

INGLES MARKETS INC
Form 10-Q
May 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 28, 2015

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)

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

(828) 669-2941

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: INGLES MARKETS INC - Form 10-Q

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 May 4, 2015 the Registrant had 13,760,976 shares of Class A Common Stock, \$0.05 par value per share, outstanding and 6,498,800 shares of Class B Common Stock, \$0.05 par value per share, outstanding.

INGLES MARKETS, INCORPORATED

INDEX

	Page
	No.
 Part I — Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of March 28, 2015 and September 27, 2014	3
Condensed Consolidated Statements of Income for the Three Months Ended March 28, 2015 and March 29, 2014	4
Six Months Ended March 28, 2015 and March 29, 2014	5
Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended March 28, 2015 and March 29, 2014	6
Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 28, 2015 and March 29, 2014	7
Notes to Unaudited Interim Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	22
 Part II – Other Information	
Item 6. Exhibits	22
Signatures	25

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 28, 2015	September 27, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,684,175	\$ 8,613,628
Receivables - net	64,368,373	60,991,062
Inventories	337,056,383	329,523,604
Other current assets	15,286,536	14,789,004
Total Current Assets	425,395,467	413,917,298
Property and Equipment – Net	1,208,453,632	1,218,607,029
Other Assets	24,391,182	24,427,237
Total Assets	\$ 1,658,240,281	\$ 1,656,951,564
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 13,939,858	\$ 12,488,400
Accounts payable - trade	157,556,951	167,314,891
Accrued expenses and current portion of other long-term liabilities	60,464,274	70,944,728
Total Current Liabilities	231,961,083	250,748,019
Deferred Income Taxes	73,865,000	70,040,000
Long-Term Debt	914,597,118	924,771,343
Other Long-Term Liabilities	32,359,706	28,790,035
Total Liabilities	1,252,782,907	1,274,349,397
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; 13,760,083 shares issued and outstanding March 28, 2015; 13,540,333 shares issued and outstanding at September 27, 2014	688,004	677,017
Class B, convertible to Class A, \$0.05 par value; 100,000,000 shares authorized; 6,499,693 shares issued and outstanding March 28, 2015; 6,719,443 shares	324,985	335,972

Edgar Filing: INGLES MARKETS INC - Form 10-Q

issued and outstanding at September 27, 2014

Paid-in capital in excess of par value	12,311,249	12,311,249
Retained earnings	392,133,136	369,277,929
Total Stockholders' Equity	405,457,374	382,602,167
Total Liabilities and Stockholders' Equity	\$ 1,658,240,281	\$ 1,656,951,564

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net sales	\$ 915,334,689	\$ 947,760,587
Cost of goods sold	696,643,697	741,636,640
Gross profit	218,690,992	206,123,947
Operating and administrative expenses	185,578,000	178,402,604
Gain from sale or disposal of assets	521,222	83,283
Income from operations	33,634,214	27,804,626
Other income, net	563,966	737,862
Interest expense	11,577,970	11,698,560
Income before income taxes	22,620,210	16,843,928
Income tax expense	8,318,000	6,389,000
Net income	\$ 14,302,210	\$ 10,454,928
Per share amounts:		
Class A Common Stock		
Basic earnings per common share	\$ 0.72	\$ 0.47
Diluted earnings per common share	\$ 0.71	\$ 0.46
Class B Common Stock		
Basic earnings per common share	\$ 0.66	\$ 0.43
Diluted earnings per common share	\$ 0.66	\$ 0.43
Cash dividends per common share		
Class A Common Stock	\$ 0.165	\$ 0.165
Class B Common Stock	\$ 0.150	\$ 0.150

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Six Months Ended	
	March 28, 2015	March 29, 2014
Net sales	\$ 1,879,831,524	\$ 1,892,885,457
Cost of goods sold	1,436,747,974	1,483,255,844
Gross profit	443,083,550	409,629,613
Operating and administrative expenses	372,556,852	355,832,785
Gain from sale or disposal of assets	639,004	208,156
Income from operations	71,165,702	54,004,984
Other income, net	1,126,726	1,577,865
Interest expense	23,600,880	23,480,791
Income before income taxes	48,691,548	32,102,058
Income tax expense	19,351,000	12,114,000
Net income	\$ 29,340,548	\$ 19,988,058
Per share amounts:		
Class A Common Stock		
Basic earnings per common share	\$ 1.49	\$ 0.91
Diluted earnings per common share	\$ 1.45	\$ 0.88
Class B Common Stock		
Basic earnings per common share	\$ 1.36	\$ 0.83
Diluted earnings per common share	\$ 1.36	\$ 0.83
Cash dividends per common share		
Class A Common Stock	\$ 0.33	\$ 0.33
Class B Common Stock	\$ 0.30	\$ 0.30

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

SIX MONTHS ENDED MARCH 28, 2015 AND MARCH 29, 2014

	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 28, 2013	13,437,975	\$ 671,899	9,321,801	\$ 466,090	\$ 77,186,249	\$ 332,315,037	\$ 410,639,275
Net income	—	—	—	—	—	19,988,058	19,988,058
Cash dividends	—	—	—	—	—	(7,231,123)	(7,231,123)
Common stock conversions	30,562	1,528	(30,562)	(1,528)	—	—	—
Balance, March 29, 2014	13,468,537	\$ 673,427	9,291,239	\$ 464,562	\$ 77,186,249	\$ 345,071,972	\$ 423,396,210
Balance, September 27, 2014	13,540,333	\$ 677,017	6,719,443	\$ 335,972	\$ 12,311,249	\$ 369,277,929	\$ 382,602,167
Net income	—	—	—	—	—	29,340,548	29,340,548
Cash dividends	—	—	—	—	—	(6,485,341)	(6,485,341)
Common stock conversions	219,750	10,987	(219,750)	(10,987)	—	—	—
Balance, March 28, 2015	13,760,083	\$ 688,004	6,499,693	\$ 324,985	\$ 12,311,249	\$ 392,133,136	\$ 405,457,374

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	March 28, 2015	March 29, 2014
Cash Flows from Operating Activities:		
Net income	\$ 29,340,548	\$ 19,988,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	50,898,628	48,113,901
Gain from sale or disposal of assets	(639,004)	(208,156)
Receipt of advance payments on purchases contracts	3,518,251	2,516,458
Recognition of advance payments on purchases contracts	(2,298,705)	(1,632,251)
Deferred income taxes	3,825,000	(3,271,000)
Changes in operating assets and liabilities:		
Receivables	(3,006,991)	(4,994,302)
Inventory	(7,532,779)	(3,732,015)
Other assets	(317,709)	2,064,706
Accounts payable and accrued expenses	(14,886,343)	(8,095,489)
Net Cash Provided by Operating Activities	58,900,896	50,749,910
Cash Flows from Investing Activities:		
Proceeds from sales of property and equipment	674,380	200,804
Capital expenditures	(44,296,622)	(51,838,307)
Net Cash Used by Investing Activities	(43,622,242)	(51,637,503)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	398,870,522	297,451,513
Payments on short-term borrowings	(399,108,140)	(297,451,513)
Proceeds from other long-term borrowings	—	14,000,000
Principal payments on long-term borrowings	(8,485,148)	(15,337,958)
Dividends paid	(6,485,341)	(7,231,123)
Net Cash Used by Financing Activities	(15,208,107)	(8,569,081)
Net Increase (Decrease) in Cash and Cash Equivalents	70,547	(9,456,674)
Cash and cash equivalents at beginning of period	8,613,628	16,844,007
Cash and Cash Equivalents at End of Period	\$ 8,684,175	\$ 7,387,333

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

Six Months Ended March 28, 2015 and March 29, 2014

A. BASIS OF PREPARATION

In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments necessary to present fairly the financial position of Ingles Markets, Incorporated and Subsidiaries (the "Company") as of March 28, 2015, the results of operations for the three-month and six-month periods ended March 28, 2015 and March 29, 2014, and the changes in stockholders' equity and cash flows for the six-month periods ended March 28, 2015 and March 29, 2014. 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 27, 2014 filed by the Company under the Securities Exchange Act of 1934 on December 16, 2014.

The results of operations for the three-month and six-month periods ended March 28, 2015 are not necessarily indicative of the results to be expected for the full fiscal year.

B. NEW ACCOUNTING PRONOUNCEMENTS

There were no new accounting standards adopted in the six-month period ended March 28, 2015.

C. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are presented net of an allowance for doubtful accounts of \$527,000 at March 28, 2015 and \$307,000 at September 27, 2014, respectively.

D. INCOME TAXES

The Company's effective tax rate differs from the federal statutory rate primarily as a result of state income taxes and tax credits.

The Company has unrecognized tax benefits and could also incur interest and penalties related to uncertain tax positions. The amounts are not material and are not expected to 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 federal and state income tax examinations by tax authorities for the years before 2011.

On September 13, 2013, the IRS released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code regarding the deduction and capitalization of expenditures related to tangible property as well as dispositions of tangible property. These regulations are effective for the Company's fiscal year ending September 26, 2015. The Company has determined that the regulations do not have a material impact on the Company's consolidated results of operations, cash flows or financial position.

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:

	March 28, 2015	September 27, 2014
Property, payroll and other taxes payable	\$ 10,366,402	\$ 16,469,128
Salaries, wages and bonuses payable	22,156,139	25,514,842
Self-insurance liabilities	11,005,845	12,934,920
Interest payable	12,793,594	12,676,648
Other	4,142,294	3,349,190
	\$ 60,464,274	\$ 70,944,728

Self-insurance liabilities are established for general liability claims, workers' compensation 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. At March 28, 2015, the Company's self-insurance reserves totaled \$30.3 million. Of this amount, \$11.0 million is accounted for as a current liability and \$19.3 million as a long-term liability. Employee insurance expense, including workers' compensation and medical care benefits, net of employee contributions, totaled \$8.6 million and \$5.8 million for each of the three-month periods ended March 28, 2015 and March 29, 2014, respectively. For the six-month periods ended March 28, 2015 and March 29, 2014, employee insurance expense, net of employee contributions, totaled \$16.3 million and \$12.0 million, respectively.

F. LONG-TERM DEBT

In June 2013, the Company issued \$700.0 million aggregate principal amount of senior notes due in 2023 (the "Notes") in a private placement. The Notes bear an interest rate of 5.750% per annum and were issued at par. Note proceeds were used to repay \$575.0 million aggregate principal amount of senior notes maturing in 2017, \$52.0 million of indebtedness outstanding under the Company's line of credit, and to pay costs related to the offering of the Notes. Remaining Note proceeds were used for general corporate purposes, including future capital expenditures.

The Company filed a registration statement with the Securities and Exchange Commission to exchange the private placement notes with registered notes. The exchange has been completed.

The Company may redeem all or a portion of the Notes at any time on or after June 15, 2018 at the following redemption prices (expressed as percentages of the principal amount), if redeemed during the 12-month period beginning June 15 of the years indicated below:

Year	
2018	102.875%
2019	101.917%
2020	100.958%
2021 and thereafter	100.000%

In connection with the offering of the Notes, the Company extended the maturity date of its \$175.0 million line of credit from December 29, 2015 to June 12, 2018 and modified certain interest rate options and covenants. Outstanding borrowings under the line of credit totaled \$29.7 million at March 28, 2015 and \$29.9 million at September 27, 2014.

The line of credit provides the Company with various interest rate options based on the prime rate, the Federal Funds Rate, or the London Interbank Offering Rate. The line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$10.3 million of unused letters of credit were issued at March 28, 2015. 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 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 would hold the Bonds until January 2, 2018, subject to certain events. Mandatory redemption of the Bonds by the Company in the annual amount of \$4.5 million began on January 1, 2014.

In connection with the offering of the Notes, the Company extended the maturity date of the Covenant Agreement from January 2, 2018 to June 30, 2021 and modified certain interest rate options and covenants. The Company may redeem the Bonds without penalty or premium at any time prior to June 30, 2021.

Interest earned by bondholders on the Bonds is exempt from Federal and North Carolina income taxation. 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 was 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.

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 related to its borrowings at March 28, 2015.

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, Bond and Notes indenture in the event of default under any one instrument.

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 23, 2014 to stockholders of record on October 9, 2014.

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 January 22, 2015 to stockholders of record on January 8, 2015.

For additional information regarding the dividend rights of the Class A Common Stock and Class B Common Stock, please see Note 8, "Stockholders' Equity" to the Consolidated Financial Statements of the Annual Report on Form 10-K filed by the Company under the Securities Exchange Act of 1934 on December 16, 2014.

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 paid on Class B Common Stock.

The Company calculates earnings per share using the two-class method in accordance with 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

Edgar Filing: INGLES MARKETS INC - Form 10-Q

percentage which reflects the dividend rights of each class of stock. Diluted earnings per share is calculated assuming 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 March 28, 2015		Six Months Ended March 28, 2015	
	Class A	Class B	Class A	Class B
Numerator: Allocated net income				
Net income allocated, basic	\$ 9,917,366	\$ 4,384,844	\$ 20,283,204	\$ 9,057,344
Conversion of Class B to Class A shares	4,384,844	—	9,057,344	—
Net income allocated, diluted	\$ 14,302,210	\$ 4,384,844	\$ 29,340,548	\$ 9,057,344
Denominator: Weighted average shares outstanding				
Weighted average shares outstanding, basic	13,653,154	6,606,622	13,598,039	6,661,737
Conversion of Class B to Class A shares	6,606,622	—	6,661,737	—
Weighted average shares outstanding, diluted	20,259,776	6,606,622	20,259,776	6,661,737
Earnings per share				
Basic	\$ 0.72	\$ 0.66	\$ 1.49	\$ 1.36
Diluted	\$ 0.71	\$ 0.66	\$ 1.45	\$ 1.36

Edgar Filing: INGLES MARKETS INC - Form 10-Q

The per share amounts for the second quarter of fiscal 2014 and the six months ended March 29, 2014 are based on the following amounts:

	Three Months Ended March 29, 2014		Six Months Ended March 29, 2014	
	Class A	Class B	Class A	Class B
Numerator: Allocated net income				
Net income allocated, basic	\$ 6,417,400	\$ 4,037,528	\$ 12,263,861	\$ 7,724,197
Conversion of Class B to Class A shares	4,037,528	—	7,724,197	—
Net income allocated, diluted	\$ 10,454,928	\$ 4,037,528	\$ 19,988,058	\$ 7,724,197
Denominator: Weighted average shares outstanding				
Weighted average shares outstanding, basic	13,456,262	9,303,514	13,447,893	9,311,883
Conversion of Class B to Class A shares	9,303,514	—	9,311,883	—
Weighted average shares outstanding, diluted	22,759,776	9,303,514	22,759,776	9,311,883
Earnings per share				
Basic	\$ 0.47	\$ 0.43	\$ 0.91	\$ 0.83
Diluted	\$ 0.46	\$ 0.43	\$ 0.88	\$ 0.83

I. SEGMENT INFORMATION

The Company operates one primary business segment, retail grocery sales. The “Other” activities include fluid dairy and shopping center rentals. Information about the Company’s operations by lines of business (amounts in thousands) is as follows:

	Three Months Ended		Six Months Ended	
	March 28, 2015	March 29, 2014	March 28, 2015	March 29, 2014
Revenues from unaffiliated customers:				
Grocery sales	\$ 879,838	\$ 908,448	\$ 1,805,840	\$ 1,818,534
Other	35,496	39,313	73,992	74,351

Edgar Filing: INGLES MARKETS INC - Form 10-Q

Total revenues from unaffiliated customers	\$ 915,335	\$ 947,761	\$ 1,879,832	\$ 1,892,885
Income from operations:				
Grocery sales	\$ 29,598	\$ 24,284	\$ 64,575	\$ 48,449
Other	4,036	3,521	6,591	5,556
Total income from operations	\$ 33,634	\$ 27,805	\$ 71,166	\$ 54,005

	March 28, 2015	September 27, 2014
Assets:		
Grocery sales	\$ 1,515,901	\$ 1,515,055
Other	144,008	144,667
Elimination of intercompany receivable	(1,669)	(2,770)
Total assets	\$ 1,658,240	\$ 1,656,952

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

	Three Months Ended		Six Months Ended	
	March 28, 2015	March 29, 2014	March 28, 2015	March 29, 2014
Grocery	\$ 348,269	\$ 355,658	\$ 706,585	\$ 714,557
Non-foods	185,428	176,580	375,576	358,454
Perishables	241,002	230,450	480,613	457,052
Gasoline	105,139	145,760	243,066	288,471
Total grocery segment	\$ 879,838	\$ 908,448	\$ 1,805,840	\$ 1,818,534

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

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

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

The gasoline category includes car wash sales.

For the three-month periods ended March 28, 2015 and March 29, 2014, respectively, the fluid dairy operation had \$12.4 million and \$15.3 million in sales to the grocery sales segment. The fluid dairy operation had \$27.0 million and \$30.1 million in sales to the grocery sales segment for the six-month periods ended March 28, 2015 and March 29, 2014, respectively. These sales have been eliminated in consolidation.

J. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments.

The fair value of the Company's debt is estimated using valuation techniques under the accounting guidance related to fair value measurements based on observable and unobservable inputs. Observable inputs reflect readily available data from independent sources, while unobservable inputs reflect the Company's market assumptions. These inputs are classified into the following hierarchy:

Level 1 Quoted prices for identical assets or liabilities in active markets.

Inputs –

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets

Inputs – or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Pricing inputs are unobservable for the assets or liabilities and include situations where there is little, if any,

Inputs – market activity for the assets or liabilities. The inputs into the determination of fair value require significant management judgment or estimation.

The carrying amount and fair value of the Company's debt at March 28, 2015 is as follows (in thousands):

	Carrying Amount	Fair Value	Fair Value Measurements
Senior Notes	\$ 700,000	\$ 722,750	Level 2
Facility Bonds	90,680	90,680	Level 2
Real estate and equipment notes payable	108,185	108,240	Level 2
Line of credit payable	29,672	29,672	Level 2
Total debt	\$ 928,537	\$ 951,342	

The fair values for Level 2 measurements were determined primarily using market yields and taking into consideration the underlying terms of the debt.

K. NONQUALIFIED INVESTMENT PLAN

The purpose of the Executive Nonqualified Excess Plan is to provide retirement benefits similar to the Company's Investment/Profit Sharing Plan to certain of the Company's management employees who are otherwise subject to limited participation in the 401(k) feature of the Company's Investment/Profit Sharing Plan. Participant retirement account balances are liabilities of the Company. Assets of the plan are assets of the Company and are held in trust for employees and distributed upon retirement, death, disability, in-service distributions, or other termination of employment. In accordance with the trust, the Company may not use these assets for general corporate purposes. During the six months ended March 28, 2015 and March 29, 2014, the Company invested a portion of the proceeds of liquidated life insurance policy assets in marketable securities. These marketable securities will be liquidated and invested in other life insurance policies in future periods. Life insurance policies and marketable securities held in the trust are included in the caption "Other assets" in the Condensed Consolidated Balance Sheets.

L. 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 issued.

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

Overview

Ingles, a leading supermarket chain in the Southeast, operates 202 supermarkets in Georgia (71), North Carolina (71), 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 fuel centers, pharmacies, health and beauty care products and general merchandise. In addition, the Company focuses on selling high-growth, high-margin products to its customers through the development of certified organic products, bakery departments and prepared foods including delicatessen sections. As of March 28, 2015, the Company operated 97 in-store pharmacies and 85 fuel centers.

Ingles also operates a fluid dairy and earns shopping center rentals. The fluid dairy processing operation sells approximately 28% of its products to the retail grocery segment and approximately 72% of its products to third parties. Real estate ownership 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 March 28, 2015, the Company's self-insurance reserves totaled \$30.3 million for employee group insurance, workers' compensation insurance and general liability insurance.

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 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 six-month period ended March 28, 2015.

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 \$28.4 million and \$32.3 million for the fiscal quarters ended March 28, 2015 and March 29, 2014, respectively. For the six-month periods ended March 28, 2015 and March 29, 2014, vendor allowances applied as a reduction of merchandise costs totaled \$60.6 million and \$63.8 million, 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 in which the related expense is incurred. Vendor advertising allowances recorded as a reduction of advertising expense totaled \$3.4 million and \$3.5 million for the fiscal quarters ended March 28, 2015 and March 29, 2014, respectively. For the six-month periods ended March 28, 2015 and March 29, 2014, vendor advertising allowances recorded as a reduction of advertising expense totaled \$7.5 million and \$7.4 million, 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 provisions for and changes to uncertain tax positions as the Company considers appropriate. 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. There are 13 and 26 weeks of operations included in the Unaudited Condensed Consolidated Statements of Income for the three- and six-month periods ended March 28, 2015 and March 29, 2014, respectively. Comparable store sales are defined as sales by grocery stores in operation for five full fiscal quarters. 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- and six-month periods ended March 28, 2015 and March 29, 2014, comparable store sales include 201 and 202 stores, respectively.

Edgar Filing: INGLES MARKETS INC - Form 10-Q

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 “Segment Information” to the Unaudited Condensed Consolidated Financial Statements.

	Three Months Ended				Six Months Ended			
	March 28, 2015		March 29, 2014		March 28, 2015		March 29, 2014	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	23.9	%	21.7	%	23.6	%	21.6	%
Operating and administrative expenses	20.2	%	18.8	%	19.8	%	18.8	%
Income from operations	3.7	%	2.9	%	3.8	%	2.8	%
Other income, net	0.1	%	0.1	%	0.1	%	0.1	%
Interest expense	1.3	%	1.2	%	1.3	%	1.2	%
Income tax expense	0.9	%	0.7	%	1.0	%	0.6	%
Net income	1.6	%	1.1	%	1.6	%	1.1	%

Three Months Ended March 28, 2015 Compared to the Three Months Ended March 29, 2014

Net income for the second quarter of fiscal 2015 totaled \$14.3 million, compared with net income of \$10.5 million earned for the second quarter of fiscal 2014. Dollar sales (excluding gasoline) increased and overall gross margin (including gasoline) increased. The resulting gross profit dollars increase more than offset increases in operating expenses.

Net Sales. Because of decreases in retail gasoline prices, net sales decreased by \$32.5 million, or 3.4% to \$915.3 million for the three months ended March 28, 2015 from \$947.8 million for the three months ended March 29, 2014. Comparing the second quarter of fiscal 2015 with the second quarter of fiscal 2014, gasoline sales dollars decreased 28.0% due to a 34.8% decrease in the average sales price per gallon. Gallons sold increased 10.4% over the same comparable periods. Excluding gasoline sales, total grocery comparable store sales increased 1.2% over the comparative fiscal second quarters. Comparing the second quarters of fiscal year 2015 and 2014 (and excluding gasoline), the number of customer transactions decreased 0.7% and the average transaction size increased 3.2%. Ingles operated 202 stores at March 28, 2015 and 203 stores at March 29, 2014. Retail square footage totaled 11.1 million at March 28, 2015 and March 29, 2014. During the twelve months ended March 28, 2015, the Company opened one new store and closed two stores.

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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Grocery	\$ 348,269	\$ 355,658
Non-foods	185,428	176,580
Perishables	241,002	230,450
Gasoline	105,139	145,760
Total grocery segment	\$ 879,838	\$ 908,448

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.

The gasoline category includes car wash sales.

Edgar Filing: INGLES MARKETS INC - Form 10-Q

Changes in grocery segment sales for the quarter ended March 28, 2015 are summarized as follows (in thousands):

Total grocery sales for the three months ended March 29, 2014	\$ 908,448
Comparable store sales decrease (including gasoline)	(32,625)
Impact of stores opened in fiscal 2014	5,952
Impact of stores closed in fiscal 2014	(1,848)
Other	(89)
Total grocery sales for the three months ended March 28, 2015	\$ 879,838

Gross Profit. Gross profit for the three-month period ended March 28, 2015 increased \$12.6 million, or 6.1%, to \$218.7 million, or 23.9% of sales, compared with gross profit \$206.1 million, or 21.7% of sales, for the three-month period ended March 29, 2014.

Excluding gasoline sales, grocery segment gross profit as a percentage of sales was increased 47 basis points comparing the second quarter of fiscal 2015 compared with the same fiscal 2014 period. Gasoline gross profit dollars were higher for the quarter ended March 28, 2015 compared with the quarter ended March 29, 2014.

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. The Fluid dairy is a manufacturing process; therefore, the costs mentioned above as well as purchasing, production costs, and internal transfer costs incurred by the fluid dairy processing operation are included in the cost of goods sold line item, while these items are included in operating and administrative expenses in the grocery segment.

Operating and Administrative Expenses. Operating and administrative expenses increased \$7.2 million, or 4.0%, to \$185.6 million for the three months ended March 28, 2015, from \$178.4 million for the three months ended March 29, 2014. As a percentage of sales, operating and administrative expenses were 20.2% for the three months ended March 28, 2015 compared with 18.8% for the three months ended March 29, 2014. Excluding gasoline sales and associated gasoline operating expenses (primarily payroll), operating expenses were 22.7% of sales for the second fiscal 2015 quarter and 22.1% for the second fiscal 2014 quarter.

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

	Increase (Decrease) in millions	Increase (Decrease) as a % of sales	
Salaries and wages	\$ 4.2	0.45	%
Insurance	\$ 2.5	0.27	%
Depreciation and amortization	\$ 1.1	0.12	%
Advertising and promotion	\$ (1.0)	(0.11)	%

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

Insurance expense increased due to higher claims under the Company's self-insurance programs.

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

Advertising and promotional expense decreased due to lower production and distribution costs and greater vendor participation in promotional activities.

Interest Expense. Interest expense decreased \$0.1 million for the three-month period ended March 28, 2015 to \$11.6 million from \$11.7 million for the three-month period ended March 29, 2014. The decrease is attributable to the lower interest rates, partially offset by higher total debt. Total debt at March 2015 was \$928.5 million compared with \$911.1 million at March 2014.

Income Taxes. Income tax expense as a percentage of pre-tax income was 36.8% for the quarter ended March 28, 2015 compared with 37.9% for the quarter ended March 29, 2014.

Net Income. Net income totaled \$14.3 million for the three-month period ended March 28, 2015 compared with \$10.5 million for the three-month period ended March 29, 2014. Net income, as a percentage of sales, was 1.6% for the quarter ended March 28, 2015 and 1.1% for the quarter ended March 29, 2014. Basic and diluted earnings per share for Class A Common Stock were \$0.72 and \$0.71, respectively, for the quarter ended March 28, 2015 compared to \$0.47 and \$0.46, respectively, for the quarter ended March 29, 2014. Basic and diluted earnings per share for Class B Common Stock were each \$0.66 for the quarter ended March 28, 2015 compared to \$0.43 of basic and diluted earnings per share for the quarter ended March 29, 2014.

Six Months Ended March 28, 2015 Compared to the Six Months Ended March 29, 2014

Net income for the first half of fiscal 2015 totaled \$29.3 million compared with net income of \$20.0 million earned for the comparable fiscal 2014 period. Dollar sales (excluding gasoline) increased and overall gross margin (including gasoline) increased. The resulting gross profit dollars increase more than offset increases in operating expenses.

Net Sales. Because of decreases in retail gasoline prices, net sales decreased by \$13.1 million to \$1.88 billion for the six months ended March 28, 2015 from \$1.89 billion for the six months ended March 29, 2014. Excluding gasoline, total sales increased 2.0% over the comparative six month 2015 and 2014 periods.

Grocery segment comparable store sales, excluding the effect of gasoline increased 1.8%. The number of customer transactions (excluding gasoline) decreased 0.6%, while the average transaction size (excluding gasoline) increased by 2.7%.

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

	Six Months Ended	
	March 28, 2015	March 29, 2014
Grocery	\$ 706,585	\$ 714,557
Non-foods	375,576	358,454
Perishables	480,613	457,052
Gasoline	243,066	288,471
Total grocery segment	\$ 1,805,840	\$ 1,818,534

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.

The gasoline category includes car wash sales.

Changes in grocery segment sales for the six months ended March 28, 2015 are summarized as follows (in thousands):

Total grocery sales for the six months ended March 29, 2014	\$ 1,818,534
Comparable store sales decrease (including gasoline)	(21,617)
Impact of stores opened in fiscal 2014	12,811
Impact of stores closed in fiscal 2014	(3,761)
Other	(127)
Total grocery sales for the six months ended March 28, 2015	\$ 1,805,840

Sales growth for the remainder of fiscal 2015 will depend upon the pace of economic improvement, inflation and market prices for gasoline and raw milk. In addition to a new store that opened in September 2014, the Company expects that the maturation of previous new and expanded stores will contribute to sales growth. The Company continues to remodel existing stores in order to increase sales and gross profit at a lower cost than additional square footage.

Gross Profit. Gross profit for the six months ended March 28, 2015 increased \$33.5 million, or 8.2%, to \$443.1 million compared with \$409.6 million, for the six months ended March 29, 2014. As a percent of sales, gross profit was 23.6% for the six months ended March 28, 2015 compared with 21.6% for the six months ended March 29, 2014.

Excluding gasoline sales, grocery segment gross profit as a percentage of sales increased 52 basis points comparing the first half of fiscal 2015 compared with the same fiscal 2014 period. Gasoline gross profit dollars were higher for the six months ended March 28, 2015 compared with the six months ended March 29, 2014.

Edgar Filing: INGLES MARKETS INC - Form 10-Q

Operating and Administrative Expenses. Operating and administrative expenses increased \$16.7 million to \$372.5 million for the six months ended March 28, 2015, from \$355.8 million for the six months ended March 29, 2014. As a percentage of sales, operating and administrative expenses were 19.8% for the six-month period ended March 28, 2015 compared with 18.8% for the six-month period ended March 29, 2014. Excluding gasoline sales and associated gasoline operating expenses (primarily payroll), operating expenses were level at 22.6% of sales for the fiscal 2015 six month period compared with 22.0% for the first six months of fiscal 2014.

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

	Increase (Decrease) in millions	Increase (Decrease) as a % of sales	
Salaries and wages	\$ 8.3	0.44	%
Insurance expenses	\$ 4.0	0.21	%
Depreciation and amortization	\$ 2.2	0.12	%
Advertising and promotion	\$ (1.4)	(0.07)	%

Salaries and wages increased in dollars due to additional labor hours required for the increased non-gasoline sales volume.

Insurance expense increased due to higher claims under the Company's self-insurance programs.

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

Advertising and promotional expense decreased due to lower production and distribution costs and greater vendor participation in promotional activities.

Interest Expense. Interest expense was substantially level at \$23.6 million for the six-month period ended March 28, 2015 compared with \$23.5million for the six-month period ended March 29, 2014.

Income Taxes. Income tax expense as a percentage of pre-tax income increased to 39.7 % for the six-month period ended March 28, 2015 compared to 37.7% for the six-month period ended March 29, 2014. The higher effective tax

rate for the fiscal 2015 six-month period is attributable to certain discrete items which are not expected to recur in future periods.

Net Income. Net income totaled \$29.3 million for the six-month period ended March 28, 2015 compared with \$20.0 million for the six-month period ended March 29, 2014. Net income, as a percentage of sales, was 1.6% for the six months ended March 28, 2015 compared with 1.1% for the six months ended March 29, 2014. Basic and diluted earnings per share for Class A Common Stock were \$1.49 and \$1.45, respectively, for the six months ended March 28, 2015 compared to \$0.91 and \$0.88, respectively, for the six months ended March 29, 2014. Basic and diluted earnings per share for Class B Common Stock were each \$1.36 for the six months ended March 28, 2015 compared to \$0.83 of basic and diluted earnings per share for the six months ended March 29, 2014.

Liquidity and Capital Resources

Capital Expenditures

The Company believes that a key to its ability to continue to develop a loyal customer base is providing conveniently located, clean and modern stores that provide customers with good service and a broad selection of competitively priced products. Therefore, 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 remodels and expansion of selected existing stores, and the relocation of selected existing stores to larger, more convenient locations. The Company will also add fuel centers, pharmacies and other products complementary to grocery sales where market conditions and real estate considerations warrant.

Capital expenditures totaled \$44.3 million for the six-month period ended March 28, 2015. Most of these capital expenditures were related to smaller-scale remodeling projects in a number of the Company's stores. 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 in fiscal 2015 or 2016.

Ingles' capital expenditure plans for fiscal 2015 include investments of approximately \$100 to \$140 million. The majority of the Company's fiscal 2015 capital expenditures will be dedicated to continued improvement of its store base and also include investments

in stores expected to open in fiscal 2015 or 2016 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 \$100 to \$160 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 and major remodel/expansions. 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 March 28, 2015 totaled \$4.9 million.

Liquidity

The Company generated net cash from operations of \$58.9 million for the six months ended March 28, 2015 compared to \$50.7 million for the comparable 2014 period. Most of the change is attributable to increased net income and to changes in working capital requirements over the comparative six-month periods.

Cash used by investing activities for the six-month period ended March 28, 2015 totaled \$43.6 million, comprised almost entirely of capital expenditures.

Cash used by financing activities during the six-month period ended March 28, 2015 totaled \$15.2 million. The primary components were net debt repayments of \$8.7 million and dividends of \$6.5 million.

In June 2013, the Company issued \$700.0 million aggregate principal amount of senior notes due in 2023 (the "Notes") in a private placement. The Notes bear an interest rate of 5.750% per annum and were issued at par. Note proceeds were used to repay \$575.0 million aggregate principal amount of senior notes maturing in 2017, \$52.0 million of indebtedness outstanding under the Company's line of credit, and pay costs related to the offering of the Notes. Remaining Note proceeds were used for general corporate purposes, including capital expenditures. The Company's effective interest rate on senior notes borrowings decreased from 9.5% to 5.75%.

In connection with the offering of the Notes, the Company extended the maturity date of its \$175.0 million line of credit from December 29, 2015 to June 12, 2018 and modified certain interest rate options and covenants. At March 28, 2015, the Company had \$29.7 million outstanding under the line of credit.

The line of credit provides the Company with various interest rate options based on the prime rate, the Federal Funds Rate, or the London Interbank Offering Rate. The line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$10.3 million of unused letters of credit were issued at March 28, 2015. The Company is not required to maintain compensating balances in connection with this 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 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.

Under a Continuing Covenant and Collateral Agency Agreement (the “Covenant Agreement”) between certain financial institutions and the Company, the financial institutions would hold the Bonds until January 2, 2018, subject to certain events. Mandatory redemption of the Bonds by the Company in the annual amount of \$4.5 million began on January 1, 2014.

In connection with the offering of the Notes, the Company extended the maturity date of the Covenant Agreement from January 2, 2018 to June 30, 2021 and modified certain interest rate options and covenants. The Company may redeem the Bonds without penalty or premium at any time prior to June 30, 2021.

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, Bond and Notes indenture in the event of default under any one instrument.

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 March 28, 2015, the Company was in compliance with these covenants.

Under the most restrictive of these covenants, the Company would be able to incur approximately \$362 million of additional borrowings (including borrowings under the line of credit) as of March 28, 2015.

The Company's principal sources of liquidity are expected to be cash flow from operations, borrowings under the line of credit and long-term financing. 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, 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 27, 2014 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.

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, the Bonds, 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 due to 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 our market area. The fluid dairy operation of the Company's business has slight seasonal variation to the extent of its sales into the grocery industry. The Company's real estate operation is not subject to seasonal variations.

Impact of Inflation

The following table from the United States Bureau of Labor Statistics lists 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 or deflation in energy costs affects the Company's gasoline sales, distribution expenses, utility expenses and plastic supply costs.

	Six Months Ended			
	March		March	
	28,		29,	
	2015		2014	
All items	(0.8)	%	0.1	%
Food and beverages	0.6	%	0.1	%
Energy	(17.6)	%	(0.2)	%

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 words “expect”, “anticipate”, “intend”, “plan”, “likely”, “goal”, “believe”, and similar expressions are intended 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; reduction in per gallon retail gasoline prices; the maturation of new and expanded stores; 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 changes in accounting policies, standards, guidelines or principles as may be adopted by regulatory agencies as well as the Financial Accounting Standards Board.

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 denies any obligation to update any such statements or to publicly announce the results of any revisions to any 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. 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 27, 2014.

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 SEC Rule 13a-15(b), 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 March 28, 2015, 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 2014. After consideration of the matters discussed above, the Company has concluded that its controls and procedures were effective at a reasonable assurance level as of March 28, 2015.

(b) Changes in Internal Control over Financial Reporting

The Company is currently performing tests of internal controls over financial reporting performing tests for fiscal year 2015.

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.

In May 2013, COSO issued its Internal Control – Integrated Framework (the “2013 Framework”). While the 2013 Framework's internal control components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring activities) are the same as those in the 1992 Framework, the new framework requires companies to assess whether 17 principles are present and functioning in determining whether their system of internal control is effective. The Company will adopt the 2013 Framework during the year ending September 26, 2015.

Part II. Other Information

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 Articles of Amendment to Articles of Incorporation of Ingles Markets, Incorporated dated April 23, 2012 (included as Exhibit 3.3 to Ingles Markets, Incorporated Quarterly Report on Form 10-Q for the fiscal quarter ended March 24, 2012, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).

3.4 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

22

Edgar Filing: INGLES MARKETS INC - Form 10-Q

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 incorporated herein by this reference).

4.3 Indenture, dated as of June 12, 2013, between Ingles Markets, Incorporated and Branch Banking and Trust Company, as Trustee, governing the 5.75% Senior Notes Due 2023, including the form of unregistered 5.75% Senior Note Due 2023 (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 June 12, 2013 and incorporated herein by this reference).

4.4 Registration Rights Agreement, dated June 12, 2013, among the Company and Merrill Lynch, Pierce, Fenner and Smith Incorporated, Wells Fargo Securities, LLC, BB&T Capital Markets, a division of BB&T Securities, LLC and SunTrust Robinson Humphrey, Inc. (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 June 12, 2013 and incorporated herein by this reference).

10.1 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).

10.2 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).

10.3 Waiver and First Amendment to the Credit Agreement dated as of July 31, 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 10.3 to Ingles Markets, Incorporated's Annual Report on Form 10-K for the fiscal year ended September 29, 2012, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).

10.4Second Amendment to the Credit Agreement dated as of December 29, 2010, 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).

10.5Third Amendment to the Credit Agreement dated as of September 6, 2012, 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 10.5 to Ingles Markets, Incorporated's Annual Report on Form 10-K for the fiscal year ended September 29, 2012, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).

10.6Fourth Amendment to the Credit Agreement dated as of June 12, 2013, 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 10.6 to Ingles Markets, Incorporated's Quarterly Report on Form 10-Q for the quarter ended December 28, 2013, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).

10.7Fifth Amendment to the Credit Agreement dated as of January 31, 2014, 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 10.7 to Ingles Markets, Incorporated's Quarterly Report on Form 10-Q for the quarter ended December 28, 2013, File No. 0-14706, previously filed with the Commission and incorporated herein by this reference).

10.8Sixth Amendment to the Credit Agreement dated as of June 23, 2014, 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 June 24, 2014 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 March 28, 2015, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Changes in Stockholders Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

INGLES MARKETS, INCORPORATED

Date: May 6, 2015 /s/ Robert P. Ingle, II

Robert P. Ingle, II
Chief Executive Officer

Date: May 6, 2015 /s/ Ronald B. Freeman

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