INGLES MARKETS INC
Form 10-Q/A
February 10, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 26, 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.

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.)**
P.O. Box 6676, Asheville NC	**28816**
(Address of principal executive offices)	**(Zip Code)**

(828) 669-2941

Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨.

As of July 27, 2004, the Registrant had 11,604,095 shares of Class A Common Stock, $0.05 par value per share, outstanding and 12,369,166 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 June 26, 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 had been 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 June 26, 2004 and June 28, 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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INGLES MARKETS, INCORPORATED

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	JUNE 26, 2004 (RESTATED)	SEPTEMBER 27, 2003 (RESTATED)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	**$ 51,454,581**	$ 80,879,318
Receivables	**33,963,621**	34,220,658
Inventories	**191,806,551**	193,402,781
Other Current Assets	**8,179,426**	11,768,169
Total Current Assets	**285,404,179**	320,270,926
Property and Equipment Net	**750,656,525**	739,023,467
Other Assets	**14,553,825**	16,155,680
Total Assets	**$ 1,050,614,529**	$ 1,075,450,073
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term loans and current portion of long-term debt	**$ 28,557,374**	$ 38,032,125
Accounts payable, accrued expenses and current portion of other long-term liabilities	**142,134,150**	149,627,349
Total Current Liabilities	**170,691,524**	187,659,474
Deferred Income Taxes	**38,111,578**	39,663,578
Long-Term Debt	**582,187,075**	602,932,198
Other Long-Term Liabilities	**6,458,344**	8,599,709
Total Liabilities	**797,448,521**	838,854,959
Stockholders Equity		
Preferred stock, $0.05 par value; 10,000,000 shares authorized; no shares issued		
Common stocks:		
Class A, $0.05 par value; 150,000,000 shares authorized; 11,602,818 shares issued and outstanding June 26, 2004; 10,635,419 shares issued and outstanding September 27, 2003	**580,140**	531,770
Class B, $0.05 par value; 100,000,000 shares authorized; 12,369,391 shares issued and outstanding June 26, 2004; 12,391,216 shares issued and outstanding September 27, 2003	**618,470**	619,561
Paid-in capital in excess of par value	**112,001,668**	102,465,443

Retained earnings	**139,965,730**	132,978,340
Total Stockholders Equity	**253,166,008**	236,595,114
Total Liabilities and Stockholders Equity	**$ 1,050,614,529**	$ 1,075,450,073

See notes to unaudited interim financial statements.

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INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED	
	JUNE 26, 2004 (RESTATED)	JUNE 28, 2003 (RESTATED)
Net sales	**$ 537,447,444**	$ 503,630,936
Cost of goods sold	**396,406,337**	372,485,283
Gross profit	**141,041,107**	131,145,653
Operating and administrative expenses	**117,663,575**	116,611,085
Rental income, net	**2,181,604**	2,035,833
Income from operations	**25,559,136**	16,570,401
Other income, net	**1,004,266**	1,528,007
Interest expense	**13,037,225**	12,838,129
Income before income taxes	**13,526,177**	5,260,279
Income taxes:		
Current	**8,510,000**	1,007,000
Deferred	**(3,273,000)**	874,000
	5,237,000	1,881,000
Net income	**$ 8,289,177**	$ 3,379,279
Per share amounts:		
Basic earnings per common share	**$ 0.35**	$ 0.15
Diluted earnings per common share	**$ 0.35**	$ 0.15
Cash dividends per common share:		
Class A Common Stock	**$ 0.165**	$ 0.165
Class B Common Stock	**$ 0.150**	$ 0.150

See notes to unaudited interim financial statements.

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INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	NINE MONTHS ENDED	
	JUNE 26, 2004 (RESTATED)	JUNE 28, 2003 (RESTATED)
Net sales	**$ 1,592,546,027**	$ 1,488,130,084
Cost of goods sold	**1,180,988,051**	1,098,732,951
Gross profit	**411,557,976**	389,397,133
Operating and administrative expenses	**354,232,269**	347,961,933
Rental income, net	**5,419,195**	6,548,093
Income from operations	**62,744,902**	47,983,293
Other income, net	**6,525,132**	3,343,692
Interest expense	**40,619,183**	38,066,394
Income before income taxes	**28,650,851**	13,260,591
Income taxes:		
Current	**11,554,000**	7,109,000
Deferred	**(841,000)**	(2,326,000)
	10,713,000	4,783,000
Net income	**$ 17,937,851**	$ 8,477,591
Per share amounts		
Basic earnings per common share	**$ 0.77**	$ 0.37
Diluted earnings per common share	**$ 0.77**	$ 0.37
Cash dividends per common share:		
Class A Common Stock	**$ 0.495**	$ 0.495
Class B Common Stock	**$ 0.450**	$ 0.450

See notes to unaudited interim financial statements.

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INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

NINE MONTHS ENDED JUNE 26, 2004 AND JUNE 28, 2003

	CLASS A COMMON STOCK		CLASS B COMMON STOCK		PAID-IN CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (RESTATED)	TOTAL (RESTATED)
	SHARES	AMOUNT	SHARES	AMOUNT			
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						8,477,591	8,477,591
Cash dividends						(10,726,938)	(10,726,938)
Exercise of stock options	104,225	5,211			1,015,679		1,020,890
Common stock conversions	206,716	10,336	(206,716)	(10,336)			
Balance, June 28, 2003	10,500,748	$ 525,037	12,391,216	$ 619,561	$ 101,164,536	$ 128,029,257	$ 230,338,391
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						17,937,851	17,937,851
Cash dividends						(10,950,461)	(10,950,461)
Exercise of stock options	945,574	47,279			9,536,225		9,583,504
Common stock conversions	21,825	1,091	(21,825)	(1,091)			
Balance, June 26, 2004	**11,602,818**	**$ 580,140**	**12,369,391**	**$ 618,470**	**$ 112,001,668**	**$ 139,965,730**	**$ 253,166,008**

See notes to unaudited interim financial statements.

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INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED	
	JUNE 26, 2004 (RESTATED)	JUNE 28, 2003 (RESTATED)
Cash Flows from Operating Activities:		
Net income	**$ 17,937,851**	$ 8,477,591
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	**42,634,000**	38,252,369
Amortization of deferred gain on sale/leasebacks	**(298,249)**	(761,026)
Gains on disposals of property and equipment	**(5,479,896)**	(2,181,958)
Receipt of advance payments from vendors	**1,938,000**	2,530,546
Recognition of advance payments from vendors	**(5,423,151)**	(3,770,439)
Deferred income taxes	**(841,000)**	(2,326,000)
Changes in operating assets and liabilities:		
Receivables	**1,799,037**	1,567,297
Inventory	**1,596,230**	(6,083,502)
Other assets	**2,190,242**	(2,342,111)
Accounts payable and accrued expenses	**(3,158,142)**	(4,347,895)
Net Cash Provided by Operating Activities	**52,894,922**	29,014,872
Cash Flows from Investing Activities:		
Proceeds from sales of property and equipment	**10,369,802**	3,433,386
Capital expenditures	**(60,848,645)**	(58,119,635)
Net Cash Used in Investing Activities	**(50,478,843)**	(54,686,249)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt and advances on lines of credit		120,000,000
Debt issuance costs	**(253,985)**	(1,058,125)
Principal payments on long-term debt	**(30,219,874)**	(59,094,395)
Proceeds from exercise of stock options	**9,583,504**	1,020,890
Dividends paid	**(10,950,461)**	(10,726,938)
Net Cash (Used)/Provided (by)/in Financing Activities	**(31,840,816)**	50,141,432
Net (Decrease) Increase in Cash and Cash Equivalents	**(29,424,737)**	24,470,055
Cash and cash equivalents at beginning of period	**80,879,318**	46,914,305
Cash and Cash Equivalents at End of Period	**$ 51,454,581**	$ 71,384,360

See notes to unaudited interim financial statements.

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INGLES MARKETS, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

Nine Months Ended June 26, 2004 and June 28, 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 June 26, 2004, and the results of operations, changes in stockholders equity and cash flows for the three-month and nine-month periods ended June 26, 2004 and June 28, 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 nine-month periods ended June 26, 2004 are not necessarily indicative of the results to be expected for the full fiscal year.

Certain amounts for the three-month and nine-month periods ended June 28, 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 nine month periods ended June 26, 2004 and June 28, 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 $139,000 ($86,000 net of income taxes) for the quarter ended June 26, 2004 and a decrease to income before income taxes of $310,000 ($191,000 net of income taxes) for the quarter ended June 28, 2003.

The restatement resulted in an increase to income before income taxes of $1.2 million ($726,000 net of income taxes) for the nine months ended June 26, 2004 and a decrease to income before income taxes of $143,000 ($88,000 net of income taxes) for the nine months ended June 28,2003.

The total of the cumulative adjustments to retained earnings for this restatement, before the effect of income taxes, as detailed below is approximately $10.1 million and $11.3 million through June 26, 2004 and September 27, 2003, respectively. The income tax benefit of these adjustments totals approximately $3.9 million and $4.3 million through June 26, 2004 and September 27, 2003, respectively, resulting in a net cumulative adjustment to retained earnings of approximately $6.2 million and $7.0 million through June 26, 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 they were recorded. 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 $500,000 for the quarter ended June 26, 2004 and decreased income before income taxes by approximately $82,000 for the quarter ended June 28, 2003. For the nine month period ended June 26, 2004, the correction of these errors increased income before income taxes by approximately $1.5 million and $243,000, respectively. The cumulative decrease to retained earnings for correction of these errors, before giving effect to income taxes, was approximately $4.6 million and $6.1 million at June 26, 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 erroneous estimates of receivables due from tenants for the reimbursements of property taxes and inaccurate or omitted accruals of certain other revenue and expense items.

The correction of these errors decreased income before income taxes by approximately $316,000 and $179,000 for the quarters ended June 26, 2004 and June 28, 2003, respectively. For the nine month periods ended June 26, 2004 and June 28, 2003, the correction of these errors decreased income before income taxes by approximately $198,000 and $235,000, respectively. The cumulative decrease to retained earnings for these errors, before giving effect to income taxes, through June 26, 2004 and September 27, 2003 was approximately $2.8 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 $45,000 and $49,000, for the quarters ended June 26, 2004 and June 28, 2003, respectively. For the nine month period ended June 26, 2004 and June 28, 2003, the correction of these errors decreased income before income taxes by approximately $141,000 and $151,000, 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 June 26, 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 REPORTED	AS RESTATED
Condensed Consolidated Balance Sheet (unaudited)		
As of June 26, 2004		
Cash and Cash Equivalents	$ 51,441	$ 51,455
Receivables	33,849	33,964
Inventories	192,544	191,806
Other Current Assets	6,668	8,179
Total Current Assets	284,501	285,404
Property and Equipment - Net	752,676	750,657
Other Assets	14,240	14,554

Total Assets	1,051,417	1,050,615
Accounts payable, accrued expenses and current portion of other long-term liabilities	140,802	142,134
Total Current Liabilities	169,360	170,692
Deferred Income Taxes Payable	39,205	38,112
Other Long-Term Liabilities	1,257	6,458
Total Liabilities	792,009	797,449
Retained Earnings	146,208	139,966
Total Stockholders Equity	259,408	253,166
Total Liabilities and Stockholders Equity	$ 1,051,417	$ 1,050,615

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	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)	
	AS PREVIOUSLY REPORTED	AS RESTATED
Condensed Consolidated Statements of Income (unaudited)		
For the three months ended June 26, 2004		
Net sales	$ 537,908	$ 537,447
Cost of goods sold	396,987	396,406
Gross profit	140,921	141,041
Operating and administrative expenses	117,706	117,664
Rental income, net	2,205	2,182
Income from operations	25,420	25,559
Interest expense	13,037	13,037
Income before income taxes	13,387	13,526
Income taxes	5,184	5,237
Net income	$ 8,203	$ 8,289
Basic earnings per common share	$ 0.35	$ 0.35
Diluted earnings per common share	$ 0.35	$ 0.35
Condensed Consolidated Statements of Income (unaudited)		
For the nine months ended June 26, 2004		
Net sales	$ 1,593,302	$ 1,592,546
Cost of goods sold	1,182,978	1,180,988
Gross profit	410,324	411,558
Operating and administrative expenses	354,258	354,232
Rental income, net	5,488	5,419
Income from operations	61,554	62,745
Interest expense	40,607	40,619
Income before income taxes	27,472	28,651
Income taxes	10,260	10,713
Net income	$ 17,212	$ 17,938
Basic earnings per common share	$ 0.74	$ 0.77
Diluted earnings per common share	$ 0.74	$ 0.77
Condensed Consolidated Balance Sheet (unaudited)		
As of September 27, 2003		
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 REPORTED	AS RESTATED
Condensed Consolidated Statements of Income (unaudited)		
For the three months ended June 28, 2003		
Cost of goods sold	$ 372,227	$ 372,485
Gross profit	131,404	131,146
Operating and administrative expenses	116,553	116,612
Rental income, net	2,030	2,036
Income from operations	16,880	16,570
Income before income taxes	5,570	5,260
Income taxes	2,000	1,881
Net income	$ 3,570	$ 3,379
Basic earnings per common share	$ 0.15	$ 0.15
Diluted earnings per common share	$ 0.15	$ 0.15
Condensed Consolidated Statements of Income (unaudited)		
For the nine months ended June 28, 2003		
Cost of goods sold	$ 1,098,806	$ 1,098,733
Gross profit	389,324	389,397
Operating and administrative expenses	347,713	347,962
Rental income, net	6,530	6,548
Income from operations	48,141	47,983
Other income (expense), net	3,344	3,344
Interest expense	38,081	38,066
Income before income taxes	13,404	13,261
Income taxes	4,838	4,783
Net income	$ 8,566	$ 8,478
Basic earnings per common share	$ 0.37	$ 0.37
Diluted earnings per common share	$ 0.37	$ 0.37

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 three quarters of fiscal 2004, there was no stock-based employee compensation expense included in net income for the three-month and nine-month periods ended June 26, 2004 or June 28, 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 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		Nine Months Ended	
	JUNE 26, 2004	JUNE 28, 2003	JUNE 26, 2004	JUNE 28, 2003
BASIC				
Net income	$ 8,289,177	$ 3,379,279	$ 17,937,851	$ 8,477,591
Net income, pro forma	$ 8,263,293	$ 3,432,746	$ 17,865,083	$ 8,163,178
Basic earnings per common share	$ 0.35	$ 0.15	$ 0.77	$ 0.37
Basic earnings per common share, pro forma	$ 0.35	$ 0.15	$ 0.76	$ 0.36
DILUTED				
Diluted earnings	$ 8,289,177	$ 3,379,279	$ 17,937,851	$ 8,477,591
Diluted earnings, pro forma	$ 8,263,293	$ 3,432,746	$ 17,865,083	$ 8,163,178
Diluted earnings per common share	$ 0.35	$ 0.15	$ 0.77	$ 0.37
Diluted earnings per common share, pro forma	$ 0.35	$ 0.15	$ 0.76	$ 0.35

D. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables are presented net of an allowance for doubtful accounts of $528,845 and $438,509 at June 26, 2004 and September 27, 2003, respectively.

E. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND CURRENT PORTION OF OTHER LONG-TERM LIABILITIES

Accounts payable, accrued expenses and current portion of other long-term liabilities consist of the following:

	JUNE 26, 2004	SEPTEMBER 27, 2003
Accounts payable-trade	**$ 86,343,492**	$ 88,163,336
Property, payroll, and other taxes payable	**12,757,042**	14,750,386
Salaries, wages and bonuses payable	**13,220,077**	13,352,858
Self-insurance reserves	**7,590,821**	6,465,843
Interest	**3,842,135**	12,144,729
Income taxes	**5,049,125**	
Other	**13,331,458**	14,750,197
	$ 142,134,150	$ 149,627,349

Self-insurance reserves are established for workers compensation and employee group medical and dental benefits based on claims filed and estimates of claims incurred but not reported. The Company is insured for covered costs in excess of $350,000 per occurrence for workers compensation and $200,000 per covered person for medical care benefits for a policy year. Employee insurance expense, including workers compensation and medical care benefits, net of employee contributions, totaled $5.4 million and $3.8 million for the three-month periods ended

June 26, 2004 and June 28, 2003, respectively. For the nine-month periods ended June 26, 2004 and June 28, 2003, employee insurance expense, net of employee contributions, totaled $14.7 million and $13.5 million, respectively.

F. LONG-TERM DEBT

On May 29, 2003, the Company sold an additional $100.0 million of the existing 8 $^{7}/8$% Senior Subordinated Notes (the Notes) due December 11, 2011, at a premium to yield 8.67%. A portion of the proceeds was used to repay $30.5 million of outstanding debt. The additional Notes bear the same terms and maturity date as the original issuance.

At June 26, 2004, the Company had lines of credit with five banks totaling $135.0 million, all of which were unused. Of the $135.0 million of committed lines of credit, $120.0 million of the commitment expires in October 2006, $10.0 million of the commitment expires in October 2004 and $5.0 million of the commitment expires in November 2005. The lines provide the Company with various interest rate options generally at rates less than prime. The Company is not required to maintain compensating balances in connection with these lines of credit. The Company was in compliance with all financial covenants related to these lines of credit at June 26, 2004.

G. DIVIDENDS

The Company paid cash dividends of $0.165 for each share of Class A Common Stock and $0.15 for each share of Class B Common Stock on April 7, 2004, January 14, 2004 and October 8, 2003 to stockholders of record on March 29, 2004, January 5, 2004 and September 30, 2003, respectively.

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H. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	JUNE 26, 2004	**JUNE 28, 2003**	**JUNE 26, 2004**	**JUNE 28, 2003**
BASIC:				
Net income	**$ 8,289,177**	$ 3,379,279	**$ 17,937,851**	$ 8,477,591
Weighted average number of common shares outstanding	**23,765,075**	22,846,412	**23,382,163**	22,852,999
Basic earnings per common share	**$ 0.35**	$ 0.15	**$ 0.77**	$ 0.37
DILUTED:				
Net income	**$ 8,289,177**	$ 3,379,279	**$ 17,937,851**	$ 8,477,591
Weighted average number of common shares and common stock equivalent shares outstanding	**23,819,468**	22,893,771	**23,419,626**	23,024,166
Diluted earnings per common share item	**$ 0.35**	$ 0.15	**$ 0.77**	$ 0.37

I. LINES OF BUSINESS

The Company operates three lines of business: retail grocery sales, shopping center rentals, and a fluid dairy processing plant. All of the Company s operations are domestic. Information about the Company s operations by lines of business (in thousands) is as follows:

	Three Months Ended		Nine Months Ended	
	JUNE 26, 2004	**JUNE 28, 2003**	**JUNE 26, 2004**	**JUNE 28, 2003**
Revenues from unaffiliated customers:				
Grocery sales	**$ 508,698**	$ 479,871	**$ 1,513,883**	$ 1,418,498
Shopping center rentals	**3,799**	3,685	**10,677**	11,606
Fluid dairy	**28,749**	23,760	**78,663**	69,632
Total revenues from unaffiliated customers	**$ 541,246**	$ 507,316	**$ 1,603,223**	$ 1,499,736

Income from operations:				
Grocery sales	**$ 20,992**	$ 11,994	**$ 50,462**	$ 33,379
Shopping center rentals	**2,182**	2,036	**5,419**	6,548
Fluid dairy	**2,385**	2,540	**6,864**	8,056
Total income from operations	**$ 25,559**	$ 16,570	**$ 62,745**	$ 47,983

	JUNE 26, 2004	**SEPTEMBER 27, 2003**
Assets:		
Grocery sales	**$ 902,464**	$ 932,860
Shopping center rentals	**117,694**	112,264
Fluid dairy	**32,489**	32,249
Elimination of intercompany receivable	**(2,032)**	(1,923)
Total assets	**$ 1,050,615**	$ 1,075,450

Revenue from shopping center rentals is reported on the rental income, net line of the income statements. The other revenues comprise the net sales reported.

For the three months ended June 26, 2004 and June 28, 2003, respectively, the fluid dairy segment had $12.1 million and $10.5 million in sales to the grocery sales segment. The fluid dairy segment had $35.6 million and $33.2 million in sales to the grocery sales segment in the nine-month periods ended June 26, 2004 and June 28, 2003, respectively. These sales have been eliminated in consolidation and are excluded from the amounts in the table above.

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J. NEW ACCOUNTING PRONOUNCEMENTS

EITF (Emerging Issues Task Force) Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, became effective for the Company on December 29, 2002. This issue addresses the appropriate accounting for consideration received from a vendor. Due to system constraints and the nature of certain allowances, it is sometimes not practicable to apply allowances to the item cost of inventory. As a result of this new guidance and these constraints, the Company adopted a new policy for recognizing vendor allowances, including slotting fees. The Company now recognizes these allowances as a reduction to inventory and ultimately to cost of goods sold when the related products are sold, for agreements entered into or modified subsequent to December 29, 2002. Under the Company s previous accounting policy for vendor allowances, including slotting fees, these credits were recognized as a reduction to cost of goods sold as soon as the amount was contractually established and collection was deemed probable.

In December 2003, the FASB released Interpretation No. 46-R, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. It applies in the first fiscal year or interim period ending after March 15, 2004, to all VIEs in which an enterprise holds an interest. The Company has determined that it does not have any relationships or contracts that constitute VIEs.

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

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 had been 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 June 26, 2004 and June 28, 2003 in order to correct the errors identified above. The adjustments made to Ingles financial statements are further described in Note B to the consolidated financial statements. All discussion in this Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement.

Overview

Ingles, a leading supermarket chain in the Southeast, operates 196 supermarkets in Georgia (79), North Carolina (60), South Carolina (34), 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, including 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 book sections, media centers, floral departments, bakery departments and prepared foods including delicatessen sections. During fiscal 2000, the Company began adding fuel centers and pharmacies at select store locations. As of June 26, 2004, the Company operated 35 in-store pharmacies and 19 fuel centers.

Ingles also operates two other lines of business, fluid dairy processing and shopping center rentals. The fluid dairy processing segment sells approximately 31% of its products to the retail grocery segment and approximately 69% 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.

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. Self-insurance reserves 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. The majority of the Company s properties are self-insured for casualty losses and business interruption; however, liability coverage is maintained.

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Asset Impairments

The Company accounts for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144. 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 specialists. 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.

Closed Store Accrual

For properties closed prior to December 31, 2002 that were under long-term lease agreements, the present value of any remaining liability under the lease, discounted using risk-free rates and net of expected sublease recovery, is recognized as a liability and expensed. For all store closures subsequent to the adoption of Statement of Financial Accounting Standards No. 146, effective December 31, 2002, the 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. 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.

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 include 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. 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 initial purchase is sold. Amounts that represent a reimbursement of specific identifiable incremental costs, such as advertising, are recorded as a reduction to the related expense in the period that the related expense is incurred.

Results of Operations

Ingles operates on a 52 or 53-week fiscal year ending on the last Saturday in September. There are 13 and 39 weeks of operations included in the unaudited condensed consolidated statements of income for the three and nine-month periods ended June 26, 2004 and June 28, 2003. Comparable store sales are defined as sales by grocery stores in operation for the entire duration of the previous and current fiscal years. Replacement stores and major and minor remodels are included in the comparable store sales calculation. 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. A minor remodel includes repainting, remodeling and updating the lighting and equipment throughout an existing store. For the three and nine-month periods ended June 26, 2004 and June 28, 2003, comparable store sales include 191 stores.

The following table sets forth, for the periods indicated, selected financial information as a percentage of net sales. For information regarding the various segments of the business, see Note I Lines of Business to the Unaudited Consolidated Financial Statements.

	Three Months Ended		Nine Months Ended	
	JUNE 26, 2004 (RESTATED)	**JUNE 28, 2003 (RESTATED)**	**JUNE 26, 2004 (RESTATED)**	**JUNE 28, 2003 (RESTATED)**
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Gross profit	**26.2%**	26.0%	**25.8%**	26.2%
Operating and administrative expenses	**21.9%**	23.1%	**22.2%**	23.4%
Rental income, net	**0.4%**	0.4%	**0.3%**	0.4%
Income from operations	**4.7%**	3.3%	**3.9%**	3.2%
Other income, net	**0.2%**	0.3%	**0.4%**	0.2%
Interest expense	**2.4%**	2.5%	**2.6%**	2.5%
Income taxes	**1.0%**	0.4%	**0.6%**	0.3%
Net income	**1.5%**	0.7%	**1.1%**	0.6%

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Three Months Ended June 26, 2004 Compared to the Three Months Ended June 28, 2003

Results for the third quarter of fiscal 2004 were strong due primarily to continued growth in both net sales and comparable store sales and a reduction in operating and administrative expenses, as a percentage of sales. Programs designed to build customer loyalty and improve the overall shopping experience of Ingles customers continued to result in earnings growth.

Net Sales. Net sales increased $33.8 million or 6.7% to $537.4 million for the three months ended June 26, 2004 from $503.6 million for the three months ended June 28, 2003. Comparable store sales for the same period grew $29.9 million or 6.5%. Ingles operated 196 stores at June 26, 2004, compared to 199 stores at June 28, 2003. Retail square footage was virtually unchanged at June 26, 2004 compared to June 28, 2003 as square footage for new and expanded stores approximated the square footage of stores closed.

Ingles introduced its Ingles Advantage Savings and Rewards Card (the Card) the first day of the 2004 fiscal year. The increase in net sales and comparable store sales is partially attributable to the success of the Card program. Sales improved in each department; however the largest percentage increase in sales was in the meat department, which was partially attributable to inflation in meat prices during the quarter and the trend toward low carbohydrate diets.

Net sales to outside parties for the Company s milk processing subsidiary increased $5.0 million or 21.0% in the June 2004 quarter compared to the June 2003 quarter. The sales increase is primarily attributable to an increase in raw milk costs in the June 2004 quarter compared to the June 2003 quarter, which is passed on to the subsidiary s customers in the pricing of milk products.

The Company expects moderate sales growth in the remainder of fiscal year 2004 as it experiences results from marketing programs with the Card and new and expanded stores mature.

Gross Profit. Gross profit for the three-month period ended June 26, 2004, increased $9.9 million or 7.6% to $141.0 million, or 26.2% of sales, compared to $131.1 million, or 26.0% of sales, for the three-month period ended June 28, 2003. The increase in gross profit dollars was primarily due to the higher sales volume. Gross profit as a percentage of sales stabilized in the June 2004 quarter after a decline year over year in the first six months. This stabilization has resulted in part from improved purchasing negotiation and sales growth in the higher margin perishable departments.

Gross profit for the Company s milk processing subsidiary remained virtually unchanged for the June 2004 quarter compared to the June 2003 quarter. Although sales increased, gross profit as a percentage of sales declined as the raw milk cost was passed on to customers on a dollar basis.

In addition to the direct product cost, the cost of goods sold line item for the grocery segment includes inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other costs of the Company s distribution network are included in operating and administrative expenses. The milk processing segment is a manufacturing process. Therefore, all of the costs mentioned above incurred by the milk processing segment are included in the cost of sales line item.

The Company s gross margins may not be comparable to those of other retailers, since some retailers include all of the costs related to their distribution network in cost of goods sold and others, like the Company, exclude a portion of the costs from gross profit, including the costs instead in a line item such as operating and administrative expenses.

Operating and Administrative Expenses. Operating and administrative expenses increased $1.0 million or 0.9% to $117.6 million for the three months ended June 26, 2004, from $116.6 million for the three months ended June 28, 2003. As a percentage of sales, operating and administrative expenses decreased to 21.9% for the three months ended June 26, 2004 compared to 23.1% for the three months ended June 28, 2003, respectively. A variety of factors contributed to the dollar increase.

A breakdown of the major increases (decreases) in operating and administrative expenses is as follows:

	(RESTATED) In millions	Increase (decrease) as a% of sales
Equipment rent	$ (3.6)	(0.7)%
Salaries and wages	$ 2.9	(0.1)%
Advertising and promotion	$ (2.4)	(0.5)%
Depreciation and amortization	$ 1.2	0.1%
Taxes and licenses	$ 1.0	0.1%
Insurance	$ 0.8	0.1%
Bank charges	$ 0.5	
Warehousing and transportation	$ 0.4	
Utilities	$ 0.3	

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Equipment rent declined due to the purchase during fiscal 2004 of $9.3 million in existing store equipment that was previously under an operating lease.

Salaries and wages increased in dollars due to additional labor hours required for the increased sales volume, but decreased slightly as a percentage of sales for the June 2004 quarter compared to the 2003 quarter.

Advertising and promotion expense decreased due to the revamping of the Company s advertising program including the elimination of less effective promotions and the renegotiation of agreements with major advertising vendors resulting in the reduction of ongoing charges.

Depreciation and amortization expense increased due both to new stores and stores remodeled and expanded in fiscal 2003 and the first nine months of fiscal 2004, as well as to the purchase of the store equipment previously under an operating lease mentioned above. The increase in depreciation expense related to the repurchase of the store equipment was approximately $0.5 million for the June 2004 quarter.

Taxes and licenses increased primarily due to increased property tax expense and higher payroll taxes as a result of increased salaries and wages.

Insurance expense increased primarily due to higher premiums for liability coverages and increased workers compensation expense.

Bank charges rose due to both increased usage of debit and credit cards and increased transaction fees.

Warehousing and transportation expense and utilities increased primarily due to higher fuel costs.

Rental Income, Net. Rental income, net increased $0.2 million to $2.2 million for the June 2004 quarter from $2.0 million for the June 2003 quarter primarily due to gross rental income increases. The rental of previously vacant space more than offset the loss of rental income from the sale in September 2003 and January 2004 of shopping centers in which Ingles was not a tenant.

Other Income, Net. Other income, net decreased $0.5 million to $1.0 million for the three-month period ended June 26, 2004 from $1.5 million for the three-month period ended June 28, 2003. During the June 2004 quarter, the Company sold two outparcels for gains totaling $0.8 million. The June 2003 quarter included a gain of $0.9 million from a payment received due to a state condemnation for the construction of a highway on land adjacent to a former store location.

Interest Expense. Interest expense increased $0.2 million for the three-month period ended June 26, 2004 to $13.0 million from $12.8 million for the three-month period ended June 28, 2003. In May 2003, the Company issued an additional $100.0 million of its existing 8 $^{7}/8$% Senior Subordinated Notes, due December 2011 (the Notes) for a total of $349.8 million. A portion of the proceeds of the Notes was used to repay $30.5 million of existing debt. Debt retired with the proceeds from the Notes generally had lower interest rates and shorter maturity than the Notes. Total debt at June 2004 was $610.7 million compared to $657.5 million at June 2003; however interest expense increased comparatively as the additional Notes were not issued until late in the June 2003 quarter.

Income Taxes. Income tax expense as a percentage of pre-tax income increased to 38.7% in the June 2004 quarter compared to 35.8% in the June 2003 quarter due to higher state income taxes.

Net Income. Net income increased $4.9 million or 145.3% for the three-month period ended June 26, 2004 to $8.3 million compared to $3.4 million for the three-month period ended June 28, 2003. Net income, as a percentage of sales, was 1.5% for the June 2004 quarter and 0.7% for the June 2003 quarter. Basic and diluted earnings per share were $0.35 and $0.15 for the June 2004 and June 2003 quarters, respectively.

Nine Months Ended June 26, 2004 Compared to the Nine Months Ended June 28, 2003

Results for the first nine months of fiscal 2004 were strong due primarily to growth in both net sales and comparable store sales, a reduction in operating and administrative expenses, as a percentage of sales, and gains from the sale of real estate. These improvements were partially offset by a decline in gross profit, as a percentage of sales. Programs designed to build customer loyalty and improve the overall shopping experience of Ingles customers continued to result in earnings growth.

Net Sales. Net sales for the nine months ended June 26, 2004 increased $104.4 million or 7.0% to $1.59 billion, compared to $1.49 billion for the nine months ended June 28, 2003. Comparable store sales increased $85.8 million or 6.2% for the same period. As mentioned in the three-month discussion, the increase in net sales and comparable store sales is partially attributable to the success of the Card program. Sales improved in each department; however the largest percentage increase in sales was in the meat department, which was partially attributable to inflation in meat prices during the nine-month period and the trend towards lower carbohydrate diets.

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Net sales to outside parties for the Company s milk processing subsidiary increased $9.0 million or 13.0% in the June 2004 nine-month period compared to the June 2003 nine-month period due to the increased raw milk costs mentioned above in the three-month discussion, partially offset by the loss of two high margin food service cream accounts.

The Company expects moderate sales growth in the remainder of fiscal year 2004 as it experiences results from marketing programs with the Card and new and expanded stores mature.

Gross Profit. Gross profit for the nine months ended June 26, 2004 increased 5.7% to $411.6 million compared to $389.3 million, for the nine months ended June 28, 2003. As a percentage of sales, gross profit decreased to 25.8% for the nine months ended June 26, 2004 from 26.2% for the nine months ended June 28, 2003.

A one time charge from the adoption of EITF 02-16 resulted in a non-cash charge to cost of goods sold of $2.6 million, or 0.7% of the 5.7% increase in gross profit, during the nine-month period ended June 28, 2003. The remaining 5.0% increase was due to the higher sales volume, partially offset by increased promotional activity.

Gross profit for the Company s milk processing subsidiary decreased $0.9 million or 6.1% for the June 2004 nine-month period compared to the June 2003 nine-month period due primarily to the loss of two high margin food service cream accounts.

Operating and Administrative Expenses. Operating and administrative expenses increased $6.3 million or 1.8% to $354.2 million for the nine months ended June 26, 2004, from $347.9 million for the nine months ended June 28, 2003. As a percentage of sales, operating and administrative expenses decreased to 22.2% for the June 2004 nine-month period from 23.4% for the same period last year. A variety of factors contributed to the dollar increase.

A breakdown of the major increases (decreases) in operating and administrative expenses is as follows:

		(RESTATED) In millions	Increase (decrease) as a % of sales
Equipment rent	$	(9.9)	(0.7)%
Salaries and wages	$	9.4	
Advertising and promotion	$	(5.2)	(0.4)%
Depreciation and amortization	$	4.0	0.1%
Taxes and licenses	$	2.0	
Warehouse expense	$	1.3	
Store supplies	$	1.3	
Insurance	$	1.3	

Equipment rent declined due to the purchase during fiscal 2004 of $9.3 million in existing store equipment that was previously under an operating lease.

Salaries and wages increased in dollars due to additional labor hours required for the increased sales volume but remained constant at 9.3% of sales for both the June 2004 and 2003 nine-month periods.

Advertising and promotion expense decreased due to the revamping of the Company s advertising program including the elimination of less effective promotions and the renegotiation of agreements with major advertising vendors resulting in the reduction of ongoing charges.

Depreciation and amortization expense increased due both to new stores and stores remodeled and expanded in fiscal 2003 and the first nine months of fiscal 2004, as well as to the purchase of the store equipment previously under an operating lease mentioned above. The increase in depreciation expense related to the repurchase of the store equipment was approximately $1.3 million for the June 2004 nine-month period.

Taxes and licenses increased primarily due to increased property tax expense and higher payroll taxes as a result of increased salaries and wages.

Warehouse expense increased due primarily to increased fuel costs.

The increase in store supplies expense is primarily attributable to the use of supplies to support the higher sales volume. In addition there were increased supply costs for the Card program including the cost of cards, applications, signage and tags. The Company estimates that $0.4 million of the supply costs were incurred with the introduction of the Card.

Insurance expense increased primarily due to higher premiums for liability coverages and increased workers compensation expense.

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Rental Income, Net. Rental income, net decreased $1.1 million to $5.4 million in the June 2004 nine-month period from $6.5 million in the June 2003 comparable period. Gross rental income decreased $0.9 million, while shopping center expenses increased $0.2 million. The sale of shopping centers in September 2003 and January 2004 in which Ingles was not a tenant, the rejection of certain leases in bankruptcy proceedings of K-Mart and Price Cutters and the relocation of several drug stores from shopping centers to stand alone sites all decreased gross rental income. Partially offsetting these decreases was rent from a tenant in a stand alone retail store purchased by the Company during the beginning of fiscal 2004 and increased rental of previously vacant property in the third quarter of the 2004 nine-month period.

Other Income, Net. Other income, net increased $3.2 million to $6.5 million for the June 2004 nine-month period from $3.3 million for the comparable period in fiscal 2003. During the June 2004 nine-month period, the Company sold a shopping center in which it no longer operated a store for a gain of $3.9 million and three out-parcels adjacent to existing store locations for gains of $1.8 million. In the June 2003 nine-month period, the Company sold a shopping center in which it no longer operated a store for a gain of $1.1 million and recorded a gain of $0.9 million from a payment received due to a state condemnation for the construction of a highway on land adjacent to a former store location.

Interest Expense. Interest expense increased $2.5 million to $40.6 million for the nine months ended June 26, 2004 from $38.1 million for the nine months ended June 28, 2003, due primarily to the issuance of the Notes in May 2003 mentioned in the three-month discussion.

Income Taxes. Income tax expense as a percentage of pre-tax income was 37.4% in the June 2004 nine-month period compared to 36.1% in the June 2003 nine-month period.

Net Income. Net income increased $9.4 million or 111.6% for the June 2004 nine-month period to $17.9 million, or 1.1% of sales, compared to $8.5 million, or 0.6% of sales, for the June 2003 nine-month period. Basic and diluted earnings per common share were $0.77 and $0.37 for the June 2004 and June 2003 nine-month period, respectively. The one time charge from adoption of EITF 02-16 reduced net income $1.6 million, or $0.07 per diluted share, in the 2003 nine-month period.

Liquidity and Capital Resources

Capital Expenditures

The Company believes that a key to its ability to continue to develop a loyal customer base is providing conveniently located, clean and modern stores which provide customers with good service and a broad selection of competitively priced products. As such, the Company has invested and will continue to invest significant amounts of capital toward the modernization of its store base. The Company s modernization program includes the opening of new stores, the completion of major remodels and expansion of selected existing stores, the relocation of selected existing stores to larger, more convenient locations and the completion of minor remodeling of its remaining existing stores.

Capital expenditures totaled $60.8 million for the nine-month period ended June 26, 2004 including the opening of one new store and one replacement store, the completion of major remodel/expansions at two stores, minor remodels at two stores and the opening of two fuel stations. Capital expenditures also included the purchase of four store sites, two shopping centers in which Ingles is a tenant and one free standing retail store leased to another retailer. Also included in the nine-month capital expenditure amount is the purchase of $9.3 million of existing store equipment previously under an operating lease. Capital expenditures included the costs of upgrading and replacing store equipment, technology investments, capital expenditures related to the Company s distribution operation and its milk processing plant, and expenditures for stores to open later in fiscal 2004 and in fiscal 2005. Capital expenditures were more heavily weighted in the first six months of the year as the Company had 180 days from the sale of the shopping center in September 2003 to reinvest the proceeds in a like kind exchange in order to defer the tax impact of the sale.

Ingles capital expenditure plans for all of fiscal 2004 include investments of approximately $70.0 million. For the balance of fiscal 2004, the Company plans to open one new store and add approximately two new fuel stations on existing store sites and purchase one new store site for future expansion. Expenditure plans will also include investments in stores expected to open in fiscal 2005 as well as technology improvements, upgrading and replacing existing store equipment and warehouse and transportation equipment, and improvements to the Company s milk processing plant.

The Company expects that its net annual capital expenditures will remain in the range of approximately $60 to $70 million going forward in order to maintain a modern store base. The number of projects pursued during each fiscal year could decline to some degree as the Company increases the average size of stores built. The number of projects may also fluctuate due to the varying costs of the types of projects pursued including new stores, major remodel/expansions or minor remodels. The Company makes decisions on the allocation of capital expenditure dollars based on many factors including the competitive environment, other Company capital initiatives and its financial condition.

The Company does not generally enter into commitments for capital expenditures other than on a store-by-store basis at the time it begins construction on a new store or begins a major or minor remodeling project. The Company generally engages in major remodeling and new store development on not more than three or four locations at a time. Construction commitments at June 26, 2004 totaled $6.5 million.

Liquidity

The Company generated net cash from operations of $52.9 million in the June 2004 nine-month period.

Cash used by investing activities for the June 2004 nine-month period totaled $50.4 million comprised primarily of $60.8 million of capital expenditures during the period, partially offset by $10.4 million of proceeds from the sale of assets.

Cash used by financing activities during the June 2004 nine-month period totaled $31.8 million including principal payments on long-term debt of $30.2 million and dividend payments of $10.9 million offset in part by cash received from the exercise of stock options of $9.6 million.

At June 26, 2004, the Company had lines of credit with five banks totaling $135.0 million, all of which were unused. Of the $135.0 million of committed lines of credit, $120.0 million of the commitment expires in October 2006, $10.0 million of the commitment expires in October 2004 and $5.0 million of the commitment expires in November 2005. The lines provide the Company with various interest rate options generally at rates less than prime. The Company is not required to maintain compensating balances in connection with these lines of credit. The Company was in compliance with all financial covenants related to these lines of credit at June 26, 2004.

The Company s principal sources of liquidity are expected to be cash flow from operations, borrowings under its lines of credit and long-term financing. As of June 26, 2004, the Company had unencumbered real property and equipment with a net book value of approximately $362.7 million. The Company believes, based on its current results of operations and financial condition, that its financial resources, including existing bank lines of credit, short- and long-term financing expected to be available to it and internally generated funds, will be sufficient to meet planned capital expenditures and working capital requirements for the foreseeable future, including any debt service requirements of additional borrowings. However, such sources of financing may not be available to the Company on acceptable terms, or at all.

It is possible that, in the future, the Company s results of operations and financial condition will be different from that described in this report based on a number of intangible factors. These factors may include, among others, increased competition, changing regional and national economic conditions, adverse climatic conditions affecting food production and delivery and changing demographics as well as the additional factors discussed below under Forward Looking Statements . It is also possible, for such reasons, that the results of operations from the new, expanded, remodeled and/or replacement stores will not meet or exceed the results of operations from existing stores that are described in this report.

Contractual Obligations and Commercial Commitments

There have been no material changes in contractual obligations and commercial commitments subsequent to September 27, 2003.

Off Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company s financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Quarterly Cash Dividends

Since December 27, 1993, the Company has paid regular quarterly cash dividends of $0.165 (sixteen and one-half cents) per share on its Class A Common Stock and $0.15 (fifteen cents) per share on its Class B Common Stock for an annual rate of $0.66 and $0.60 per share, respectively.

The Company expects to continue paying regular cash dividends on a quarterly basis. However, the Board of Directors periodically reconsiders the declaration of dividends. The Company pays these dividends at the discretion of the Board of Directors and the continuation of these payments, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depends upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant. In addition, certain loan agreements containing provisions outlining minimum tangible net worth requirements restrict the ability of the Company to pay additional dividends to approximately $44.0 million based on tangible net worth at June 26, 2004. Further, the Company is prevented from declaring dividends at any time that it is in default under the indenture governing the Notes. In addition, the terms of the indenture may restrict the ability of the Company to pay additional dividends based on certain financial parameters.

Seasonality

Sales in the grocery segment of the Company s business are subject to a slight seasonal variance due to holiday related sales. Sales are traditionally higher in the Company s first fiscal quarter due to the inclusion of sales related to Thanksgiving and Christmas. The

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Company s second fiscal quarter traditionally has the lowest sales of the year, unless Easter falls in that quarter. 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.

Impact of Inflation

Inflation in food prices during the June 2004 quarter and nine-month period was slightly higher than the overall increase in the Consumer Price Index. One of the Company s significant costs is labor, which increases with inflation.

New Accounting Pronouncements

For new accounting pronouncements, see Note J to the Unaudited Financial Statements.

Forward Looking Statements

This Quarterly Report contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. The words expect , anticipate , intend , plan , believe , seek and similar expressions are intended to identify forward-looking statements. Whi forward-looking statements and the related assumptions are made in good faith and reflect the Company s current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. Such statements are based upon a number of assumptions and estimates which are inherently subject to significant risks and uncertainties many of which are beyond the Company s control. Some of these assumptions inevitably will not materialize, and unanticipated events will occur which will affect the Company s results. Some important factors (but not necessarily all factors) that affect the Company s revenues, growth strategies, future profitability and operating results, or that otherwise could cause actual results to differ materially from those expressed in or implied by any forward-looking statement, include business and economic conditions generally in the Company s operating area; the Company s ability to successfully implement its expansion and operating strategies and to manage rapid expansion; pricing pressures and other competitive factors; the Company s ability to reduce costs and achieve improvements in operating results; the availability and terms of financing; increases in labor and utility costs; success or failure in the ownership and development of real estate; changes in the laws and government regulations applicable to the Company; and changes in accounting policies, standards, guidelines or principles as may be adopted by regulatory agencies as well as the Financial Accounting Standards Board.

Consequently, actual events affecting the Company and the impact of such events on the Company s operations may vary significantly from those described in this report or contemplated or implied by statements in this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market interest rates subsequent to September 27, 2003.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the regulations of the Securities and Exchange Commission. Disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that the Company s system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

On December 6, 2004, the Company announced that it was delaying the filing of its Form 10-K for the fiscal year ended September 25, 2004 due to its internal investigation of certain vendor allowances and related accounting in prior periods. The Company filed a Form 12b-25 with respect to that delayed filing on December 9, 2004. The Company is filing this amendment on Form 10-Q/A for the fiscal quarter ended June 26, 2004 to reflect the restatement of its unaudited consolidated financial statements, the notes thereto, and the related disclosures to reflect the proper recognition of vendor allowances and certain revenue and expense items in the appropriate accounting period. In addition, the Company identified accounting errors related to certain lease transactions which have been corrected as a part of this restatement. The Company has also filed Forms 10-Q/A for the fiscal quarters ended December 27, 2003 and March 27, 2004 to reflect the restatement of its consolidated financial statements included therein, the notes thereto, and related disclosures for such fiscal periods. The Company is also filing its Form 10-K for its fiscal year ended September 25, 2004 reflecting restatements of its financial statements for the fiscal years 2002 and 2003 for the same reasons as mentioned above.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with participation of its management including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of June 26, 2004, the end of the period covered by this report. In making this evaluation, it

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considered matters relating to the restatement of its consolidated financial statements, including the related weaknesses in its internal control over financial reporting identified during the internal investigation. After consideration of the matters discussed above, the Company has concluded that its controls and procedures were not effective in all respects as of the end of the period covered by this report.

The errors giving rise to the restatement relate to the recognition of certain vendor allowances in the Company s financial statements, the recording of certain other revenue and expense items in the proper accounting period principally due to errors in the financial statement closing process and errors in the accounting for certain lease transactions.

The errors related to the recognition of vendor allowances occurred because of a variety of factors including incomplete or inaccurate information concerning vendor allowances provided internally by certain company associates dealing with vendors, due in certain circumstances to inappropriate actions of certain former officers of the Company, and the complexity of guidance relating to the accounting for vendor allowances. Prior to the quarter covered by this report, the Company had implemented additional controls and procedures designed to ensure that information regarding vendor allowances provided internally was complete and accurate, including new requirements regarding the signing of vendor invoices and new approvals for vendor invoices and contracts with vendors, however such controls did not address the reporting or disclosure of previously recorded transactions. The Company believes that these additional controls and procedures substantially corrected any material weakness in existence prior to the June 2004 quarter relating to the recognition of vendor allowances.

In reviewing its controls following the internal investigation, the Company has determined that additional training regarding controls over the accounting for vendor allowances is necessary for its accounting and other staff dealing with vendor allowances. Further, the Company has concluded that there were material weaknesses in its internal controls for financial reporting relating to its period closing process and particularly related to its systems and processes between the Company s accounting department and its real estate department regarding the recognition of tenant reimbursements of expenses paid by the Company. In addition, in a review of its lease transactions, the Company identified accounting errors related to certain lease transactions. These errors resulted from a lack of understanding and communication of the Company s accounting policies related to accounting for leasehold improvements, incomplete reviews of such transactions and the complexity of guidance for lease accounting.

In order to remediate the remaining weaknesses in internal controls, the Company has reviewed the staffing functions in its accounting and real estate departments, including monitoring of compliance with accounting policies and procedures. The Company is considering the hiring of additional staff to supplement existing resources. Further, it intends to provide additional training to associates of the Company. These changes, among others, will allow the accounting department to more closely monitor vendor allowance transactions, its real estate billing processes and lease transactions, and to achieve a more accurate financial statement close and reconciliation process.

In connection with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the Company will document and test its systems of internal controls for financial reporting in order to provide the basis for evaluation and report on these systems as of the end of its 2005 fiscal year. This documentation is in its early stages and will be effected as to scope and timing by the additional controls described above.

Part II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

1) Exhibit 31.1 Rule 13a-14(a) Certificate

2) Exhibit 31.2 Rule 13a-14(a) Certificate

3) Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350

4) Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350

(b) The Company filed a Form 8-K on April 26, 2004, furnishing a press release announcing earnings for the second quarter of fiscal 2004.

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SIGNATURES

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

	INGLES MARKETS, INCORPORATED
Date: February 10, 2005	/s/ Robert P. Ingle
	Robert P. Ingle Chief Executive Officer
Date: February 10, 2005	/s/ Brenda S. Tudor
	Brenda S. Tudor Vice President-Finance and Chief Financial Officer