

INGLES MARKETS INC  
Form DEF 14A  
January 11, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Ingles Markets, Incorporated**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

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**INGLES MARKETS, INCORPORATED**  
**P.O. BOX 6676**  
**ASHEVILLE, NORTH CAROLINA 28816**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON FEBRUARY 13, 2007**

To the Stockholders of Ingles Markets, Incorporated:

NOTICE IS HEREBY GIVEN that Ingles Markets, Incorporated will hold its 2007 Annual Meeting of Stockholders at the Grove Park Inn, 290 Macon Avenue, Asheville, North Carolina 28804 on February 13, 2007, at 1:00 p.m. local time, for the following purposes:

- (1) To elect nine directors to serve until the 2008 Annual Meeting of Stockholders;
- (2) To vote on a stockholder proposal described herein; and
- (3) To transact any other business that may properly come before the meeting and any adjournment or postponement thereof.

These items and other matters relating to the Annual Meeting are more fully discussed in the Proxy Statement that accompanies this notice.

Holders 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 January 3, 2007, are entitled to receive notice of and to vote at the Annual Meeting. We will make available at the Company's corporate offices a list of stockholders as of the close of business on January 3, 2007, for inspection during normal business hours during the ten-day period immediately preceding the Annual Meeting.

Whether or not you expect to attend the Annual Meeting, please sign and date the accompanying proxy card(s) and return the proxy card(s) promptly in the enclosed postage paid reply envelope. Your prompt return of the proxy card(s) will help the Company prepare for the Annual Meeting. If you return an executed proxy card and later decide to attend the Annual Meeting, you may revoke your proxy at the meeting and vote your shares in person.

By Order of the Board of Directors

Robert P. Ingle, II  
Chairman of the Board

Asheville, North Carolina

January 11, 2007

**PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY CARD(S) PROMPTLY SO THAT YOUR VOTE MAY BE RECORDED AT THE MEETING IF YOU DO NOT ATTEND PERSONALLY. IF YOU DECIDE TO ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON.**

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**INGLES MARKETS, INCORPORATED**

**P. O. BOX 6676**

**ASHEVILLE, NORTH CAROLINA 28816**

**ANNUAL STOCKHOLDERS MEETING**

**FEBRUARY 13, 2007**

**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 2007 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 13, 2007 at 1:00 p.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. The Company is sending this Proxy Statement 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 January 3, 2007, 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 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 sent or given to stockholders on or about January 11, 2007.

**Execution and Revocation of Proxies**

If a stockholder completes and signs one of the enclosed proxies as instructed and returns the proxy to the Secretary of the Company in care of the Company's transfer agent, LaSalle Bank, N.A., so that it is received at or before the Annual Meeting, the shares of Common Stock represented by the proxy 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 duly authorized person should sign each proxy on the stockholder's behalf if the stockholder is a corporation or partnership. If the shares of Common Stock represented by a proxy are registered in more than one name, each registered owner should sign the proxy. If an authorized person executes the proxy pursuant to a power of attorney or as an executor, administrator, trustee or guardian, the person should include his or her full title on the proxy and enclose a certificate or other evidence of appointment with the proxy when delivering it to the Secretary. Proxies that are not properly executed 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 giving oral notice of the stockholder's election to vote in person;

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

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

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### **Action to Be Taken under the Proxy Cards**

Unless instructed otherwise on a proxy, shares of Common Stock represented by a properly executed proxy will be voted 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 described under the heading **STOCKHOLDER PROPOSAL**. 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 12,210,285 shares of Class A Common Stock and 12,296,976 shares of Class B Common Stock 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 seven 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.

Because the Company was a public corporation on the Record Date, cumulative voting will not be 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 would vote as a single class with respect to any other matter, including the stockholder proposal, that may be voted upon at the Annual Meeting. In any such vote, stockholders would 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 the election of directors and the stockholder proposal to be presented for action at the Annual Meeting.



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**ELECTION OF DIRECTORS**

Each member of the Board is elected for a term of one year and until their successors are elected and qualified or until their 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 nine for purposes of this election. In accordance with the Company's Articles of Incorporation and Bylaws, two of the nine directors will be elected by a vote of the holders of the Class A Common Stock and the remaining seven directors will be elected by a vote of the holders of the Class B Common Stock.

**Identification of Directors and Executive Officers**

**The Board has nominated, and recommends a vote FOR, Fred D. Ayers and John O. Pollard as directors to be elected by the holders of the Class A Common Stock and Ronald B. Freeman, Charles L. Gaither, Jr., Robert P. Ingle, Robert P. Ingle, II, James W. Lanning, Charles E. Russell and Laura Ingle Sharp as directors to be elected by the holders of the Class B Common Stock.**

All of these nominees are currently directors. 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. It is not anticipated that any nominee for election as a director will become unable to accept the nomination, but if such an event should occur the person or persons acting under the proxies will vote for any substitute nominee who may be designated by the Board. The person or persons acting under the proxies will vote for no more or fewer than nine nominees, unless the Board votes to change the number of directors, or fewer than nine individuals are nominated at the Annual Meeting.

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	Mr. Ingle served as Chairman of the Board from the Company's incorporation in 1965 until May 2004 and thereafter has served as a director. Mr. Ingle has served as Chief Executive Officer since the Company was incorporated in 1965 and served as President from 1965 until 1982. Mr. Ingle also serves on the Asheville Board of Directors Advisory Board of Wachovia Bank, N.A. Mr. Ingle is 73.
Robert P. Ingle, II	Robert P. Ingle, II, has served as a director of the Company since February 1997 and as Chairman of the Board since May 2004. He has been employed by the Company since 1985 and has served as Vice President-Operations since February 1996. Mr. Ingle is 38.
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 held many positions in his 29 years with the Company, most recently serving as a District Manager in Georgia. Mr. Lanning is 47.

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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. Prior to joining the Company, Mr. Freeman served as Chief Financial Officer of Silver-Line Plastics Corporation, a plastic pipe manufacturer, since 2000. Mr. Freeman is 49.
Charles L. Gaither, Jr.	Mr. Gaither has served as a director of the Company since February 2002. In July 1998, Mr. Gaither was elected President of Milkco, Inc., a subsidiary of the Company that processes, packages and distributes milk, fruit juices and spring water. Mr. Gaither was previously Vice President and General Manager of Milkco from 1987 to 1998 and served as Assistant General Manager of Milkco from 1985 to 1987. Mr. Gaither is 63.
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 after 37 years of service. He has served on numerous boards and remains active in the Asheville Community. Mr. Ayers is 64.
John O. Pollard	Mr. Pollard has served as a director of the Company since 1987. From January 1998 until his retirement in March 2006, Mr. Pollard was an attorney with the law firm of McGuireWoods, LLP, serving as a partner until January 2002. Prior to 1998, he was a partner in the Charlotte law firm of Blakeney & Alexander with which he was affiliated from 1973 and which merged with McGuireWoods in 1998. Mr. Pollard is 69.
Charles E. Russell	Mr. Russell has served as a director of the Company since May 2001. Mr. Russell is a certified public accountant and has been a principal with Painter, Russell & Associates, PLLC, certified public accountants, since October 1992. Mr. Russell is 68.
Laura Ingle Sharp	The Company's Laura Lynn private label products are named after Ms. Sharp. She 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, including appearing from time to time in advertisements promoting the Company's private label products. Ms. Sharp is 50.
Robert P. Ingle, II and Laura Ingle Sharp	are the son and daughter, respectively, of Robert P. Ingle. There are no other family relationships among any of the directors or executive officers of the Company.

**Committees of the Board of Directors**

The Board had three standing committees during fiscal 2006: an Executive Committee, an Audit/Compensation Committee and a Human Resources Advisory Committee. The Company did not have a separate nominating committee during fiscal 2006. The Company qualifies as a Controlled Company under the Nasdaq Marketplace Rules as Mr. Robert P. Ingle controls more than 50% of the Company's voting power, as

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evidenced by the Company's ownership records. As a Controlled Company, 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 2006, the Executive Committee consisted of Messrs. Robert P. Ingle, 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 attached as Appendix A to this proxy statement and 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, engaging the Company's independent auditors, approving the fees and services to be provided by the auditors, overseeing the auditors, reviewing and evaluating significant matters relating to the audit and internal controls of the Company and reviewing the scope and results of audits by, and recommendations of, the Company's independent auditors. In addition, the committee reviews the audited financial statements of the Company and considers major changes and questions of choice regarding appropriate accounting principles and practices to be followed in the preparation of the Company's financial statements.

When the committee is acting 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 \$100,000; 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.

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 2006, the Audit/Compensation Committee consisted of Messrs. Pollard and Russell and following his election to the Board in February 2006, Mr. Ayers. 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 Marketplace Rules regarding audit committees. In making this determination, the Board specifically reviewed the relationship Mr. Pollard had with the law firm McGuireWoods, LLP prior to his retirement in March 2006, which from time to time handles labor matters for the Company. Until January 1, 2002, Mr. Pollard was a partner in this law firm. As of January 1, 2002, Mr. Pollard became a non-equity partner of the firm, which, although including the term "partner" in the title, is a salaried, employee position. Mr. Pollard did not personally provide any of the legal services that his firm performs for the Company. Based on information provided by Mr. Pollard, the Board has determined that Mr. Pollard does not share in the profits of the law firm and thus does not indirectly receive any of the legal fees paid by the Company to such firm and has not received any of such fees since January 1, 2002. Further, based on information provided by Mr. Pollard, the Board has determined that his compensation was not directly affected by the receipt of payments by McGuireWoods from the Company. Therefore, the Board has determined that Mr. Pollard has not, directly or indirectly, received any consulting, advisory or other compensatory fee from the Company. All the members of the Audit/Compensation Committee qualify as independent for purposes of such rules as they apply to compensation committees.

The Board has also determined that Mr. Russell is an audit committee financial expert as defined under the rules of the Securities and Exchange Commission, who is independent of management of the Company.

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***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 2006, 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 2006 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 and/or the Chairman of the Board. Messrs. Pollard, Russell and Ayers, who were the members of the Audit/Compensation Committee during fiscal 2006, were not officers or employees of the Company or its subsidiaries during fiscal 2006 or any prior fiscal year.

Mr. Pollard does not have any employment relationship with the Company. However, prior to his retirement in 2006, Mr. Pollard was an attorney with the law firm of McGuireWoods, LLP which, from time to time, handles labor matters for the Company. During fiscal 2006, the Company paid approximately \$130,000 in fees for services rendered by that firm.

The Company believes that the transactions described above were conducted on terms that are no less favorable to the Company than could have been obtained from unaffiliated third parties in arm's length transactions.

### **Meetings of the Board of Directors and Committees**

The Board held four formal meetings during fiscal 2006. The Executive Committee held no formal meetings during fiscal 2006, but met on an informal basis. The Audit/Compensation Committee held 10 formal meetings during fiscal 2006, and met on an informal basis during board meetings and as required for other purposes. The Human Resources Advisory Committee held no formal meetings during fiscal 2006, 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 2006. See Committees of the Board of Directors.

Directors who are not officers of the Company are paid an annual retainer of \$10,000 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 \$15,000 for service on such Committee, and the Chairman of the Audit/Compensation Committee is paid an additional annual retainer of \$20,000.

### **Director Nominations**

All of the nominees for director are existing directors standing for reelection, and as noted above, the Company did not have a standing nominating committee in fiscal 2006. 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 Chairman, 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, and the remaining directors are elected by holders of the Class B Common Stock. Mr. Ingle, the Chief Executive Officer of the Company, is also the majority holder of shares of Class B Common Stock.

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.

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

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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 Contact Information. By following the Contact Information 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 2006.

### **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 Governance. 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.

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**AUDIT COMMITTEE REPORT**

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 independent auditors are 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 fulfilling its oversight responsibilities, the Audit/Compensation Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of accounting principles, the reasonableness of significant adjustments, and the clarity of disclosures in the financial statements. The Audit/Compensation Committee reviewed with the independent auditors their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit/Compensation Committee under generally accepted auditing standards, including the Statement on Auditing Standards No. 61 (communication with audit committees). In addition, the Audit/Compensation Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 and discussed with the independent auditors the auditors' independence from management and the Company. The Audit/Compensation Committee approved the selection of the Company's independent auditors for fiscal 2006 and has considered the compatibility of any non-audit services performed with the auditors' independence.

The Audit/Compensation Committee discussed with the independent auditors the overall scope and plans for their audit of the Company's financial statements. The Audit/Compensation Committee meets with the independent auditors 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 10 meetings during fiscal 2006.

In reliance on the reviews and discussions referred to above and the report of the independent auditors, the Audit/Compensation Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended September 30, 2006 for filing with the Securities and Exchange Commission.

SUBMITTED BY:

THE AUDIT/COMPENSATION COMMITTEE

John O. Pollard Charles E. Russell Fred D. Ayers

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**EXECUTIVE COMPENSATION**

**Report on Executive Compensation**

The Audit/Compensation Committee was responsible for administering executive compensation during fiscal 2006. The duties of this committee are set forth on page 5 under the heading **ELECTION OF DIRECTORS Committees of the Board of Directors Audit/Compensation Committee**. This report describes the compensation policies established by the Committee for the executive officers of the Company.

**Executive Compensation Policies.** 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 and/or the Chairman of the Board) 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 established quantitative measurements of Milkco's performance.

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 \$100,000, all incentive compensation that the Company will pay to executive officers and any incentive payments that the Company will pay to any other employee in excess of \$25,000. Decisions about grants or awards under the Company's stock-based employee benefit plans are made either by the Audit/Compensation Committee or by the Board, as appropriate, where Rule 16b-3 of the Securities Exchange Act 1934, as amended (the Exchange Act), or Section 162(m) of the Internal Revenue Code requires that such grants or awards be made by the full Board or by a committee of non-employee or outside directors. See **ELECTION OF DIRECTORS Committees of the Board of Directors**. No such grants or awards were made during fiscal 2006.

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 2006 were substantially 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.

**Salaries and Cash Incentive Bonus Awards.** In fiscal 2006, Mr. Robert P. Ingle received a salary of \$100,000 and no bonus. Mr. Ingle and the Audit/Compensation Committee believe compensation to Mr. Ingle in 2006 and years prior was on the low end of competitive compensation paid to other chief executive officers in the industry.

Other executive officers of the Company received a salary and bonus, the amounts of which were determined by Mr. Ingle, the President and Chief Operating Officer and/or the Chairman of the Board, as appropriate, and approved by the Audit/Compensation Committee. The bonus paid to Mr. Gaither, President of the Company's subsidiary, Milkco, Inc., is based on a pre-determined quantitative formula. He received a bonus equal to a percentage of Milkco's earnings before taxes and payment of the bonus. All other executive officers' bonuses were subjectively determined.

**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. The

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Profit Sharing Plan includes 401(k) and discretionary employer matching 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 Board, in its discretion, determines the amount of any Company contributions, including the amount of any matching contributions to be made based on participants' 401(k) contributions for the quarter.

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's contributions to the participants' profit sharing accounts are held in a separate fund (the Ingles Fund) that invests primarily in shares of the Company's Class B Common Stock and also includes cash reserves to facilitate distributions from the fund. See **SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS** regarding the shares of Class B Common Stock held by the Profit Sharing Plan.

The Company contributed \$859,000 to the Profit Sharing Plan from accumulated forfeitures under the Plan in fiscal 2006. These contributions were allocated to the matching contribution accounts in each participant's 401(k) accounts. The Company's contributions to each of the executive officers named in the Summary Compensation Table are reflected in the last column of that table. As of September 30, 2006, all of the Company's executive officers who are named in the Summary Compensation Table and who had account balances under the Profit Sharing Plan were 100% vested in their accounts. Mr. Freeman has no account balance under the Profit Sharing Plan. Participants' interests in contributions allocated to their accounts vest over six years.

**Nonqualified Investment Plan.** During fiscal year 2005, the Company adopted an Executive Nonqualified Excess Plan to provide benefits similar to the Investment/Profit Sharing Plan to certain of the Company's management employees who are otherwise subject to limited participation in the 401(k) feature of the Profit Sharing Plan. Company contributions to the Plan were approximately \$35,000 in fiscal 2006.

**Life Insurance.** 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 W-2 compensation of the employee. The premiums paid by the Company for the benefit of the executive officers named in the Summary Compensation Table are included in the last column of that table.

SUBMITTED BY:

THE AUDIT/COMPENSATION COMMITTEE

John O. Pollard Charles E. Russell Fred D. Ayers



**Table of Contents****Executive Compensation Summary**

The following tables set forth information concerning the compensation of the Company's Chief Executive Officer and each of its other four most highly compensated executive officers at the end of fiscal 2006.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position during 2006	Fiscal Year	Annual Compensation		All Other Compensation
		Salary (\$)	Bonus (\$)	(\$)(1)
Robert P. Ingle	2006	100,000		1,543
Chief Executive Officer	2005	100,000		966
	2004	100,000		1,056
Robert P. Ingle, II	2006	322,315	150,000	6,095
Chairman and Vice President - Operations	2005	170,045	40,000	1,862
	2004	170,045	40,000	1,769
James W. Lanning	2006	336,538	150,000	5,735
President and Chief Operating Officer	2005	250,000	40,000	1,865
	2004	242,788	40,000	2,476
Charles L. Gaither, Jr.	2006	175,000	44,579	3,162
President, Milkco, Inc.	2005	175,000	44,579	1,332
	2004	175,000	44,722	1,501
Ronald B. Freeman (2)	2006	195,961	70,000	1,395
Vice President Finance, Chief Financial Officer	2005	69,962	15,000	151
	2004			

(1) Includes contributions to defined contribution plans on behalf of the named individuals in the following amounts for 2006: Robert P. Ingle \$1,327, Robert P. Ingle, II \$5,771, James W. Lanning \$5,411, Charles L. Gaither \$2,838 and Ronald B. Freeman \$1,071; for 2005: Robert P. Ingle \$750, Robert P. Ingle, II \$1,538, James W. Lanning \$1,541, and Charles L. Gaither \$1,008; and for 2004: Robert P. Ingle \$750, Robert P. Ingle, II \$1,463, James W. Lanning \$2,170 and Charles L. Gaither, Jr. \$1,195. Includes between \$216 and \$324 in term life insurance premiums paid by the Company for the benefit of each of the named individuals in 2006. Includes between \$151 and \$324 in term life insurance premiums paid by the Company for the benefit of each of the named individuals in 2005. Also includes \$306 in term life insurance premiums paid by the Company for the benefit of each of the named individuals other than Mr. Freeman in 2004.

(2) Mr. Freeman became Vice President Finance and Chief Financial Officer on April 18, 2005.

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**OPTION/SAR GRANTS IN LAST FISCAL YEAR**

No options or SARs were granted to the executive officers listed in the Summary Compensation Table during fiscal 2006.

**AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR**

**AND FISCAL YEAR-END OPTION/SAR VALUES**

During fiscal 2006, no named executive officer exercised any options or SARs, and as of the fiscal year end, none of the named executive officers owned any options or SARs.

**Stock Price Performance Graph**

In accordance with the rules and regulations of the Securities and Exchange Commission, set forth below are a graph and accompanying tables comparing the cumulative total stockholder return on the Class A Common Stock to the cumulative total return of (i) the S&P 500 Comprehensive-Last Trading Day Index and (ii) a peer group of companies in the Company's line of business for the five-year period ended September 30, 2006. Beginning this year, the Company has revised the membership of its peer group index. For this transition year, the Company is presenting two peer group indices, the Prior Peer Group and the Expanded Peer Group. The Prior Peer Group consists of the following companies: Wild Oats Markets, Inc., Ruddick Corporation and Weis Markets, Inc. The Expanded Peer Group consists of the Prior Peer Group and the following companies: Royal Ahold N.V., Delhaize S.A., Pathmark Stores, Inc., The Kroger Co., Safeway Inc., Supervalu Inc., Whole Foods Market, Inc. and The Great Atlantic & Pacific Tea Company, Inc. The decision to change the Company's peer group index was based on, among other things, certain companies in the Prior Peer Group in past years no longer being publicly traded and on management's belief that because the Expanded Peer Group provides a broader cross section of companies in the Company's industry, the Expanded Peer Group provides a better benchmark by which to measure the Company's performance.

The graph and table assume that \$100 was invested after the close of the market on September 29, 2001, and that dividends were reinvested quarterly. Returns of the companies included in the peer groups reflected below have been weighted according to each company's stock market capitalization at the beginning of each section for which a return is presented.

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**INGLES MARKETS, INCORPORATED**

**COMPARATIVE RETURN TO STOCKHOLDERS**

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

AMONG INGLES MARKETS, INC., THE S & P 500 INDEX AND A PEER GROUP

\* \$100 invested on 9/29/01 in stock or index-including reinvestment of dividends.  
Index calculated on month-end basis.

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**INDEXED RETURNS OF INITIAL \$100 INVESTMENT\***

<b>Company/Index</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Ingles Markets, Incorporated Class A Common Stock	\$ 96.57	\$ 92.49	\$ 122.22	\$ 155.06	\$ 284.12
S&P 500 Comprehensive Last Trading Day Index	\$ 79.51	\$ 98.91	\$ 112.63	\$ 126.43	\$ 140.08
Expanded Peer Group	\$ 55.26	\$ 61.67	\$ 59.36	\$ 75.29	\$ 90.63
Prior Peer Group	\$ 115.86	\$ 121.91	\$ 132.26	\$ 161.45	\$ 183.60

\* Assumes \$100 invested in the Class A Common Stock of Ingles Markets, Incorporated after the close of the market on September 29, 2001.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS**

The following table sets forth the number of shares of Class A Common Stock and Class B Common Stock owned beneficially as of November 15, 2006, 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 November 15, 2006, there were 12,178,662 shares of Class A Common Stock and 12,319,599 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	
Robert P. Ingle <sup>(1)</sup>	11,738,190 <sup>(3)</sup>	11,711,100 <sup>(3)(4)</sup>	49.1% <sup>(3)</sup>	95.1% <sup>(3)(4)</sup>	86.5% <sup>(3)(4)</sup>
James W. Lanning <sup>(1)</sup>	1,495,840 <sup>(3)</sup>	1,462,500 <sup>(3)</sup>	11.0% <sup>(3)</sup>	11.9% <sup>(3)</sup>	10.8% <sup>(3)</sup>
Robert P. Ingle, II <sup>(1)</sup>	257,450 <sup>(5)</sup>	154,950 <sup>(5)</sup>	2.1% <sup>(5)</sup>	1.3% <sup>(5)</sup>	1.2% <sup>(5)</sup>
Laura Ingle Sharp <sup>(1)</sup>	81,549 <sup>(6)</sup>	79,725 <sup>(6)</sup>	*	*	*
Ronald B. Freeman <sup>(1)</sup>	1,491,177 <sup>(3)</sup>	1,462,500 <sup>(3)</sup>	10.9% <sup>(3)</sup>	11.9% <sup>(3)</sup>	10.8% <sup>(3)</sup>
Charles L. Gaither, Jr. <sup>(1)</sup>	4,755	0	*	*	*
Charles E. Russell <sup>(1)</sup>	423 <sup>(7)</sup>	0	*	*	*
John O. Pollard <sup>(1)</sup>	100	0	*	*	*
Fred D. Ayers <sup>(1)</sup>	500	0	*	*	*
Mario Gabelli, et al <sup>(8)</sup>	1,008,100 <sup>(9)</sup>	0	8.3% <sup>(9)</sup>	*	*
Dimensional Fund Advisors, Inc. <sup>(10)</sup>	967,063 <sup>(11)</sup>	0	7.9% <sup>(11)</sup>	*	*
Silver Point Capital, L.P., et al <sup>(12)</sup>	932,600 <sup>(13)</sup>	0	7.7% <sup>(13)</sup>	*	*
Ingles Investment/Profit Sharing Plan <sup>(1)</sup>	1,489,590	1,462,500	10.9%	11.9%	10.8%
All Directors and Executive Officers as a group (9 persons)	12,090,804 <sup>(3)</sup>	11,945,775 <sup>(3)</sup>	50.1% <sup>(3)</sup>	97.0% <sup>(3)</sup>	88.3% <sup>(3)</sup>

\* Less than 1%.

(1) The address of this beneficial owner is P.O. Box 6676, Asheville, North Carolina 28816.

(2) Each share of Class B Common Stock is convertible, at any time at the option of the holder, into one share of Class A Common Stock. If the holder of any shares of Class B Common Stock transfers the shares to anyone other than a qualified transferee as defined in the Company's Articles of Incorporation, then each share of Class B Common Stock will automatically convert into a share of Class A Common Stock. Accordingly, for each holder of Class B Common Stock the number of shares and percentage of Class A Common Stock set forth in this table also reflect the Class A Common Stock into which such stockholder's shares of Class B Common Stock are convertible. However, these converted shares are not used to calculate such percentages for any other stockholder in this table. The number of shares and percentage of Class A Common Stock held by all directors and executive officers as a group also reflects the conversion into Class A Common Stock of each share of Class B Common Stock held by each director and executive officer. Because the Class B Common

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Stock converts into Class A Common Stock on a one to one basis, the number of shares of Class B Common Stock noted in the table above also represents the number of shares of Class A Common Stock each holder would beneficially own upon conversion of the Class B Common Stock beneficially owned by them.

- (3) Includes the 27,090 shares of Class A Common Stock and 1,462,500 shares of Class B Common Stock held by the Company's Investment/Profit Sharing Plan and Trust, of which Messrs. Ingle, Freeman and Lanning are trustees. The trustees have sole voting power and dispositive power with respect to such shares. However, Messrs. Ingle, Freeman and Lanning disclaim beneficial ownership of such shares.
- (4) Includes 48,600 shares of Class B Common Stock held by Mr. Ingle's wife, with respect to which Mr. Ingle disclaims any beneficial ownership interest.
- (5) Includes 10,534 shares of Class B Common Stock held by Mr. Ingle's minor children, with respect to which Mr. Ingle disclaims any beneficial ownership interest.
- (6) Includes 609 shares of Class A Common Stock held by Ms. Sharp's minor children through a dividend reinvestment plan and 2,025 shares of Class B Common Stock held by Ms. Sharp's minor children.
- (7) Constitutes shares of Class A Common Stock held by Mr. Russell's spouse through a dividend reinvestment plan, with respect to which Mr. Russell disclaims any beneficial ownership interest.
- (8) The address of this beneficial owner is Gabelli Funds, Inc., One Corporate Center, Rye, New York 10580.
- (9) The information as to Mario J. Gabelli includes Marc J. Gabelli and entities controlled directly or indirectly by Mario or Marc Gabelli ( Gabelli Entities ) and is derived from a statement on Form 13D filed with the Securities and Exchange Commission on August 10, 2006 pursuant to Section 13(d) of the Exchange Act. Such statement discloses that (i) Mario Gabelli is the chief investment officer for most of the Gabelli Entities signing such statements and is deemed to have beneficial ownership of the shares owned by all Gabelli Entities, (ii) Mario Gabelli and the Gabelli Entities do not admit that they constitute a group within the meaning of Section 13(d) of the Exchange Act and the rules and regulations thereunder and (iii) Mario Gabelli and the Gabelli Entities have the sole power to vote and dispose of all the shares of which they are beneficial owners (unless the aggregate voting interest of all Gabelli Entities exceeds 25% of the Company's total voting interest or other special circumstances exist, in which case the proxy voting committees of certain of the Gabelli Entities would have the sole voting power to vote certain of the shares of Class A Common Stock). The Gabelli Entities which beneficially own shares of the Company's Class A Common Stock are registered investment advisors and beneficially own such shares in an agent capacity.
- (10) The address of this beneficial owner is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401.
- (11) The information as to Dimensional Fund Advisors, Inc. ( Dimensional ) is derived from a statement on Form 13G filed with the Securities and Exchange Commission on February 6, 2006 pursuant to Section 13(d) of the Exchange Act. This statement discloses that Dimensional has the voting and investment power over such shares. This statement discloses that Dimensional has the sole voting and dispositive power over such shares.
- (12) The address of this beneficial owner is Two Greenwich Plaza, First Plaza, Greenwich, Connecticut 06830.

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- (13) The information as to Silver Point Capital, L.P. ( Silver Point ) includes Edward Mule and Robert J. O Shea and entities controlled by them and is derived from a statement on Form 13G filed with the Securities and Exchange Commission on June 29, 2006 pursuant to Section 13(d) of the Exchange Act. Such statement discloses that Silver Point is an investment manager for Silver Point Capital Fund, L.P. and Silver Point Capital Offshore Fund, Ltd. (collectively, the Funds ) and by reason of such status may be deemed to be the beneficial owner of the reported securities held by the Funds. Messrs. Mule and O Shea each indirectly control Silver Point and by virtue of such status may be deemed to be the beneficial owners of all reported securities held by the Funds. This statement discloses that Silver Point and Messrs. Mule and O Shea share voting and dispositive power over such shares.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Mr. Pollard, a director of the Company, was, until his retirement in March 2006, an attorney with the law firm of McGuireWoods, LLP which, from time to time, handles labor matters for the Company. During fiscal 2006, the Company paid approximately \$130,000 in fees for services rendered by that firm.

The Company believes that the transactions described above have been and will continue to be on terms no less favorable to the Company than those available from unaffiliated third parties in transactions negotiated at arms-length. The Company does not intend to enter into any transactions in the future with or involving any of its officers or Directors or any members of their immediate family on terms that would be less favorable to the Company than those that would be available from unaffiliated third parties in arms-length transactions.

**RELATIONSHIP WITH INDEPENDENT AUDITORS**

Ernst & Young LLP has served as the independent auditors for the Company and its subsidiaries since March 1989. Representatives of Ernst & Young LLP are expected to be present at the 2007 Annual Meeting. These representatives will have the opportunity to make a statement if they desire to do so and will respond to appropriate questions. Ernst & Young LLP has been engaged to review the financial statements included in the Company's Form 10-Q for the quarter ended December 30, 2006. The Audit/Compensation Committee has not yet engaged in discussions regarding the engagement of independent auditors for the remainder of the Company's 2007 fiscal year.

**Principal Accountant Fees and Services**

As reflected in the table below, the Company incurred fees in fiscal 2005 and 2006 for services performed by Ernst & Young LLP related to such periods.

	Year Ended September 30, 2006	Year Ended September 24, 2005
Audit Fees	\$ 709,000	\$ 873,000
Audit-related Fees	49,000	19,000
Tax Fees	53,000	87,000
All Other Fees		
<b>Total Fees</b>	<b>\$ 811,000</b>	<b>\$ 979,000</b>

In the above table:

Audit fees are fees billed by the independent auditors for professional services for the audit of the consolidated financial statements included in the Company's Form 10-K, the audit of internal controls over financial reporting, additional procedures related to the previously disclosed Securities and Exchange Commission inquiry and the Company's internal investigation which were concluded during fiscal 2006, review of financial statements included in the Company's Form 10-Qs, and for services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements;

Audit-related fees are fees for services performed during the respective years by the independent auditors for audits of the Company's employee benefit plan and other services that are reasonably related to the performance of the audit or review of the registrant's financial statements including review of SEC comment letters;

Tax fees are fees for services performed during the respective years by the independent auditors for professional services related to certain tax compliance, tax advice, and tax planning; and

All other fees are fees for any other services performed during the period, of which none were paid to Ernst & Young LLP in fiscal 2006 or 2005.



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The Company's Audit/Compensation Committee pre-approved all services described above for fiscal 2006, including non-audit services, and has determined that these fees and services are compatible with maintaining the independence of Ernst & Young LLP. The Company's Audit/Compensation Committee requires that each service provided by Ernst & Young LLP be pre-approved by the committee. However, the committee has empowered Charles E. Russell, the chair of the committee to grant such approval on its behalf as to matters that arise between Audit/Compensation Committee meetings.

### **STOCKHOLDER PROPOSAL CONCERNING DIRECTOR STOCK OWNERSHIP**

The following proposal and supporting statement were submitted by Carol W. Mullett, 181 S. East Shore Dr., Lake Toxaway, NC 28747. Ms. Mullett notified the Company that she is the beneficial owner of 2,654 shares of the Company's Class A Common Stock as of July 31, 2006 and that she intends to present the following proposal for vote at the Annual Meeting:

#### STOCKHOLDER PROPOSAL

The Directors are requested to implement a policy that will require each independent director to invest at least 20% of his Ingles compensation in shares of the Company.

#### Statement in Support of Proposal

Surely the Directors could better represent our interests if they were shareholders themselves. You would think they want to share the risks and rewards of our investment. Yet, according to the 2006 proxy statement, two of our Directors do not personally own a single share. Another Director for 19 years has managed to acquire only 100 shares. Do these Directors lack confidence in our Company?

Stock ownership is the best way for Directors to align their interests with shareholders. The vast majority of American companies understand this and encourage or require their directors to own shares. (Coca-Cola recently decided to pay directors 100% of their fees in stock.) I believe my proposal is modest and should not be a financial hardship for our Directors, especially since their compensation was increased some 200% this year. I hope you will join me in asking our Directors to implement this stock purchase program for themselves.

#### STATEMENT OF OPPOSITION

#### **The Board recommends a vote AGAINST the stockholder proposal.**

The Board has given the stockholder proposal careful consideration and believes that it should not be implemented. The Board believes that each director's investment decisions are personal and should not be mandated by the Company. Furthermore, the Board believes that the fees paid to the independent directors are on the low end of the fees paid to directors of public companies, and, unlike many public companies, the Company does not grant stock options to its independent directors or executive officers. Despite this, each of our independent directors devotes a substantial amount of time and assumes a significant amount of personal liability by serving on the Board and its committees. The Board believes that requiring independent directors to invest 20% of the relatively modest compensation that they receive for their service could adversely affect the Company's ability to retain and attract the best available independent directors. Further, the Board does not consider it appropriate to increase director compensation solely to effect a stock ownership requirement because in overseeing the business and affairs of the Company, directors act for the benefit of all stockholders rather than the directors' self interest based on stock ownership. Consequently, the Board recommends that stockholders vote against the stockholder proposal.

Mr. Robert P. Ingle, the Company's Chief Executive Officer and principal stockholder, has informed the Company that he, in his capacity as a stockholder, intends to vote against the stockholder proposal. Mr. Ingle controls 86.5% of the outstanding voting power. If Mr. Ingle does vote against the proposal, it will not receive a sufficient number of favorable votes to be approved.

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### **OTHER MATTERS**

#### **Solicitation of Proxies**

The Company will solicit proxies for the Annual Meeting by mail. The Company will bear the cost of preparing, assembling, printing, mailing and soliciting proxy solicitation materials. The Company's officers and regular employees may also solicit proxies in person or by telephone, but they will not be specially compensated for such services. The Company's regularly retained investor relations firm, Corporate Communications, Inc., may also solicit proxies by telephone and mail. The Company will not pay Corporate Communications, Inc. a separate fee for any such proxy solicitations. The Company will reimburse brokerage firms and other nominees, custodians and fiduciaries for the reasonable out-of-pocket expenses they incur in forwarding proxy solicitation materials to the beneficial owners of Common Stock held of record by them.

#### **Stockholders' Proposals for the 2008 Annual Meeting**

The Company plans to hold its 2008 Annual Meeting of Stockholders in February or early March. Any proposal that a stockholder wants to be presented at the 2008 Annual Meeting of Stockholders must be received by the Secretary no later than September 13, 2007 or the proposal will automatically be excluded from proxy materials for that meeting. Such proposals must be received by the Secretary at the Company's principal office, the address of which is set forth on page 1 of this Proxy Statement, and must meet the requirements of the regulations of the Securities and Exchange Commission to be eligible to be included in the proxy materials for the Company's 2008 Annual Meeting.

Further, any stockholder proposal for which the Company does not receive notice on or before November 27, 2007 shall be subject to the discretionary vote of the proxy holders at the 2008 Annual Meeting of Stockholders.

#### **Action on Other Matters at the 2007 Annual Meeting**

If notice of a stockholder proposal that has not been submitted to be included in this Proxy Statement was not received by the Company on or before November 28, 2006, the persons named in the enclosed form of proxy will have discretionary authority to vote all proxies with respect thereto in accordance with their best judgment. No proposals, other than the stockholder proposal discussed herein, had been received as of that date.

At this time, the Company does not know of any matters to be presented for action at the 2007 Annual Meeting other than those mentioned in the Notice of Annual Meeting of Stockholders and referred to in this Proxy Statement. If any other matter comes before the Annual Meeting, it is intended that the persons who are named in the proxies will vote the shares represented by effective proxies in their discretion.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Pursuant to Section 16(a) of the Exchange Act, the Company is required to identify any Reporting Person (as defined below) that failed to file on a timely basis with the Securities and Exchange Commission any report that was required to be filed during fiscal 2006 with the SEC pursuant to Section 16(a) of the Exchange Act. Such required filings include a Form 3 (an initial report of beneficial ownership of Common Stock) and a Form 4 and Form 5 (which reflect changes in beneficial ownership of Common Stock). For purposes of this Proxy Statement, a Reporting Person is a person who at any time during fiscal 2006 was (a) a director of the Company, (b) an executive officer of the Company or its subsidiaries, (c) a beneficial owner of more than 10% of the Class A Common Stock or Class B Common Stock or (d) any other person who was subject to Section 16 of the Exchange Act with respect to the Company. Based solely on a review of such Forms 3, 4 and 5 and all amendments thereto that were furnished to the Company by the Reporting Persons known to the Company, as required by Rule 16a-3(e), no Reporting Person who was required to comply with Section 16(a) of the Exchange Act failed to comply with such requirements during fiscal 2006, with the exception of Mr. Ayers who inadvertently failed to file a Form 3

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upon his election to the Board and a Form 4 to report an acquisition of the Company's stock. Mr. Ayers has since reported this acquisition on Form 5.

**Incorporation by Reference to This Proxy Statement**

The Audit Committee Report and the Report on Executive Compensation set forth on pages 8 through 10 of this Proxy Statement and the graph and related data set forth under the heading **Stock Price Performance Graph** on pages 12 and 14 of this Proxy Statement shall not be deemed to be incorporated by reference into any report, statement or other filing made by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or the Exchange Act, or in any related prospectus that incorporates this Proxy Statement by reference, in whole or in part, notwithstanding anything to the contrary set forth therein.

**Availability of Form 10-K**

**Upon written request, the Company will provide, without charge, to stockholders that are entitled to receive this Proxy Statement a copy of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006, as filed with the Securities and Exchange Commission (including the financial statements and related schedules, but not including the exhibits thereto, which will be provided upon written request at the stockholder's expense). Requests for copies should be directed to Investor Relations at Ingles Markets, Incorporated, P.O. Box 6676, Asheville, North Carolina 28816, or by telephone at (828) 669-2941, ext. 223.**

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**STOCKHOLDERS ARE URGED TO DATE, SIGN AND RETURN PROMPTLY THE ENCLOSED PROXY CARD(S) IN THE ACCOMPANYING ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. YOUR COOPERATION WILL BE APPRECIATED. YOUR PROXY WILL BE VOTED WITH RESPECT TO THE MATTERS IDENTIFIED ON THE PROXY CARD(S) IN ACCORDANCE WITH ANY SPECIFICATIONS ON THE PROXY CARD(S).**

By Order of the Board of Directors

Robert P. Ingle, II  
Chairman of the Board

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**APPENDIX A**

**AMENDED AND RESTATED**

**AUDIT COMMITTEE CHARTER**

**INTRODUCTION**

Ingles Markets, Incorporated's executive management is primarily responsible for the completeness and accuracy of its financial reporting and the adequacy of its internal financial and operating controls. Its Board of Directors has general responsibility to oversee management's exercise of these responsibilities. To assist the Board, the Corporation has established, through its bylaws, an Audit Committee whose authority and responsibilities are described by this Charter.

**PURPOSE**

This Charter is created in order to define the Audit Committee's objectives, the range of its authority, the scope of its activities and its duties and responsibilities. It is intended to give Audit Committee members, management and external auditors a clear understanding of their respective roles. The Audit Committee and the Board of Directors will review and assess the adequacy of this Charter annually.

**MISSION STATEMENT**

The Audit Committee is charged with oversight responsibility for the (i) financial reporting process, the system of internal controls and the audit process and (ii) the independent auditors. In carrying out this purpose, the Committee will maintain and facilitate free and open communication between directors, the independent auditors and the financial management of the Corporation.

**GENERAL GUIDELINES**

**Size, Composition and Term of Appointment**

The Audit Committee shall consist of no fewer than three directors each of whom are independent as defined by the National Association of Securities Dealers through the rules and regulations of The Nasdaq Stock Market, Inc. ( Nasdaq ), as adopted from time to time, and the Sarbanes-Oxley Act of 2002. Further, no member of the Audit Committee may own or control more than (i) 19.9% of the voting power of the Company's Class A Common Stock and Class B Common Stock on a combined basis or (ii) 19.9% of the outstanding Class A Common Stock; provided that, if the Securities and Exchange Commission ( SEC ) shall adopt rules requiring a lower percentage of ownership for audit committee members, such 19.9% shall automatically be reduced to such lower percentage. Each member shall be financially literate and be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement, at the time of their appointment and at least one member shall be a financial expert who shall have accounting or related financial management expertise as defined by the relevant rules promulgated by the Financial Accounting Standards Board ( FASB ), the SEC, and Nasdaq or other regulatory body. The Board of Directors shall appoint the Audit Committee's Chairperson and members annually.

**Meetings**

The Committee will meet on a quarterly basis in connection with the quarterly meetings of the Board of Directors and special meetings may be called when circumstances require, including upon the request of the external auditors.

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### **Oversight by the Board of Directors**

The Committee will report its activities to the full Board on a regular basis so that the Board is kept informed of its activities on a current basis. The Committee will perform all duties determined by the Board.

The Board will determine annually that the Committee's members are independent, as defined by the Sarbanes-Oxley Act of 2002 and by the relevant rules promulgated by FASB, the SEC and the Nasdaq, and that the Committee has fulfilled its duties and responsibilities.

### **Authority**

The Committee derives its authority from the By-Laws of the Corporation and is hereby given all resources and authority necessary to properly discharge its duties and responsibilities.

The Committee acts on the Board's behalf in the matters outlined below.

### **External Auditors**

The Committee, as representatives of the shareholders, has the sole authority to select, appoint, evaluate, determine funding for and, where appropriate, replace the independent auditors, or to nominate the independent auditors to be proposed for shareholder approval in the proxy statement. The Committee will consider management's recommendations in connection with the appointment of the independent auditors. The Committee will review with management the performance, appointment and/or termination of the independent auditors.

The Committee shall give prior approval of all audit services and any non-audit services permissible pursuant to the Sarbanes-Oxley Act of 2002 to be performed by the independent auditors for the Company at any time.

The Committee will ensure that the independent auditors provide a formal written statement to the Committee setting forth all relationships between the independent auditors and the Company, consistent with the Independence Standards Board Standard No. 1. The Committee will discuss with the independent auditors any disclosed relationships or services which may impact the objectivity and independence of the independent auditors. The Committee will take, or recommend that the full Board take, appropriate action to ensure the independence of the independent auditors.

The Committee will review with management and the independent auditors the annual audit scope and approach, critical accounting policies, audit conclusions regarding significant accounting estimates/reserves, and proposed fee arrangements for ongoing and special projects.

The Committee will review with management and the independent auditors their assessments of the adequacy of internal controls, and the resolution of identified material weaknesses and reportable conditions in internal controls, including the prevention or detection of management override or compromise of the internal control system.

The Committee will review with management and the independent auditors the Company's compliance with laws and regulations having to do with accounting and financial matters.

The Committee and the Board of Directors should consider whether the independent auditors should meet with the full Board to discuss any matters relative to the financial statements and/or any potentially relevant matters, and to answer any questions that other directors may have.

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### **Financial Statements**

The Committee will review with management and the independent auditors, the Company's interim and year-end financial statements, including management's discussion and analysis, and audit findings (including any significant suggestions for improvements provided to management by the Internal Audit Director, if any, and the independent auditors). Such review will include a discussion of significant adjustments recorded or adjustments passed and will conform with the requirements of SAS 61. Following such review, the Committee will recommend to the Board whether the audited financial statements should be included in the Corporation's annual report on Form 10-K.

The Committee will request from financial management and the independent auditors, a briefing on any significant accounting and reporting issues, including any changes in accounting standards or rules promulgated by the FASB, SEC or other regulatory bodies, that have an effect on the financial statements.

The Committee will inquire about the existence and substance of any significant accounting accruals, reserves, or estimates made by management that had a material impact on the financial statements.

The Committee will inquire of management and the independent auditors if there were any significant financial accounting or reporting issues discussed during the accounting period and, if so, how they were resolved or if not resolved, inquire as to the disagreements.

The members of the Committee will discuss among themselves, without management or the independent auditors present, the quality of the accounting principles applied in the preparation of the Company's financial statements and significant judgments affecting the financial statements; and the independent auditors' view of the quality of those principles and such judgments.

### **Private Discussions with Independent Auditors**

The Committee will meet privately with the independent auditors at least once a year to request their opinion on various matters including the quality of the Company's accounting principles as applied in its financial reporting, and the quality and performance of its financial and accounting personnel.

The Committee will also discuss privately with the independent auditors any issues required from time to time by rules of the SEC, FASB and Nasdaq.

### **Post-Audit Review**

The Committee will review with management and the independent auditors the annual Management Letter comments and management's responses to each.

The Committee will ask the independent auditors what their greatest concerns were (including any serious difficulties encountered) and if they believe anything else should be discussed with the Committee that has not been raised or covered elsewhere.

### **Litigation**

The Committee will discuss/review with management, company counsel, and the independent auditors the substance of any significant issues raised by counsel concerning litigation, contingencies, claims or assessments. The Committee should understand how such matters are reflected in the Company's financial statements.

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**Other**

The Committee will review the internal accounting function of the Corporation.

The Committee will review and approve all related-party transactions contemplated by the Corporation.

The Committee will initiate the investigation of any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, that is appropriate.

The Committee shall have the authority to engage and determine funding for independent counsel and other advisors to it as it deems necessary and appropriate.

The Committee will prepare a report for inclusion in the Corporation's proxy statement for its annual meeting of shareholders describing the activities in which it has engaged during the prior year pursuant to its charter. The report will address all issues then required by the rules of the SEC.

The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters and shall ensure that such complaints are treated confidentially and anonymously and that all such procedures are complied with.



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**INGLES MARKETS, INCORPORATED**

**PLEASE MARK VOTE IN OVAL IN THE FOLLOWING MANNER USING DARK INK ONLY. n**

[ ]

**1. Election of Directors:**

For Withhold For All  
All All Except  
.. .. ..

*Nominees:* Fred D. Ayers

John O. Pollard

**3.** In their discretion, the Proxies are authorized to vote upon such other business as may come before the meeting or any postponements or adjournments thereof.

**(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name on the line above.)**

I PLAN TO ATTEND ..

**2. Stockholder Proposal**

For Against  
.. ..

**The undersigned hereby acknowledges receipt of the Proxy Statement and Notice of Annual Meeting of Stockholders to be held February 13, 2007.**

Dated: \_\_\_\_\_, 2007

Signature(s) \_\_\_\_\_

(Please sign exactly as your name appears hereon. If stock is registered in more than one name, each holder should sign. When signing as an attorney, administrator, executor, guardian or trustee, please add your title as such. If executed by a corporation, the proxy should be signed by a duly authorized officer.)

Ù **FOLD AND DETACH HERE** Ù

**YOUR VOTE IS IMPORTANT!**

**PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED ENVELOPE.**

**NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

**7279 Ingles Markets, Incorporated Class A**

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CLASS A

CLASS A

**INGLES MARKETS, INCORPORATED**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD FEBRUARY 13, 2007**

The undersigned hereby appoints Robert P. Ingle and James W. Lanning, or either of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote as designated below all the shares of Class A Common Stock held of record by the undersigned on January 3, 2007, at the Annual Meeting of Stockholders of Ingles Markets, Incorporated to be held on February 13, 2007, at 1:00 P.M. at the Grove Park Inn, 290 Macon Avenue, Asheville, North Carolina, or any postponements or adjournments thereof.

**THIS PROXY, DULY EXECUTED, WILL BE VOTED AS SPECIFIED. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL 1 AND AGAINST PROPOSAL 2.**

**PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED ENVELOPE.**

**NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

*(Continued and to be signed on reverse side.)*

7279 Ingles Markets, Incorporated Class A

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**INGLES MARKETS, INCORPORATED**

**PLEASE MARK VOTE IN OVAL IN THE FOLLOWING MANNER USING DARK INK ONLY. n**

[ ]

**1. Election of Directors:**

For Withhold For All  
All All Except  
.. .. ..

*Nominees:* Ronald B. Freeman; Charles L. Gaither, Jr.; Robert P. Ingle;  
Robert P. Ingle, II; James W. Lanning; Charles E. Russell; Laura Ingle  
Sharp

**3.** In their discretion, the Proxies are authorized to vote upon such other business as may come before the meeting or any postponements or adjournments thereof.

**(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name on the line above.)**

For Against  
.. ..

I PLAN TO ATTEND ..

**2. Stockholder Proposal**

**The undersigned hereby acknowledges receipt of the Proxy Statement and Notice of Annual Meeting of Stockholders to be held February 13, 2007.**

Dated: \_\_\_\_\_, 2007

Signature(s) \_\_\_\_\_

(Please sign exactly as your name appears hereon. If stock is registered in more than one name, each holder should sign. When signing as an attorney, administrator, executor, guardian or trustee, please add your title as such. If executed by a corporation, the proxy should be signed by a duly authorized officer.)

Ù FOLD AND DETACH HERE Ù

**YOUR VOTE IS IMPORTANT!**

**PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED ENVELOPE.**

**NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

**7280 Ingles Markets, Incorporated Class B**

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CLASS B

CLASS B

**INGLES MARKETS, INCORPORATED**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD FEBRUARY 13, 2007**

The undersigned hereby appoints Robert P. Ingle and James W. Lanning, or either of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote as designated below all the shares of Class B Common Stock held of record by the undersigned on January 3, 2007, at the Annual Meeting of Stockholders of Ingles Markets, Incorporated to be held on February 13, 2007, at 1:00 P.M. at the Grove Park Inn, 290 Macon Avenue, Asheville, North Carolina, or any postponements or adjournments thereof.

**THIS PROXY, DULY EXECUTED, WILL BE VOTED AS SPECIFIED. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL 1 AND AGAINST PROPOSAL 2.**

**PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED ENVELOPE.**

**NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

*(Continued and to be signed on reverse side.)*

**7280 Ingles Markets, Incorporated Class B**