INGLES MARKETS INC
Form 10-K
December 07, 2009
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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 26, 2009

¨ **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	**56-0846267**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
2913 U.S. Hwy. 70 West, Black Mountain, NC	**28711**
(Address of principal executive offices)	(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 x.

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 x.

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 x 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 x

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. x

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 x	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 x.

As of March 28, 2009, 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 28, 2009, was approximately $199.9 million. As of November 30, 2009, the registrant had 12,888,608 shares of Class A Common Stock outstanding and 11,623,651 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 2010 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.

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Ingles Markets, Incorporated

Annual Report on Form 10-K

September 26, 2009

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This Annual Report 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 expr 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 our expansion and operating strategies and to manage rapid expansion;
- pricing pressures and other competitive factors;
- sudden or significant changes in the availability of gasoline and retail gasoline prices;
- the maturation of new and expanded stores;
- general concerns about food safety;
- the Company s ability to reduce costs and achieve improvements in operating results;
- the availability and terms of financing;
- increases in labor and utility costs;
- success or failure in the ownership and development of real estate;
- changes in the laws and government regulations applicable to the Company;
- other risks and uncertainties, including those described under the caption Risk Factors.

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.

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PART I

Item 1. **BUSINESS**

General

Ingles Markets, Incorporated (Ingles or the Company), a leading supermarket chain in the southeast United States, operates 200 supermarkets in Georgia (73), North Carolina (68), South Carolina (36), Tennessee (20), 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 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.

The Company has an ongoing renovation and expansion plan to add stores in its target markets and to modernize the appearance and layout of its existing stores. Over the past five fiscal years, the Company has spent approximately $605 million to modernize and remodel its existing stores, relocate older stores to larger, more convenient locations and construct new stores in order to maintain the quality shopping experience that its customers expect. As part of the Company s renovation and expansion plan, the Company generally includes full-service pharmacies and gas stations at both new and expanded store properties and at selected existing store properties.

Substantially all of the Company s stores are located within 280 miles of its 919,000 square foot warehouse and distribution facilities, near Asheville, North Carolina, from which the Company distributes grocery, produce, meat and dairy products to all Ingles stores. The warehouse supplies the stores with approximately 50% of the goods the Company sells and the remaining 50% is purchased from third parties. 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 86% 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 66% 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 72 shopping centers, of which 56 contain an Ingles supermarket, and owns 92 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, the Company s Chief Executive Officer. As of September 26, 2009, Mr. Ingle owned beneficially approximately 86% of the combined voting power and 47% of the total number of shares of the Company s outstanding Class A and Class B Common Stock (in each case excluding stock held by the Company s Investment/Profit Sharing Plan and Trust of which Mr. Ingle serves as one of the trustees). The Company became a publicly traded company in September 1987. The Company s Class A Common Stock is traded on The NASDAQ Global Select Market under the symbol IMKTA.

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					
	2009		2008		2007	
Revenues from unaffiliated customers:						
Grocery sales	$ 3,143.6	96.4%	$ 3,107.3	95.6%	$ 2,729.0	95.3%
Shopping center rentals	10.5	0.3%	11.3	0.4%	12.3	0.4%
Fluid dairy	107.3	3.3%	130.8	4.0%	122.6	4.3%
	$ 3,261.4	100.0%	$ 3,249.4	100.0%	$ 2,863.9	100.0%
Income from operations:						
Grocery sales	$ 98.2	86.7%	$ 109.1	88.4%	$ 115.8	86.7%
Shopping center rentals	2.4	2.2%	3.4	2.7%	4.4	3.3%
Fluid dairy	12.6	11.1%	11.0	8.9%	13.3	10.0%
	113.2	100.0%	123.5	100.0%	133.5	100.0%
Other income, net	2.3		3.1		3.0	
Interest expense	59.1		46.9		46.7	
Loss on early extinguishment of debt	10.2					
Income before income taxes	$ 46.2		$ 79.7		$ 89.8	

Sales by product category for fiscal years 2009, 2008 and 2007, respectively, are as follows:

	Fiscal Year Ended September		
	2009	**2008**	**2007**
Grocery	**$ 1,358,030,265**	$ 1,295,946,749	$ 1,182,907,566
Non-foods	**664,376,193**	624,957,153	589,204,228
Perishables	**768,604,794**	727,072,477	670,206,118
Gasoline	**352,621,331**	459,287,398	286,665,352
Total grocery segment	**$ 3,143,632,583**	$ 3,107,263,777	$ 2,728,983,264

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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.

Supermarket Operations

The Company s strategy is to locate its supermarkets primarily in suburban areas, small towns and rural communities. At September 26, 2009, the Company operated 193 supermarkets under the name Ingles, and 7 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 a limited line of dry groceries, 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 Year Ended September			Percentage of Total Net Sales for Fiscal Year Ended September		
	2009	2008	2007	2009	2008	2007
North Carolina	68	66	65	38%	38%	38%
South Carolina	36	36	36	19%	20%	19%
Georgia	73	72	73	34%	33%	34%
Tennessee	20	20	20	9%	9%	9%
Virginia	2	2	2			
Alabama	1	1	1			
	200	197	197	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, video rental departments, greeting cards and broad selections of organic, beverage and health-related items. At September 26, 2009, the Company operated 69 pharmacies and 66 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				
	2009	2008	2007	2006	2005
Weighted Average Sales Per Store (000 s) (1)	$ 15,744	$ 15,806	$ 13,870	$ 12,701	$ 11,040

Total Square Feet at End of Year (000 s)	10,686	10,196	9,728	9,585	9,468
Average Total Square Feet per Store	53,432	51,756	49,382	48,657	48,058
Average Square Feet of Selling Space per Store (2)	37,403	36,229	34,567	34,060	33,641
Weighted Average Sales per Square Foot of Selling Space (1) (2)	425	448	405	375	331

(1) Weighted average sales per store include the effects of increases in square footage due to the opening of replacement stores and the expansion of stores through remodeling during the periods indicated, and includes gasoline sales.

(2) Selling space is estimated to be 70% of total interior store square footage.

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Merchandising

The Company s merchandising strategy is designed to create a comprehensive and satisfying shopping experience that blends value and customer service with variety, quality and convenience. Management believes that this strategy fosters a loyal customer base by establishing a reputation for providing high quality products and a variety of specialty departments.

The Company s stores carry broad selections of quality meats, produce and other perishables. The Company offers a wide variety of fresh and non-perishable organic products, including organic milk produced by the Company s fluid dairy plant. Management believes that supermarkets offering a broad array of products and time-saving services are perceived by customers as part of a solution to today s lifestyle demands. Accordingly, a principal component of the Company s merchandising strategy is to design stores that offer a one-stop shopping experience.

A selection of prepared foods and home meal replacements are featured throughout Ingles deli, bakery and meat departments to provide customers with easy meal alternatives that they can eat at home. Many stores offer daily selections of home meal replacement items, such as rotisserie chicken and pork, Italian foods, fried chicken, meat loaf and other entrees, sandwiches, pre-packaged salads, sushi and prepared fresh vegetables. The bakery offers an expanded selection of baked goods and self-service selections. Ingles bakes most of its items on site, including bread baked daily, cakes made to order in various sizes, donuts and other pastries. The deli offers a salad bar, an expanded offering of cheeses, olives, gourmet items and home meal replacement items. The Company also provides its customers with an expanded selection of frozen food items (including organics) to meet the increasing demands of its customers.

The Company operates fuel stations at 66 of its store locations. The Company believes fuel stations give customers a competitive fuel choice and increase store traffic by allowing customers to consolidate trips. Most new and expanded stores are designed to include a fuel station on the store property. The Company also adds fuel stations at existing stores based on its evaluation of local competition, the potential effect on overall store profitability and the availability of space on the existing property or an adjacent outparcel.

Ingles intends to continue to increase sales of its private label brands, which typically carry higher margins than comparable branded products. Ingles private labels cover a broad range of products throughout the store, such as milk, bread, organic products, soft drinks and canned goods. In addition to increasing margins, Ingles believes that private label sales help promote customer loyalty.

The Company seeks to maintain a reputation for providing friendly service, quality merchandise and customer value and for its commitment to community involvement. The Company employs various advertising and promotional strategies to reinforce the quality and value of its products. The Company promotes these attributes using all of the traditional advertising vehicles including radio, television, direct mail and newspapers. The Ingles Advantage Card program, introduced at the beginning of fiscal year 2004, is designed to foster customer loyalty by providing information to better understand the Company s customers shopping patterns.

Purchasing and Distribution

The Company supplies approximately 50% of its supermarkets inventory requirements from its modern 919,000 square foot warehouse and distribution facilities, from which the Company distributes groceries, produce, meat and dairy products to all Ingles stores. The Company believes that its warehouse and distribution facilities contain sufficient capacity for the continued expansion of its store base for the foreseeable future. The Company owns 46 acres of land adjacent to its distribution facilities for possible future expansion.

The Company s centrally managed purchasing and distribution operations provide several advantages, including the ability to negotiate and reduce the cost of merchandise, decrease overhead costs and better manage its inventory at both the warehouse and store level. From time to time, the Company engages in advance

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purchasing on high-turnover inventory items to take advantage of special prices offered by manufacturers for limited periods. The Company s ability to take advantage of advance purchasing is limited by several factors including carrying costs and warehouse space.

Approximately 10% of the Company s other inventory requirements, primarily frozen food and slower moving items that the Company prefers not to stock are purchased from Merchant Distributors, Inc. (MDI), a wholesale grocery distributor with which the Company has had a continuing relationship since its inception. Purchases from MDI were approximately $271 million in fiscal 2009, $258 million in fiscal 2008 and $241 million in fiscal 2007. Additionally, MDI purchases product from Milkco, Inc., the Company s fluid dairy subsidiary, and these purchases totaled approximately $36 million in fiscal 2009, $44 million in fiscal 2008 and $40 million in fiscal 2007. The Company purchases items from MDI based on cost plus a handling charge. MDI owned approximately 2% of the Company s Class A Common Stock and approximately 1% of the Company s Class B Common Stock at September 26, 2009, which equals 1.4% of the total voting power. The Company believes that alternative sources of supply are readily available from other third parties.

The remaining 40% of the Company s inventory requirements, primarily beverages, gasoline, bread and snack foods, are supplied directly to Ingles supermarkets by local distributors and manufacturers.

Goods from the warehouse and distribution facilities and the milk processing and packaging plant are distributed to the Company s stores by a fleet of 106 tractors and 439 trailers that the Company operates and maintains, including tractors and trailers that the Company leases. The Company invests on an ongoing basis in the maintenance, upgrade and replacement of its tractor and trailer fleet. The Company also operates truck servicing and fuel storage facilities at its warehouse and distribution facilities. The Company reduces its overall distribution costs by capitalizing on back-haul opportunities (contracting to transport merchandise on trucks that would otherwise be empty).

Store Development, Expansion and Remodeling

The Company believes that the appearance and design of its stores are integral components of its customers shopping experience and aims to develop one of the most modern supermarket chains in the industry. The ongoing modernization of the Company s store base involves (i) the construction of new stores of continuously updated designs, and (ii) the replacement or complete remodeling and expansion of existing stores. The Company s goal is to maintain clean, well-lit stores with attractive architectural features that enhance the image of its stores as catering to the changing lifestyle needs of quality-conscious consumers who demand increasingly diverse product offerings.

The Company is focused primarily on developing owned stores. Management believes that owning stores provides the Company with flexible, lower all-in occupancy costs. The construction of new stores by independent contractors is closely monitored and controlled by the Company.

The Company renovates and remodels stores in order to increase customer traffic and sales, respond to existing customer demand, compete effectively against new stores opened by competitors and support its quality image merchandising strategy. The Company decides to complete a major remodel of an existing store based on its evaluation of the competitive landscape of the local marketplace. A major remodel and expansion provides the quality of facilities and product offerings identical to that of a new store, capitalizing upon the existing customer base. The Company retains the existing customer base by keeping the store in operation during the entire remodeling process. The Company may elect to relocate, rather than remodel, certain stores where relocation provides a more convenient location for its customers and is more economical.

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The following table sets forth, for the periods indicated, the Company s new store development and store remodeling activities and the effect this program has had on the average size of its stores.

	2009	**2008**	**2007**	**2006**	**2005**
Number of Stores:					
Opened (1)	4	2	2	1	4
Closed (1)	1	2	2	1	3
Major remodels and replacements	6	10	5	3	2
Stores open at end of period	200	197	197	197	197
Size of Stores:					
Less than 30,000 sq. ft.	13	14	16	16	15
30,000 up to 41,999 sq. ft.	41	42	46	48	52
42,000 up to 51,999 sq. ft.	27	28	31	31	31
At least 52,000 sq. ft.	119	113	104	102	99
Average store size (sq. ft.)	53,432	51,756	49,382	48,657	48,058

(1) Excludes new stores opened to replace existing stores.

The Company has historically expanded its store base by acquiring or leasing supermarket sites and constructing stores to its specifications. From time to time, however, the Company may consider the acquisition of existing supermarkets as such opportunities become available.

The Company s ability to open new stores is subject to many factors, including the acquisition of satisfactory sites and the successful negotiation of new leases, and may be limited by zoning and other governmental regulation. In addition, the Company s expansion, remodeling and replacement plans are continually reviewed and are subject to change. See the Liquidity and Capital Resources section included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the Company s capital expenditures.

Competition

The supermarket industry is highly competitive and characterized by narrow profit margins. The degree of competition the Company s stores encounter varies by location, primarily based on the size of the community in which the store is located and its proximity to other communities. The Company s principal competitors are, in alphabetical order, Aldi, Inc., Bi-Lo, LLC., Food City (K-VA-T Food Stores, Inc.), Food Lion (Delhaize America, Inc.), The Kroger Co., Publix Super Markets, Inc., Target Corporation, and Wal-Mart Stores, Inc. Increasingly over the last few years, competition for consumers food dollars has intensified due to the addition of, or increase in, food sections by many types of retailers such as specialty grocers, drug and convenience stores, national general merchandisers and discount retailers, membership clubs, warehouse stores and super centers. Restaurants are another significant competitor for food dollars.

Supermarket chains generally compete on the basis of location, quality of products, service, price, convenience, product variety and store condition.

The Company believes its competitive advantages include convenient locations, the quality of service it provides its customers, competitive pricing, product variety and quality and a pleasant shopping environment, which is enhanced by its ongoing modernization program.

By concentrating its operations within a relatively small geographic region, the Company is also positioned to more carefully monitor its markets, and the needs of its customers within those markets. The Company s senior executives live and work in the Company s operating region, thereby allowing management to quickly identify changes in needs and customer preference. Because of the Company s size, store managers have direct access to corporate management and are able to receive quick decisions regarding requested changes in operations. The Company can then move quickly to make adjustments in its business in response to changes in the market and customer needs.

The Company s large national and international competitors primary advantages are related to their size. These larger organizations may have an advantage through stronger buying power and more significant capital resources.

The Company s management monitors competitive activity and regularly reviews and periodically adjusts the Company s marketing and business strategies as management deems appropriate in light of existing conditions in the Company s region. The Company s ability to remain competitive in its changing markets will depend in part on its ability to pursue its expansion and renovation programs and its response to remodeling and new store openings by its competitors.

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, unless Easter falls in that quarter. In the third and fourth quarters, sales are affected by the return of customers to seasonal homes in the Company s market area. The fluid dairy segment of the Company s business has slight seasonal variation to the extent of its sales into the grocery industry. The Company s real estate segment is not subject to seasonal variations.

Employees and Labor Relations

At September 26, 2009, the Company had approximately 18,600 non-union employees, of which 91% were supermarket personnel. Approximately 57% of these employees work on a part-time basis. Management considers employee relations to be good. The Company values its employees and believes that employee loyalty and enthusiasm are key elements of its operating performance.

Trademarks and Licenses

The Company employs various trademarks and service marks in its business, the most important of which are its own Laura Lynn private label trademark, The Ingles Advantage service mark, and the Ingles service mark. These service marks and the trademark are federally registered in the United States pursuant to applicable intellectual property laws and are the property of Ingles. In addition, the Company uses the Sealtest, Pet, Biltmore and Light N Lively trademarks pursuant to agreements entered into in connection with its fluid dairy processing plant segment. The Company believes it has all material licenses and permits necessary to conduct its business.

The current expiration dates for significant trade and service marks are as follows: Ingles December 9, 2015; Laura Lynn March 13, 2014; and The Ingles Advantage August 30, 2015. Each registration may be renewed for an additional ten-year term prior to its expiration. The Company intends to file all renewals timely. Each of the Company s trademark license agreements has a one year term which, with respect to one license, is automatically renewed annually, unless the owner of the trademark provides notice of termination prior to the then expiration date and, with respect to the other licenses, are renewed periodically by letter from the licensor. The Company currently has four pending applications for additional trademarks or service marks.

Environmental Matters

Under applicable environmental laws, the Company may be responsible for remediation of environmental conditions and may be subject to associated liabilities relating to its stores and other buildings and the land on

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which such stores and other buildings are situated (including responsibility and liability related to its operation of its gas stations and the storage of gasoline in underground storage tanks), regardless of whether the Company leases or owns the stores, other buildings or land in question and regardless of whether such environmental conditions were created by the Company or by a prior owner or tenant. The Company s liabilities may also include costs and judgments resulting from lawsuits brought by private litigants. The presence of contamination from hazardous or toxic substances, or the failure to properly remediate such contaminated property, may adversely affect the Company s ability to sell or rent such real property or to borrow using such real property as collateral. Although the Company typically conducts an environmental review prior to acquiring or leasing new stores, other buildings or raw land, there can be no assurance that environmental conditions relating to prior, existing or future stores, other buildings or the real properties on which such stores or other buildings are situated will not have a material adverse effect on the Company s business, financial condition and results of operations.

Federal, state and local governments could enact laws or regulations concerning environmental matters that affect the Company s operations or facilities or increase the cost of producing or distributing the Company s products. The Company believes that it currently conducts its operations, and in the past has conducted its operations, in substantial compliance with applicable environmental laws. The Company, however, cannot predict the environmental liabilities that may result from legislation or regulations adopted in the future, the effect of which could be retroactive. Nor can the Company predict how existing or future laws and regulations will be administered or interpreted or what environmental conditions may be found to exist at its facilities or at other properties where the Company or its predecessors have arranged for the disposal of hazardous substances. The enactment of more stringent laws or regulations or stricter interpretation of existing laws and regulations could require expenditures by the Company, some of which could have a material adverse effect on its business, financial condition and results of operations.

The Company strives to employ sound environmental operating policies, including recycling cardboard packaging, recycling wooden pallets, and re-circulating some water used in its car washes. The Company offers reusable shopping bags to its customers and will pack groceries in bags brought in by its customers.

Government Regulation

The Company is subject to regulation by a variety of governmental agencies, including, but not limited to, the U.S. Food and Drug Administration, the U.S. Department of Agriculture, the Occupational Health and Safety Administration and other federal, state and local agencies. The Company s stores are also subject to local laws regarding zoning, land use and the sale of alcoholic beverages. The Company believes that its locations are in material compliance with such laws and regulations.

Item 1A. RISK FACTORS

Below is a series of risk factors that may affect the Company s business, financial condition and/or results of operations. Other risk factors are contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K. These and such other risk factors may not be exhaustive. The Company operates in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of these risk factors on the Company s business, financial condition and/or results of operations or the extent to which any factor or combination of factors may impact of any of these areas.

The Company s expansion and renovation plans may not be successful which may adversely affect the Company s business and financial condition due to the capital expenditures and management resources required to carry out the Company s plans.

The Company has spent, and intends to continue to spend, significant capital and management resources on the development and implementation of the Company s expansion and renovation plans. These plans, if

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implemented, may not be successful, may not improve operating results and may have an adverse effect on cash flow and management resources due to the significant amount of capital invested and management time expended.

The level of sales and profit margins in the Company s existing stores may not be duplicated in the Company s new stores, depending on factors such as prevailing competition, development cost, and the Company s market position in the surrounding community. These factors could have an adverse effect on the Company s business, financial condition and/or results of operations.

The Company s warehouse and distribution center and milk processing and packaging plant, as well as all of the Company s stores, are concentrated in the Southeastern United States, which makes it vulnerable to economic downturns, natural disasters and other adverse conditions or other catastrophic events in this region.

The Company operates in the Southeastern United States, and its performance is therefore heavily influenced by economic developments in the Southeast region. The Company s headquarters, warehouse and distribution center and milk processing and packaging plant are located in North Carolina and all of the Company s stores are located in the Southeast region. As a result, the Company s business may be more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include, among others, changes in the economy, weather conditions, demographics and population.

The Company has, and expects to continue to have, a significant amount of indebtedness.

At September 26, 2009, the Company had total consolidated indebtedness for borrowed money of $849.3 million and we had $190.0 million of availability under its lines of credit. A portion of the Company s cash flow is used to service such indebtedness. The Company owns a significant amount of real estate, which has been and will continue to be a factor in the Company s overall level of indebtedness. Real estate can be used as collateral for indebtedness and can be sold to reduce indebtedness. The Company s significant indebtedness could have important consequences, including the following:

- It may be difficult for the Company to satisfy its obligations under its existing credit facilities and its other indebtedness and commitments;

- The Company is required to use a portion of its cash flow from operations to pay interest on its current and future indebtedness, which may require the Company to reduce funds available for other purposes;

- The Company may have a limited ability to obtain additional financing, if needed, to fund additional projects, working capital requirements, capital expenditures, debt service, general corporate or other obligations; and

- The Company may be placed at a competitive disadvantage to its competitors that are not as highly leveraged.

Disruptions in the capital markets, as have been experienced during 2009, could adversely affect the Company s ability to fund its short-term liquidity needs and its expansion and renovation plans.

Disruptions in the capital markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect the Company s access to liquidity needed for its business. Any disruption could limit the Company s access to capital and raise its cost of capital to the extent available and require the Company to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for its business needs can be arranged. Such measures could include deferring capital expenditures, dividend payments or other discretionary uses of cash.

The Company s principal stockholder, Robert P. Ingle, has the ability to elect a majority of the Company s directors, appoint new members of management and approve many actions requiring stockholder approval.

Mr. Ingle s share ownership represents approximately 86% of the combined voting power of all classes of the Company s capital stock as of September 26, 2009. As a result, Mr. Ingle has the power to elect a majority of

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the Company s directors and approve any action requiring the approval of the holders of the Company s Class A Common Stock and Class B Common Stock, including adopting certain amendments to the Company s charter and approving mergers or sales of substantially all of the Company s assets. Currently, three of the Company s nine directors are members of the Ingle family.

If the Company loses the services of its key personnel, the Company s business could suffer.

The Company s continued success depends upon the availability and performance of the Company s executive officers, including Robert P. Ingle and Robert P. Ingle, II, who possess unique and extensive industry knowledge and experience. The loss of the services of any of the Company s executive officers or other key employees could adversely affect the Company s business.

Various aspects of the Company s business are subject to federal, state and local laws and regulations. The Company s compliance with these regulations may require additional capital expenditures and could adversely affect the Company s ability to conduct the Company s business as planned.

The Company is subject to federal, state and local laws and regulations relating to zoning, land use, work place safety, public health, community right-to-know, beer and wine sales, country of origin labeling of food products, pharmaceutical sales and gasoline station operations. Furthermore, the Company s business is regulated by a variety of governmental agencies, including, but not limited to, the U.S. Food and Drug Administration, the U.S. Department of Agriculture, and the Occupational Health and Safety Administration. A number of states and local jurisdictions regulate the licensing of supermarkets, including beer and wine license grants. In addition, under certain local regulations, the Company is prohibited from selling beer and wine in certain of the Company s stores. Employers are also subject to laws governing their relationship with employees, including minimum wage requirements, overtime, working conditions, disabled access and work permit requirements. Compliance with, or changes in, these laws could reduce the revenue and profitability of the Company s supermarkets and could otherwise adversely affect the Company s business, financial condition or results of operations. A number of federal, state and local laws exist which impose burdens or restrictions on owners with respect to access by disabled persons. The Company s compliance with these laws may result in modifications to the Company s properties, or prevent the Company from performing certain further renovations, with respect to access by disabled persons.

The Company is also subject to various state and federal environmental laws relating to the Company s stores, gas stations, distribution facilities and use of hazardous or toxic substances. As a result of these laws, the Company could be responsible for remediation of environmental conditions and may be subject to associated liabilities.

The Company is affected by certain operating costs which could increase or fluctuate considerably.

The Company depends on qualified employees to operate the Company s stores and may be affected by future tight labor markets. A shortage of qualified employees could require the Company to enhance the Company s wage and benefit package in order to better compete for and retain qualified employees, and the Company may not be able to recover these increased labor costs through price increases charged to customers, which could significantly increase the Company s operating costs.

Finally, interchange fees charged to us for accepting debit and credit cards have increased substantially and may continue to increase as more customer transactions are settled with debit and credit cards.

The Company is affected by the availability and wholesale price of gasoline and retail gasoline prices, all of which can fluctuate quickly and considerably.

The Company operates fuel stations at 66 of its store locations. While the Company obtains gasoline and diesel fuel from a number of different suppliers, long-term disruption in the availability and wholesale price of gasoline for resale could have a material adverse effect on the Company s business, financial condition and/or results of operations.

Fluctuating fuel costs adversely affect the Company s operating costs which depend on fuel for the Company s fleet of tractors and trailers which distribute goods from the Company s distribution facility and for the Company s fluid dairy operations. In addition, operations at the Company s stores are sensitive to rising utility fuel costs due to the amount of electricity and gas required to operate the stores and the influence of petroleum costs on plastic bags and wraps.

Furthermore, fluctuating fuel costs could have an adverse effect on the Company s total gasoline sales (both in terms of dollars and gallons sold), the profitability of gasoline sales, or the Company s plans to develop additional fuel centers. Also, retail gas price volatility could diminish customer usage of fueling centers and, thus, adversely affect customer traffic at the Company s stores.

The Company s industry is highly competitive. If the Company is unable to compete effectively, the Company s financial condition and results of operations could be materially affected.

The supermarket industry is highly competitive and continues to be characterized by intense price competition, aggressive supercenter expansion, increasing fragmentation of retail formats, entry of non-traditional competitors and market consolidation. Furthermore, some of the Company s competitors have greater financial resources and could use these financial resources to take measures, such as altering product mix or reducing prices, which could adversely affect the Company s competitive position.

The Company also faces competition from restaurants and fast food chains due to the increasing proportion of household food expenditures for food prepared outside the home. In addition, certain of the Company s stores also compete with local video stores, florists, book stores, pharmacies and gas stations.

Disruptions in the efficient distribution of food products to the Company s warehouse and stores may adversely affect the Company s business.

The Company s business could be adversely affected by disruptions in the efficient distribution of food products to the Company s warehouse and to the Company s stores. Such disruptions could be caused by, among other things, adverse weather conditions, fuel availability, food contamination recalls and civil unrest in foreign countries in which the Company s suppliers do business.

The Company s operations are subject to economic conditions that impact consumer spending.

The Company s results of operations are sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Future economic conditions such as employment levels, business conditions, interest rates, energy and fuel costs and tax rates could reduce consumer spending or change consumer purchasing habits. A general reduction in the level of consumer spending or the Company s inability to respond to shifting consumer attitudes regarding products, store location and other factors could adversely affect the Company s business, financial condition and/or results of operations.

Item 1B. **UNRESOLVED STAFF COMMENTS**

None.

Item 2. **PROPERTIES**

Owned Properties

The Company owns and operates 72 shopping centers, 56 of which contain an Ingles supermarket, and owns 92 additional properties that contain a free-standing Ingles store. The Company also owns 12 undeveloped sites which are suitable for a free-standing store or shopping center development. Ingles owns numerous outparcels and other acreage located adjacent to the shopping centers and supermarkets it owns. Real estate owned by the Company is generally located in the same geographic regions as its supermarkets.

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The shopping centers owned by the Company contain an aggregate of 6.1 million square feet of leasable space, of which 2.9 million square feet is used by the Company s supermarkets. The remainder of the leasable space in these shopping centers is leased or held for lease by the Company to third party tenants. A breakdown by size of the shopping centers owned and operated by the Company is as follows:

Size	Number
Less than 50,000 square feet	20
50,000 100,000 square feet	27
More than 100,000 square feet	25
Total	72

The Company owns an 810,000 square foot facility, which is strategically located between Interstate 40 and Highway 70 near Asheville, North Carolina, as well as the 73 acres of land on which it is situated. The facility includes the Company s headquarters and its 780,000 square foot warehouse and distribution facility. The property also includes truck servicing and fuel storage facilities. The Company also owns a 139,000 square foot warehouse on 21 acres of land approximately one mile from its main warehouse and distribution facility that is used to store seasonal and overflow items. The Company also owns a 46 acre site adjacent to its warehouse and distribution facility for possible future expansion.

The Company s milk processing and packaging subsidiary, Milkco, Inc., owns a 116,000 square foot manufacturing and storage facility in Asheville, North Carolina. In addition to the plant, the 20-acre property includes truck cleaning and fuel storage facilities.

Certain long-term debt of the Company is secured by the owned properties. See Note 6, Long-Term Debt and Short-Term Loans to the Consolidated Financial Statements of this Annual Report on Form 10-K for further details.

Leased Properties

The Company operates supermarkets at 52 locations leased from various unaffiliated third parties. The Company also leases 10 supermarket facilities in which it is not currently operating, five of which are subleased to third parties and the remainder are held for lease by the Company. Certain of the leases give the Company the right of first refusal to purchase the entire shopping center in which the supermarkets are located. The majority of these leases require the Company to pay property taxes, utilities, insurance, repairs and certain other expenses incidental to occupation of the premises. In addition to base rent, most leases contain provisions that require the Company to pay additional percentage rent (ranging from 0.75% to 1.5%) if sales exceed a specified amount.

Rental rates generally range from $1.67 to $8.18 per square foot. During fiscal years 2009, 2008 and 2007, the Company paid a total of $14.6 million, $13.6 million and $16.3 million, respectively, in supermarket rent, exclusive of property taxes, utilities, insurance, repairs and other expenses. The following table summarizes lease expiration dates as of September 26, 2009, with respect to the initial and any renewal option terms of leased supermarkets:

Year of Expiration (Including Renewal Terms)	Number of Leases Expiring

2010 2023	5
2024 2038	7
2039 or after	50

Management believes that the long-term rent stability provided by these leases is a valuable asset of the Company.

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Item 3. LEGAL PROCEEDINGS

Various legal proceedings and claims arising in the ordinary course of business are pending against the Company. In the opinion of management, the ultimate liability, if any, from all pending legal proceedings and claims would not materially affect the Company s business, financial condition and/or the results of operations.

Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company s security holders during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. **MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Market Information

The Company has two classes of Common Stock: Class A and Class B. Class A Common Stock is traded on The NASDAQ Global Select Market under the symbol IMKTA. There is no public market for the Company s Class B Common Stock. However, under the terms of the Company s Articles of Incorporation, any holder of Class B Common Stock may convert any portion or all of the holder s shares of Class B Common Stock into an equal number of shares of Class A Common Stock at any time. For additional information regarding the voting powers, preferences and relative rights of the Class A Common Stock and Class B Common Stock, please see Note 7, Stockholders Equity to the Consolidated Financial Statements of this Annual Report on Form 10-K.

As of November 30, 2009, there were approximately 626 holders of record of the Company s Class A Common Stock and 163 holders of record of the Company s Class B Common Stock. The following table sets forth the reported high and low closing sales price for the Class A Common Stock during the periods indicated as reported by NASDAQ. The quotations reflect actual inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

2009 Fiscal Year	**High**	**Low**
First Quarter (ended December 27, 2008)	$ 22.83	$ 11.67
Second Quarter (ended March 28, 2009)	$ 18.07	$ 11.09
Third Quarter (ended June 27, 2009)	$ 17.23	$ 14.04
Fourth Quarter (ended September 26, 2009)	$ 17.28	$ 14.85

2008 Fiscal Year	**High**	**Low**
First Quarter (ended December 29, 2007)	$ 30.02	$ 20.83
Second Quarter (ended March 29, 2008)	$ 26.77	$ 21.35
Third Quarter (ended June 28, 2008)	$ 26.43	$ 21.88
Fourth Quarter (ended September 27, 2008)	$ 26.19	$ 23.33

On November 30, 2009, the closing sales price of the Company s Class A Common Stock on The NASDAQ Global Select Market was $15.61 per share.

Dividends

The Company has paid cash dividends on its Common Stock in each of the past twenty-seven fiscal years, except for the 1984 fiscal year when the Company paid a 3% stock dividend. During both fiscal 2009 and fiscal 2008 the Company paid annual dividends totaling $0.66 per share of Class A Common Stock and $0.60 per share of Class B Common Stock, paid in quarterly installments of $0.165 and $0.15 per share, respectively. The Company s last dividend payment was made on October 22, 2009 to common stockholders of record on October 8, 2009. For additional information regarding the dividend rights of the Class A Common Stock and Class B Common Stock, please see Note 7, Stockholders Equity to the Consolidated Financial Statements of this Annual Report on Form 10-K.

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. 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. The payment of cash dividends is also subject to restrictions contained in certain financing arrangements. Such restrictions are summarized in Note 6, Long-Term Debt and Short-Term Loans to the Consolidated Financial Statements of this Annual Report on Form 10-K.

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Equity Compensation Plan Information

The Company had a nonqualified stock option plan pursuant to which an aggregate of 8,000,000 shares of the Company s Class A Common Stock were reserved for issuance to the Company s officers and other key employees until January 1, 2007. Accordingly, as of September 26, 2009, no shares of the Company s Class A Common Stock were available for future issuance under the plan and all remaining unexercised options had expired.

The Company does not have any equity compensation plans not approved by its stockholders.

Stock Performance Graph

Set forth below are a graph and accompanying table comparing the five-year cumulative total stockholder return on the Class A Common Stock with the five-year cumulative total return of (i) the S&P 500 Comprehensive-Last Trading Day Index and (ii) an expanded peer group of companies in the Company s line of business. The peer group consists of the following companies: Royal Ahold N.V., Delhaize S.A., Pathmark Stores, Inc., The Kroger Co., Safeway Inc., Supervalu Inc., Whole Foods Market, Inc. and The Great Atlantic & Pacific Tea Company, Inc.

The comparisons cover the five-years ended September 26, 2009 and assume that $100 was invested after the close of the market on September 25, 2004, and that dividends were reinvested quarterly. Returns of the companies included in the peer group reflected below have been weighted according to each company s stock market capitalization at the beginning of each section for which a return is presented.

INGLES MARKETS, INCORPORATED

COMPARATIVE RETURN TO STOCKHOLDERS

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Ingles Markets, Inc., The S&P 500 Index

And A Peer Group

* $100 invested on 9/25/04 in stock or 9/30/04 in index, including reinvestment of dividends.
Index calculated on month-end basis.

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INDEXED RETURNS OF INITIAL $100 INVESTMENT*

Company/Index	**2005**	**2006**	**2007**	**2008**	**2009**
Ingles Markets, Incorporated Class A Common Stock	$ 126.87	$ 232.47	$ 257.62	$ 221.26	$ 153.49
S&P 500 Comprehensive Last Trading Day Index	$ 112.25	$ 124.37	$ 144.81	$ 112.99	$ 105.18
Expanded Peer Group	$ 127.87	$ 150.58	$ 174.21	$ 134.19	$ 117.08

* Assumes $100 invested in the Class A Common Stock of Ingles Markets, Incorporated after the close of the market on September 25, 2004.

The foregoing stock performance information, including the graph, shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission nor shall this information be incorporated by reference into any of the Company s filings under the Securities Act of 1933 or the Exchange Act.

Item 6. SELECTED FINANCIAL DATA

The selected financial data set forth below has been derived from the Company s Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. This financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Results of Operations and Financial Condition and the Consolidated Financial Statements and Notes thereto.

	Selected Income Statement Data for the Year Ended September				
	2009	**2008**	**2007**	**2006**	**2005**
	(in thousands, except per share amounts)				
Net Sales	$ 3,250,933	$ 3,238,046	$ 2,851,593	$ 2,612,233	$ 2,273,941
Net Income	28,828	52,123	58,638	42,582	26,570
Diluted Earnings per Common Share					
Class A	$ 1.18	$ 2.13	$ 2.39	$ 1.74	$ 1.10
Class B	1.12	2.02	2.28	1.66	1.05
Cash Dividends per Common Share					
Class A	$ 0.66	$ 0.66	$ 0.66	$ 0.66	$ 0.66
Class B	0.60	0.60	0.60	0.60	0.60

	Selected Balance Sheet Data at September				
	2009	**2008**	**2007**	**2006**	**2005**
	(in thousands)				
Current Assets	$ 423,720	$ 334,763	$ 293,127	$ 275,608	$ 283,115
Property and Equipment, net	1,072,937	1,030,023	839,732	771,628	744,162
Total Assets	1,517,609	1,375,004	1,142,806	1,064,764	1,044,663
Current Liabilities, including Current Portion of Long-Term Debt	228,562	253,273	217,423	208,651	179,534
Long-Term Liabilities, net of Current Portion (1)	823,660	686,393	539,063	528,767	557,035
Stockholders Equity	398,164	384,814	348,144	304,673	276,849

(1) Excludes long-term deferred income tax liability.

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Item 7. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Overview

Ingles, a leading supermarket chain in the Southeast United States, operates 200 supermarkets in Georgia (73), North Carolina (68), South Carolina (36), Tennessee (20), 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 September 26, 2009, the Company operated 69 in-store pharmacies and 66 fuel centers.

Ingles also operates two other lines of business, fluid dairy processing and shopping center rentals. The fluid dairy processing segment sells approximately 34% of its products to the retail grocery segment and approximately 66% of its products to third parties. Real estate ownership (including the shopping center rental segment) is an important component of the Company s operations, providing both operational and economic benefit.

Critical Accounting Policies

Critical accounting policies are those accounting policies that management believes are important to the portrayal of Ingles 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 and $300,000 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 September 26, 2009, the Company s self insurance reserves totaled $14.2 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.

Closed Store Accrual

For closed properties under long-term lease agreements, a liability is recognized and expensed based on the difference between the present value of any remaining liability under the lease and the present value of the estimated market rate at which the Company expects to be able to sublease the properties, in accordance with FASB ASC Topic 420. The Company s estimates of market rates are based on its experience, knowledge and third-party advice or market data. If the real estate and leasing markets change, sublease recovery could vary significantly from the recoveries originally assumed, resulting in a material change in the Company s recorded liability. The closed store accrual is included in the line item Accrued expenses and current portion of other long-term liabilities on the Consolidated Balance Sheets.

Vendor Allowances

The Company receives funds for a variety of merchandising activities from the many vendors whose products the Company buys for resale in its stores. These incentives and allowances are primarily comprised of volume or purchase based incentives, advertising allowances, slotting fees, and promotional discounts. The purpose of these incentives and allowances is generally to help defray the costs incurred by the Company for stocking, advertising, promoting and selling the vendor s products. These allowances generally relate to short term arrangements with vendors, often relating to a period of a month or less, and are negotiated on a purchase-by-purchase or transaction-by-transaction basis. Whenever possible, vendor discounts and allowances that relate to buying and merchandising activities are recorded as a component of item cost in inventory and recognized in merchandise costs when the item is sold. Due to system constraints and the nature of certain allowances, it is sometimes not practicable to apply allowances to the item cost of inventory. In those instances, the allowances are applied as a reduction of merchandise costs using a rational and systematic methodology, which results in the recognition of these incentives when the inventory related to the vendor consideration received is sold. Vendor allowances applied as a reduction of merchandise costs totaled $101.0 million, $97.5 million, and $91.6 million for the fiscal years ended September 26, 2009, September 27, 2008 and September 29, 2007, respectively. Vendor advertising allowances that represent a reimbursement of specific identifiable incremental costs of advertising the vendor s specific products are recorded as a reduction to the related expense in the period that the related expense is incurred. Vendor advertising allowances recorded as a reduction of advertising expense totaled $14.3 million, $11.8 million, and $10.4 million for the fiscal years ended September 26, 2009, September 27, 2008 and September 29, 2007, 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

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evolving case law. Income tax expense includes the impact of position 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.

During the quarter ended March 31, 2007 the Company settled a tax position under an initiative offered by one of the states in which the Company conducts its operations. As a result of this settlement, the Company reduced its reserve for uncertain income tax positions by $3.2 million. This reduction is reflected as a reduction of income tax expense for the fiscal year ended September 29, 2007.

Results of Operations

Ingles operates on a 52- or 53-week fiscal year ending on the last Saturday in September. The consolidated statements of income for the fiscal years ended September 26, 2009, September 27, 2008 and September 29, 2007, all consisted of 52 weeks of operations.

Comparable store sales are defined as sales by grocery stores in operation for the entire duration of the previous and current fiscal years. The Company has an ongoing renovation and expansion plan to modernize the appearance and layout of its existing stores. Over the past five fiscal years, the Company has spent approximately $605 million to modernize and remodel its existing stores, relocate older stores to larger, more convenient locations and to construct new stores in order to maintain the quality shopping experience that its customers expect. 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 of completion of the replacement, remodel or addition. 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 may include additional retail square footage. Gasoline sales from the addition of fuel stations to existing stores during the measurement period are included in comparable store sales. For the fiscal years ended September 26, 2009 and September 27, 2008 comparable store sales include 194 and 193 stores, respectively. Weighted average retail square footage added to comparable stores due to replacement and remodeled stores totaled approximately 730,000 and 614,000 for the fiscal years ended September 26, 2009 and September 27, 2008, respectively.

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, reference is made to Note 10 Lines of Business to the Consolidated Financial Statements.

	Fiscal Years Ended		
	2009	**2008**	**2007**
Net sales	100.0%	100.0%	100.0%
Gross profit	22.9	21.8	