

INGLES MARKETS INC  
Form DEF 14A  
December 23, 2014

**INGLES MARKETS, INCORPORATED**

**P.O. BOX 6676**

**ASHEVILLE, NORTH CAROLINA 28816**

**NOTICE OF 2015 ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON TUESDAY, FEBRUARY 3, 2015**

To the Stockholders of Ingles Markets, Incorporated:

NOTICE IS HEREBY GIVEN that Ingles Markets, Incorporated will hold its 2015 Annual Meeting of Stockholders at the Grove Park Inn, 290 Macon Avenue, Asheville, North Carolina 28804 on Tuesday, February 3, 2015, at 11:00 a.m. local time, for the following purposes:

- (1) To elect eight directors to serve until the 2016 Annual Meeting of Stockholders; and
- (2) To vote on a stockholder proposal, if properly presented at the meeting.

These items and other matters relating to the Annual Meeting are described in the Proxy Statement that accompanies this Notice.

Only stockholders of record of the Company's Class A Common Stock, \$0.05 par value per share, and Class B Common Stock, \$0.05 par value per share, at the close of business on December 5, 2014, are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. We will make available at the Company's corporate offices a list of stockholders as of the close of business on December 5, 2014, for inspection during normal business hours during the ten-day period immediately preceding the Annual Meeting.

Pursuant to rules adopted by the Securities and Exchange Commission, we have provided access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials, or E-proxy notice, on or about December 23, 2014 to our stockholders of record on December 5, 2014. The E-proxy notice contains instructions for your use of this process, including how to access our proxy statement and annual report and how to authorize your proxy to vote online. In addition, the E-proxy notice contains instructions on how you may receive a paper copy of the proxy statement and annual report or elect to receive your proxy statement and annual report over the Internet.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, please vote by proxy as soon as possible over the Internet as instructed in the Notice of Internet Availability of Proxy Materials, or E-proxy notice, or, if you receive paper copies of the proxy materials by mail, you can also vote by mail by following the instructions on the proxy card. If you are a holder of record of common stock, you may also cast your votes in person at the Annual Meeting. If your shares are held in "street name" (that is, held for your account by a broker or other nominee), you will receive instructions from your broker or other nominee as to how to vote your shares.

By Order of the Board of Directors

Robert P. Ingle, II

Chairman of the Board

Chief Executive Officer

Asheville, North Carolina

December 23, 2014

**YOUR VOTE IS IMPORTANT.**

**PLEASE VOTE OVER THE INTERNET AS INSTRUCTED IN THESE MATERIALS OR COMPLETE, DATE, SIGN AND RETURN A PROXY CARD AS PROMPTLY AS POSSIBLE.**

**Table of Contents**

**Page**

PROXY STATEMENT	1
Execution and Revocation of Proxies	1
Actions to Be Taken by Proxy	1
Voting Rights	2
ELECTION OF DIRECTORS	3
Identification of Directors and Executive Officers	3
Committees of the Board of Directors	4
Compensation Committee Interlocks and Insider Participation in Compensation Decisions	5
Meetings of the Board of Directors and Committees	6
Director Nominations	6
Stockholder Communication with Board Members	7
Board Member Attendance at Annual Meetings	7
Code of Ethics	7
AUDIT/COMPENSATION COMMITTEE REPORT	8
EXECUTIVE COMPENSATION AND OTHER INFORMATION	9
Compensation Discussion and Analysis	9
Elements of Executive Compensation	10
Management of Compensation – Related Risk	11
Audit/Compensation Committee Report on Executive Compensation	12
Executive Compensation Summary	13
SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS	14
TRANSACTIONS WITH RELATED PERSONS	16
RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	17
Principal Accountant Fees and Services	17
STOCKHOLDER PROPOSAL ON INDEPENDENT BOARD CHAIRMAN	18
OTHER MATTERS	20
Solicitation of Proxies	20
Stockholders’ Proposals for the 2016 Annual Meeting	20
Action on Other Matters at the 2015 Annual Meeting	20
Section 16(a) Beneficial Ownership Reporting Compliance	20
Availability of Form 10-K	21

**INGLES MARKETS, INCORPORATED**

**P. O. BOX 6676**

**ASHEVILLE, NORTH CAROLINA 28816**

**ANNUAL STOCKHOLDERS MEETING**

**FEBRUARY 3, 2015**

**Grove Park Inn**

**290 Macon Avenue**

**Asheville, North Carolina 28804**

**PROXY STATEMENT**

The Board of Directors (the “Board”) of Ingles Markets, Incorporated (the “Company”) furnishes you with this Proxy Statement to solicit proxies to be voted at the 2015 Annual Meeting of Stockholders of the Company. The meeting will be held at the Grove Park Inn, 290 Macon Avenue, Asheville, North Carolina, on Tuesday, February 3, 2015, at 11:00 a.m. local time, for the purposes set forth in the Notice of Annual Meeting of Stockholders that accompanies this Proxy Statement. The proxies also may be voted at any adjournments or postponements of the meeting. Pursuant to rules adopted by the Securities and Exchange Commission, we have provided access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials, which is referred to herein as the “E-proxy notice,” on or about December 23, 2014 to each holder of record of the Company’s Class A Common Stock, \$0.05 par value per share (“Class A Common Stock”) and Class B Common Stock, \$0.05 par value per share (“Class B Common Stock”), as of December 5, 2014, the record date for the meeting (the “Record Date”). Class A Common Stock and Class B Common Stock are sometimes referred to collectively in this Proxy Statement as “Common Stock.” The E-proxy notice and this proxy statement summarize the information you need to know to vote by proxy or in person at the annual meeting. You do not need to attend the annual meeting in person in order to vote.

The Company’s principal executive offices are located at 2913 U.S. Highway 70 West, Asheville (Black Mountain), North Carolina 28711. This Proxy Statement and the accompanying forms of proxy are first being provided to stockholders on or about December 23, 2014.

**Execution and Revocation of Proxies**

Shares of Common Stock properly voted by proxy as instructed in the E-proxy notice will be voted at the Annual Meeting in accordance with the instructions on the proxy. Proxies that are not properly executed or are not received by the Secretary at or before the Annual Meeting will not be effective.

A stockholder can revoke a proxy at any time prior to the exercise of the authority granted under that proxy. A proxy may be revoked by a stockholder in any of the following ways:

by attending the Annual Meeting and voting the shares covered by the original proxy in person at the Annual Meeting;

· by delivering to the Secretary an instrument revoking the proxy; or

· by delivering a later-dated, properly executed proxy with respect to shares covered by the original proxy.

**Actions to Be Taken by Proxy**

If any stockholder fails to provide instructions on a proxy properly submitted via the Internet or mail, its proxy will be voted, as recommended by the Board of Directors, at the Annual Meeting “**FOR**” the election of each of the Board nominees named under the heading “**ELECTION OF DIRECTORS – Identification Of Directors and Executive Officers**”; and “**AGAINST**” the stockholder proposal under the heading “**STOCKHOLDER PROPOSAL ON INDEPENDENT BOARD CHAIRMAN**”. As of the date of this Proxy Statement, the

Company's management knows of no other matter to be brought before the Annual Meeting. Should any other matter properly come before the Annual Meeting, all shares of Common Stock represented by effective proxies will be voted, at their discretion, by the persons acting under such proxies.

### **Voting Rights**

Only holders of record of shares of Class A Common Stock or Class B Common Stock at the close of business on the Record Date are entitled to vote at the meeting or adjournments or postponements of the meeting. At the close of business on the Record Date, there were 13,540,333 shares of Class A Common Stock and 6,719,443 shares of Class B Common Stock issued and outstanding.

**Quorum Requirements.** The presence in person or by proxy of holders of a majority of the outstanding shares of Class A Common Stock constitutes a quorum for purposes of the election of directors by the holders of Class A Common Stock. The presence in person or by proxy of holders of a majority of the outstanding shares of Class B Common Stock constitutes a quorum for purposes of the election of directors by the holders of Class B Common Stock. If holders of shares possessing a majority of the aggregate votes represented by the Class A Common Stock and Class B Common Stock, taking into account the ten votes per share attributable to the Class B Common Stock, are present at the Annual Meeting in person or by proxy, a quorum will be present for purposes of any other matter that may be presented at the Annual Meeting. Abstentions with respect to a proposal and broker non-votes are counted for purposes of establishing a quorum. A broker non-vote occurs if a broker does not receive instructions from the beneficial owner of shares held in street name for certain types of proposals and the broker indicates it does not have authority to vote such shares.

**Election of Directors.** If a quorum of each class is present at the Annual Meeting, the holders of Class A Common Stock, voting as a class, will elect two directors, and the holders of Class B Common Stock, voting as a class, will elect six directors. For purposes of the election of directors, each stockholder will have one vote for each share of Common Stock held by the stockholder as of the Record Date. Pursuant to the North Carolina Business Corporation Act, directors will be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election. Thus, abstentions and broker non-votes will not be included in vote totals and will not affect the outcome of the vote.

As a result of changes to New York Stock Exchange rules, a broker that is a member firm of that exchange no longer has authority to vote shares held by it in "street name" in the election of directors unless it is instructed by the beneficial owner of such shares as to how such shares are to be voted in such election. Accordingly, if you hold your shares through a broker, you are urged to provide it voting instructions in accordance with your broker's directions.

Cumulative voting is not applicable to the election of directors at the Annual Meeting.

**Other Matters.** Unless otherwise provided in the Company's Articles of Incorporation or the North Carolina Business Corporation Act, holders of Class A Common Stock and Class B Common Stock will vote as a single class with respect to any matter. In any such vote, stockholders will be entitled to one vote for each share of Class A Common Stock held as of the Record Date and ten votes for each share of Class B Common Stock held as of the Record Date. For purposes of any such vote, if a quorum is present, a proposal will pass if the votes cast "for" the action exceed the votes cast "against" the action, unless otherwise provided in the Company's Articles of Incorporation or the North Carolina Business Corporation Act. Shares not voted with respect to any such matters (whether by abstention or broker non-vote) would not be included in vote totals and would not impact the vote. As of the date of this Proxy Statement, the Company knows of no matters other than those listed on the Notice of Annual Meeting of Stockholders to be presented for action at the Annual Meeting.

## ELECTION OF DIRECTORS

Each member of the Board is elected for a term of one year and until his/her successor is elected and qualified or until his/her earlier death, resignation or removal from office. The Company's Articles of Incorporation and Bylaws provide that the Board may from time to time fix by resolution the number of directors that constitutes the Board, which shall be not less than five nor more than eleven. The Board has determined by resolution that the number of directors will be fixed at eight for purposes of this election. In accordance with the Company's Articles of Incorporation and Bylaws, two of the eight directors will be elected by a vote of the holders of the Class A Common Stock, voting as a separate class, and the remaining six directors will be elected by a vote of the holders of the Class B Common Stock, voting as a separate class.

### Identification of Directors and Executive Officers

**The Board has nominated, and recommends a vote FOR, Ernest E. Ferguson and Brenda S. Tudor as directors to be elected by the holders of the Class A Common Stock and Fred D. Ayers, L. Keith Collins, Ronald B. Freeman, Robert P. Ingle, II, James W. Lanning, and Laura Ingle Sharp as directors to be elected by the holders of the Class B Common Stock.**

Mr. Charles E. Russell, former Director and Chairman of the Audit/Compensation Committee, died during 2014. Mr. John O. Pollard resigned from the Board and the Audit/Compensation Committee effective December 9, 2014 for health reasons. Mr. Ferguson and Ms. Tudor were elected to the Board of Directors on December 9, 2014 by the remaining members of the Board following the death of Mr. Russell and the resignation of Mr. Pollard. All other nominees have been directors for a number of years.

Proxies received by the Board will be voted "**For**" the election of all of the nominees unless stockholders specify a contrary choice in their proxy. We expect each director nominee to be able to serve if elected. If any director nominee is not able to serve, proxies will be voted "for" the remainder of those nominated and may be voted for substitute nominees.

The biographical information set forth below was furnished by each named director and executive officer of the Company. Except as otherwise indicated, each such person has been engaged in his or her most recent occupation or employment for more than five years.

### DIRECTORS AND EXECUTIVE OFFICERS

Robert P. Ingle, II	Robert P. Ingle, II has been a member of the Board of Directors since February 1997, has served as Chairman of the Board since May 2004, and has served as Chief Executive Officer since March 2011. He has been employed by the Company in a variety of positions since 1985. Mr. Ingle is 46.
James W. Lanning	Mr. Lanning has served as a director of the Company since May 2003 and has served as President and Chief Operating Officer since March 2003. He has been employed by the Company in a variety of positions since 1975. Mr. Lanning is 55.
Ronald B. Freeman	Mr. Freeman has served as a director of the Company since May 2005 and has served as Chief Financial Officer of the Company since April 2005. Mr. Freeman is 57.
L. Keith Collins	Mr. Collins has served as a director since December 2011. In September 2011, Mr. Collins was elected President of Milkco, Inc., a subsidiary of the Company that processes,

packages and distributes milk, fruit juices and spring water. Mr. Collins was previously Vice President of Milkco from 2004 to 2011. He has been continuously employed by Milkco since 1990. Mr. Collins is 57.

Fred D. Ayers Mr. Ayers has served as a director of the Company since February 2006. Mr. Ayers retired in 2002 as a senior officer of Wachovia Bank. He has served on numerous boards and remains active in the Asheville Community. Mr. Ayers is 72.

Ernest E. Ferguson Mr. Ferguson was elected as a director of the Company on December 9, 2014. Mr. Ferguson retired in 2007 as a senior vice president and commercial sales director of Wachovia Bank (now Wells Fargo). He has continued to serve on numerous boards and remains active in the Asheville community. Mr. Ferguson is 67.

Brenda S. Tudor Ms. Tudor was elected as a director of the Company on December 9, 2014. Ms. Tudor is a certified public accountant. She is President and Chief Financial Officer of Morgan-Keefe Builders, Inc. Ms. Tudor retired as Vice President Finance and Chief Financial Officer of Ingles Markets, Inc. in 2005 and was a director of the Company from 1998 to 2005. Ms. Tudor is 57.

Laura Ingle Sharp Ms. Sharp has been a director of the Company since February 1997. She has in the past served the Company in several capacities on a full-time and part-time basis. The Company's "Laura Lynn" private label products are named after Ms. Sharp. Ms. Sharp is 57.

Messrs. Ingle, Lanning, Freeman and Collins, and Ms. Sharp have been employees and/or directors of the Company, or its subsidiaries, for many years and, as such, are uniquely qualified to serve on the Company's Board of Directors. Messrs. Ayers and Ferguson, and Ms. Tudor provide unique and diverse qualities to our Board of Directors as a result of their backgrounds as senior banking officers, and corporate executive officer and director, respectively.

The Company does not have a policy with regard to the consideration of diversity in identifying director nominees.

Robert P. Ingle, II and Laura Ingle Sharp are brother and sister. There are no other family relationships among any of the directors or executive officers of the Company. Based upon the voting power of Mr. Robert P. Ingle, II in the election of directors, the Company meets the definition of a "Controlled Company" for purposes of the Nasdaq corporate governance rules and thus is exempt from certain of its corporate governance requirements, including the requirement that a majority of the board members be "Independent Directors."

### **Committees of the Board of Directors**

The Board had three standing committees during fiscal 2014: an Executive Committee, an Audit/Compensation Committee and a Human Resources Advisory Committee. The Company did not have a separate nominating committee during fiscal 2014. As a Controlled Company under the Nasdaq corporate governance rules, the continued listing requirements of Nasdaq do not require that the Company have a nominating committee.



***The Executive Committee.*** The Executive Committee can exercise the powers of the full Board between meetings of the Board, except for powers that may not be delegated to a committee of the Board under the North Carolina Business Corporation Act. During fiscal 2014, the Executive Committee consisted of Messrs. Robert P. Ingle, II, Ronald B. Freeman and James W. Lanning.

***The Audit/Compensation Committee.*** The Board has established, through the Company's Bylaws, an Audit/Compensation Committee. When acting in its capacity as Audit Committee, this committee acts under the authority of and has the responsibilities described in the Company's Audit Committee Charter. The Audit Committee Charter is available on the Company's website at [www.ingles-markets.com](http://www.ingles-markets.com). In this capacity, the committee is responsible for, among other things, recommending the engagement of the Company's independent registered public accounting firm, approving the fees and services to be provided by the independent registered public accounting firm, overseeing the independent registered public accounting firm, reviewing and evaluating significant matters relating to the audit and internal controls of the Company, reviewing the scope and results of audits by, and recommendations of, the Company's independent registered public accounting firm and establishing and administering the Company's Related Party Transaction policy. In addition, the committee reviews the audited consolidated financial statements of the Company.

The Committee does not have a separate Compensation Committee charter. When the committee is acting in its capacity as the Compensation Committee, the Board has empowered the committee to:

- approve compensation levels and increases in compensation of each executive officer and of other employees of the Company whose annual base salary is in excess of \$150,000; and
- approve all incentive payments to executive officers and any incentive payments in excess of \$25,000, paid in cash or property, in any calendar year to any other employee that does not work in one of the Company's supermarkets.

Furthermore, the Committee, when acting as the Compensation Committee, administers the Company's employee benefit plans and other compensation matters where independent, disinterested administration is required by applicable tax or securities laws and regulations. Where such laws or regulations require that grants or awards under the Company's stock-based employee benefit plans be made by the full Board or by a committee of non-employee or outside directors, the Committee or the Board, as appropriate, makes such decisions.

During fiscal 2014, the Audit/Compensation Committee consisted of Messrs. Pollard, Russell (prior to his death in August, 2014) and Ayers. Effective December 9, 2014 Mr. Ayers was named Audit/Compensation Committee Chairman and both Mr. Ferguson and Ms. Tudor were appointed members of the Audit/Compensation Committee. The Board has determined that each member of the committee is independent for purposes of the provisions of the Sarbanes-Oxley Act of 2002 and the Nasdaq corporate governance rules regarding audit committees. The Board has also determined that Mr. Ayers, an "audit committee financial expert" as defined under the rules of the Securities and Exchange Commission, is independent of management of the Company.

***The Human Resources Advisory Committee.*** The Human Resources Advisory Committee was established in August 1998 to oversee certain of the Company's human resources compliance policies and programs. During fiscal 2014, Ms. Sharp and Mr. Freeman served as members of this committee.

### **Compensation Committee Interlocks and Insider Participation in Compensation Decisions**

All compensation decisions made during fiscal 2014 that were not made exclusively by the Board or the Audit/Compensation Committee were made by the Chief Executive Officer, in certain instances in consultation with the President and Chief Operating Officer. Messrs. Pollard, Russell and Ayers, who were the members of the Audit/Compensation Committee during fiscal 2014, were not officers or employees of the Company or its subsidiaries during fiscal 2014 or any prior fiscal year. Messrs. Pollard, Russell and Ayers did not have any relationships with the Company that would require disclosure under "Transactions With Related Persons."



## Meetings of the Board of Directors and Committees

The Board held four formal meetings during fiscal 2014. The Executive Committee held no formal meetings during fiscal 2014, but met periodically on an informal basis. The Audit/Compensation Committee held five formal meetings during fiscal 2014, and met periodically on an informal basis during Board meetings and as required for other purposes. The Human Resources Advisory Committee held no formal meetings during fiscal 2014, but received updates on human resource issues as needed at quarterly Board meetings. Each director attended at least 75% of all meetings of the Board and of the committees of the Board on which he or she served during fiscal 2014, except for Mr. Pollard. See “Committees of the Board of Directors.”

Directors who are not officers of the Company or any of its subsidiaries are paid an annual retainer of \$15,000 plus \$1,000 for each Board or Committee meeting they attend in person. Audit/Compensation Committee members other than the Chairman are also paid an additional annual retainer of \$10,000 for service on such Committee, and the Chairman of the Audit/Compensation Committee is paid an additional annual retainer of \$15,000.

The following director compensation table sets forth, for the fiscal year ended September 27, 2014, the cash and certain other compensation paid by the Company to its outside directors. There were no other items of compensation paid to outside directors for the fiscal year ended September 27, 2014.

Name	Fees	
	Earned or Paid Total	
	in Cash	(\$)
	(\$)	
Fred D. Ayers	30,000	30,000
John O. Pollard	27,000	27,000
Charles E. Russell	33,000	33,000
Laura Ingle Sharp	14,000	14,000

## Director Nominations

As noted above, the Company did not have a standing nominating committee in fiscal 2014. Historically, the Board of Directors has not considered a nominating committee necessary in that there have been few vacancies on the Company’s Board, and vacancies have been filled through discussions between the Chief Executive Officer and the Chief Financial Officer of the Company with input from other Board members as needed. Under the Company’s Articles of Incorporation, 25% of the directors of the Company are elected by the holders of Class A Common Stock, voting as a separate class, and the remaining directors are elected by holders of the Class B Common Stock, voting as a separate class. Mr. Ingle II, the Chief Executive Officer and Chairman of the Company, is also the majority holder of the outstanding shares of Class B Common Stock as a result of being appointed the trustee with sole voting and dispositive power of trusts established by his father, Robert P. Ingle, in connection with his estate plan.

The Company has not received director candidate recommendations from its stockholders and does not have a formal policy regarding consideration of such recommendations. However, any recommendations received from stockholders will be evaluated in the same manner that potential nominees suggested by Board members, management or other parties are evaluated. The Company does not intend to treat stockholder recommendations in any manner different from other recommendations. Stockholders may submit recommendations in writing to the Secretary at the Company’s principal office, the address of which is set forth in this Proxy Statement.

The Board has not adopted a policy with respect to minimum qualifications for Board members. Conversely, with respect to each individual vacancy, the Board has determined the specific qualifications and skills required to fill that vacancy and to complement the existing qualifications and skills of the other Board members. Historically, the Company has not engaged third parties to assist in identifying and evaluating potential nominees,

but would do so in those situations where particular qualifications are required to fill a vacancy and the Board's and management's contacts are not sufficient to identify an appropriate candidate.

#### **Stockholder Communication with Board Members**

The Company maintains contact information, both telephone and email, on its website under the heading "Talk to Us." By following the "Talk to Us" link, a stockholder will be given access to the Company's telephone number and mailing address as well as a link for providing email correspondence to Investor Relations. Communications sent to Investor Relations and specifically marked as a communication for the Board will be forwarded to the Board or specific members of the Board as directed in the stockholder communication. In addition, communications received via telephone for the Board are forwarded to the Board by an officer of the Company.

#### **Board Member Attendance at Annual Meetings**

The Company generally requires that all directors attend the annual meeting of stockholders, absent extraordinary circumstances. All directors attended the annual meeting of stockholders held in 2014, except for Mr. Pollard.

#### **Code of Ethics**

The Company has adopted a Code of Ethics that applies to its senior financial officers, including without limitation, its Chief Executive Officer, Chief Financial Officer and Controller. The full text of the Code of Ethics is published on the Company's website at [www.ingles-markets.com](http://www.ingles-markets.com) under the caption "Corporate Information." In the event that the Company makes any amendments to, or grants any waivers of, any provision of the Code of Ethics applicable to its principal executive officer, principal financial officer or principal accounting officer, the Company intends to promptly disclose such amendment or waiver on its website.

## AUDIT/COMPENSATION COMMITTEE REPORT

*The following report of the Audit/Compensation Committee does not constitute soliciting material and should not be deemed filed with the Securities and Exchange Commission nor shall this report be incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

The Audit/Compensation Committee oversees the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the Company's financial statements and the financial reporting process including the systems of internal controls. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those audited financial statements with generally accepted accounting principles.

In connection with the preparation and filing of the Company's Annual Report on Form 10-K for its fiscal year ended September 27, 2014:

- (1) The Audit/Compensation Committee reviewed and discussed the audited consolidated financial statements with management;
- (2) The Audit/Compensation Committee discussed with a member of Deloitte & Touche LLP, the Company's independent registered public accounting firm, the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
- (3) The Audit/Compensation Committee received the written disclosures and the letter from Deloitte & Touche LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit/Compensation Committee concerning independence and has discussed with Deloitte & Touche LLP its independence.

The Audit/Compensation Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audit of the Company's financial statements. The Audit/Compensation Committee meets periodically with the Company's independent registered public accounting firm to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit/Compensation Committee held five meetings during fiscal 2014.

Based on the review and discussions referred to above, the Audit/Compensation Committee recommended to the Company's Board of Directors (and the Board approved) that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 2014, for filing with the Securities and Exchange Commission.

SUBMITTED BY:

THE AUDIT/COMPENSATION COMMITTEE

John O. Pollard    Fred D. Ayers

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

### Compensation Discussion and Analysis

The following discussion and analysis is intended to provide an understanding of the actual compensation earned by each of the Company's named executive officers ("Executive Officers"), and describes the Company's compensation objectives and policies as applied to these Executive Officers.

**Compensation Philosophy.** The objectives of the Company's compensation program are to (1) attract, motivate, develop and retain top quality executives who will drive long-term stockholder value and (2) deliver competitive total compensation packages based upon both Company and individual performance. The Company wants its executives to balance the risks and related opportunities inherent in its industry and in the performance of their duties and share the upside opportunity and the downside risks once actual performance is measured.

The Audit/Compensation Committee is responsible for administering executive compensation. The duties of this committee are set forth under the heading "**ELECTION OF DIRECTORS – Committees of the Board of Directors – Audit/Compensation Committee.**" To achieve the objectives of the Company's compensation program, the Company's Chief Executive Officer and the Audit/Compensation Committee have set forth a compensation program for its Executive Officers that is reviewed annually. It includes the following elements:

- Base annual cash salary;
- Annual cash incentive bonuses; and
- Retirement, health and other benefits.

The Company does not have any Employment, Change in Control or Severance Agreements with any of its Executive Officers. The Company believes in trust, loyalty and commitment from both the Company and the Executive Officers, and believes that such agreements are not necessary to achieve its goals and the needs of the Executive Officers.

**Factors Considered in Determining Compensation.** The Company's Chief Executive Officer periodically reviews the compensation paid by the Company to its Executive Officers and other employees. Based on the Company's general performance and that of the individual Executive Officer, he makes final subjective determinations (in certain instances in consultation with the President and Chief Operating Officer) with respect to any changes to be made to that compensation. Bonuses paid to officers of the Company's subsidiary, Milkco, Inc., are based on a percentage of Milkco's earnings before taxes and payment of bonuses.

Neither the full Board nor the Audit/Compensation Committee generally reviews or ratifies the Chief Executive Officer's decisions relating to executive compensation unless otherwise required by the Company's Bylaws, by resolutions adopted by the Board, or by the North Carolina Business Corporation Act. Decisions are made by the Board or the Audit/Compensation Committee if such decisions require the adoption of documents relating to employee benefit plans or programs. In addition, the Audit/Compensation Committee is required by resolution of the Board of Directors to approve any increases in compensation that the Company will pay to an employee whose base salary is in excess of \$150,000, all incentive compensation that the Company will pay to Executive Officers and any incentive payments in excess of \$25,000 that the Company will pay to any other employee who does not work in one of the Company's supermarkets. Certain managers that work in the Company's supermarkets are paid incentive compensation based on each individual store's operating profit. These incentive payments may exceed \$25,000 and are not approved by the Audit/Compensation Committee.

The Internal Revenue Code generally provides that corporate deductions will be disallowed for annual compensation in excess of \$1 million paid to certain executive officers of publicly held corporations. “Performance-based” compensation is excluded from the cap. Although the \$1 million compensation deduction cap would be applicable to the Executive Officers named in the “**Summary Compensation Table**” their compensation levels for fiscal 2014 were below the cap. Nevertheless, the Chief Executive Officer and the Audit/Compensation Committee, as appropriate, intend to consider the Internal Revenue Code’s compensation deductibility cap when they determine compensation levels and to evaluate appropriate alternatives to mitigate any adverse impact this limitation may have on the deductibility of executive compensation paid by the Company and its subsidiaries. The Company believes all compensation paid to Executive Officers for fiscal 2014 is deductible under the Internal Revenue Code.

### **Elements of Executive Compensation**

**Base Salary.** Base salary is used to attract and retain Executive Officers and is determined using publically available comparisons with industry competitors and other relevant factors, including the seniority of the individual, the functional role of the position, the level of the individual’s responsibility, ability to replace the individual, etc. The information is used subjectively without benchmarking in the determination of base salaries. The base salaries paid to the Executive Officers during fiscal 2014 are shown in the Summary Compensation Table presented in this proxy statement.

**Cash Incentive Bonus Awards.** Annual cash bonuses are a significant component of each Executive Officer’s compensation, reflecting the Company’s belief that management’s contribution to long-term stockholder returns comes from maximizing earnings and the potential of the Company.

Executive Officers of the Company received a bonus, the amounts of which were subjectively determined taking into consideration Company profitability and the Executive Officer’s performance for the fiscal year to which the bonus relates. This subjective determination is made by Mr. Ingle II, and the President and Chief Operating Officer, as appropriate, and approved by the Audit/Compensation Committee. The bonus paid to Mr. Collins, President of the Company’s subsidiary, Milkco, Inc., is based on a percentage of Milkco’s earnings before taxes and payment of bonuses. Mr. Collins receives a bonus equal to a percentage of Milkco’s earnings before taxes and payment of bonuses, up to a maximum of \$49,950 per year. Based on Milkco’s expected financial performance, the Company anticipates Mr. Collins will continue to receive at or near the maximum bonus.

### **Retirement, Health and Other Benefits.**

**Investment/Profit Sharing Plan.** The Company maintains the Ingles Markets, Incorporated Investment/Profit Sharing Plan (the “Profit Sharing Plan”) to provide retirement benefits to eligible employees, including Executive Officers. The Profit Sharing Plan includes 401(k) employee elective contributions, discretionary employer matching contributions and discretionary profit sharing contribution features. The assets of the Profit Sharing Plan are held in trust for participants and are distributed upon the retirement, disability, death or other termination of employment of the participant. Quarterly, the Company, in its discretion, determines the amount of any Company profit sharing contributions and the amount of any matching contributions to be made based on participants’ 401(k) contributions for the quarter. During fiscal 2014, the Company matched employee contributions at a rate of \$0.50 for each dollar of employee contributions up to 3% of the employee’s salary.

Employees who participate in the Profit Sharing Plan may contribute to their 401(k) account between one percent and fifty percent (in increments of one percent) of their compensation by way of salary reductions that cannot exceed a maximum amount that varies annually in accordance with the Internal Revenue Code. The Company also makes available to Profit Sharing Plan participants the ability to direct the investment of their 401(k) accounts (including the Company’s matching contributions) in various investment funds, including a fund holding Class A Common Stock of the Company.



The Company did not make a discretionary profit sharing contribution to the Profit Sharing Plan for fiscal 2014.

10

Company discretionary employer matching cash contributions to the Profit Sharing Plan totaled \$1.4 million for fiscal 2014. These contributions were allocated to the matching contribution accounts in each participant's 401(k) account. The Company's contributions to each of the Executive Officers are reflected in the Summary Compensation Table. As of September 27, 2014, all of the Executive Officers who are named in the Summary Compensation Table were 100% vested in their accounts. Participants' interests in employer contributions allocated to their accounts vest over six years.

*Nonqualified Investment Plan.* The Company maintains an Executive Nonqualified Excess Plan to provide benefits similar to the Investment/Profit Sharing Plan to certain of the Company's management employees and pharmacists (in the Company's stores) who are otherwise limited in their employee elective contributions under the 401(k) feature of the Profit Sharing Plan. Employees who participate in the Executive Nonqualified Excess Plan may contribute between one percent and seventy-five percent of base pay and up to one hundred percent of bonus pay (in increments of one percent) of their compensation by way of salary reductions. In addition, the Company may make discretionary matching contributions. The Company's contributions to each of the Executive Officers are reflected in the Summary Compensation Table. During fiscal 2014, the Company matched employee contributions at a rate of \$0.25 for each dollar of employee contributions up to 2% of the employee's earnings. As of September 27, 2014, all of the Executive Officers who are named in the Summary Compensation Table were 100% vested in their accounts. Participants' interests in contributions allocated to their accounts vest over six years. Company contributions to the Plan were approximately \$84,000 in fiscal 2014.

*Insurance.* The Company currently makes available to its Executive Officers and all employees a comprehensive health, dental, life and disability insurance program. The health care insurance offers a variety of coverage options, at the employee's discretion. The Company maintains, at its expense, for the benefit of each of its full-time employees life insurance policies in amounts up to \$150,000 based on the compensation of the employee. The premiums paid by the Company for the benefit of Executive Officers are included in the Summary Compensation Table.

### **Management of Compensation – Related Risk**

The Company's Board of Directors has considered and determined that risks arising from the Company's compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

**Audit/Compensation Committee Report on Executive Compensation**

The Audit/Compensation Committee has reviewed and discussed with management the “Compensation Discussion and Analysis” set forth above in this Proxy Statement. Based on such review, the related discussions and such other matters deemed relevant and appropriate by the Audit/Compensation Committee, the Audit/Compensation Committee has recommended to the Board of Directors that the “Compensation Discussion and Analysis” be included in this Proxy Statement and in the Company’s Annual Report on Form 10-K for the year ended September 27, 2014.

SUBMITTED BY:

THE AUDIT/COMPENSATION COMMITTEE

John O. Pollard    Fred D. Ayers

**Executive Compensation Summary**

The following tables set forth information concerning the compensation of the Company's Chief Executive Officer, Chief Financial Officer and each of its other Named Executive Officers at the end of fiscal 2014.

**SUMMARY COMPENSATION TABLE**

<b>Name and Principal Position during 2014</b>	<b>Fiscal Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>All Other Compensation (\$ (1))</b>	<b>Total (\$)</b>
Robert P. Ingle, II Chairman and Chief Executive Officer	2014	611,923	350,000	—	68,892	1,030,815
	2013	576,923	300,000	—	64,295	941,218
	2012	548,077	250,000	—	71,863	869,940
James W. Lanning President and Chief Operating Officer	2014	611,923	350,000	—	10,339	972,262
	2013	576,923	300,000	—	9,677	886,600
	2012	548,077	250,000	—	9,345	807,422
Ronald B. Freeman Vice President Finance, Chief Financial Officer	2014	315,385	95,000	—	5,781	416,166
	2013	295,385	80,000	—	5,670	381,054
	2012	282,335	75,000	—	5,610	362,945
L. Keith Collins (2) President, Milkco, Inc.	2014	196,538	—	43,819	6,216	246,573
	2013	182,884	—	47,055	5,472	235,411
	2012	177,379	—	22,549	4,604	204,532

(1) All other fiscal 2014 compensation for each of the Executive Officers consists of the following:

	<b>Fiscal 2014</b>			
	<b>Robert P. Ingle, II</b>	<b>James W. Lanning</b>	<b>Ronald B. Freeman</b>	<b>L. Keith Collins</b>
Employer Match for 401(k) Plan	\$ 3,975	\$ 3,975	\$ 2,650	\$ 3,605
Employer Match for Non-Qualified Plan	4,810	4,810	1,577	1,202
Life Insurance	198	198	198	198
Accidental Death &	1,356	1,356	1,356	1,211

Dismemberment  
and

Insurance and  
Long-Term  
Disability

Travel Expenses	31,832	—	—	—
-----------------	--------	---	---	---

(2) Mr. Collins received a bonus equal to a percentage of Milkco's earnings before taxes and payment of bonuses, up to a maximum of \$49,950 per year.

13

**SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS**

Except where indicated in the footnotes below, the following table sets forth the number of shares of Class A Common Stock and Class B Common Stock owned beneficially as of September 27, 2014, by each director and nominee for director, each of the executive officers of the Company named in the Summary Compensation Table, all directors and executive officers as a group and each person known by the Company to be a beneficial owner of more than five percent (5%) of either class of the outstanding Common Stock. The table also sets forth the percentage of each class of Common Stock held by such stockholders. As of September 27, 2014, there were 13,540,333 shares of Class A Common Stock and 6,719,443 shares of Class B Common Stock outstanding. Except as otherwise indicated, each beneficial owner has sole voting and investment power with respect to the Common Stock listed.

Name	Number of Shares		Percentage of		Percentage of Total Voting Power
	Owned Beneficially		Common Stock		
	Class A <sup>(2)</sup>	Class B	Class A <sup>(2)</sup>	Class B	