

INGLES MARKETS INC
Form 10-Q
February 01, 2017

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 December 24, 2016

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 January 31, 2017, the Registrant had 14,066,551 shares of Class A Common Stock, \$0.05 par value per share, outstanding and 6,193,225 shares of Class B Common Stock, \$0.05 par value per share, outstanding.

1

INGLES MARKETS, INCORPORATED

INDEX

	Page No.
Part I – Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of December 24, 2016 and September 24, 2016	3
Condensed Consolidated Statements of Income for the Three Months Ended December 24, 2016 and December 26, 2015	4
Condensed Consolidated Statements of Changes in Stockholders’ Equity for the Three Months Ended December 24, 2016 and December 26, 2015	5
Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 24, 2016 and December 26, 2015	6
Notes to Unaudited Interim Financial Statements	7
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	17
Item 4. Controls and Procedures	17
Part II – Other Information	
Item 6. Exhibits	18
Signatures	20

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	December 24, 2016	September 24, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,156,229	\$ 5,679,509
Receivables - net	80,682,199	61,735,387
Inventories	352,596,442	343,881,078
Other current assets	8,061,387	7,191,465
Total Current Assets	456,496,257	418,487,439
Property and Equipment – Net	1,247,670,800	1,247,881,773
Other Assets	20,523,384	20,109,087
Total Assets	\$ 1,724,690,441	\$ 1,686,478,299
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 10,167,920	\$ 10,000,629
Accounts payable - trade	173,633,718	155,288,402
Accrued expenses and current portion of other long-term liabilities	60,736,126	76,315,606
Total Current Liabilities	244,537,764	241,604,637
Deferred Income Taxes	71,430,000	71,449,000
Long-Term Debt	890,070,842	866,473,465
Other Long-Term Liabilities	37,900,802	36,775,587
Total Liabilities	1,243,939,408	1,216,302,689
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; 13,966,551 shares issued and outstanding December 24, 2016; 13,966,476 shares issued and outstanding at September 24, 2016	698,328	698,324
Class B, convertible to Class A, \$0.05 par value; 100,000,000 shares authorized; 6,293,225 shares issued and outstanding December 24, 2016; 6,293,300 shares	314,661	314,665

Edgar Filing: INGLES MARKETS INC - Form 10-Q

issued and outstanding at September 24, 2016

Paid-in capital in excess of par value	12,311,249	12,311,249
Retained earnings	467,426,795	456,851,372
Total Stockholders' Equity	480,751,033	470,175,610
Total Liabilities and Stockholders' Equity	\$ 1,724,690,441	\$ 1,686,478,299

See notes to unaudited condensed consolidated financial statements.

3

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended	
	December 24, 2016	December 26, 2015
Net sales	\$ 982,758,339	\$ 951,113,863
Cost of goods sold	745,673,858	725,474,531
Gross profit	237,084,481	225,639,332
Operating and administrative expenses	206,296,215	194,072,287
Gain from sale or disposal of assets	1,378,117	63,731
Income from operations	32,166,383	31,630,776
Other income, net	663,135	605,844
Interest expense	11,312,631	11,977,197
Income before income taxes	21,516,887	20,259,423
Income tax expense	7,693,000	7,280,000
Net income	\$ 13,823,887	\$ 12,979,423
Per share amounts:		
Class A Common Stock		
Basic earnings per common share	\$ 0.70	\$ 0.66
Diluted earnings per common share	\$ 0.68	\$ 0.64
Class B Common Stock		
Basic earnings per common share	\$ 0.64	\$ 0.60
Diluted earnings per common share	\$ 0.64	\$ 0.60
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 CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED DECEMBER 24, 2016 AND DECEMBER 26, 2015

	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 26, 2015	13,924,651	\$ 696,233	6,335,125	\$ 316,756	\$ 12,311,249	\$ 415,654,162	\$ 428,978,400
Net income	—	—	—	—	—	12,979,423	12,979,423
Cash dividends	—	—	—	—	—	(3,247,837)	(3,247,837)
Common stock conversions	18,175	909	(18,175)	(909)	—	—	—
Balance, December 26, 2015	13,942,826	\$ 697,142	6,316,950	\$ 315,847	\$ 12,311,249	\$ 425,385,748	\$ 438,709,986
Balance, September 24, 2016	13,966,476	\$ 698,324	6,293,300	\$ 314,665	\$ 12,311,249	\$ 456,851,372	\$ 470,175,610
Net income	—	—	—	—	—	13,823,887	13,823,887
Cash dividends	—	—	—	—	—	(3,248,464)	(3,248,464)
Common stock conversions	75	4	(75)	(4)	—	—	—
Balance, December 24, 2016	13,966,551	\$ 698,328	6,293,225	\$ 314,661	\$ 12,311,249	\$ 467,426,795	\$ 480,751,033

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended	
	December 24, 2016	December 26, 2015
Cash Flows from Operating Activities:		
Net income	\$ 13,823,887	\$ 12,979,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	27,079,917	25,976,526
Gain from sale or disposal of assets	(1,378,117)	(63,731)
Receipt of advance payments on purchases contracts	1,000,000	1,000,000
Recognition of advance payments on purchases contracts	(820,158)	(817,349)
Deferred income taxes	(19,000)	4,226,000
Changes in operating assets and liabilities:		
Receivables	(18,946,812)	(14,329,115)
Inventory	(8,715,364)	(2,631,850)
Other assets	(1,284,220)	84,177
Accounts payable and accrued expenses	6,452,116	(19,921,052)
Net Cash Provided by Operating Activities	17,192,249	6,503,029
Cash Flows from Investing Activities:		
Proceeds from sales of property and equipment	1,368,806	51,133
Capital expenditures	(29,278,744)	(40,639,588)
Net Cash Used by Investing Activities	(27,909,938)	(40,588,455)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	103,292,831	240,823,511
Payments on short-term borrowings	(78,255,268)	(200,432,718)
Principal payments on long-term borrowings	(1,594,690)	(2,013,686)
Dividends paid	(3,248,464)	(3,247,837)
Net Cash Provided by Financing Activities	20,194,409	35,129,270
Net Increase in Cash and Cash Equivalents	9,476,720	1,043,844
Cash and cash equivalents at beginning of period	5,679,509	7,505,040
Cash and Cash Equivalents at End of Period	\$ 15,156,229	\$ 8,548,884

See notes to unaudited condensed consolidated financial statements.

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

Three Months Ended December 24, 2016 and December 26, 2015

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, 2016, and the results of operations, changes in stockholders' equity and cash flows for the three months ended December 24, 2016 and December 26, 2015. 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, 2016, filed by the Company under the Securities Exchange Act of 1934 on December 16, 2016.

The results of operations for the three-month period ended December 24, 2016 are not necessarily indicative of the results to be expected for the full fiscal year.

B. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued Accounting Standards Update ASU 2016-02 "Leases" (ASU 2016-02). ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be revenue entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

C. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are presented net of an allowance for doubtful accounts of \$358,000 at December 24, 2016 and September 24, 2016, 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 incur interest and penalties related to uncertain tax positions. These amounts are insignificant and are not expected to significantly increase or decrease within the next twelve months.

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:

	December 24, 2016	September 24, 2016
Property, payroll and other taxes payable	\$ 12,410,912	\$ 18,883,819
Salaries, wages and bonuses payable	23,147,420	28,159,164
Self-insurance liabilities	14,203,510	14,083,047
Interest payable	2,350,850	12,406,614
Other	8,623,434	2,782,962
	\$ 60,736,126	\$ 76,315,606

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

7

care benefits for a policy year. The Company's self-insurance reserves totaled \$36.7 million and \$35.9 million at December 24, 2016 and September 24, 2016, respectively. Of this amount, \$14.2 million is accounted for as a current liability and \$22.5 million as a long-term liability, which is inclusive of \$4.8 million of expected self-insurance recoveries from excess cost insurance or other sources that are recorded as a receivable at December 24, 2016. At September 24, 2016, \$14.1 million is accounted for as a current liability and \$21.8 million as a long-term liability, which is inclusive of \$4.8 million of expected self-insurance recoveries from excess cost insurance or other sources that are recorded as a receivable. Employee insurance expense, including workers' compensation and medical care benefits, net of employee contributions, totaled \$9.3 million and \$9.2 million for the three-month periods ended December 24, 2016 and December 26, 2015, 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.

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

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%

The Company has a \$175.0 million line of credit (the "Line") that matures in June 2018. The Line provides the Company with various interest rate options based on the prime rate, the Federal Funds Rate, or the London Interbank Offering Rate ("LIBOR"). The Line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$10.2 million of unused letters of credit were issued at December 24, 2016. The Company is not required to maintain compensating balances in connection with the Line. At December 24, 2016, the Company had \$25.0 million of borrowings outstanding under the Line.

On December 29, 2010, the Company completed the funding of \$99.7 million of bonds (the "Bonds") for construction of new warehouse and distribution space adjacent to its existing space in Buncombe County, North Carolina (the "Project"). 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 June 30, 2021, 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. 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.

The Notes, the Bonds and the Line 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 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, 2016.

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, Bonds 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 14, 2016 to stockholders of record on October 6, 2016.

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, 2016.

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 declared per share for each class of stock, plus 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, 2016		Three Months Ended December 26, 2015	
	Class A	Class B	Class A	Class B
Numerator: Allocated net income				
Net income allocated, basic	\$ 9,806,717	\$ 4,017,170	\$ 9,182,887	\$ 3,796,536
Conversion of Class B to Class A shares	4,017,170	—	3,796,536	—
Net income allocated, diluted	\$ 13,823,887	\$ 4,017,170	\$ 12,979,423	\$ 3,796,536

Edgar Filing: INGLES MARKETS INC - Form 10-Q

Denominator: Weighted average shares outstanding				
Weighted average shares outstanding, basic	13,966,506	6,293,270	13,926,923	6,332,853
Conversion of Class B to Class A shares	6,293,270	—	6,332,853	—
Weighted average shares outstanding, diluted	20,259,776	6,293,270	20,259,776	6,332,853
Earnings per share				
Basic	\$ 0.70	\$ 0.64	\$ 0.66	\$ 0.60
Diluted	\$ 0.68	\$ 0.64	\$ 0.64	\$ 0.60

I. SEGMENT INFORMATION

The Company operates one primary business segment, retail grocery sales. "Other" includes our remaining operations - 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	
	December 24, 2016	December 26, 2015
Revenues from unaffiliated customers:		
Grocery	\$ 360,901	\$ 358,463
Non-foods	212,311	202,868
Perishables	255,849	246,885
Gasoline	118,523	108,515
Total retail	947,584	916,731
Other	35,174	34,383
Total revenues from unaffiliated customers	\$ 982,758	\$ 951,114
Income from operations:		
Retail	\$ 28,991	\$ 27,769
Other	3,175	3,862
Total income from operations	\$ 32,166	\$ 31,631

	December	September
	24, 2016	24, 2016
Assets:		
Retail	\$ 1,591,322	\$ 1,555,319
Other	135,365	133,574
Elimination of intercompany receivable	(1,997)	(2,415)
Total assets	\$ 1,724,690	\$ 1,686,478

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.

For the three-month periods ended December 24, 2016 and December 26, 2015, respectively, the fluid dairy operation had \$11.8 million and \$11.4 million in sales to the grocery sales segment. 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, 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 December 24, 2016 is as follows (in thousands):

	Carrying Amount	Fair Value	Fair Value Measurements
Senior Notes	\$ 700,000	\$ 715,750	Level 2
Facility Bonds	86,150	86,150	Level 2
Secured notes payable and other	89,051	89,051	Level 2
Line of credit payable	25,038	25,038	Level 2
Total debt	\$ 900,239	\$ 915,989	

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

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 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, as well as quality private label items. 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 December 24, 2016, the Company operated 101 in-store pharmacies and 95 fuel centers.

Ingles also operates a fluid dairy and earns shopping center rentals. The fluid dairy sells approximately 26% of its products to the retail grocery segment and approximately 74% 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 December 24, 2016 the Company's self-insurance reserves totaled \$36.7 million. Of this amount, \$14.2 million is accounted for as a current liability and \$22.5 million as a long-term liability, which is inclusive of \$4.8

million of expected self-insurance recoveries from excess cost insurance or other sources that are recorded as a receivable at December 24, 2016.

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 three-month period ended December 24, 2016.

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 \$30.7 million and \$29.6 million for the fiscal quarters ended December 24, 2016 and December 26, 2015, 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 \$3.9 million and \$3.8 million for the fiscal quarters ended December 24, 2016 and December 26, 2015, 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.

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, 2016 and December 26, 2015 both include 13 weeks of operations. 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 both the three-month periods ended December 24, 2016 and December 26, 2015, comparable store sales include 199 stores.

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 Condensed Consolidated Financial Statements.

	Three Months Ended			
	December 24, 2016		December 26, 2015	
Net sales	100.0	%	100.0	%
Gross profit	24.1	%	23.7	%
Operating and administrative expenses	21.0	%	20.4	%
Gain from sale or disposal of assets	0.2	%	—	%
Income from operations	3.3	%	3.3	%
Other income, net	0.1	%	0.1	%
Interest expense	1.2	%	1.2	%
Income tax expense	0.8	%	0.8	%
Net income	1.4	%	1.4	%

Three Months Ended December 24, 2016 Compared to the Three Months Ended December 26, 2015

Net income for the first quarter of fiscal 2017 totaled \$13.8 million, compared with net income of \$13.0 million earned for the first quarter of fiscal 2016. Total revenues and gross margin increased but were offset with increases in operating expenses.

Net Sales. Net sales increased by \$31.7 million, or 3.3% to \$982.8 million for the three months ended December 24, 2016 compared with \$951.1 million for the three months ended December 26, 2015. Comparing the first quarter of fiscal 2017 with the first quarter of fiscal 2016, gasoline sales dollars increased due to a 6.9% increase in the average sales price per gallon and a 2.0% increase in gallons sold. Excluding gasoline sales, total grocery comparable store sales increased 1.8% over the comparative fiscal quarters. Comparing the first quarters of fiscal years 2017 and 2016 (and excluding gasoline), the number of customer transactions increased 2.2% and the average transaction size increased 0.4%.

Ingles operated 202 and 201 stores at December 24, 2016 and December 26, 2015, respectively. Retail square feet totaled 11.2 million square feet at December 24, 2016 and 11.1 million square feet at December 26, 2015. During the last twelve months the Company opened two stores and closed one store that will be rebuilt.

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

	Three Months Ended	
	December	December
	24,	26,
	2016	2015
Grocery	\$ 360,901	\$ 358,463
Non-foods	212,311	202,868
Perishables	255,849	246,885
Gasoline	118,523	108,515
Total retail grocery	\$ 947,584	\$ 916,731

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.

Changes in retail grocery sales for the quarter ended December 24, 2016 are summarized as follows (in thousands):

Total retail grocery sales for the three months ended December 26, 2015	\$ 916,731
Comparable store sales increase (including gasoline)	22,719
Impact of stores opened in fiscal 2016 and 2017	9,585
Impact of stores closed in fiscal 2016	(1,423)
Other	(28)
Total retail grocery sales for the three months ended December 24, 2016	\$ 947,584

Gross Profit. Gross profit for the three-month period ended December 24, 2016 totaled \$237.1 million, an increase of \$11.5 million, or 5.1%, compared with gross profit of \$225.6 million for the three-month period ended December 26, 2015. Gross profit as a percentage of sales was 24.1% for the three months ended December 24, 2016 compared with 23.7% for the three months ended December 26, 2015.

The gross profit increase is attributable to higher sales, and to higher gross margins in most product categories.

Gasoline gross profit dollars and margin were higher compared with the first quarter of last fiscal year. Excluding gasoline sales, grocery gross profit as a percentage of sales for the first quarter of fiscal 2017 was 50 basis points higher compared with the same fiscal 2016 period.

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. Fluid dairy is a manufacturing process; therefore, the costs mentioned above as well as purchasing, production costs, and internal transfer costs incurred by the milk 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 \$12.2 million, or 6.3%, to \$206.3 million for the three months ended December 24, 2016, from \$194.1 million for the three months ended December 26, 2015. As a percentage of sales, operating and administrative expenses were 21.0% and 20.4% for the December 2016 and December 2015 quarters, respectively. Excluding gasoline sales and associated gasoline operating expenses (primarily payroll), operating expenses were 23.7% of sales for the first fiscal quarter of 2017 compared with 22.8% for the first fiscal quarter of 2016.

A breakdown of the major changes in operating and administrative expenses is as follows:

	Increase (Decrease) in millions	Increase (Decrease) as a % of sales	
Salaries and wages	\$ 7.0	0.72	%
Repairs and maintenance	\$ 1.7	0.18	%
Bank charges	\$ 1.2	0.12	%
Depreciation	\$ 1.1	0.11	%
Advertising and promotion	\$ (1.0)	(0.10)	%

Salaries and wages increased in dollars due to additional labor hours required for the increased sales volume, including new stores opened in the past twelve months. Competition for labor has also increased in the Company's market area.

Repairs and maintenance increased due to more sophisticated equipment in our stores and to a higher level of lighting maintenance.

Bank charges increased due to the implementation of more secure credit and debit card processes utilizing EMV "chip" cards.

Depreciation increased as a result of the Company's capital expenditure programs, including new stores and remodeling projects.

Advertising and promotion decreased from more efficient print and television investments and greater vendor participation in advertising activities.

Gain from Sale or Disposal of Assets. Gain from sale or disposal of assets totaled \$1.4 million for the three months ended December 24, 2016 compared with \$0.1 million for the comparable prior year period. During the current fiscal year period, the Company updated vehicles used in its distribution operations.

Interest Expense. Interest expense totaled \$11.3 million for the three-month period ended December 24, 2016 compared with \$12.0 million for the three-month period ended December 26, 2015. Total debt at December 2016 was \$900.2 million compared with \$924.8 million at December 2015.

Income Taxes. Income tax expense totaled \$7.7 million for the three months ended December 24, 2016, an effective tax rate of 35.8% of pretax income. Income tax expense totaled \$7.3 million for the three months ended December 26, 2015, an effective tax rate of 35.9% of pretax income.

Net Income. Net income totaled \$13.8 million for the three-month period ended December 24, 2016 compared with \$13.0 million for the three-month period ended December 26, 2015. Net income, as a percentage of sales, was 1.4% for both the December 2016 quarter and the December 2015 quarter. Basic and diluted earnings per share for Class A Common Stock were \$0.70 and \$0.68, respectively, for the December 2016 quarter, compared to \$0.66 and \$0.64, respectively, for the December 2015 quarter. Basic and diluted earnings per share for Class B Common Stock were each \$0.64 for the December 2016 quarter compared with \$0.60 for the December 2015 quarter.

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 which provide customers with good service and a broad selection of competitively priced products. As such, the Company has invested and will 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, the relocation of selected existing stores to larger, more convenient locations and the completion of minor remodeling of its remaining existing stores. The Company will also add fuel centers and other products complementary to grocery sales where market conditions and real estate considerations warrant.

Capital expenditures totaled \$29.3 million for the three-month period ended December 24, 2016. These capital expenditures focused on construction on stores scheduled to open later in fiscal 2017, site acquisition, and 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, rolling stock, and capital expenditures related to the Company's milk processing plant.

Ingles' capital expenditure plans for fiscal 2017 include investments of approximately \$100 to \$140 million. The majority of the Company's fiscal 2017 capital expenditures will be dedicated to continued improvement of its store base and also include investments in stores expected to open in fiscal 2017 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 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 or minor remodeling project. Outstanding construction commitments totaled \$3.0 million at December 24, 2016.

Liquidity

The Company generated \$17.2 million net cash from operations in the December 2016 three-month period compared with \$6.5 million during the December 2015 three-month period. Operating cash generation tends to be lower during the December quarter of each fiscal year due to seasonal inventory increases and semi-annual interest payments on Senior Notes obligations.

Cash used by investing activities for the three-month periods ended December 24, 2016 and December 26, 2015 totaled \$27.9 million and \$40.6 million, respectively, consisting primarily of capital expenditures offset by insignificant proceeds from property and equipment sales.

Cash provided by financing activities totaled \$20.2 million and \$35.1 million for the fiscal quarters ended December 2016 and 2015, respectively. Short term borrowings tend to increase during the December quarter of each fiscal year to finance seasonal inventory increases and the semi-annual Senior Note interest payment.

In June 2013, the Company issued \$700.0 million aggregate principal amount of senior notes due in 2023 (the "Notes"). The Notes bear an interest rate of 5.750% per annum and were issued at par.

The Company has a \$175.0 million line of credit (the “Line”) that matures in June 2018. The Line provides the Company with various interest rate options based on the prime rate, the Federal Funds Rate, or the London Interbank Offering Rate (“LIBOR”). The Line allows the Company to issue up to \$30.0 million in unused letters of credit, of which \$10.2 million of unused letters of credit were issued at December 24, 2016. The Company is not required to maintain compensating balances in connection with the Line. At December 24, 2016, the Company had \$25.0 million of borrowings outstanding under the Line.

On December 29, 2010, the Company completed the funding of \$99.7 million of bonds (the “Bonds”) for the construction of new warehouse and distribution space adjacent to its existing space in Buncombe County, North Carolina (the “Project”). 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 June 30, 2021, 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.

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

The Notes, the Bonds and the Line 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 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, 2016, the Company was in compliance with these covenants. Under the most restrictive of these covenants, the Company would be able to incur approximately \$382 million of additional borrowings (including borrowings under the Line) as of December 24, 2016.

The Company’s principal sources of liquidity are expected to be cash flow from operations, borrowings under the Line and long-term financing. The Company believes, based on its current results of operations and financial condition, that its financial resources, including the Line, 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 24, 2016 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, the Line, and other loan agreements 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

Grocery sales 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 Company's fluid dairy operations have slight seasonal variation to the extent of its sales into the grocery industry. The Company's real estate activities are 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 changes with general inflation. Inflation or deflation in energy costs affects the Company's gasoline sales, distribution expenses, utility expenses and plastic supply costs.

	Three Months Ended December	
	24, 2016	26, 2015
All items	0.3 %	— %
Food and beverages	— %	(0.1) %
Energy	2.1 %	(1.1) %

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 24, 2016.

Item 4. 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 December 24, 2016, 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 2016. After consideration of the matters discussed above and the changes in internal control over financial reporting discussed below, the Company has concluded that its controls and procedures were effective as of December 24, 2016.

(b) Changes in Internal Control over Financial Reporting

Management identified a control deficiency in internal control over financial reporting and determined that this deficiency was a material weakness as of September 24, 2016. The deficiency related to the lack of effectiveness in the design and operation of a control to address the review and approval of requests for changes to vendors' bank account information. There was no significant impact to the Company's consolidated financial statements for the year ended September 24, 2016 as a result of this control deficiency. The Company implemented actions to remediate the material weakness in mid-September 2016, tested the enhanced control, and determined the deficiency was fully remediated as of December 24, 2016.

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 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).

Edgar Filing: INGLES MARKETS INC - Form 10-Q

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).

10.4 Second 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).

10.5 Third 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).

10.6 Fourth 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 December 24, 2016, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Earnings; (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Comprehensive Income; 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: February 1, 2017 /s/ James W. Lanning

James W. Lanning
Chief Executive Officer and President

Date: February 1, 2017 /s/ Ronald B. Freeman

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