contains financial and other information about us, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

By Order of the Board

/s/ Heather Isely
Heather Isely
Corporate Secretary

Lakewood, Colorado

January 19, 2018

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

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12612 West Alameda Parkway

Lakewood, Colorado 80228

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To Be Held on March 7, 2018

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NATURAL GROCERS BY VITAMIN COTTAGE, INC.

12612 West Alameda Parkway

Lakewood, Colorado 80228

PROXY STATEMENT

For the Annual Meeting of Stockholders

To Be Held on March 7, 2018

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

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

Under rules adopted by the United States Securities and Exchange Commission (the “SEC”), we are furnishing proxy materials to many of our stockholders on the Internet, rather than mailing printed copies of those materials to each stockholder. We sent a Notice of Internet Availability of Proxy Materials (the “Notice”) on January 19, 2018 to our stockholders of record as of the close of business on January 12, 2018 (the “Record Date”) in connection with the solicitation of proxies by Natural Grocers by Vitamin Cottage, Inc., for use at the Company’s 2018 Annual Meeting of Stockholders or at any adjournments or postponements thereof (the “Annual Meeting”). All stockholders have the ability to access our proxy materials on the Internet or to request a printed set of the proxy materials. You will not receive a printed copy of the proxy materials unless you request one. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice.

When and where will the Annual Meeting be held?

The Annual Meeting will be held on March 7, 2018, at 1:00 p.m. local time, in our Home Office Auditorium located at 12612 West Alameda Parkway, Lakewood, Colorado 80228. Directions to the Annual Meeting may be found at <http://investors.naturalgrocers.com/proxy notices>.

What are the purposes of the Annual Meeting?

The purposes of the Annual Meeting are to:

• elect the three Class III director nominees named herein to serve on our Board of Directors (our “Board”) for three-year terms ending at the 2021 Annual Meeting of Stockholders;

• ratify the appointment of KPMG LLP as the Company’s independent registered public accounting firm for our fiscal year ending September 30, 2018;

• approve, on an advisory basis, the compensation paid to our named executive officers;

• hold an advisory vote on the frequency of future stockholder advisory votes regarding the compensation paid to our named executive officers; and

• conduct any other business properly brought before the Annual Meeting.

Who may vote at the Annual Meeting?

Only stockholders of record at the close of business on the Record Date will be entitled to receive notice of, and to vote at, the Annual Meeting. As of the Record Date, 22,347,709 shares of common stock, \$0.001 par value per share, of the Company (“Common Stock”) were issued and outstanding (excludes 162,570 shares of Common Stock held in treasury as of the Record Date). Stockholders are entitled to one vote for each share of Common Stock held as of the Record Date on any proposal presented at the Annual Meeting.

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How do I vote?

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC (“AST”), you are considered a stockholder of record with respect to those shares, and the Notice has been sent directly to you. Please carefully consider the information contained in this Proxy Statement. Whether or not you plan to attend the Annual Meeting, we urge you to follow the instructions provided to you regarding how to vote so that we can be assured of having a quorum present at the Annual Meeting and so that your shares may be voted in accordance with your wishes even if you later decide not to attend the Annual Meeting. You may vote on the Internet at www.voteproxy.com by using the procedures and instructions described in the Notice. You may also vote by telephone by calling 1-800-PROXIES (1-800-776-9437) in the United States or 1-718-921-8500 in foreign countries. You will need a touch tone telephone to vote by phone. Both Internet and telephone voting provide easy-to-follow instructions and have procedures designed to authenticate your identity and permit you to confirm that your voting instructions are accurately reflected. You may vote by mail by completing and mailing in a paper proxy card, which you must request by following the instructions contained in the Notice. If you attend the Annual Meeting, you may vote in person even if you have previously voted by phone or via the Internet or returned a proxy card by mail, and your in-person vote will supersede any vote previously cast.

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

How can I revoke a previously submitted proxy?

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

Heather Isely, Corporate Secretary, before the taking of the vote at the Annual Meeting.

Who is paying for this proxy solicitation?

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

How many shares must be present at the Annual Meeting?

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

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How many votes are required to approve each proposal?

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

For Proposal 2, the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2018 ("fiscal 2018"), the affirmative vote of a majority of the shares present, in person or represented by proxy, and voting on such matter is required for approval. While we are seeking stockholder approval as a matter of good corporate governance, we are not required to do so. If the appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2018 is not ratified by the stockholders, our audit committee will consider the adverse vote as a direction to consider appointing another independent registered public accounting firm for the next fiscal year. However, because of the difficulty in making any change in our independent registered public accounting firm so long after the beginning of the current fiscal year, the appointment for fiscal 2018 will stand, unless the audit committee finds other good reason for making a change.

For Proposal 3, the advisory vote to approve the compensation paid to our named executive officers, the affirmative vote of a majority of the shares present, in person or represented by proxy, and voting on such matter is required for approval. While this vote is required by law, it is advisory in nature and will not be binding on the Company or our Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our Board. However, it will provide information to the Board and our compensation committee regarding investor sentiment about our executive compensation philosophy, policies and practices. Our compensation committee will take into account the outcome of this advisory vote when considering future compensation arrangements for our named executive officers.

For Proposal 4, the advisory vote on the frequency of future stockholder advisory votes regarding the compensation paid to our named executive officers, the frequency of the advisory vote (every one year, every two years or every three years) that receives the greatest number of votes will be considered the advice of our stockholders. While this vote is required by law, it is advisory in nature and will not be binding on the Company or our Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our Board. However, the Board and our compensation committee will take into account the outcome of this vote in making a determination on the frequency at which future stockholder advisory votes regarding the compensation of our named executive officers will be included in our proxy statements for future Annual Meetings of Stockholders.

The vote on each matter submitted to stockholders will be tabulated separately. AST will act as inspector of election and tabulate the votes.

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

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

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

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

Abstentions occur when stockholders are present at the Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which stockholders are voting. Abstentions will be counted as present at the Annual Meeting for purposes of determining the presence of a quorum. Abstentions will have no effect on the outcome of the votes on any of the proposals.

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If your shares are held in street name and you do not give voting instructions, the record holder, pursuant to Rule 452 of the NYSE, will not be permitted to vote your shares with respect to Proposal 1 (the election of directors), Proposal 3 (the advisory vote to approve the compensation paid to our named executive officers) or Proposal 4 (the advisory vote on the frequency of future stockholder advisory votes regarding the compensation paid to our named executive officers), and your shares will be considered “broker non-votes” with respect to such proposal. If your shares are held in street name and you do not give voting instructions, the record holder will nevertheless be entitled to vote your shares with respect to Proposal 2 (the ratification of the appointment of KPMG LLP as the Company’s independent registered public accounting firm for fiscal 2018) in the discretion of the record holder. Broker non-votes will have no effect on the outcome of the votes on any of the proposals.

Is there other business to come before the Annual Meeting?

Aside from the election of directors, the advisory vote to approve the compensation paid to our named executive officers, the advisory vote on the frequency of future stockholder advisory votes regarding the compensation of our named executive officers and the ratification of the appointment of KPMG LLP as the Company’s independent registered public accounting firm for fiscal 2018, the Board knows of no other matters to be presented at the Annual Meeting. If any other matter should be presented at the Annual Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board will be voted with respect thereto in accordance with the judgment of the persons named as attorneys-in-fact in the proxies.

How does the Board recommend that I vote?

The Board unanimously recommends that you vote FOR the election of the three director nominees, FOR ratification of the appointment of KPMG LLP, FOR approval of the compensation paid to our named executive officers and FOR conducting future stockholder advisory votes regarding the compensation paid to our named executive officers every THREE years.

When are stockholder proposals due for next year’s Annual Meeting?

Pursuant to the various rules promulgated by the SEC, to be considered for inclusion in next year’s proxy materials, you must follow the procedures set forth in Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and your proposal must be submitted in writing by September 21, 2018 to our Corporate Secretary at 12612 West Alameda Parkway, Lakewood, Colorado 80228. In addition to the requirements of the Exchange Act, if you wish to submit a nomination or proposal to be properly brought before the 2019 Annual Meeting of Stockholders that is not to be included in next year’s proxy materials, you must comply with the advance notice provisions of our bylaws by giving timely notice in proper written form to our Corporate Secretary not less than 90 days nor more than

120 days prior to the anniversary of the 2018 Annual Meeting. The anniversary of the 2018 Annual Meeting will be March 7, 2019. Thus, you must submit such nomination or proposal no later than December 7, 2018 and no earlier than November 7, 2018.

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

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

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PROPOSAL 1 - ELECTION OF CLASS III DIRECTORS

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

Our bylaws provide that our Board will consist of a number of directors to be fixed from time to time by a resolution of the Board but shall consist of no less than one director and no more than nine directors. Any increase or decrease in the number of directors must be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

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

<u>Class</u>	Director’s Name and Year First Became a Director	Independent?
Class I (term expires 2019)	Elizabeth Isely (2012)	No
	Richard Hallé (2012)	Yes
Class II (term expires 2020)	Zephyr Isely (2012)	No
	Michael T. Campbell (2012)	Yes
Class III (term expires 2018)	Heather Isely (2012)	No
	Kemper Isely (2012)	No
	Edward Cerkovnik (2013)	Yes

Election of Three Class III Directors

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

The Board has nominated Ms. Heather Isely, and recommended that Ms. Heather Isely be re-elected to the Board as a Class III director, to hold such position until the 2021 Annual Meeting of Stockholders and until her successor has been duly elected and qualified or until her earlier death, resignation or removal. Ms. Heather Isely is an Executive Vice President and the Secretary of the Company and, thus, is not independent under the rules of the NYSE.

In addition, the Board has nominated Mr. Kemper Isely, and recommended that Mr. Kemper Isely be re-elected to the Board as a Class III director, to hold such position until the 2021 Annual Meeting of Stockholders and until his successor has been duly elected and qualified or until his earlier death, resignation or removal. Mr. Kemper Isely is a Co-President and the Chairman of the Board of the Company and, thus, is not independent under the rules of the NYSE.

Finally, the Board has nominated Mr. Cerkovnik, and recommended that Mr. Cerkovnik be re-elected to the Board as a Class III director, to hold such position until the 2021 Annual Meeting of Stockholders and until his successor has been duly elected and qualified or until his earlier death, resignation or removal. The Board has determined that Mr. Cerkovnik is independent within the meaning of the director independence standards of the NYSE. In making this determination, the Board solicited and considered information from Mr. Cerkovnik regarding whether he, or any member of his immediate family, had a direct or indirect material interest in any transactions involving the Company, was involved in a commercial or investment relationship with the Company or received personal benefits from or on behalf of the Company outside the scope of such person's normal compensation.

Conclusion

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

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

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Required Vote

For Proposal 1, the election of Class III directors, directors are elected by a plurality of the votes cast, either in person or represented by proxy. Therefore, the three director nominees who receive the greatest number of affirmative votes will be elected as directors.

Recommendation of the Board

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

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote “FOR” Ms. Heather Isely, Mr. Kemper Isely and Mr. Edward Cerkovnik to serve as Class III directors.

PROPOSAL 2 - RATIFICATION OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

Our stockholders are being asked to ratify our audit committee’s appointment of KPMG LLP as our independent registered public accounting firm for fiscal 2018. KPMG LLP has served as the Company’s independent registered public accounting firm since 2012, and as the independent registered public accounting firm of Vitamin Cottage Natural Food Markets, Inc., a wholly owned subsidiary of the Company (the “Operating Company”), since 2010. The Company has engaged KPMG LLP to perform the audit of our financial statements and the audit of our internal control over financial reporting as of and for the year ending September 30, 2018.

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

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

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

Principal Accounting Fees and Services

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

The following table presents the fees for professional audit services rendered by KPMG LLP for: (i) the audit of the Company's consolidated financial statements for the fiscal year ended September 30, 2016 ("fiscal 2016"); (ii) the audits of the Company's consolidated financial statements for the fiscal year ended September 30, 2017 ("fiscal 2017") and the Company's internal control over financial reporting as of September 30, 2017; and (iii) fees billed for other services rendered by KPMG LLP during those fiscal years. All of these services and fees were approved by the Audit Committee.

	2016	2017
Audit Fees ⁽¹⁾	\$545,000	\$850,000
Audit-Related Fees ⁽²⁾	75,000	—
All Other Fees	—	—
Total	\$620,000	\$850,000

Audit Fees consist of fees billed for professional services rendered for the audits of our consolidated financial statements and (in the case of fiscal 2017) our internal control over financial reporting, as well as services that⁽¹⁾ generally only our independent registered public accounting firm can reasonably provide, including services rendered in connection with SEC filings.

⁽²⁾ Audit-Related Fees consist of fees related to assistance in documenting internal control policies and procedures over financial reporting.

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The audit committee charter provides that the audit committee shall approve the fees and compensation to be paid to the independent registered public accounting firm, and shall approve in advance any non-audit services to be performed by the independent registered public accounting firm. The audit committee currently complies with this requirement on an engagement-by-engagement basis. All services and fees of KPMG LLP in fiscal 2016 and fiscal 2017 were approved by our audit committee. Our audit committee was established in July 2012 in connection with our IPO. Our audit committee has adopted policies and procedures for the review and pre-approval by the audit committee of all audit services and permissible non-audit services (including the fees and terms thereof) to be performed by our independent registered public accounting firm, and the rotation of the lead audit partner and concurring audit partner and hiring employees or former employees of our independent registered public accounting firm. Our audit committee has approved, in accordance with such policy and procedures, the retention of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2018.

Required Vote

For Proposal 2, the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2018, the affirmative vote of a majority of the shares present, in person or represented by proxy, and voting on such matter is required for approval.

Recommendation of the Board

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2018.

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote "FOR" the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2018.

PROPOSAL 3 – ADVISORY VOTE ON EXECUTIVE COMPENSATION

Background

Our stockholders are entitled to cast an advisory vote at the Annual Meeting to approve the compensation of our named executive officers (sometimes referred to herein as “NEOs”), as disclosed in this Proxy Statement. We urge our stockholders to review the complete “EXECUTIVE COMPENSATION” section of this Proxy Statement, including the Compensation Discussion and Analysis, the compensation tables and the narrative discussion that accompanies the compensation tables, for more information regarding the compensation paid to our NEOs during fiscal 2017.

Summary

Our executive compensation and benefits program is designed to attract, retain, reward and create incentives for a highly talented and committed team of executive officers who share our vision and desire to work toward our goals. Our compensation philosophy is to provide our NEOs with a compensation package that attracts, motivates and retains executive talent and aligns the interests of management with those of our stockholders. Our approach to executive compensation is intended to reward our NEOs for making strong individual contributions to our success and creating long-term value.

Our fiscal 2017 executive officer compensation program consisted of base salary, cash-based incentive compensation (with respect to which our Chief Financial Officer was the only NEO who was eligible to participate) and the employee benefits provided to all Company employees. Our compensation committee periodically reviews base salaries and takes into account individual performance, internal pay equity, historical compensation practice, incentive program participation and current equity ownership levels.

Our Board believes the information provided above and within the “Executive Compensation” section of this Proxy Statement demonstrates that the compensation program for our NEOs is designed appropriately and is working to ensure that management’s interests are aligned with our stockholders’ interests to support long-term value creation.

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Required Vote

Proposal 3, the advisory vote to approve the compensation paid to our named executive officers, requires the affirmative vote of a majority of shares present, in person or represented by proxy, and voting on such matter. While this vote is required by law, it is advisory in nature and will not be binding on the Company or our Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our Board. However, it will provide information to the Board and our compensation committee regarding investor sentiment about our executive compensation philosophy, policies and practices. The compensation committee will take into account the outcome of this advisory vote when considering future compensation arrangements for our named executive officers.

Recommendation of the Board

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 4 – ADVISORY VOTE ON FREQUENCY OF

FUTURE ADVISORY VOTES ON EXECUTIVE compensation

In accordance with Section 14A of the Exchange Act, we are also asking stockholders to indicate their preference as to whether future advisory votes on the compensation paid to our NEOs should occur every year, every two years or every three years.

After careful consideration of the frequency alternatives, the Board has determined that holding an advisory vote on executive compensation every three years is appropriate for the Company and its stockholders at this time. Our compensation committee reviews the Company’s executive compensation program regularly to ensure alignment with the goals of attracting, retaining, rewarding and creating incentives for a highly talented and committed team of executive officers and creating long-term value. Longer-term and forward-thinking plans and strategies often take more than a year or two to have a meaningful impact on the Company and translate into stockholder value. The Board believes an annual or biennial stockholder vote on the compensation paid to our named executive officers would run counter to the goal of encouraging long-term planning and could instead lead to planning that focuses too heavily on short-term achievements. In addition, the Board believes a vote every three years will provide sufficient time to evaluate the effectiveness of the Company’s larger, and more impactful, plans and strategies. Finally, the Board believes that the time and energy that would be spent by internal resources in preparing for this vote every year or two years is better spent managing and developing the Company and its business. The Board therefore recommends that

stockholders vote for future advisory votes on executive compensation to occur every three years.

Stockholders may cast their vote on their preferred voting frequency by choosing one of the following options -- one year, two years, three years or abstain -- on the proxy card when they vote in response to the resolution set forth below:

RESOLVED, that the option of once every one year, two years or three years that receives the highest number of votes cast on this resolution will be determined to be the preferred frequency with which the Company is to hold a stockholder vote to approve, on an advisory basis, the compensation paid to the Company's named executive officers at future Annual Meetings of Stockholders.

Required Vote

For Proposal 4, the advisory vote on the frequency of future stockholder advisory votes regarding the compensation paid to our NEOs, the frequency of the advisory vote (every one year, every two years or every three years) that receives the greatest number of votes will be considered the advice of our stockholders. While this vote is required by law, it is advisory in nature and will not be binding on the Company or the Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our Board. However, the Board and compensation committee will take into account the outcome of this vote in making a determination on the frequency at which future stockholder advisory votes regarding the compensation paid to our NEOs will be included in our proxy statements for future Annual Meetings.

Recommendation of the Board

THE BOARD UNANIMOUSLY RECOMMENDS THAT FUTURE ADVISORY VOTES REGARDING THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS BE HELD EVERY **“THREE YEARS.”**

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EXECUTIVE OFFICERS AND DIRECTORS

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

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Kemper Isely*	55	Chairman, Director and Co-President
Zephyr Isely	68	Director and Co-President
Heather Isely*	52	Director, Executive Vice President and Corporate Secretary
Elizabeth Isely	63	Director and Executive Vice President
Michael T. Campbell	73	Director
Edward Cerkovnik*	60	Director
Richard Hallé	53	Director
Todd Dissinger	60	Chief Financial Officer

*Nominee for re-election as a Director.

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

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

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

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

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

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

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

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

Michael T. Campbell has been a director since the consummation of our IPO in 2012. Mr. Campbell has served as a member of the board of directors of Houston Wire & Cable Company (NASDAQ: HWCC) since 2008 and has served as the chairman of its audit committee since 2009, as a member of its nominating and corporate governance committee since 2012 and as a member of its compensation committee since 2016. Mr. Campbell also served as a member of the board of advisors of Lee Truck Equipment, Inc. (d/b/a Casper's Truck Equipment) from 2007 until 2017. Mr. Campbell previously served in the technical support department of the national office of Deloitte & Touche LLP, and he was also the lead technical accounting and auditing partner in the Denver office prior to his retirement in June 2001.

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

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Edward Cerkovnik has been a director since July 23, 2013. Mr. Cerkovnik is a founder, a director and the President of Breckenridge-Wynkoop, LLC, which owns and operates seven brew pubs, ale houses and other restaurant concepts. He was a founder, officer and director of Breckenridge Holding Company, the owner and operator of the Breckenridge Brewery, from its inception in 1994 until its sale in 2016. In addition, Mr. Cerkovnik has been an active principal in other restaurant and commercial real estate projects since 1994.

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

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

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

Todd Dissinger has served as our Chief Financial Officer since January 1, 2018. His appointment followed the retirement of Sandra Buffa, who served as our Chief Financial Officer from 2008 until December 31, 2017. From August 2015 until his appointment as our Chief Financial Officer, Mr. Dissinger served as Vice President, Treasurer of the Operating Company. From 1997 to 2015, he held senior management positions, including Senior Vice President – Treasurer, Risk Management and Credit, at The Bon-Ton Stores, Inc. From 1985 to 1997, Mr. Dissinger held management positions, including Vice President – Senior Relationship Manager, with PNC Bank.

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

CORPORATE GOVERNANCE

Board of Directors

Board Composition

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

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

Elizabeth Isely and Richard Hallé are Class I directors; their terms will expire at the 2019 Annual Meeting of Stockholders;

Zephyr Isely and Michael T. Campbell are Class II directors; their terms will expire at the 2020 Annual Meeting of Stockholders; and

Heather Isely, Kemper Isely and Edward Cerkovnik are Class III directors; their terms will expire at the Annual Meeting and they have been nominated for re-election at the Annual Meeting.

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

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

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Board Leadership Structure and Risk Oversight

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

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

Controlled Company and Director Independence

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

Consistent with these requirements, after review of all relevant identified transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board has affirmatively determined that the following three directors are independent directors within the meaning of the applicable NYSE and SEC rules and regulations: Michael T. Campbell, Edward Cerkovnik and Richard Hallé. In making this determination, the Board found that none of these directors had a material or other disqualifying relationship with the Company. Specifically, the Board solicited and considered information from each such director regarding whether he, or any member of his immediate family, had a direct or indirect material interest in any transactions involving the Company, was involved in a commercial or investment relationship with the Company or received personal benefits from or on behalf of the Company outside the scope of such person's normal compensation.

Kemper Isely, our Co-President; Zephyr Isely, our Co-President; Heather Isely, our Executive Vice President and Corporate Secretary; and Elizabeth Isely, our Executive Vice President, are not independent directors. Each is an employee of the Company and a party to the Stockholders Agreement.

Communications with the Board

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

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The Board met four times during fiscal 2017. Each Board member attended all of the meetings of the Board held during fiscal 2017. During fiscal 2017, our Board held four executive sessions at which only non-management directors were present. Pursuant to our Corporate Governance Guidelines, our directors are expected to attend meetings of the Board and all committees on which they sit (including separate meetings of non-management directors), with the understanding that, on occasion, a director may be unable to attend a meeting in person or by teleconference. It is the Company's policy to encourage directors to attend the Annual Meeting of Stockholders and all members of the Board attended our 2017 Annual Meeting of Stockholders.

Committees of the Board

Our Board has two committees: an audit committee and a compensation committee. The committees were established in July 2012 in connection with our IPO and our listing on the NYSE. Each committee member is appointed by the Board and will serve until his or her successor is elected and qualified, or until his or her earlier resignation or removal. Each committee member attended all of the meetings of each committee on which he or she served during fiscal 2017.

The following table provides membership and meeting information for fiscal 2017 for each of our Board committees:

<u>Name</u>	<u>Independent?</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>
Mr. Kemper Isely	No		Member
Mr. Zephyr Isely	No		
Ms. Heather Isely	No		Chair
Ms. Elizabeth Isely	No		
Mr. Michael T. Campbell	Yes	Chair	Member
Mr. Edward Cerkovnik	Yes	Member	Member
Mr. Richard Hallé	Yes	Member	
Total meetings in fiscal 2017		5	1

Audit Committee

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

overseeing management's maintenance of the reliability and integrity of our accounting policies and financial reporting and our disclosure practices;

overseeing management's establishment and maintenance of processes to assure that an adequate system of internal control is functioning;

overseeing management's establishment and maintenance of processes to assure our compliance with all applicable laws, regulations and corporate policies;

reviewing and approving related party transactions;

- reviewing our annual and quarterly financial statements prior to their filing and prior to the release of earnings;

reviewing the performance of the independent accountants and making decisions regarding the appointment or termination of the independent accountants and considering and approving any non-audit services proposed to be performed by the independent accountants; and

making recommendations to the Board with respect to the foregoing and other matters.

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

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The audit committee met five times during fiscal 2017. During fiscal 2017, our audit committee held four executive sessions at which only non-management directors were present. Our Board has adopted an audit committee charter, which sets forth in detail the duties and responsibilities of the audit committee and is available on our corporate website at *investors.naturalgrocers.com*.

Report of the Audit Committee

The audit committee is responsible for overseeing our accounting and financial reporting functions. The audit committee relies on the expertise and knowledge of management and the Company's independent auditors in carrying out its oversight responsibilities. Management is responsible for the Company's financial reporting process, including its system of internal control, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The independent auditors are responsible for auditing those financial statements, auditing our internal control over financial reporting and issuing reports thereon.

In fulfilling its oversight responsibilities, the audit committee reviewed and discussed the audited financial statements for the fiscal year ended September 30, 2017 with management of the Company and with KPMG LLP, the Company's independent registered public accounting firm. The audit committee also reviewed and discussed with KPMG LLP the quarterly financial statements for each quarter during fiscal 2017 and the matters required to be discussed by Auditing Standard No. 1301, "Communications with Audit Committees," issued by the Public Company Accounting Oversight Board (the "PCAOB").

In addition, the audit committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountants' communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm the accounting firm's independence.

Based on the foregoing, the audit committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Respectfully submitted,

Michael T. Campbell (Committee Chair)

Edward Cerkovnik

Richard Hallé

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

Compensation Committee

Our compensation committee is responsible for, among other things:

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

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

The compensation committee met once during fiscal 2017. During fiscal 2017, our compensation committee did not hold an executive session at which only non-management directors were present. Our Board has adopted a compensation committee charter, which sets forth in detail the duties and responsibilities of the compensation committee and is available on our corporate website at *investors.naturalgrocers.com*.

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Prior to our IPO, our Board historically set compensation for our named executive officers, including with respect to their own compensation. In April 2012, our Board retained the outside consulting firm Frederic W. Cook & Co., Inc., or F.W. Cook, as our independent compensation consultant to assist in developing our approach to executive officer and Board compensation. That engagement occurred prior to the creation of our compensation committee. As part of that engagement, F.W. Cook assisted in the development of the compensation program for our independent board members.

We did not engage F.W. Cook to conduct an executive compensation study during fiscal 2017. Our Co-Presidents have provided, and we expect that our Co-Presidents will continue to provide, recommendations to our compensation committee regarding pay levels for all executive officers. In fulfilling its responsibilities, our compensation committee may delegate its authority to subcommittees, including subcommittees consisting solely of one or more employees of the Company, to the extent permitted by applicable law.

Report of the Compensation Committee

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

Respectfully submitted,

Heather Isely (Committee Chair)

Michael T. Campbell

Edward Cerkovnik

Kemper Isely

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

Process for Recommending Candidates for Election to the Board Directors

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

Additionally, our Board will consider director candidates recommended by stockholders, provided that stockholders making such recommendations comply with the advance notice procedures contained in Section 2.07 of our bylaws. The Board did not receive any director recommendations from stockholders for consideration at the Annual Meeting.

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

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

- judgment, character, expertise, skills and knowledge useful to the oversight of the Company’s business;

- diversity of viewpoints, backgrounds and experiences;

- business or other relevant experience; and

- the extent to which the integrity of the candidate’s expertise, skills, knowledge and experience with that of the other Board members will build a Board that is effective, collegial and responsive to the needs of the Company.

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

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

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Corporate Governance Guidelines

In July 2012, the Board adopted Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities. These guidelines are a flexible framework within which the Board may conduct its business. Moreover, they help to align the interests of directors and management with those of the Company's stockholders. The Corporate Governance Guidelines set forth the practices the Board intends to follow with respect to, among other matters, Board composition and selection, board meetings and involvement of senior management, executive officer performance evaluation and succession planning, and board committees and compensation. The Corporate Governance Guidelines reflect NYSE and SEC rules and requirements. The Corporate Governance Guidelines, as well as the charters for each committee of the Board, may be viewed at the Company's website at *investors.naturalgrocers.com*.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of January 12, 2018 regarding beneficial ownership of our Common Stock by:

• each person known to us to beneficially own more than 5% of our Common Stock;

• each of our named executive officers;

• each of our directors; and

• all of our executive officers and directors as a group.

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

To our knowledge, except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them and none of the shares

shown as beneficially owned by the named executive officers or directors has been pledged as security.

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

Beneficial Owner	Shares of Common Stock Beneficially Owned⁽¹⁾	
	#	%
5% Stockholders:		
Isely Family Group ⁽²⁾	13,334,297	59.6%
CTVC, LLC ⁽²⁾⁽³⁾	1,037,939	4.6 %
Named Executive Officers and Directors:		
Kemper Isely ⁽²⁾⁽⁴⁾	3,421,130	15.3%
Zephyr Isely ⁽²⁾⁽⁵⁾	3,360,867	15.0%
Heather Isely ⁽²⁾⁽⁶⁾	1,148,510	5.1 %
Elizabeth Isely ⁽²⁾⁽⁷⁾	1,270,299	5.7 %
Sandra Buffa	55,616	*
Michael T. Campbell (director) ⁽⁸⁾	27,751	*
Edward Cerkovnik (director) ⁽⁸⁾	22,579	*
Richard Hallé (director) ⁽⁸⁾	25,199	*
Executive officers and directors as a group (8 persons) ⁽⁹⁾	13,414,310	60.0%

* Represents less than 1%

This table is based upon information supplied by officers, directors and principal stockholders in the Schedule 13D filed by members of the Isely family voting group with the SEC on August 6, 2012, as amended by the Schedule 13D/A filed on February 28, 2014. Unless otherwise indicated in the footnotes to this table, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 22,364,964 shares of our Common Stock outstanding on January 12, 2018, adjusted as required by rules promulgated by the SEC.

⁽²⁾In connection with the reorganization transactions effected in connection with our IPO, each of Kemper Isely, Zephyr Isely, Heather Isely, Elizabeth Isely, certain trusts or entities controlled by one or more of them, certain other Isely family members, certain custodial accounts controlled by Anthony Andueza but benefiting other Isely family members, and certain entities controlled by Mr. Andueza or Mark Gauthier but owned by the above named Iselys and their family members (directly or indirectly through trusts) entered into the Stockholders Agreement, pursuant to which they agreed to, among other things, limitations on the sale of their shares of Common Stock and to vote all of their shares of Common Stock in the election of directors consistent with the recommendations of at least three of Kemper Isely, Zephyr Isely, Heather Isely and Elizabeth Isely, subject to certain exceptions. The parties to the Stockholders Agreement may therefore be deemed to share voting and investment power over the shares subject to the agreement and be members of a group for beneficial ownership reporting purposes with respect to such shares. The number of shares identified as beneficially owned by the Isely Family Group includes 391,609 shares not subject to the voting provisions of the Stockholders Agreement that are held in trusts or entities

benefiting or established by Isely family members, over which Mr. Andueza or Mr. Gauthier has sole voting and investment power.

Consists of shares of Common Stock held by CTVC, LLC for the benefit of the Isely Children's Trust and its beneficiaries. Mr. Andueza is the sole manager of CTVC, LLC which has sole voting and investment power over (3) the shares of Common Stock held by it. The number of shares identified as beneficially owned by CTVC, LLC excludes shares of Common Stock deemed to be beneficially owned by it solely because of the Stockholders Agreement.

Includes 3,118,302 shares beneficially owned directly by Mr. Kemper Isely, 91,938 shares owned directly by the LaRock and Luke Isely Trust, with respect to which Mr. Kemper Isely shares voting and investment power with Mr. Zephyr Isely as co-trustee of the trust, 106,145 shares held by Raquel M. Isely, Mr. Kemper Isely's daughter, (4) who shares Mr. Kemper Isely's permanent residence, and 104,745 shares held by Mr. Andueza as custodian under the Colorado Uniform Transfer to Minors Act, or UTMA, for Mr. Kemper Isely's son Ritchie K. Isely, who shares Mr. Kemper Isely's permanent residence. The number of shares identified as beneficially owned by Mr. Kemper Isely excludes shares of Common Stock deemed to be beneficially owned by him solely because of the Stockholders Agreement.

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

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

Includes 1,270,299 shares beneficially owned directly by Ms. Elizabeth Isely. The number of shares identified as (7) beneficially owned by Ms. Elizabeth Isely excludes shares of Common Stock deemed to be beneficially owned by her solely because of the Stockholders Agreement.

Includes 4,954 restricted stock units granted to each of Messrs. Campbell, Cerkovnik and Hallé which will vest (8) within 60 days, specifically on March 1, 2018.

Includes 4,484 shares held by Todd Dissinger, who was appointed Chief Financial Officer of the Company (9) effective January 1, 2018 following the retirement of Sandra Buffa effective December 31, 2017. Does not include the shares held by Ms. Buffa.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, during fiscal 2017 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion relates to the compensation of our NEOs, or our Co-Presidents, our Chief Financial Officer and our other two most highly compensated executive officers for the fiscal year ended September 30, 2017, including the overall principles underlying our executive compensation policies.

Our NEOs for fiscal 2017 were:

•Kemper Isely, Chairman and Co-President

•Zephyr Isely, Co-President

•Heather Isely, Executive Vice President and Corporate Secretary

•Elizabeth Isely, Executive Vice President

•Sandra Buffa, Chief Financial Officer*
