

INGLES MARKETS INC
Form 10-K
December 26, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-K

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

For the fiscal year ended September 29, 2012

.. 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

56-0846267
(I.R.S. Employer Identification No.)

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incorporation or organization)

2913 U.S. Hwy. 70 West, Black Mountain, NC
(Address of principal executive offices)

28711
(Zip Code)

Registrant's telephone number including area code: (828) 669-2941

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.05 par value	The NASDAQ Global Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO NOT APPLICABLE

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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As of March 23, 2012, the aggregate market value of voting stock held by non-affiliates of the registrant, based on the closing sales price of the Class A Common Stock on The NASDAQ Global Select Market on March 23, 2012, was approximately \$234.6 million. As of December 20, 2012, the registrant had 12,957,150 shares of Class A Common Stock outstanding and 11,302,626 shares of Class B Common Stock outstanding.

Certain information required in Part III hereof is incorporated by reference to the Proxy Statement for the registrant's 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this report.

Table of Contents

Ingles Markets, Incorporated

Annual Report on Form 10-K

September 29, 2012

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	15
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	16
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6. <u>Selected Financial Data</u>	19
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	32
Item 8. <u>Financial Statements and Supplementary Data</u>	34
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	34
Item 9A. <u>Controls and Procedures</u>	34
Item 9B. <u>Other Information</u>	35
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	36
Item 11. <u>Executive Compensation</u>	36
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	36
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	36
Item 14. <u>Principal Accountant Fees and Services</u>	36
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	37

Table of Contents

This Annual Report of Ingles Markets, Incorporated (Ingles or the Company) contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical fact included in this Annual Report, including the statements under Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere regarding the Company s strategy, future operations, financial position, estimated revenues, projected costs, projections, prospects and plans and objectives of management, are forward-looking statements. The words expect, anticipate, intend, plan, likely, goal, believe, seek 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, including inflation or deflation expectations;

the Company s ability to successfully implement our expansion and operating strategies;

pricing pressures and other competitive factors;

sudden or significant changes in the availability of gasoline and retail gasoline prices;

the maturation of new and expanded stores;

general concerns about food safety;

the Company s ability to reduce costs and achieve improvements in operating results, including the effect of the new distribution facility opened during fiscal 2012;

the availability and terms of financing;

increases in costs, including food, utilities and other goods and services significant to the Company s operations;

success or failure in the ownership and development of real estate;

changes in the laws and government regulations applicable to the Company;

other risks and uncertainties, including those described under the caption Risk Factors.

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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 Annual Report or contemplated or implied by statements in this Annual Report. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Annual Report are made only as of the date hereof. The Company does not undertake and specifically declines any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

Table of Contents

PART I

Item 1. BUSINESS

General

Ingles Markets, Incorporated (Ingles or the Company), a leading supermarket chain in the southeast United States, operates 203 supermarkets in Georgia (74), North Carolina (69), South Carolina (36), Tennessee (21), Virginia (2) and Alabama (1).

The Company's strategy is to locate its supermarkets primarily in suburban areas, small towns and neighborhood shopping centers. The Company remodels, expands and relocates stores in these communities and builds stores in new locations to retain and grow its customer base with an enhanced one stop product offering while retaining a high level of customer service and convenience. 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. The Company also offers quality private label items.

The Company believes that customer service and convenience, modern stores and competitive prices on a broad selection of quality merchandise are essential to developing and retaining a loyal customer base. The Company has an ongoing renovation and expansion plan to add stores in its target market and modernize the appearance and layout of its existing stores. The Company's new and remodeled supermarkets provide an enhanced level of customer convenience in order to accommodate the lifestyle of today's shoppers. Design features of the Company's modern stores focus on selling high-growth, high-margin products including perishable departments featuring organic and home meal replacement items, in-store pharmacies, on-premises fuel centers, and an expanded selection of food and non-food items to provide a one-stop shopping experience.

Substantially all of the Company's stores are located within 280 miles of its warehouse and distribution facilities, near Asheville, North Carolina. During fiscal year 2012, the Company completed construction of an additional 839,000 square foot warehouse and distribution facility adjacent to its current facility. Following the expansion, the warehouse supplies the stores with approximately 56% of the goods the Company sells. The remaining 44% is purchased from third parties and is generally delivered directly to the stores. The close proximity of the Company's purchasing and distribution operations to its stores facilitates the timely distribution of consistently high quality meat, produce and other perishable items.

To further ensure product quality, the Company also owns and operates a milk processing and packaging plant that supplies approximately 83% of the milk products sold by the Company's supermarkets as well as a variety of organic milk, fruit juices and bottled water products. In addition, the milk processing and packaging plant sells approximately 69% of its products to other retailers, food service distributors and grocery warehouses in 17 states, which provides the Company with an additional source of revenue.

Real estate ownership is an important component of the Company's operations. The Company owns and operates 69 shopping centers, of which 57 contain an Ingles supermarket, and owns 95 additional properties that contain a free-standing Ingles store. Shopping center ownership provides tenant income and can enhance store traffic through the presence of additional products and services that complement grocery store operations. The Company also owns 12 undeveloped sites suitable for a free-standing store. The Company's owned real estate is generally located in the same geographic region as its supermarkets.

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The Company was founded by Robert P. Ingle, who served as the Company's Chief Executive Officer until his death in March 2011. He was succeeded as Chief Executive Officer by his son, Robert P. Ingle II. As of September 29, 2012, Mr. Ingle II owned beneficially (as defined by the Exchange Act) approximately 87% of the combined voting power and 46% of the total number of shares of the Company's outstanding Class A and Class B Common Stock (in each case including stock held by the Company's Investment/Profit Sharing Plan and Trust of which Mr. Ingle II serves as one of the trustees). The Company became a publicly traded company in

Table of Contents

September 1987. The Company's Class A Common Stock is traded on The NASDAQ Global Select Market under the symbol IMKTA. The Company's Class B Common Stock is not publicly traded.

The Company was incorporated in 1965 under the laws of the State of North Carolina. Its principal mailing address is P.O. Box 6676, Highway 70, Asheville, North Carolina 28816, and its telephone number is 828-669-2941. The Company's website is www.ingles-markets.com. Information on the Company's website is not a part of and is not incorporated by reference into this Annual Report on Form 10-K. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments and supplements to these reports are available on the Company's website as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission.

Business

The Company operates three lines of business: retail grocery sales, shopping center rentals and a fluid dairy processing plant. Information about the Company's operations by lines of business (in millions) is as follows (for information regarding the Company's industry segments, see Note 11, "Lines of Business" to the Consolidated Financial Statements of this Annual Report on Form 10-K):

	Fiscal Year Ended September (dollars in millions)					
	2012		2011		2010	
Revenues from unaffiliated customers:						
Grocery sales	\$ 3,577.5	96.2%	\$ 3,428.7	96.0%	\$ 3,274.0	96.3%
Shopping center rentals	8.9	0.2%	9.1	0.3%	9.2	0.3%
Fluid dairy	131.9	3.6%	131.2	3.7%	116.0	3.4%
	\$ 3,718.3	100.0%	\$ 3,569.0	100.0%	\$ 3,399.2	100.0%
Income from operations:						
Grocery sales	\$ 111.5	90.0%	\$ 105.6	89.1%	\$ 96.3	88.0%
Shopping center rentals	1.4	1.2%	1.9	1.6%	1.8	1.6%
Fluid dairy	10.9	8.8%	11.0	9.3%	11.4	10.4%
	123.8	100.0%	118.5	100.0%	109.5	100.0%
Other income, net	3.5		4.2		4.2	
Interest expense	60.0		62.0		64.9	
Income before income taxes	\$ 67.3		\$ 60.7		\$ 48.8	

Sales by product category for fiscal years 2012, 2011 and 2010, respectively, are as follows:

	Fiscal Year Ended September (dollars in millions)		
	2012	2011	2010

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Grocery	\$ 1,447.5	\$ 1,397.9	\$ 1,366.5
Non-foods	710.0	690.2	684.5
Perishables	866.2	825.1	787.1
Gasoline	553.8	515.5	435.9
Total grocery segment	\$ 3,577.5	\$ 3,428.7	\$ 3,274.0

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.

Table of Contents*Supermarket Operations*

The Company's strategy is to locate its supermarkets primarily in suburban areas, small towns and rural communities. At September 29, 2012, the Company operated 194 supermarkets under the name Ingles, and 9 supermarkets under the name Sav-Mor with locations in western North Carolina, western South Carolina, northern Georgia, eastern Tennessee, southwestern Virginia and northeastern Alabama. The Sav-Mor store concept accommodates smaller shopping areas and carries dry groceries, dairy, fresh meat and produce, all of which are displayed in a modern, readily accessible environment.

The following table sets forth certain information with respect to the Company's supermarket operations.

	Number of Supermarkets at Fiscal			Percentage of Total Net Sales for Fiscal		
	Year Ended September			Year Ended September		
	2012	2011	2010	2012	2011	2010
North Carolina	69	69	69	38%	38%	39%
South Carolina	36	36	36	19%	19%	19%
Georgia	74	74	73	34%	34%	33%
Tennessee	21	21	21	9%	9%	9%
Virginia	2	2	2			
Alabama	1	1	1			
	203	203	202	100%	100%	100%

The Company believes that today's supermarket customers are focused on convenience, quality and value in an attractive store environment. As a result, the Company's one-stop shopping experience combines a high level of customer service, convenience-oriented quality product offerings and low overall pricing. The Company's modern stores provide products and services such as home meal replacement items, delicatessens, bakeries, floral departments, greeting cards and broad selections of organic, beverage and health-related items. At September 29, 2012, the Company operated 81 pharmacies and 72 fuel stations. The Company plans to continue to incorporate these departments in substantially all future new and remodeled stores. The Company trains its employees to provide friendly service and to actively address the needs of customers. These employees reinforce the Company's distinctive service-oriented image.

Selected statistics on the Company's supermarket operations are presented below:

	Fiscal Year Ended September				
	2012	2011	2010	2009	2008
Weighted Average Sales Per Store (000 \$) (1)	\$ 17,623	\$ 16,698	\$ 16,241	\$ 15,744	\$ 15,806
Total Square Feet at End of Year (000 \$)	11,015	11,013	10,812	10,686	10,196
Average Total Square Feet per Store	54,262	54,252	53,524	53,432	51,756