

INGLES MARKETS INC  
Form 10-Q/A  
February 10, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q/A**

**Amendment No. 1**

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

For the quarterly period ended March 27, 2004

**.. 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.

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**INGLES MARKETS, INCORPORATED**

(Exact name of registrant as specified in its charter)

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

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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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of April 30, 2004, the Registrant had 11,241,896 shares of Class A Common Stock, \$0.05 par value per share, outstanding and 12,369,841 shares of Class B Common Stock, \$0.05 par value per share, outstanding.

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**EXPLANATORY NOTE**

Ingles Markets, Incorporated ( Ingles or the Company ) is filing this Quarterly Report on Form 10-Q/A (the Form 10-Q/A ) for the quarter ended March 27, 2004 to reflect the restatement of its consolidated financial statements, the notes thereto, and related disclosures.

During preparation for its annual audit and annual report on Form 10-K for fiscal 2004 and as a result of a previously announced internal investigation initiated after an informal Securities and Exchange Commission inquiry, the Company determined that certain vendor allowances and certain other revenue and expense items were accounted for incorrectly. In addition, the Company identified accounting errors related to certain lease transactions. Ingles is filing this Form 10-Q/A for purposes of restating its consolidated financial statements for the periods ended March 27, 2004 and March 29, 2003 in order to correct these errors. The adjustments made to Ingles' financial statements are further described in Note B to the consolidated financial statements.

This Form 10-Q/A has not been updated except as required to reflect the effects of the restatement. This amendment and restatement includes changes to Part I, Items 1, 2 and 4 and Part II, Item 6. Except as identified in the prior sentence, no other item included in the original Form 10-Q has been amended, and such items shall remain in effect as of the filing date of the original Form 10-Q. Additionally, this Form 10-Q/A does not purport to provide an update or discussion of any other developments at the Company subsequent to its original filing.

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Part I. Financial Information

**Item 1. Financial Statements**

**INGLES MARKETS, INCORPORATED AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**ASSETS**

	<b>MARCH 27, 2004 (RESTATED)</b>	<b>SEPTEMBER 27, 2003 (RESTATED)</b>
Current Assets:		
Cash and Cash Equivalents	\$ 44,209,311	\$ 80,879,318
Receivables	31,573,431	34,220,658
Inventories	186,825,769	193,402,781
Other Current Assets	12,708,790	11,768,169
Total Current Assets	<b>275,317,301</b>	320,270,926
Property and Equipment Net	752,717,199	739,023,467
Other Assets	14,669,313	16,155,680
Total Assets	<b>\$ 1,042,703,813</b>	\$ 1,075,450,073

See notes to unaudited interim financial statements.

**Table of Contents****INGLES MARKETS, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

## LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 27, 2004  (RESTATED)	SEPTEMBER 27, 2003  (RESTATED)
<b>Current Liabilities:</b>		
Short-term loans and current portion of long-term debt	\$ 31,190,903	\$ 38,032,125
Accounts payable, accrued expenses and current portion of other long-term liabilities	129,113,982	149,627,349
<b>Total Current Liabilities</b>	<b>160,304,885</b>	187,659,474
Deferred Income Taxes	41,503,578	39,663,578
Long-Term Debt	588,858,006	602,932,198
Other Long-Term Liabilities	7,542,947	8,599,709
<b>Total Liabilities</b>	<b>798,209,416</b>	838,854,959
<b>Stockholders' Equity</b>		
Preferred stock, \$0.05 par value; 10,000,000 shares authorized; no shares issued		
<b>Common stocks:</b>		
Class A, \$0.05 par value; 150,000,000 shares authorized; 11,204,274 shares issued and outstanding March 27, 2004; 10,635,419 shares issued and outstanding September 27, 2003	560,213	531,770
Class B, \$0.05 par value; 100,000,000 shares authorized; 12,369,841 shares issued and outstanding March 27, 2004; 12,391,216 shares issued and outstanding September 27, 2003	618,492	619,561
Paid-in capital in excess of par value	107,935,237	102,465,443
Retained earnings	135,380,455	132,978,340
<b>Total Stockholders' Equity</b>	<b>244,494,397</b>	236,595,114
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,042,703,813</b>	\$ 1,075,450,073

See notes to unaudited interim financial statements.

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

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 27, 2004 (RESTATED)</b>	<b>MARCH 29, 2003 (RESTATED)</b>
Net sales	<b>\$ 520,792,146</b>	\$ 489,382,957
Cost of goods sold	<b>383,611,145</b>	360,976,562
Gross profit	<b>137,181,001</b>	128,406,395
Operating and administrative expenses	<b>118,036,841</b>	115,533,020
Rental income, net	<b>1,746,876</b>	2,355,079
Income from operations	<b>20,891,036</b>	15,228,454
Other income, net	<b>4,183,422</b>	1,317,766
Interest expense	<b>13,712,365</b>	12,511,137
Income before income taxes	<b>11,362,093</b>	4,035,083
Income taxes:		
Current	<b>774,000</b>	4,498,000
Deferred	<b>3,343,000</b>	(2,977,000)
	<b>4,117,000</b>	1,521,000
Net income	<b>\$ 7,245,093</b>	\$ 2,514,083
Per share amounts:		
Basic earnings per common share	<b>\$ 0.31</b>	\$ 0.11
Diluted earnings per common share	<b>\$ 0.31</b>	\$ 0.11
Cash dividends per common share:		
Class A Common Stock	<b>\$ 0.165</b>	\$ 0.165
Class B Common Stock	<b>\$ 0.150</b>	\$ 0.150

See notes to unaudited interim financial statements.





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

	<b>SIX MONTHS ENDED</b>	
	<b>March 27, 2004  (RESTATED)</b>	<b>March 29, 2003  (RESTATED)</b>
Net sales	<b>\$ 1,055,098,583</b>	\$ 984,499,148
Cost of goods sold	<b>784,581,714</b>	726,247,668
Gross profit	<b>270,516,869</b>	258,251,480
Operating and administrative expenses	<b>236,568,694</b>	231,350,848
Rental income, net	<b>3,237,591</b>	4,512,261
Income from operations	<b>37,185,766</b>	31,412,893
Other income, net	<b>5,520,866</b>	1,815,685
Interest expense	<b>27,581,958</b>	25,228,265
Income before income taxes	<b>15,124,674</b>	8,000,313
Income taxes:		
Current	<b>3,044,000</b>	6,102,000
Deferred	<b>2,432,000</b>	(3,200,000)
	<b>5,476,000</b>	2,902,000
Net income	<b>\$ 9,648,674</b>	\$ 5,098,313
Per share amounts		
Basic earnings per common share	<b>\$ 0.42</b>	\$ 0.22
Diluted earnings per common share	<b>\$ 0.42</b>	\$ 0.22
Cash dividends per common share:		
Class A Common Stock	<b>\$ 0.33</b>	\$ 0.33
Class B Common Stock	<b>\$ 0.30</b>	\$ 0.30

See notes to unaudited interim financial statements.



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

SIX MONTHS ENDED MARCH 27, 2004 AND MARCH 29, 2003

	CLASS A		CLASS B		PAID-IN	RETAINED EARNINGS (RESTATED)	TOTAL (RESTATED)
	COMMON STOCK		COMMON STOCK		CAPITAL IN		
	SHARES	AMOUNT	SHARES	AMOUNT	EXCESS OF PAR VALUE		
Balance, September 28, 2002 (as previously reported)	10,189,807	\$ 509,490	12,597,932	\$ 629,897	\$ 100,148,857	\$ 137,270,604	\$ 238,558,848
Restatement adjustments						(6,992,000)	(6,992,000)
Balance, September 28, 2002 (as restated)	10,189,807	509,490	12,597,932	629,897	100,148,857	130,278,604	231,566,848
Net income						5,098,313	5,098,313
Cash dividends						(7,142,482)	(7,142,482)
Exercise of stock options	55,675	2,784			549,965		552,749
Common stock conversions	205,966	10,298	(205,966)	(10,298)			
Balance, March 29, 2003	10,451,448	\$ 522,572	12,391,966	\$ 619,599	\$ 100,698,822	\$ 128,234,435	\$ 230,075,428
Balance, September 27, 2003 (as previously reported)	10,635,419	\$ 531,770	12,391,216	\$ 619,561	\$ 102,465,443	\$ 139,946,340	\$ 243,563,114
Restatement adjustments						(6,968,000)	(6,968,000)
Balance, September 27, 2003 (as restated)	10,635,419	531,770	12,391,216	619,561	102,465,443	132,978,340	236,595,114
Net income						9,648,674	9,648,674
Cash dividends						(7,246,559)	(7,246,559)
Exercise of stock options	547,480	27,374			5,469,794		5,497,168
Common stock conversions	21,375	1,069	(21,375)	(1,069)			
<b>Balance, March 27, 2004</b>	<b>11,204,274</b>	<b>\$ 560,213</b>	<b>12,369,841</b>	<b>\$ 618,492</b>	<b>\$ 107,935,237</b>	<b>\$ 135,380,455</b>	<b>\$ 244,494,397</b>

See notes to unaudited interim financial statements.

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

	SIX MONTHS ENDED	
	MARCH 27,	MARCH 29,
	2004 (RESTATED)	2003 (RESTATED)
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 9,648,674	\$ 5,098,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	28,322,771	25,160,325
Amortization of deferred gain on sale/leasebacks	(223,135)	(423,591)
Gains on disposals of property and equipment	(5,046,329)	(1,137,596)
Receipt of advance payments from vendors	1,438,000	2,750,000
Recognition of advance payments from vendors	(3,789,852)	(1,916,669)
Increase (decrease) in deferred income taxes	2,432,000	(3,200,000)
Decrease in receivables	4,189,227	417,595
Decrease (increase) in inventory	6,577,012	(1,221,394)
Increase in other assets	(2,149,241)	(1,751,955)
Decrease in accounts payable and accrued expenses	(15,251,938)	(9,757,740)
<b>Net Cash Provided by Operating Activities</b>	<b>26,147,189</b>	<b>14,017,288</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales of property and equipment	9,406,209	1,585,991
Capital expenditures	(49,456,315)	(36,977,049)
<b>Net Cash Used in Investing Activities</b>	<b>(40,050,106)</b>	<b>(35,391,058)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of long-term debt and advances on lines of credit		20,565,000
Debt issuance costs	(102,285)	(24,937)
Principal payments on long-term debt	(20,915,414)	(24,393,534)
Proceeds from exercise of stock options	5,497,168	552,749
Dividends paid	(7,246,559)	(7,142,482)
<b>Net Cash Used in Financing Activities</b>	<b>(22,767,090)</b>	<b>(10,443,204)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(36,670,007)</b>	<b>(31,816,974)</b>
Cash and cash equivalents at beginning of period	80,879,318	46,914,305
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 44,209,311</b>	<b>\$ 15,097,331</b>

See notes to unaudited interim financial statements.



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**INGLES MARKETS, INCORPORATED AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS**

Six Months Ended March 27, 2004 and March 29, 2003

**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 March 27, 2004, and the results of operations, changes in stockholders' equity and cash flows for the three-month and six-month periods ended March 27, 2004 and March 29, 2003. 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 25, 2004 filed by the Company under the Securities Exchange Act of 1934 on February 10, 2005 which includes restated audited financial statements for the year ended September 27, 2003.

The results of operations for the three-month and six-month periods ended March 27, 2004 are not necessarily indicative of the results to be expected for the full fiscal year.

Certain amounts for the three-month and six-month periods ended March 29, 2003 have been reclassified for comparative purposes.

**B. RESTATEMENT**

During preparation for its annual audit and annual report on Form 10-K for fiscal 2004 and as a result of a previously announced internal investigation initiated after an informal Securities and Exchange Commission inquiry, the Company determined that certain vendor allowances and certain other revenue and expense items were accounted for incorrectly. In addition, the Company identified accounting errors related to certain lease transactions. The accompanying condensed consolidated financial statements for the fiscal quarters and six month periods ended March 27, 2004 and March 29, 2003 are restated in order to correct these errors.

*Summary of Restatement Impact on Net Income and Retained Earnings*

The restatement resulted in an increase to income before income taxes of \$55,000 (\$34,000 net of income taxes) and \$1.1 million (\$694,000 net of income taxes) for the quarters ended March 27, 2004 and March 29, 2003, respectively.

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The restatement resulted in an increase to income before income taxes of \$1.0 million (\$640,000 net of income taxes) and \$167,000 (\$103,000 net of income taxes) for the six months ended March 27, 2004 and March 29, 2003, respectively.

The total of the cumulative adjustments to retained earnings for this restatement, before the effect of income taxes, as detailed below is approximately \$10.3 million and \$11.3 million through March 27, 2004 and September 27, 2003, respectively. The income tax benefit of these adjustments totals approximately \$4.0 million and \$4.3 million through March 27, 2004 and September 27, 2003, respectively, resulting in a net cumulative adjustment to retained earnings of approximately \$6.3 million and \$7.0 million through March 27, 2004 and September 27, 2003, respectively.

Details of the errors corrected in the restatement are as follows.

### *Vendor Allowance Errors*

Vendor allowance errors were due primarily to certain allowances related to agreements entered into prior to fiscal 2004, which were recognized in the results of operations when billed. These allowances should have been deferred and recognized over certain measurable criteria, such as purchase volumes or passage of time. Other errors included the recording of erroneous charges to vendors and the omission of the recording of receivables which were recognized in a later period than when they were earned. These errors were corrected in the period in which the error was identified, but resulted in income and expense being recorded in the incorrect periods.

The correction of these errors increased income before income taxes by approximately \$401,000 and \$693,000 for the quarters ended March 27, 2004 and March 29, 2003, respectively. For the six month period ended March 27, 2004, the correction of these errors increased income before income taxes by approximately \$1.0 million and \$325,000, respectively. The cumulative decrease to retained earnings for correction of these errors, before giving effect to income taxes, was approximately \$5.1 million and \$6.1 million at March 27, 2004 and September 27, 2003, respectively.

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*Closing Process Errors*

Closing process errors included incorrect assumptions used in calculating property tax accruals due to incorrect estimates of receivables due from tenants for the reimbursements of property taxes and incorrect or omitted accruals of certain other revenue and expense items.

The correction of these errors decreased income before income taxes by approximately \$300,000 for the quarter ended March 27, 2004, and increased income before income taxes by approximately \$484,000 for the quarter ended March 29, 2003. For the six month period ended March 27, 2004, the correction of these errors increased income before income taxes by approximately \$118,000. For the six month period ended March 29, 2003, correction of these errors decreased income before income taxes by approximately \$52,000. The cumulative decrease to retained earnings for these errors, before giving effect to income taxes, through March 27, 2004 and September 27, 2003 was approximately \$2.5 million and \$2.6 million, respectively.

*Lease Transaction Errors*

During a review of the Company's lease transactions, the Company identified errors in the accounting for certain lease transactions. These errors included the amortization of leasehold improvements over a period that exceeded the lease term and the erroneous classification of certain leasehold improvements as land, resulting in amortization expense not being recorded. In addition, the Company identified errors in accounting for certain ground leases that contained escalating rent provisions. The Company was recognizing the rent expense as it was paid instead of using the straight line method over the term of the lease.

The correction of these errors decreased income before income taxes by approximately \$46,000 and \$49,000, for the quarters ended March 27, 2004 and March 29, 2003, respectively. For the six month period ended March 27, 2004 and March 29, 2003, the correction of these errors decreased income before income taxes by approximately \$96,000 and \$102,000, respectively. The cumulative decrease to retained earnings, before giving effect to income taxes, due to errors in these lease transactions totaled approximately \$2.7 million and \$2.6 million through March 27, 2004 and September 27, 2003, respectively.

The effect of these restatements had no impact on cash flows, however the impact on the unaudited condensed consolidated balance sheets, the unaudited condensed consolidated statements of income and earnings per common share are included in the table below.

	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)	
	AS PREVIOUSLY	
	<u>REPORTED</u>	<u>AS RESTATED</u>
<i>Condensed Consolidated Balance Sheet (unaudited)</i>		
<i>As of March 27, 2004</i>		
Cash and Cash Equivalents	\$ 44,195	\$ 44,209
Receivables	34,311	31,573
Inventories	187,718	186,826
Other Current Assets	6,953	12,709
Total Current Assets	273,177	275,317



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Property and Equipment - Net	754,706	752,717
Other Assets	14,319	14,669
Total Assets	1,042,203	1,042,704
Accounts payable, accrued expenses and current portion of other long-term liabilities	126,885	129,114
Total Current Liabilities	158,076	160,305
Deferred Income Taxes Payable	42,554	41,504
Other Long-Term Liabilities	1,892	7,543
Total Liabilities	791,380	798,209
Retained Earnings	141,708	135,380
Total Stockholders Equity	250,822	244,494
Total Liabilities and Stockholders Equity	\$ 1,042,203	\$ 1,042,704

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	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)	
	AS PREVIOUSLY	
	<u>REPORTED</u>	<u>AS RESTATED</u>
<i>Condensed Consolidated Statements of Income (unaudited)</i>		
<i>For the three months ended March 27, 2004</i>		
Net sales	\$ 521,059	\$ 520,792
Cost of goods sold	383,566	383,611
Gross profit	137,493	137,181
Operating and administrative expenses	118,427	118,037
Rental income, net	1,770	1,747
Income from operations	20,836	20,891
Income before income taxes	11,307	11,362
Income taxes	4,096	4,117
Net income	\$ 7,211	\$ 7,245
Basic earnings per common share	\$ 0.31	\$ 0.31
Diluted earnings per common share	\$ 0.31	\$ 0.31
<i>Condensed Consolidated Statements of Income (unaudited)</i>		
<i>For the six months ended March 27, 2004</i>		
Net sales	\$ 1,055,394	\$ 1,055,099
Cost of goods sold	785,991	784,582
Gross profit	269,403	270,517
Operating and administrative expenses	236,553	236,569
Rental income, net	3,284	3,238
Income from operations	36,134	37,186
Interest expense	27,570	27,582
Income before income taxes	14,085	15,125
Income taxes	5,076	5,476
Net income	\$ 9,009	\$ 9,649
Basic earnings per common share	\$ 0.39	\$ 0.42
Diluted earnings per common share	\$ 0.39	\$ 0.42
<i>Condensed Consolidated Balance Sheet (unaudited)</i>		
<i>As of September 27, 2003</i>		
Cash and Cash Equivalents	\$ 80,865	\$ 80,879
Receivables	31,014	34,221
Inventories	194,835	193,403
Other Current Assets	8,351	11,768
Total Current Assets	315,065	320,271
Property and Equipment - Net	740,834	739,023
Other Assets	15,760	16,156
Total Assets	1,071,659	1,075,450
Accounts payable, accrued expenses and current portion of other long-term liabilities	144,588	149,627
Total Current Liabilities	182,620	187,659
Deferred Income Taxes Payable	40,615	39,664
Other Long-Term Liabilities	1,930	8,600
Total Liabilities	828,096	838,855
Retained Earnings	139,946	132,978
Total Stockholders Equity	243,563	236,595
Total Liabilities and Stockholders Equity	\$ 1,071,659	\$ 1,075,450

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	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE) AS PREVIOUSLY	
	<u>REPORTED</u>	<u>AS RESTATED</u>
<i>Condensed Consolidated Statements of Income (unaudited)</i>		
<i>For the three months ended March 29, 2003</i>		
Cost of goods sold	\$ 361,808	\$ 360,977
Gross profit	127,575	128,406
Operating and administrative expenses	115,823	115,533
Rental income, net	2,349	2,355
Income from operations	14,101	15,228
Income before income taxes	2,908	4,035
Income taxes	1,088	1,521
Net income	\$ 1,820	\$ 2,514
Basic earnings per common share	\$ 0.08	\$ 0.11
Diluted earnings per common share	\$ 0.08	\$ 0.11
<i>Condensed Consolidated Statements of Income (unaudited)</i>		
<i>For the six months ended March 29, 2003</i>		
Cost of goods sold	\$ 726,579	\$ 726,248
Gross profit	257,920	258,251
Operating and administrative expenses	231,160	231,351
Rental income, net	4,500	4,512
Income from operations	31,261	31,412
Interest expense	25,243	25,228
Income before income taxes	7,833	8,000
Income taxes	2,838	2,902
Net income	\$ 4,995	\$ 5,098
Basic earnings per common share	\$ 0.22	\$ 0.22
Diluted earnings per common share	\$ 0.22	\$ 0.22

Certain amounts in Notes C, D, E, H and I have been restated to reflect the adjustments described above.

**C. ACCOUNTING FOR STOCK-BASED COMPENSATION**

Prior to fiscal 2003, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) and related interpretations. No stock-based employee compensation expense for stock options was reflected in net income for years prior to fiscal 2003, as all stock options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. During the fourth quarter of fiscal 2003, effective as of the beginning of the 2003 fiscal year, the Company adopted the fair value recognition provisions of FASB Statement No. 123,

Accounting for Stock-Based Compensation ( FAS 123 ). Under the fair value recognition provisions of FAS 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Under the transition method selected by the Company as allowed by FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure ( FAS 148 ), the Company elected to apply the change in accounting principle using the prospective method. As no options were granted, modified or settled during the fiscal year ended September 27, 2003, or in the first two quarters of fiscal 2004, there was no stock-based employee compensation expense included in net income for the three-month and six-month periods ended March 27, 2004 or March 29, 2003.

Had compensation cost for the Company's plans been determined based on the fair market value at the grant date for awards granted prior to the adoption of FAS 123, the Company's earnings and earnings per share, basic and diluted, would have been reduced to the pro forma amounts

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indicated below. In accordance with FAS 123, the fair value of each option grant was determined using the Black-Scholes option-pricing model.

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	Three Months Ended		Six Months Ended	
	March 27,	March 29,	March 27,	March 29,
	2004	2003	2004	2003
<b>BASIC</b>				
Net income	\$ 7,245,093	\$ 2,514,083	\$ 9,648,674	\$ 5,098,313
Net income, pro forma	\$ 7,211,486	\$ 2,348,289	\$ 9,601,790	\$ 4,730,433
Basic earnings per common share	\$ 0.31	\$ 0.11	\$ 0.42	\$ 0.22
Basic earnings per common share, pro forma	\$ 0.31	\$ 0.10	\$ 0.41	\$ 0.21
<b>DILUTED</b>				
Diluted earnings	\$ 7,245,093	\$ 2,514,083	\$ 9,648,674	\$ 5,098,313
Diluted earnings, pro forma	\$ 7,211,486	\$ 2,348,289	\$ 9,601,790	\$ 4,730,433
Diluted earnings per common share	\$ 0.31	\$ 0.11	\$ 0.42	\$ 0.22
Diluted earnings per common share, pro forma	\$ 0.31	\$ 0.10	\$ 0.41	