

INGLES MARKETS INC  
Form 10-Q  
January 30, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended December 24, 2011**

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

**For the transition period from            to            .**

**Commission file number 0-14706.**

**INGLES MARKETS, INCORPORATED**

**(Exact name of registrant as specified in its charter)**

Edgar Filing: INGLES MARKETS INC - Form 10-Q

<b>North Carolina</b> (State or other jurisdiction of incorporation or organization)	<b>56-0846267</b> (I.R.S. Employer Identification No.)
<b>P.O. Box 6676, Asheville NC</b> (Address of principal executive offices)	<b>28816</b> (Zip Code)
<b>(828) 669-2941</b>	

**Registrant's telephone number, including area code**

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

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

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

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

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

As of January 23, 2012, the Registrant had 12,924,135 shares of Class A Common Stock, \$0.05 par value per share, outstanding and 11,348,941 shares of Class B Common Stock, \$0.05 par value per share, outstanding.

---

**Table of Contents**

**INGLES MARKETS, INCORPORATED**

**INDEX**

	<b>Page No.</b>
<b><u>Part I - Financial Information</u></b>	
Item 1. <b><u>Interim Financial Statements (Unaudited)</u></b>	
<u>Condensed Consolidated Balance Sheets as of December 24, 2011 and September 24, 2011</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended December 24, 2011 and December 25, 2010</u>	4
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended December 24, 2011 and December 25, 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 24, 2011 and December 25, 2010</u>	6
<u>Notes to Interim Financial Statements (Unaudited)</u>	7
Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	11
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	17
Item 4. <b><u>Controls and Procedures</u></b>	18
<b><u>Part II - Other Information</u></b>	
Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	19
Item 6. <b><u>Exhibits</u></b>	19
<b><u>Signatures</u></b>	20

**Table of Contents**

## Part I. Financial Information

**Item 1. Interim Financial Statements**  
**INGLES MARKETS, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	DECEMBER 24, 2011	SEPTEMBER 24, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 9,838,028	\$ 12,421,250
Receivables-net	70,143,920	56,841,059
Inventories	299,176,458	303,166,488
Other current assets	16,923,194	16,935,660
<b>Total Current Assets</b>	<b>396,081,600</b>	<b>389,364,457</b>
Property and Equipment Net	1,158,405,502	1,133,204,187
Restricted Investments	43,144,659	75,730,905
Other Assets	19,987,432	20,050,259
<b>Total Assets</b>	<b>\$ 1,617,619,193</b>	<b>\$ 1,618,349,808</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 22,525,908	\$ 34,375,989
Accounts payable - trade	152,872,613	166,797,912
Accrued expenses and current portion of other long-term liabilities	71,686,199	89,322,063
<b>Total Current Liabilities</b>	<b>247,084,720</b>	<b>290,495,964</b>
Deferred Income Taxes	66,554,000	67,939,000
Long-Term Debt	859,970,564	820,743,747
Other Long-Term Liabilities	7,707,373	7,225,503
<b>Total Liabilities</b>	<b>1,181,316,657</b>	<b>1,186,404,214</b>
Stockholders Equity		
Preferred stock, \$0.05 par value; 10,000,000 shares authorized; no shares issued		
Common stocks:		
Class A, \$0.05 par value; 150,000,000 shares authorized; issued and outstanding 12,924,135 shares at December 24, 2011 and 12,939,533 shares at September 24, 2011	646,207	646,977
Class B, convertible to Class A, \$0.05 par value; 100,000,000 shares authorized; issued and outstanding 11,348,941 shares at December 24, 2011 and 11,489,726 shares at September 24, 2011	567,447	574,486
Paid-in capital in excess of par value	114,470,860	116,844,842
Retained earnings	320,618,022	313,879,289
<b>Total Stockholders Equity</b>	<b>436,302,536</b>	<b>431,945,594</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,617,619,193</b>	<b>\$ 1,618,349,808</b>

See notes to unaudited interim financial statements.

**Table of Contents****INGLES MARKETS, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	<b>THREE MONTHS ENDED</b>	
	<b>DECEMBER 24, 2011</b>	<b>DECEMBER 25, 2010</b>
Net sales	<b>\$ 918,237,929</b>	\$ 872,753,265
Cost of goods sold	<b>716,509,749</b>	679,272,795
Gross profit	<b>201,728,180</b>	193,480,470
Operating and administrative expenses	<b>171,808,529</b>	167,254,973
Rental income, net	<b>428,150</b>	314,808
Gain from sale or disposal of assets	<b>14,704</b>	11,299
Income from operations	<b>30,362,505</b>	26,551,604
Other income, net	<b>1,003,612</b>	1,124,943
Interest expense	<b>15,008,901</b>	15,854,953
Income before income taxes	<b>16,357,216</b>	11,821,594
Income taxes:		
Current	<b>8,035,000</b>	6,033,000
Deferred	<b>(2,275,000)</b>	(1,864,000)
	<b>5,760,000</b>	4,169,000
Net income	<b>\$ 10,597,216</b>	\$ 7,652,594
Per share amounts:		
Class A Common Stock		
Basic earnings per common share	<b>\$ 0.45</b>	\$ 0.33
Diluted earnings per common share	<b>\$ 0.43</b>	\$ 0.31
Class B Common Stock		
Basic earnings per common share	<b>\$ 0.41</b>	\$ 0.30
Diluted earnings per common share	<b>\$ 0.41</b>	\$ 0.30
Cash dividends per common share:		
Class A Common Stock	<b>\$ 0.165</b>	\$ 0.165
Class B Common Stock	<b>\$ 0.150</b>	\$ 0.150

See notes to unaudited interim financial statements.

**Table of Contents****INGLES MARKETS, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**

THREE MONTHS ENDED DECEMBER 24, 2011 AND DECEMBER 25, 2010

	CLASS A COMMON STOCK		CLASS B COMMON STOCK		PAID-IN CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT			
Balance, September 25, 2010	12,889,433	\$ 644,472	11,582,826	\$ 579,141	\$ 117,592,932	\$ 290,264,244	\$ 409,080,789
Net income						7,652,594	7,652,594
Cash dividends						(3,864,181)	(3,864,181)
Stock repurchases, at cost			(29,000)	(1,450)	(542,010)		(543,460)
Common stock conversions	1,500	75	(1,500)	(75)			
<b>Balance, December 25, 2010</b>	<b>12,890,933</b>	<b>\$ 644,547</b>	<b>11,552,326</b>	<b>\$ 577,616</b>	<b>\$ 117,050,922</b>	<b>\$ 294,052,657</b>	<b>\$ 412,325,742</b>
Balance, September 24, 2011	12,939,533	\$ 646,977	11,489,726	\$ 574,486	\$ 116,844,842	\$ 313,879,289	\$ 431,945,594
Net income						10,597,216	10,597,216
Cash dividends						(3,858,483)	(3,858,483)
Stock repurchases, at cost	(15,473)	(774)	(140,710)	(7,035)	(2,373,982)		(2,381,791)
Common stock conversions	75	4	(75)	(4)			
<b>Balance, December 24, 2011</b>	<b>12,924,135</b>	<b>\$ 646,207</b>	<b>11,348,941</b>	<b>\$ 567,447</b>	<b>\$ 114,470,860</b>	<b>\$ 320,618,022</b>	<b>\$ 436,302,536</b>

See notes to unaudited interim financial statements.

**Table of Contents****INGLES MARKETS, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>THREE MONTHS ENDED</b>	
	<b>DECEMBER 24, 2011</b>	<b>DECEMBER 25, 2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 10,597,216	\$ 7,652,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	22,122,204	20,947,414
Gains on disposals of property and equipment	(14,704)	(11,299)
Receipt of advance payments on purchases contracts	750,000	750,000
Recognition of advance payments on purchases contracts	(900,000)	(671,614)
Deferred income taxes	(2,275,000)	(1,864,000)
Changes in operating assets and liabilities:		
Receivables	(13,302,862)	(6,952,789)
Inventory	3,990,029	(3,239,951)
Other assets	(190,340)	116,548
Accounts payable and accrued expenses	(13,405,644)	3,810,998
<b>Net Cash Provided by Operating Activities</b>	<b>7,370,899</b>	<b>20,537,901</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from maturities of certificates of deposit		6,000,000
Proceeds from sales of restricted assets	32,586,246	
Proceeds from sales of property and equipment	11,248	48,132
Capital expenditures	(63,688,077)	(25,665,471)
<b>Net Cash Used in Investing Activities</b>	<b>(31,090,583)</b>	<b>(19,617,339)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit borrowings	222,220,876	62,981,815
Payments on line of credit borrowings	(178,045,750)	(62,981,815)
Proceeds from new long-term borrowings	3,250,000	
Principal payments on long-term borrowings	(20,048,390)	(33,007,986)
Stock repurchases	(2,381,791)	(543,460)
Dividends paid	(3,858,483)	(3,864,181)
<b>Net Cash Provided (Used) in Financing Activities</b>	<b>21,136,462</b>	<b>(37,415,627)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,583,222)</b>	<b>(36,495,065)</b>
Cash and cash equivalents at beginning of period	12,421,250	57,854,587
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 9,838,028</b>	<b>\$ 21,359,522</b>

See notes to unaudited interim financial statements.



**Table of Contents**

**INGLES MARKETS, INCORPORATED AND SUBSIDIARIES**

**NOTES TO INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Three Months Ended December 24, 2011 and December 25, 2010

**A. BASIS OF PREPARATION**

In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments necessary to present fairly the Company's financial position as of December 24, 2011, and the results of operations, changes in stockholders' equity and cash flows for the three months ended December 24, 2011 and December 25, 2010. The adjustments made are of a normal recurring nature. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. It is suggested that these unaudited interim financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Annual Report on Form 10-K for the year ended September 24, 2011, filed by the Company under the Securities Exchange Act of 1934 on December 2, 2011.

The results of operations for the three-month period ended December 24, 2011 are not necessarily indicative of the results to be expected for the full fiscal year.

**B. NEW ACCOUNTING PRONOUNCEMENTS**

There were no accounting standards adopted in the three-month period ended December 24, 2011.

**C. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Receivables are presented net of an allowance for doubtful accounts of \$783,000 and \$524,000 at December 24, 2011 and September 24, 2011, respectively.

**D. INCOME TAXES**

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions and related matters in income tax expense. As of December 24, 2011, the Company had approximately \$57,000 accrued for interest and penalties.

The Company's effective tax rate differs from the federal statutory rate primarily as a result of state income taxes and tax credits. As of December 24, 2011, the Company had gross unrecognized tax benefits of approximately \$159,000, all of which, if recognized, would affect the effective tax rate. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company files income tax returns with federal and various state jurisdictions. With few exceptions, the Company is no longer subject to state income tax examinations by tax authorities for the years before 2005. Additionally, the Internal Revenue Service has completed its examination of the Company's U.S. Federal income tax returns filed through fiscal year 2008. As of December 24, 2011 certain of the Company's tax returns for fiscal years 2006-2009 are under examination by certain state tax authorities.

**E. ACCRUED EXPENSES AND CURRENT PORTION OF OTHER LONG-TERM LIABILITIES**

Accrued expenses and current portion of other long-term liabilities consist of the following:

	<b>DECEMBER 24, 2011</b>	<b>SEPTEMBER 24, 2011</b>
Property, payroll, and other taxes payable	<b>\$ 11,342,351</b>	<b>\$ 15,775,321</b>
Salaries, wages and bonuses payable	<b>19,403,680</b>	<b>24,130,758</b>

Edgar Filing: INGLES MARKETS INC - Form 10-Q

Self-insurance liabilities	<b>25,326,315</b>	24,830,900
Interest payable	<b>6,920,691</b>	20,375,692
Income taxes payable	<b>4,826,308</b>	
Other	<b>3,866,854</b>	4,209,392
<b>Total</b>	<b>\$ 71,686,199</b>	<b>\$ 89,322,063</b>

Self-insurance liabilities are established for general liability claims, workers compensation claims, and employee group medical and dental benefits based on claims filed and estimates of claims incurred but not reported. The Company is insured for covered costs in excess of \$750,000 per occurrence for workers compensation, \$500,000 for general liability, and \$325,000 per covered person for medical care benefits for a policy year. Employee insurance expense, including workers compensation and medical care benefits, net of employee contributions, totaled \$7.3 million and \$8.5 million for each of the three-month periods ended December 24, 2011 and December 25, 2010, respectively.

**Table of Contents**

## F. LONG-TERM DEBT

In May 2009, the Company issued \$575.0 million aggregate principal amount of senior notes due in 2017 (the Notes) in a private placement. The Notes bear an interest rate of 8.875% per annum and were issued at a discount to yield 9.5% per annum.

The Company may redeem all or a portion of the Notes at any time on or after May 15, 2013 at the following redemption prices (expressed as percentages of the principal amount), if redeemed during the 12-month period beginning May 15 of the years indicated below:

Year	
2013	104.438%
2014	102.219%
2015 and thereafter	100.000%

In connection with the offering of the Notes, the Company entered into a \$175.0 million line of credit arrangement. At December 24, 2011, the Company had \$175.0 million of total line of credit commitments, with \$44.2 million outstanding.

The line of credit provides the Company with various interest rate options generally at rates less than prime. The line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$9.6 million of unused letters of credit were issued at December 24, 2011. The Company is not required to maintain compensating balances in connection with the line of credit.

On December 29, 2010, the Company completed the funding of \$99.7 million of Recovery Zone Facility Bonds (the Bonds) for: (A) acquisition, construction and equipping of an approximately 830,000 square foot new warehouse and distribution center and a new grocery store to be located in Buncombe County, North Carolina (the Project), and (B) the payment of certain expenses incurred in connection with the issuance of the Bonds. The final maturity date of the Bonds is January 1, 2036.

Bond proceeds were invested in a trust account with the Bond trustee. The Company receives disbursements from the account as it submits requisitions to the trustee for incurred Project costs. The account with the Bond trustee is listed in the line item Restricted investments on the Condensed Consolidated Balance Sheets and consists of money market deposits and United States Treasury securities which mature no later than September 2012. These investments are classified as available-for-sale and are stated at market value.

The Bonds were issued by the Buncombe County Industrial Facilities and Pollution Control Financing Authority and were purchased by certain financial institutions. Under a Continuing Covenant and Collateral Agency Agreement (the Covenant Agreement) between the financial institutions and the Company, the financial institutions will hold the Bonds until January 1, 2017, subject to certain events. Mandatory redemption of the Bonds by the Company in the annual amount of \$4,530,000 begins on January 1, 2014. The Company may redeem the Bonds without penalty or premium at any time prior to January 1, 2017.

Interest earned by bondholders on the Bonds is exempt from Federal and North Carolina income taxation. Initially, the interest rate on the Bonds is equal to one month LIBOR (adjusted monthly) plus a credit spread, adjusted to reflect the income tax exemption.

The Company's obligation to repay the Bonds is collateralized by the Project. Additional collateral may be required in order to meet certain loan to value criteria in the Covenant Agreement. The Covenant Agreement incorporates substantially all financial covenants included in the line of credit.

Also on December 29, 2010, the Company executed an amendment to extend the maturity of the line of credit from May 12, 2012 to December 29, 2015. All other terms of the line of credit remain in place.

The Notes, the Bonds and the line of credit contain provisions that under certain circumstances would permit lending institutions to terminate or withdraw their respective extensions of credit to the Company. Included among the triggering factors permitting the termination or withdrawal of the line of credit to the Company are certain events of default, including both monetary and non-monetary defaults, the initiation of bankruptcy or insolvency proceedings, and the failure of the Company to meet certain financial covenants designated in its respective loan documents. The Company was in compliance with all financial covenants at December 24, 2011.

The Company's long-term debt agreements generally have cross-default provisions which could result in the acceleration of payments due under the Company's line of credit, Bonds, and Notes indenture in the event of default under any one instrument.



**Table of Contents**

## G. DIVIDENDS

The Company paid cash dividends of \$0.165 for each share of Class A Common Stock and \$0.15 for each share of Class B Common Stock on October 20, 2011 to stockholders of record on October 6, 2011.

## H. EARNINGS PER COMMON SHARE

The Company has two classes of common stock: Class A, which is publicly traded, and Class B, which has no public market. The Class B Common Stock has restrictions on transfer; however, each share is convertible into one share of Class A Common Stock at any time. Each share of Class A Common Stock has one vote per share and each share of Class B Common Stock has ten votes per share. Each share of Class A Common Stock is entitled to receive cash dividends equal to 110% of any cash dividend on Class B Common Stock.

The Company calculates earnings per share for its Class A Common Stock and Class B Common Stock using the two-class method in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 260.

The two-class method of computing basic earnings per share for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Diluted earnings per share is calculated assuming the conversion of all shares of Class B Common Stock to shares of Class A Common Stock on a share-for-share basis. The tables below reconcile the numerators and denominators of basic and diluted earnings per share for current and prior periods.

	THREE MONTHS ENDED DECEMBER 24, 2011		THREE MONTHS ENDED DECEMBER 25, 2010	
	CLASS A	CLASS B	CLASS A	CLASS B
<i>Numerator: Allocated net income</i>				
Net income allocated, basic	\$ 5,864,420	\$ 4,732,796	\$ 4,212,465	\$ 3,440,129
Conversion of Class B to Class A shares	4,732,796		3,440,129	
Net income allocated, diluted	\$ 10,597,216	\$ 4,732,796	\$ 7,652,594	\$ 3,440,129
<i>Denominator: Weighted average shares outstanding</i>				
Weighted average shares outstanding, basic	12,939,090	11,485,020	12,890,084	11,576,120
Conversion of Class B to Class A shares	11,485,020		11,576,120	
Weighted average shares outstanding, diluted	24,424,110	11,485,020	24,466,204	11,576,120
<b>Earnings per share</b>				
Basic	\$ 0.45	\$ 0.41	\$ 0.33	\$ 0.30
Diluted	\$ 0.43	\$ 0.41	\$ 0.31	\$ 0.30

**Table of Contents**

## I. LINES OF BUSINESS

The Company operates three lines of business: retail grocery sales, shopping center rentals, and a fluid dairy processing plant. All of the Company's operations are domestic. Information about the Company's operations by lines of business (in thousands) is as follows:

	THREE MONTHS ENDED	
	DECEMBER 24, 2011	DECEMBER 25, 2010
Revenues from unaffiliated customers:		
Grocery sales	\$ 884,773	\$ 842,040
Shopping center rentals	2,293	2,124
Fluid dairy	33,465	30,713
<b>Total revenues from unaffiliated customers</b>	<b>\$ 920,531</b>	<b>\$ 874,877</b>
Income from operations:		
Grocery sales	\$ 27,089	\$ 23,142
Shopping center rentals	428	315
Fluid dairy	2,846	3,095
<b>Total income from operations</b>	<b>\$ 30,363</b>	<b>\$ 26,552</b>
	DECEMBER 24, 2011	SEPTEMBER 24, 2011
Assets:		
Grocery sales	\$ 1,469,669	\$ 1,471,086
Shopping center rentals	113,454	113,454
Fluid dairy	36,969	36,244
Elimination of intercompany receivable	(2,473)	(2,434)
<b>Total assets</b>	<b>\$ 1,617,619</b>	<b>\$ 1,618,350</b>

Sales by product category (amounts in thousands) are as follows:

	THREE MONTHS ENDED	
	DECEMBER 24, 2011	DECEMBER 25, 2010
Grocery	\$ 371,961	\$ 357,691
Non-foods	175,649	172,538
Perishables	209,869	202,405
Gasoline	127,294	109,406
<b>Total grocery segment</b>	<b>\$ 884,773</b>	<b>\$ 842,040</b>

The grocery category includes grocery, dairy and frozen foods.

The non-foods category includes alcoholic beverages, tobacco, pharmacy, health and video.

## Edgar Filing: INGLES MARKETS INC - Form 10-Q

The perishables category includes meat, produce, deli and bakery.

Revenue from shopping center rentals is included in the caption Rental income, net in the Condensed Consolidated Statements of Income. Grocery and fluid dairy revenues comprise net sales reported in the Condensed Consolidated Statements of Income.

For the three months ended December 24, 2011 and December 25, 2010, the fluid dairy segment had \$15.2 million and \$14.6 million, respectively, in sales to the grocery sales segment. These sales have been eliminated in consolidation and are excluded from the amounts in the table above.

### J. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, certificates of deposit, accounts receivable, and accounts payable approximate fair value due to the short-term maturity of these instruments. At December 24, 2011 and September 24, 2011, the fair value of the Company's debt was estimated at \$942.8 million and \$900.1 million, respectively, primarily using market yields and taking into

---

**Table of Contents**

consideration the underlying terms of the debt. Such fair value was more than the carrying value of debt at December 24, 2011 by \$60.3 million and more than the carrying value of debt at September 24, 2011 by \$45.7 million.

**K. SUBSEQUENT EVENTS**

We have evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the day the financial statements were filed with the SEC.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Overview***

Ingles, a leading supermarket chain in the Southeastern United States, operates 203 supermarkets in Georgia (74), North Carolina (69), South Carolina (36), Tennessee (21), Virginia (2) and Alabama (1). The Company locates its supermarkets primarily in suburban areas, small towns and rural communities. Ingles supermarkets offer customers a wide variety of nationally advertised food products, including grocery, meat and dairy products, produce, frozen foods and other perishables and non-food products. Non-food products include health and beauty care products and general merchandise. The Company also offers quality private label items. As of December 24, 2011, the Company operated 75 in-store pharmacies and 70 fuel centers.

Ingles also operates two other lines of business, fluid dairy processing and shopping center rentals. The fluid dairy processing segment sells approximately 31% of its products to the retail grocery segment and approximately 69% of its products to third parties. Real estate ownership (including the shopping center rental segment) is an important component of the Company's operations, providing both operational and economic benefits.

***Critical Accounting Policies***

Critical accounting policies are those accounting policies that management believes are important to the portrayal of the Company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Estimates are based on historical experience and other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management estimates, by their nature, involve judgments regarding future uncertainties, and actual results may therefore differ materially from these estimates.

***Self-Insurance***

The Company is self-insured for workers' compensation and group medical and dental benefits. Risks and uncertainties are associated with self-insurance; however, the Company has limited its exposure by maintaining excess liability coverage of \$750,000 per occurrence for workers' compensation, \$500,000 for general liability, and \$325,000 per covered person for medical care benefits for a policy year. Self-insurance liabilities are established based on claims filed and estimates of claims incurred but not reported. The estimates are based on data provided by the respective claims administrators. These estimates can fluctuate if historical trends are not predictive of the future. The majority of the Company's properties are self-insured for casualty losses and business interruption; however, liability coverage is maintained. At December 24, 2011, the Company's self insurance reserves totaled \$25.3 million for employee group insurance, workers' compensation insurance and general liability insurance.

***Restricted Investments***

Restricted investments consist of money market deposits and United States Treasury securities purchased with proceeds of the Recovery Zone Bonds issued in December 2010. These investments are held in a trust account, mature no later than September 2012, and may only be liquidated as the Company incurs approved costs to build the Project. These investments are classified as available-for-sale and are stated at market value.

***Asset Impairments***

The Company accounts for the impairment of long-lived assets in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 360. For assets to be held and used, the Company tests for impairment using undiscounted cash flows and



## Edgar Filing: INGLES MARKETS INC - Form 10-Q

calculates the amount of impairment using discounted cash flows. For assets held for sale, impairment is recognized based on the excess of remaining book value over expected recovery value. The recovery value is the fair value as determined by independent quotes or expected sales prices developed by internal associates. Estimates of future cash flows and expected sales prices are judgments based upon the Company's experience and knowledge of local operations and cash flows that are projected for several years into the future. These estimates can fluctuate significantly due to changes in real estate market conditions, the economic environment, capital spending decisions and inflation. The Company monitors the carrying value of long-lived assets for potential impairment each quarter based on whether any indicators of impairment have occurred. There were no asset impairments during the three-month period ended December 24, 2011.

### *Closed Store Accrual*

For closed properties under long-term lease agreements, a liability is recognized and expensed based on the difference between the present value of any remaining liability under the lease and the present value of the estimated market rate at which the Company expects to be able to sublease the properties, in accordance with FASB ASC Topic 420. The Company's estimates of market rates are

**Table of Contents**

based on its experience, knowledge and third-party advice or market data. If the real estate and leasing markets change, sublease recovery could vary significantly from the recoveries originally assumed, resulting in a material change in the Company's recorded liability. The closed store accrual is included in the line item "Accrued expenses and current portion of other long-term liabilities" on the Condensed Consolidated Balance Sheets.

*Vendor Allowances*

The Company receives funds for a variety of merchandising activities from the many vendors whose products the Company buys for resale in its stores. These incentives and allowances are primarily comprised of volume or purchase based incentives, advertising allowances, slotting fees, and promotional discounts. The purpose of these incentives and allowances is generally to help defray the costs incurred by the Company for stocking, advertising, promoting and selling the vendor's products. These allowances generally relate to short term arrangements with vendors, often relating to a period of a month or less, and are negotiated on a purchase-by-purchase or transaction-by-transaction basis. Whenever possible, vendor discounts and allowances that relate to buying and merchandising activities are recorded as a component of item cost in inventory and recognized in merchandise costs when the item is sold. Due to system constraints and the nature of certain allowances, it is sometimes not practicable to apply allowances to the item cost of inventory. In those instances, the allowances are applied as a reduction of merchandise costs using a rational and systematic methodology, which results in the recognition of these incentives when the inventory related to the vendor consideration received is sold. Vendor allowances applied as a reduction of merchandise costs totaled \$30.0 million and \$27.8 million for the fiscal quarters ended December 24, 2011 and December 25, 2010, respectively. Vendor advertising allowances that represent a reimbursement of specific identifiable incremental costs of advertising the vendor's specific products are recorded as a reduction to the related expense in the period that the related expense is incurred. Vendor advertising allowances recorded as a reduction of advertising expense totaled \$3.4 million and \$3.4 million for the fiscal quarters ended December 24, 2011 and December 25, 2010, respectively.

If vendor advertising allowances were substantially reduced or eliminated, the Company would likely consider other methods of advertising as well as the volume and frequency of the Company's product advertising, which could increase or decrease the Company's expenditures.

Similarly, the Company is not able to assess the impact of vendor advertising allowances on creating additional revenue, as such allowances do not directly generate revenue for the Company's stores.

*Uncertain Tax Positions*

Despite the Company's belief that its tax positions are consistent with applicable tax laws, the Company believes that certain positions are likely to be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. Significant judgment is required in evaluating the Company's tax positions. The Company's positions are evaluated in light of changing facts and circumstances, such as the progress of its tax audits as well as evolving case law. Income tax expense includes the impact of position provisions for and changes to uncertain tax positions based on the Company's evaluation of facts and circumstances. Unfavorable settlement of any particular position would require use of cash. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

***Results of Operations***

Ingles operates on a 52 or 53-week fiscal year ending on the last Saturday in September. The Condensed Consolidated Statements of Income for the three-month periods ended December 24, 2011 and December 25, 2010 both include 13 weeks of operations. Comparable store sales are defined as sales by grocery stores in operation for the entire duration of the previous and current fiscal periods. Sales from replacement stores, major remodels and the addition of fuel stations to existing stores are included in the comparable store sales calculation from the date thereof. A replacement store is a new store that is opened to replace an existing nearby store that is closed. A major remodel entails substantial remodeling of an existing store and includes additional retail square footage. For the three-month periods ended December 24, 2011 and December 25, 2010, comparable store sales include 202 and 200 stores, respectively.

**Table of Contents**

The following table sets forth, for the periods indicated, selected financial information as a percentage of net sales. For information regarding the various segments of the business, see Note I Lines of Business to the condensed consolidated financial statements.

	THREE MONTHS ENDED	
	DECEMBER 24, 2011	DECEMBER 25, 2010
Net sales	100.0%	100.0%
Gross profit	22.0%	22.2%
Operating and administrative expenses	18.7%	19.2%
Income from operations	3.3%	3.0%
Other income, net	0.1%	0.1%
Interest expense	1.6%	1.8%
Income before income taxes	1.8%	1.4%
Income taxes	0.6%	0.5%
Net income	1.2%	0.9%

**Three Months Ended December 24, 2011 Compared to the Three Months Ended December 25, 2010**

Net income for the first quarter of fiscal 2012 totaled \$10.6 million, 38.5% higher than net income of \$7.7 million earned for the first quarter of fiscal 2011. The primary factors behind the net income increase were increased sales and gross profit, which exceeded growth in expenses.

*Net Sales.* Net sales increased 5.2% to \$918.2 million for the three months ended December 24, 2011 from \$872.8 million for the three months ended December 25, 2010. Ingles operated 203 stores and approximately 11.0 million of retail square feet at both December 24, 2011 and at December 25, 2010. Excluding gasoline sales, net sales increased 3.6% for the three months ended December 24, 2011 compared with the three months ended December 25, 2010.

Grocery segment comparable store sales grew \$41.7 million, or 5.0%, in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. Excluding gasoline sales, comparable store sales also increased 3.4%. Retail gasoline sales prices increased and the number of gallons sold decreased during the first quarter of fiscal 2012 compared with the first quarter of fiscal 2011. The number of customer transactions (excluding gasoline) increased 2.0%, and the average transaction size (excluding gasoline) increased by 1.3%.

Sales by product category (amounts in thousands) are as follows:

	THREE MONTHS ENDED	
	DECEMBER 24, 2011	DECEMBER 25, 2010
Grocery	\$ 371,961	\$ 357,691
Non-foods	175,649	172,538
Perishables	209,869	202,405
Gasoline	127,294	109,406
Total grocery segment	\$ 884,773	\$ 842,040

The grocery category includes grocery, dairy, and frozen foods.

The non-foods category includes alcoholic beverages, tobacco, pharmacy, health and video.

The perishables category includes meat, produce, deli and bakery.

Changes in grocery segment sales for the quarter ended December 24, 2011 are summarized as follows (in thousands):

## Edgar Filing: INGLES MARKETS INC - Form 10-Q

Total grocery sales for the three months ended December 25, 2010	<b>\$ 842,040</b>
Comparable store sales increase (including gasoline)	<b>41,662</b>
Impact of stores opened in fiscal 2011 and 2012	<b>1,063</b>
Impact of stores closed in fiscal 2011 and 2012	
Other	<b>8</b>

Total grocery sales for the three months ended December 24, 2011 **\$ 884,773**

Net sales to outside parties for the Company's milk processing subsidiary increased \$2.8 million, or 9.0%, in the December 2011 quarter compared to the December 2010 quarter. The sales increase is attributable to higher raw milk costs in the December 2011 quarter compared to the December 2010 quarter. The case volume of products sold was relatively unchanged.

**Table of Contents**

*Gross Profit.* Gross profit for the three-month period ended December 24, 2011 increased \$8.2 million to \$201.7 million, or 22.0% of sales, compared to \$193.5 million, or 22.2% of sales, for the three-month period ended December 25, 2010.

Grocery segment gross profit as a percentage of total sales was influenced by gasoline margins (which are typically much lower than margins earned on other grocery segment products), intense competition, inflation on certain products, and vendor participation in pricing promotions. Excluding gasoline sales, grocery segment gross profit as a percentage of sales was 25.5% for the three months ended December 24, 2011 compared with 25.2% for the three months ended December 25, 2010.

Gross profit for the Company's milk processing subsidiary for the December 2011 quarter decreased \$0.3 million, or 5.6%, to \$5.5 million, or 11.2% of sales, compared to \$5.8 million, or 12.8% of sales, for the December 2010 quarter. The cents-per-gallon margin was affected by the competitive environment comparing the three months ended December 2011 with the three months ended December 2010.

In addition to the direct product cost, the cost of goods sold line item for the grocery segment includes inbound freight charges and the costs related to the Company's distribution network. Distribution network costs for the grocery segment totaled \$12.7 million and \$11.8 million for the quarters ended December 2011 and December 2010, respectively. The milk processing segment is a manufacturing process, therefore, the costs mentioned above as well as purchasing and receiving costs, production costs, inspection costs, warehousing costs, internal transfer costs, and other costs of distribution incurred by the milk processing segment are included in the cost of goods sold line item, while these items are included in operating and administrative expenses for the grocery segment.

*Operating and Administrative Expenses.* Operating and administrative expenses increased \$4.5 million, or 2.7%, to \$171.8 million for the three months ended December 24, 2011, from \$167.3 million for the three months ended December 25, 2010. As a percentage of sales, operating and administrative expenses were 18.7% and 19.2% for the three months ended December 24, 2011 and December 25, 2010, respectively. Excluding gasoline sales and associated gasoline operating expenses (primarily payroll), operating expenses were 21.6% of sales for the first fiscal quarter of 2012 compared with 21.8% for the first fiscal quarter of 2011. The smaller number of new and remodeled stores opened by the Company during fiscal years 2011 and 2012 have contributed to operating expenses as a percentage of sales being relatively stable.

The major increases (decreases) in operating and administrative expenses were as follows:

	INCREASE (DECREASE) IN MILLIONS	INCREASE (DECREASE) AS A % OF SALES
Repairs and maintenance	\$ 1.4	0.16%
Salaries and wages	\$ 1.1	0.12%
Insurance expense	\$ (0.9)	(0.10)%
Depreciation and amortization	\$ 0.8	0.08%
Supplies	\$ 0.6	0.06%
Taxes and licenses	\$ 0.5	0.06%

Repair and maintenance expenses increased due to the cyclical nature of certain significant repairs to store equipment.

Salaries and wages expenses increased due to the additional labor hours required to support the increased sales volume.

Insurance expense decreased due to better claims experience under the Company's self insurance programs.

Depreciation and amortization expense increased as a result of the Company's increased capital expenditures to improve its store base.

Supply costs increased due to increased costs of petroleum based packaging and changes in packaging in certain perishable departments.

Taxes and licenses increased due to increased property taxes and other taxes and fees charged by municipalities where the Company operates stores.

## Edgar Filing: INGLES MARKETS INC - Form 10-Q

*Rental Income, Net.* Rental income, net totaled \$0.4 and \$0.3 million for the December 2011 and 2010 quarters, respectively. Following a period of increased vacancies attributed to the economic recession, the Company's tenant base has somewhat stabilized.

*Other Income, Net.* Other income, net decreased \$0.1 million to \$1.0 million for the three-month period ended December 24, 2011 from \$1.1 million for the three-month period ended December 25, 2010. The principal component of other income is waste paper and packaging sales.

## **Table of Contents**

*Interest Expense.* Interest expense decreased \$0.9 million for the three-month period ended December 24, 2011 to \$15.0 million from \$15.9 million for the three-month period ended December 25, 2010. Total debt at December 24, 2011 was \$882.5 million compared to \$784.5 million at December 25, 2010. The increase in total debt is primarily attributable to the \$99.7 of Recovery Zone Facility Bonds (the Bonds) issued just after the end of the December 2010 quarter. Interest on the Bonds is currently capitalized as a construction cost of the new distribution facility scheduled to open in calendar 2012. Interest expense decreased over the comparable three month periods as paid off debt was either not replaced or refinanced at lower interest rates.

*Income Taxes.* Income tax expense as a percentage of pre-tax income was substantially unchanged at 35.2% in the December 2011 quarter compared to 35.3% in the December 2010 quarter.

*Net Income.* Net income increased \$2.9 million or 38.5% for the three-month period ended December 24, 2011 to \$10.6 million compared to \$7.7 million for the three-month period ended December 25, 2010. Net income, as a percentage of sales, was 1.2% for the December 2011 quarter and 0.9% for the December 2010 quarter. Basic and diluted earnings per share for Class A Common Stock were \$0.45 and \$0.43, respectively, for the December 2011 quarter, compared to \$0.33 and \$0.31, respectively, for the December 2010 quarter. Basic and diluted earnings per share for Class B Common Stock were each \$0.41 for the December 2011 quarter compared to \$0.30 for the December 2010 quarter.

### ***Liquidity and Capital Resources***

#### ***Capital Expenditures***

The Company believes that a key to its ability to increase sales and develop a loyal customer base is providing conveniently located, clean and modern stores that offer customers good service and a broad selection of competitively priced products. Accordingly, the Company has invested and plans to continue to invest significant amounts of capital toward the modernization of its store base. The Company's modernization program includes the opening of new stores, the completion of major remodels and expansion of selected existing stores, and the relocation of selected existing stores to larger, more convenient locations.

Capital expenditures totaled \$63.7 million for the three-month period ended December 24, 2011. Most of these capital expenditures were related to construction of the new distribution facility and procurement of related equipment. The Company also purchased a store which it had previously leased. Capital expenditures also included the costs of upgrading and replacing store equipment, technology investments, capital expenditures related to its milk processing plant, and expenditures for stores scheduled to open later in fiscal 2012 and in fiscal 2013.

Ingles' capital expenditure plans for fiscal year 2012 include investments of approximately \$120 to \$160 million. The majority of the Company's fiscal year 2012 capital expenditures are expected for the new distribution and warehouse facility. The number of new/replacement/remodeled stores completed in fiscal year 2012 will somewhat depend on the timing of distribution center expenditures. Accordingly, fiscal year 2012 capital expenditures will also include investments in stores expected to open in fiscal year 2013 as well as technology improvements, upgrading and replacing existing store equipment and warehouse and transportation equipment and improvements to the Company's milk processing plant.

The Company expects that its net annual capital expenditures will be in the range of approximately \$110 to \$180 million going forward in order to maintain a modern store base. Planned expenditures for any given future fiscal year will be affected by the availability of financing, which can affect both the number of projects pursued at any given time and the cost of those projects. The number of projects may also fluctuate due to the varying costs of the types of projects pursued including new stores, major remodel/expansions or minor remodels. The Company makes decisions on the allocation of capital expenditure dollars based on many factors including the competitive environment, other Company capital initiatives and its financial condition.

The Company does not generally enter into commitments for capital expenditures other than on a store-by-store basis at the time it begins construction on a new store or begins a major remodeling project. Construction commitments at December 24, 2011 totaled \$29.1 million.

#### ***Liquidity***

The Company generated \$7.4 million of net cash from operations in the December 2011 quarter compared to \$20.5 million of net cash provided by operations in the December 2010 quarter. Most of the change is attributable to an increase in operating income less cash used for working capital.

Cash used in investing activities for the December 2011 quarter totaled \$31.1 million, compared to \$19.6 million in the December 2010 quarter. The primary investing activities for the quarter ended December 24, 2011 were \$63.7 million of capital expenditures, and \$32.6 million

## Edgar Filing: INGLES MARKETS INC - Form 10-Q

withdrawn from restricted investments to reimburse the Company for distribution facility construction costs.

Cash provided by financing activities during the December 2011 quarter totaled \$21.1 million, compared with \$37.4 million of cash used by financing activities during the December 2010 quarter. For the December 2011 quarter, principal payments on long-term debt



---

## **Table of Contents**

were \$20.0 million and dividend payments were \$3.9 million. The Company borrowed \$44.2 million under its \$175 million line of credit facility and incurred \$3.3 million of new collateralized debt. The Company also repurchased a total of 156,000 shares of its Class A and Class B Common Stock.

In May 2009, the Company issued \$575.0 million aggregate principal amount of senior notes due in 2017 (the Notes) in a private placement. The Notes bear an interest rate of 8.875% per annum and were issued at a discount to yield 9.5% per annum. In connection with the offering of the Notes, the Company entered into a new three-year \$175.0 million line of credit. On December 29, 2010 the maturity date of the \$175.0 million line of credit was extended to December 29, 2015. There was \$44.2 million outstanding under the line of credit at December 24, 2011.

The line of credit provides the Company with various interest rate options generally at rates less than prime. The line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$9.6 million of unused letters of credit were issued at December 24, 2011. The Company is not required to maintain compensating balances in connection with the line of credit.

On December 29, 2010, the Company completed the funding of \$99.7 million of Recovery Zone Facility Bonds (the Bonds) for: (A) acquisition, construction and equipping of an approximately 830,000 square foot new warehouse and distribution center and a new grocery store to be located in Buncombe County, North Carolina (the Project), and (B) the payment of certain expenses incurred in connection with the issuance of the Bonds. The final maturity date of the Bonds is January 1, 2036.

The Bonds were issued by the Buncombe County Industrial Facilities and Pollution Control Financing Authority and were purchased by certain financial institutions. Under a Continuing Covenant and Collateral Agency Agreement (the Covenant Agreement) between the financial institutions and the Company, the financial institutions will hold the Bonds until January 1, 2017, subject to certain events. Mandatory redemption of the Bonds by the Company in the annual amount of \$4,530,000 begins on January 1, 2014. The Company may redeem the Bonds without penalty or premium at any time prior to January 1, 2017.

The Notes, the Bonds and the line of credit contain provisions that under certain circumstances would permit lending institutions to terminate or withdraw their respective extensions of credit to the Company. Included among the triggering factors permitting the termination or withdrawal of the line of credit to the Company are certain events of default, including both monetary and non-monetary defaults, the initiation of bankruptcy or insolvency proceedings, and the failure of the Company to meet certain financial covenants designated in its respective loan documents. As of December 24, 2011, the Company was in compliance with these covenants by a significant margin. Under the most restrictive of these covenants, the Company would be able to incur approximately \$568 million of additional borrowings (including borrowings under the line of credit) as of December 24, 2011.

The Company's principal sources of liquidity are expected to be cash flow from operations, borrowings under its line of credit and long-term financing. As of December 24, 2011, the Company had unencumbered real property and equipment with a net book value of approximately \$815 million. The Company believes, based on its current results of operations and financial condition, that its financial resources, including the line of credit, short- and long-term financing expected to be available to it and internally generated funds, will be sufficient to meet planned capital expenditures and working capital requirements for the foreseeable future, including any debt service requirements of additional borrowings. However, there is no assurance that any such sources of financing will be available to the Company when needed on acceptable terms, or at all.

It is possible that, in the future, the Company's results of operations and financial condition will be different from that described in this report based on a number of factors. These factors may include, among others, increased competition, changing regional and national economic conditions, adverse climatic conditions affecting food production and delivery and changing demographics, as well as the additional factors discussed below under Forward Looking Statements. It is also possible, for such reasons, that the results of operations from the new distribution center and from new, expanded, remodeled and/or replacement stores will not meet or exceed the results of operations from existing stores that are described in this report.

### *Contractual Obligations and Commercial Commitments*

There have been no material changes in contractual obligations and commercial commitments subsequent to September 24, 2011 other than as disclosed elsewhere in this Form 10-Q.

### *Off Balance Sheet Arrangements*

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

*Quarterly Cash Dividends*

Since December 27, 1993, the Company has paid regular quarterly cash dividends of \$0.165 (sixteen and one-half cents) per share on its Class A Common Stock and \$0.15 (fifteen cents) per share on its Class B Common Stock for an annual rate of \$0.66 and \$0.60 per share, respectively.

**Table of Contents**

The Company expects to continue paying regular cash dividends on a quarterly basis. However, the Board of Directors periodically reconsiders the declaration of dividends. The Company pays these dividends at the discretion of the Board of Directors and the continuation of these payments, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depends upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant. In addition, the Notes, long-term debt and the lines of credit contain provisions that, based on certain financial parameters, restrict the ability of the Company to pay additional cash dividends in excess of current quarterly per share amounts. Further, the Company is prevented from declaring dividends at any time that it is in default under the indenture governing the Notes.

*Seasonality*

Sales in the grocery segment of the Company's business are subject to a slight seasonal variance due to holiday related sales and sales in areas where seasonal homes are located. Sales are traditionally higher in the Company's first fiscal quarter due to the inclusion of sales related to Thanksgiving and Christmas. The Company's second fiscal quarter traditionally has the lowest sales of the year. In the third and fourth quarter, sales are affected by the return of customers to seasonal homes in the Company's market area. The fluid dairy segment of the Company's business has slight seasonal variation to the extent of its sales into the grocery industry. The Company's real estate segment is not subject to seasonal variations.

*Impact of Inflation*

The following table from the United States Bureau of Labor Statistics lists annualized changes in the Consumer Price Index that could have an effect on the Company's operations. One of the Company's significant costs is labor, which increases with general inflation. Inflation in energy costs affects both the Company's gasoline sales and distribution expenses.

	THREE MONTHS ENDED	
	DECEMBER 24, 2011	DECEMBER 25, 2010
All items	%	0.3%
Food and beverages	0.1%	0.1%
Energy	(1.6)%	2.5%

*Forward Looking Statements*

This Quarterly Report contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The words expect, anticipate, intend, plan, likely, goal, believe, seek and similar expressions are used to identify forward-looking statements. While these forward-looking statements and the related assumptions are made in good faith and reflect the Company's current judgment regarding the direction of the Company's business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Such statements are based upon a number of assumptions and estimates which are inherently subject to significant risks and uncertainties, many of which are beyond the Company's control. Some of these assumptions inevitably will not materialize, and unanticipated events will occur which will affect the Company's results. Some important factors (but not necessarily all factors) that affect the Company's revenues, growth strategies, future profitability and operating results, or that otherwise could cause actual results to differ materially from those expressed in or implied by any forward-looking statement, include business and economic conditions generally in the Company's operating area; the Company's ability to successfully implement its expansion and operating strategies and to manage rapid expansion; pricing pressures and other competitive factors; sudden or significant changes in the availability of gasoline and retail gasoline prices; the maturation of new and expanded stores; general concerns about food safety; the Company's ability to reduce costs and achieve improvements in operating results; the availability and terms of financing; increases in labor and utility costs; success or failure in the ownership and development of real estate; changes in the laws and government regulations applicable to the Company; and other risks and uncertainties, including those contained in the Company's Annual Report on Form 10-K for the year ended September 24, 2011, as updated or supplemented by subsequent quarterly reports on Form 10-Q and current reports of Form 8-K filed with the Securities and Exchange Commission.

Consequently, actual events affecting the Company and the impact of such events on the Company's operations may vary significantly from those described in this report or contemplated or implied by statements in this report. The Company does not undertake and specifically declines any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company does not typically utilize financial instruments for trading or other speculative purposes, nor does it typically utilize leveraged financial instruments. From time to time, the Company may consider derivative instruments such as interest rate swaps to manage its overall interest rate risk. There have been no material changes in the market risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended September 24, 2011.

**Table of Contents**

**Item 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the regulations of the Securities and Exchange Commission. Disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that the Company's system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

As required by Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation, under the supervision and with participation of its management including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of December 24, 2011, the end of the period covered by this report. In making this evaluation, it considered matters previously identified and disclosed in connection with the filing of its Form 10-K for fiscal 2011. After consideration of the matters discussed above, management has concluded that the Company's controls and procedures were effective as of December 24, 2011.

**(b) Changes in Internal Control over Financial Reporting**

The Company has set the timing and scope of its fiscal 2012 testing of internal controls over financial reporting and has begun performing tests for fiscal 2012.

No other change in internal control over financial reporting occurred during the Company's last fiscal quarter that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

## Part II. OTHER INFORMATION

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS  
ISSUER PURCHASES OF EQUITY SHARES**

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans to Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
First five weeks				
September 25, 2011 to October 29, 2011		\$		917,000
Second four weeks				
October 30, 2010 to November 26, 2011				917,000
Third four weeks				
November 27, 2011 to December 24, 2011	156,183	\$ 15.25	156,183	760,817
<b>Total</b>	<b>156,183</b>	<b>\$ 15.25</b>	<b>156,183</b>	<b>760,817</b>

- (1) The reported periods conform to the Company's fiscal calendar composed of twelve months ending on the last (or next to last during 53 week fiscal years) Saturday of each calendar month. The first quarter of fiscal 2012 contained 13 weeks.
- (2) Shares were purchased under a stock repurchase program authorized by the Board of Directors and announced on March 9, 2010. Under the program, up to one million shares of Class A Common Stock or Class B Common Stock may be repurchased. The program has no expiration date but may be terminated by the Board of Directors at any time.
- (3) Shares shown in this column reflect shares remaining under the one million share repurchase program referenced in Note (2) above.

**Item 6. EXHIBITS**

- (a) Exhibits.
  - 3.1 Articles of Incorporation of Ingles Markets, Incorporated (included as Exhibit 3.1 to Ingles Markets, Incorporated's Registration Statement on Form S-1, File No. 33-23919, previously filed with the Commission and incorporated herein by this reference).
  - 3.2 Articles of Amendment to Articles of Incorporation of Ingles Markets, Incorporated (included as Exhibit 3.3 to Ingles Markets, Incorporated's Annual Report on Form 10-K for the fiscal year ended September 25, 2004, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).
  - 3.3 Amended and Restated By-Laws of Ingles Markets, Incorporated (included as Exhibit 99.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on August 30, 2007 and incorporated herein by this reference).
  - 4.1 Articles 4 and 9 of the Articles of Incorporation of Ingles Markets, Incorporated (included as Exhibit 3.1 to Ingles Markets, Incorporated's Registration Statement on Form S-1, File No. 33-23919, and Exhibit 3.3 to Ingles Markets, Incorporated's Annual Report on Form 10-K for the fiscal year ended September 25, 2004, File No. 0-14706, respectively, each of which were previously filed with the Commission and are incorporated herein by this reference).
  - 4.2 Articles 2, 3, 10, 11 and 14 of the Amended and Restated By-Laws of Ingles Markets, Incorporated (included as Exhibit 99.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on August 30, 2007 and

## Edgar Filing: INGLES MARKETS INC - Form 10-Q

incorporated herein by this reference).

- 4.3 Indenture, dated as of May 12, 2009, between Ingles Markets, Incorporated and U.S. Bank, National Association, as Trustee, governing the 8 7/8% Senior Notes Due 2017, including the form of unregistered 8 7/8% Senior Note Due 2017 (included as Exhibit 4.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on May 15, 2009 and incorporated herein by this reference).
- 4.4 Registration Rights Agreement, dated May 12, 2009, among the Company and Banc of America Securities LLC, Wachovia Capital Markets, LLC and BB&T, a division of Scott & Stringfellow, LLC (included as Exhibit 4.3 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on May 15, 2009 and incorporated herein by this reference).
- 10.1 Exhibits and Schedules to Credit Agreement dated May 12, 2009, among the Company and the lenders party thereto, Bank of America, as administrative agent, swing line lender and l/c issuer, Branch Banking and Trust Company, as syndication agent, Wachovia Bank, National Association, as documentation agent, and Banc of America Securities LLC, Branch Banking and Trust Company and Wachovia Capital Markets, LLC, as joint lead arrangers and joint book managers (included as Exhibit 10.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on May 15, 2009 and incorporated herein by this reference).
- 10.2 Second Amendment to the Credit Agreement dated as of May 12, 2009, among the Company the lenders from time to time party thereto, Bank of America, N.A., as administrative agent, swing line lender and l/c issuer, and the other agents, joint lead arrangers and joint book managers party thereto (included as Exhibit 10.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on January 4, 2011 and incorporated herein by this reference).
- 10.3 Credit Agreement, dated May 12, 2009, among the Company and the lenders party thereto, Bank of America, as administrative agent, swing line lender and l/c issuer, Branch Banking and Trust Company, as syndication agent, Wachovia Bank, National Association, as documentation agent, and Banc of America Securities LLC, Branch Banking and Trust Company and Wachovia Capital Markets, LLC, as joint lead arrangers and book managers (included as Exhibit 10.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on May 15, 2009 and incorporated herein by this reference).
- 10.4 Exhibits and Schedules to Credit Agreement dated May 12, 2009, among the Company and the lenders party thereto, Bank of America, as administrative agent, swing line lender and l/c issuer, Branch Banking and Trust Company, as syndication agent, Wachovia Bank, National Association, as documentation agent, and Banc of America Securities LLC, Branch Banking and Trust Company and Wachovia Capital Markets, LLC, as joint lead arrangers and joint book managers (included as Exhibit 10.1 to Ingles Markets, Incorporated's Current Report on Form 8-K, File No. 0-14706, previously filed with the Commission on May 15, 2009 and incorporated herein by this reference).
- 31.1 Rule 13a-14(a) Certification
- 31.2 Rule 13a-14(a) Certification
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350
- 101 The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended December 24, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Interim Financial Statements.

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused the report to be signed on its behalf by the undersigned thereunto duly authorized.

INGLES MARKETS, INCORPORATED

Date: January 30, 2012

/s/ Robert P. Ingle, II  
Robert P. Ingle, II  
Chief Executive Officer

Date: January 30, 2012

/s/ Ronald B. Freeman  
Ronald B. Freeman  
Vice President-Finance and  
  
Chief Financial Officer