

FLOWERS FOODS INC  
Form 10-Q  
August 17, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 16, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-16247

**FLOWERS FOODS, INC.**

(Exact name of registrant as specified in its charter)

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**GEORGIA**  
(State or other jurisdiction of  
incorporation or organization)

**58-2582379**  
(I.R.S. Employer  
Identification Number)

**1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA**  
(Address of principal executive offices)

**31757**  
(Zip Code)

**229/226-9110**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

TITLE OF EACH CLASS	OUTSTANDING AT AUGUST 12, 2011
Common Stock, \$.01 par value	136,417,936



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### **Forward-Looking Statements**

Statements contained in this filing and certain other written or oral statements made from time to time by the company and its representatives that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to current expectations regarding our future financial condition and results of operations and are often identified by the use of words and phrases such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, predict, project, should, to, is expected to or will continue, or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, and achievements to differ materially from those projected are discussed in this report and may include, but are not limited to:

unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including, advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with our employees, independent distributors and third party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;

the loss or financial instability of any significant customer(s);

our ability to execute our business strategy, which may involve integration of recent acquisitions or the acquisition or disposition of assets at presently targeted values;

our ability to operate existing, and any new, manufacturing lines according to schedule;

the level of success we achieve in developing and introducing new products and entering new markets;

changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;

our ability to implement new technology as required;

the credit and business risks associated with our independent distributors and customers which operate in the highly competitive retail food and foodservice industries, including the amount of consolidation in these industries;

changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;

consolidation within the baking industry;

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any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events; and

regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission ( SEC ) or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Please refer to Part I, Item 1A., *Risk Factors*, of the company s Form 10-K filed on February 23, 2011 and Part II, Item 1A., *Risk Factors*, of this Form 10-Q for additional information regarding factors that could affect the company s results of operations, financial condition and liquidity.

We caution you not to place undue reliance on forward-looking statements, as they speak only as of the date made and are inherently uncertain. The company undertakes no obligation to publicly revise or update such statements, except as required by law. You are advised, however, to consult any further public disclosures by the company (such as in our filings with the SEC or in company press releases) on related subjects.

**Table of Contents****FLOWERS FOODS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands except share data)

(Unaudited)

	JULY 16, 2011	JANUARY 1, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 13,741	\$ 6,755
Accounts and notes receivable, net of allowances of \$546 and \$522, respectively	197,289	166,281
Inventories, net:		
Raw materials	26,962	20,879
Packaging materials	16,073	12,125
Finished goods	33,004	27,570
	76,039	60,574
Spare parts and supplies	39,255	37,085
Deferred taxes	25,287	1,095
Other	39,317	41,924
<b>Total current assets</b>	<b>390,928</b>	<b>313,714</b>
Property, Plant and Equipment, net of accumulated depreciation of \$714,001 and \$679,561, respectively	701,331	604,693
Notes Receivable	100,563	92,860
Assets Held for Sale Distributor Routes	15,377	11,924
Other Assets	15,942	5,113
Goodwill	220,475	200,153
Other Intangible Assets, net	145,062	97,032
<b>Total assets</b>	<b>\$ 1,589,678</b>	<b>\$ 1,325,489</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 31,682	\$ 28,432
Accounts payable	130,403	102,068
Accrued taxes	11,391	4,271
Other accrued liabilities	124,413	108,001

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Total current liabilities	297,889	242,772
Long-Term Debt and Capital Leases	287,171	98,870
<b>Other Liabilities:</b>		
Post-retirement/post-employment obligations	99,787	76,086
Deferred taxes	52,329	66,680
Other	54,483	45,291
<b>Total other liabilities</b>	<b>206,599</b>	<b>188,057</b>
<b>Commitments and Contingencies</b>		
<b>Flowers Foods, Inc. Stockholders' Equity:</b>		
Preferred stock \$100 par value, 100,000 authorized and none issued		
Preferred stock \$.01 par value, 900,000 authorized and none issued		
Common stock \$.001 and \$.002 par value, respectively, 500,000,000 authorized shares, 152,488,008 shares and 101,659,924 shares issued, respectively	199	199
Treasury stock 16,076,652 shares and 11,011,494 shares, respectively	(213,090)	(214,683)
Capital in excess of par value	539,069	540,294
Retained earnings	534,588	503,689
Accumulated other comprehensive loss	(62,747)	(33,709)
<b>Total stockholders' equity</b>	<b>798,019</b>	<b>795,790</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,589,678</b>	<b>\$ 1,325,489</b>

(See Accompanying Notes to Condensed Consolidated Financial Statements)



**Table of Contents****FLOWERS FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Amounts in thousands except per share data)****(Unaudited)**

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY	JULY	JULY 16, 2011	JULY 17, 2010
	16, 2011	17, 2010		
Sales	\$ 642,596	\$ 607,716	\$ 1,444,421	\$ 1,402,742
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	341,887	318,553	754,145	733,351
Selling, distribution and administrative expenses	236,700	217,906	536,757	510,457
Depreciation and amortization	20,898	20,021	48,890	45,658
Income from operations	43,111	51,236	104,629	113,276
Interest expense	(2,372)	(1,984)	(4,521)	(4,768)
Interest income	2,968	2,940	6,879	6,855
Income before income taxes	43,707	52,192	106,987	115,363
Income tax expense	15,497	18,436	37,616	40,920
Net income	\$ 28,210	\$ 33,756	\$ 69,371	\$ 74,443
<b>Net Income Per Common Share:</b>				
<b>Basic:</b>				
Net income per common share	\$ 0.21	\$ 0.25	\$ 0.51	\$ 0.54
Weighted average shares outstanding	135,299	137,404	135,284	137,330
<b>Diluted:</b>				
Net income per common share	\$ 0.21	\$ 0.24	\$ 0.51	\$ 0.54
Weighted average shares outstanding	137,225	138,538	136,734	138,474
Cash dividends paid per common share	\$ 0.150	\$ 0.133	\$ 0.283	\$ 0.250

(See Accompanying Notes to Condensed Consolidated Financial Statements)

**Table of Contents****FLOWERS FOODS, INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****AND COMPREHENSIVE INCOME****(Unaudited)**

	Comprehensive Income	Common Stock Number of Shares Issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Number of Shares	Cost	Total
Balances at January 1, 2011		101,659,924	\$ 199	\$ 540,294	\$ 503,689	\$ (33,709)	(11,011,494)	\$ (214,683)	\$ 795,790
Net income	\$ 69,371				69,371				69,371
Derivative transactions, net of tax	(29,839)					(29,839)			(29,839)
Amortization of prior service credits, net of tax	(85)					(85)			(85)
Amortization of actuarial loss, net of tax	886					886			886
Comprehensive income	\$ 40,333								
Adjustment for 3 for 2 stock split (Note 1)		50,828,084			(39)		(5,375,912)		(39)
Exercise of stock options				(2,571)			773,015	15,042	12,471
Deferred stock issuance				(1,158)			56,505	1,117	(41)
Issuance of performance-contingent restricted stock				(4,213)			216,050	4,213	
Amortization of share-based payment compensation				8,043					8,043
Tax benefits related to share based payment awards				2,924					2,924
Performance-contingent restricted stock awards forfeitures and cancellations				865			(44,505)	(865)	
Stock repurchases							(695,403)	(18,029)	(18,029)
Issuance of deferred compensation				(115)			5,092	115	
Contingent acquisition consideration				(5,000)					(5,000)
Dividends paid \$0.283 per common share					(38,433)				(38,433)
Balances at July 16, 2011		152,488,008	\$ 199	\$ 539,069	\$ 534,588	\$ (62,747)	(16,076,652)	\$ (213,090)	\$ 798,019

(See Accompanying Notes to Condensed Consolidated Financial Statements)



**Table of Contents****FLOWERS FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	<b>FOR THE TWENTY-EIGHT WEEKS ENDED</b>	
	<b>JULY 16, 2011</b>	<b>JULY 17, 2010</b>
<b>CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:</b>		
Net income	\$ 69,371	\$ 74,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	9,387	7,482
(Gain) loss reclassified from accumulated other comprehensive income to net income	(36,118)	19,293
Depreciation and amortization	48,890	45,658
Deferred income taxes	(5,719)	(1,523)
Provision for inventory obsolescence	762	589
Allowances for accounts receivable	557	832
Pension and postretirement plans expense	275	992
Other	(184)	(315)
Pension contributions	(3,322)	(324)
Changes in assets and liabilities:		
Accounts and notes receivable, net	(12,546)	(6,999)
Inventories, net	(8,397)	(2,004)
Hedging activities, net	(13,589)	5,986
Other assets	3,877	(4,109)
Accounts payable	10,078	8,097
Other accrued liabilities	2,859	7,199
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>66,181</b>	<b>155,297</b>
<b>CASH FLOWS (DISBURSED FOR) INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(43,425)	(54,869)
Proceeds from sale of property, plant and equipment	1,307	749
Issuance of notes receivable	(6,473)	(5,086)
Proceeds from notes receivable	6,714	6,713
Acquisitions, net of cash acquired	(164,485)	
Contingent acquisition consideration payments	(5,000)	
Deconsolidation of variable interest entity (See Note 9)		(8,804)
<b>NET CASH DISBURSED FOR INVESTING ACTIVITIES</b>	<b>(211,362)</b>	<b>(61,297)</b>
<b>CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:</b>		
Dividends paid	(38,433)	(34,342)
Exercise of stock options	12,471	4,495
Income tax benefit related to stock awards	3,060	770
Stock repurchases	(18,029)	(2,115)
Change in book overdraft	5,234	(578)
Proceeds from debt borrowings	499,000	381,000
Debt and capital lease obligation payments	(308,948)	(455,649)
Payment of financing fees	(2,108)	
Other	(80)	

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NET CASH PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES	152,167	(106,419)
Net increase (decrease) in cash and cash equivalents	6,986	(12,419)
Cash and cash equivalents at beginning of period	6,755	18,948
Cash and cash equivalents at end of period	\$ 13,741	\$ 6,529

(See Accompanying Notes to Condensed Consolidated Financial Statements)

**Table of Contents****FLOWERS FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. BASIS OF PRESENTATION**

**INTERIM FINANCIAL STATEMENTS** The accompanying unaudited condensed consolidated financial statements of Flowers Foods, Inc. (the company, us, we, or our) have been prepared by the company's management in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the company's financial position, the results of its operations and its cash flows. The results of operations for the twelve and twenty-eight week periods ended July 16, 2011 and July 17, 2010 are not necessarily indicative of the results to be expected for a full fiscal year. The balance sheet at January 1, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

**ESTIMATES** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company believes the following critical accounting estimates affect its more significant judgments and estimates used in the preparation of its consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangibles, self-insurance reserves, income tax expense and accruals and pension obligations. These estimates are summarized in the company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

**REPORTING PERIODS** The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2011 consists of 52 weeks, with the company's quarterly reporting periods as follows: first quarter ended April 23, 2011 (sixteen weeks), second quarter ended July 16, 2011 (twelve weeks), third quarter ending October 8, 2011 (twelve weeks) and fourth quarter ending December 31, 2011 (twelve weeks).

**STOCK SPLIT** On May 25, 2011, the board of directors declared a 3-for-2 stock split of the company's common stock. The record date for the split was June 10, 2011, and new shares were issued on June 24, 2011. All share and per share information has been restated for all prior periods presented giving retroactive effect to the stock split.

**SEGMENTS** The company consists of the following business segments: direct-store-delivery (DSD) and warehouse delivery. The DSD segment focuses on producing and marketing bakery products to U.S. customers in the Southeast, Mid-Atlantic, Northeast and Southwest as well as select markets in California and Nevada primarily through its DSD system. The warehouse delivery segment produces snack cakes for sale to retail, vending and co-pack customers as well as frozen bread, rolls and buns for sale to retail and foodservice customers primarily through warehouse distribution. The company acquired Tasty Baking Company (Tasty) on May 20, 2011 and the results of Tasty's operations are included in our DSD segment beginning on May 20, 2011. See Note 4, *Acquisition*, for more details.

**SIGNIFICANT CUSTOMER** Following is the effect our largest customer, Wal-Mart/Sam's Club, had on the company's sales for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010. Wal-Mart is the only customer to account for 10% or more of the company's sales.

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 16, 2011	JULY 17, 2010	JULY 16, 2011	JULY 17, 2010
	(Percent of Sales)		(Percent of Sales)	
DSD	18.3%	18.6%	18.1%	18.4%
Warehouse delivery	3.8	3.5	3.9	3.2
<b>Total</b>	<b>22.1%</b>	<b>22.1%</b>	<b>22.0%</b>	<b>21.6%</b>

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**SIGNIFICANT ACCOUNTING POLICIES** There were no significant changes to our critical accounting policies from those disclosed in our Form 10-K filed for the year ended January 1, 2011.

**Table of Contents****2. RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2010, the Financial Accounting Standards Board (the FASB) issued guidance on business combinations. This guidance requires a public entity that presents comparative financial statements to disclose the revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the prior annual reporting period. In addition, this guidance expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance was effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. This guidance was applied to the disclosures for our merger with Tasty Baking Company as disclosed in Note 4, *Acquisition*.

In May 2011, the FASB issued an accounting standard that creates consistency between GAAP and International Financial Reporting Standards (IFRS) on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. This guidance is effective to the company beginning with the first quarter of our fiscal 2012. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance requires companies to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective for the company for the first annual reporting period beginning on or after December 15, 2011 with full retrospective application. This will apply to our first quarter Form 10-Q for fiscal 2012. The adoption of this guidance will not have a material impact on our consolidated financial statements but it will change the presentation of our consolidated financial statements.

**3. COMPREHENSIVE INCOME (LOSS)**

The company's total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items. Total comprehensive income, determined as net income adjusted by other comprehensive income, was \$3.5 million and \$40.3 million for the twelve and twenty-eight weeks ended July 16, 2011, respectively. Total comprehensive income was \$43.3 million and \$86.5 million for the twelve and twenty-eight weeks ended July 17, 2010, respectively.

During the twenty-eight weeks ended July 16, 2011, changes to accumulated other comprehensive loss, net of income tax, were as follows (amounts in thousands):

Accumulated other comprehensive loss, January 1, 2011	\$ (33,709)
Derivative transactions:	
Net deferred gains (losses) on closed contracts, net of income tax of \$(6,485)	10,359
Reclassified to earnings, net of income tax of \$13,166	(21,032)
Effective portion of change in fair value of hedging instruments, net of income tax of \$11,998	(19,166)
Amortization of actuarial loss, net of income tax of \$555	886
Amortization of prior service credits, net of income tax of \$(54)	(85)
Accumulated other comprehensive loss, July 16, 2011	\$ (62,747)

Amounts reclassified out of accumulated other comprehensive loss to net income that relate to commodity contracts are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows.

**4. ACQUISITION**

On May 20, 2011, a wholly owned subsidiary of the company merged with Tasty Baking Company (Tasty). Tasty operates two bakeries in the Philadelphia, Pennsylvania area and serves customers primarily in the northeastern United States under the *TastyKake* snack brand. The results of Tasty's operations are included in the company's consolidated financial statements as of May 20, 2011 and are included in the company's DSD operating segment. As a result of the merger, the company has expanded into new geographic markets and has increased our manufacturing capacity. In addition, the *TastyKake* brand will increase our position in the snack cake branded products category.





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The aggregate purchase price was \$172.1 million, including the payoff of certain indebtedness, Tasty transaction expenses and change in control payments. The change in control payments have been accrued as they were not paid concurrent with closing. The merger was completed through a short-form merger following the company's tender offer through a wholly owned subsidiary for all of the outstanding shares of common stock of Tasty for \$4.00 per share in cash, without interest and less any applicable withholding tax. Each share of Tasty not accepted for payment in the tender offer was converted into the right to receive the \$4.00 per share in cash as merger consideration, without interest and less any applicable withholding taxes, which is the same price in the tender offer.

The company incurred \$4.5 million and \$5.3 million of acquisition-related costs for the twelve and twenty-eight weeks ended July 16, 2011, respectively. These expenses are included in selling, distribution and administrative expense in the company's Consolidated Statement of Income.

The following table summarizes the consideration transferred to acquire Tasty and the amounts of identified assets acquired and liabilities assumed based in the estimated fair value at the merger date (amounts in thousands):

<b>Fair value of consideration transferred:</b>	
Total tender, merger consideration, debt cash payments and change in control payments	\$ 172,109
<b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>	
Financial assets	\$ 44,078
Inventories	7,830
Property, plant, and equipment	99,796
Identifiable intangible assets	51,419
Deferred income taxes	14,856
Financial liabilities	(66,192)
Net recognized amounts of identifiable assets acquired	\$ 151,787
Goodwill	\$ 20,322

The following table presents the allocation of the intangible assets subject to amortization (amounts in thousands, except for amortization periods):

	Amount	Weighted average Amortization years
Trademarks	\$ 36,409	40.0
Customer relationships	13,487	25.0
Distributor relationships	1,523	15.0
	\$ 51,419	35.3

Goodwill of \$20.3 million is allocated to the DSD operating segment. Goodwill is primarily attributable to the distribution of *TastyKake* products throughout our distribution network and *Nature's Own* products throughout the legacy Tasty distribution network. None of the intangible assets, including goodwill, are deductible for tax purposes.

The fair value of the assets acquired includes trade receivables of \$17.3 million. The gross amount due is \$20.2 million, of which \$2.9 million is expected to be uncollectible. The company did not acquire any other class of receivable as a result of the merger with Tasty.

Tasty contributed revenues of \$20.2 million and income from operations of \$0.2 million for the period from May 20, 2011 to July 16, 2011. The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Tasty occurred at the beginning of fiscal 2010 (amounts in thousands, except per share data):

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	For the twelve weeks ended		For the twenty-eight weeks ended	
	July 16, 2011	July 17, 2010	July 16, 2011	July 17, 2010
<b>Sales:</b>				
As reported	\$ 642,596	\$ 607,716	\$ 1,444,421	\$ 1,402,742
Pro forma	\$ 677,506	\$ 660,797	\$ 1,496,036	\$ 1,508,427
<b>Net income:</b>				
As reported	\$ 28,210	\$ 33,756	\$ 69,371	\$ 74,443
Pro forma	\$ 25,749	\$ 34,254	\$ 73,378	\$ 79,885
<b>Basic net income per common share:</b>				
As reported	\$ 0.21	\$ 0.25	\$ 0.51	\$ 0.54
Pro forma	\$ 0.19	\$ 0.25	\$ 0.54	\$ 0.58
<b>Diluted net income per common share:</b>				
As reported	\$ 0.21	\$ 0.24	\$ 0.51	\$ 0.54
Pro forma	\$ 0.19	\$ 0.25	\$ 0.54	\$ 0.58

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These amounts have been calculated after applying the company's accounting policies and adjusting the results to reflect additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant, and equipment, and amortizable intangible assets have been applied. In addition, pro forma adjustments have been made for the interest incurred for financing the merger with our credit facility and to conform Tasty's revenue recognition policies. The pro forma also reflects adjustments for our acquisition costs of \$4.5 million and \$5.3 million for the twelve and twenty-eight weeks ending July 16, 2011, respectively. Taxes have also been adjusted for the effect of the items discussed. These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

**5. GOODWILL AND OTHER INTANGIBLES**

The changes in the carrying amount of goodwill for the twenty-eight weeks ended July 16, 2011, are as follows (amounts in thousands):

	<b>DSD</b>	<b>Warehouse delivery</b>	<b>Total</b>
Balance as of January 1, 2011	\$ 193,052	\$ 7,101	\$ 200,153
Increase in goodwill related to acquisition (Note 4, <i>Acquisition</i> )	20,322		20,322
<b>Balance as of July 16, 2011</b>	<b>\$ 213,374</b>	<b>\$ 7,101</b>	<b>\$ 220,475</b>

As of July 16, 2011 and January 1, 2011, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

<b>Asset</b>	<b>July 16, 2011</b>			<b>January 1, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Value</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Value</b>
Trademarks	\$ 71,677	\$ 5,612	\$ 66,065	\$ 35,268	\$ 4,687	\$ 30,581
Customer relationships	88,921	15,824	73,097	75,434	13,675	61,759
Non-compete agreements	1,874	1,377	497	1,874	1,353	521
Distributor relationships	4,123	516	3,607	2,600	413	2,187
Supply agreement	1,050	754	296	1,050	566	484
<b>Total</b>	<b>\$ 167,645</b>	<b>\$ 24,083</b>	<b>\$ 143,562</b>	<b>\$ 116,226</b>	<b>\$ 20,694</b>	<b>\$ 95,532</b>

There is an additional \$1.5 million indefinite life intangible asset separately identified from goodwill.

Aggregate amortization expense for the twelve and twenty-eight weeks ending July 16, 2011 and July 17, 2010 were as follows (amounts in thousands):

	<b>Amortization expense</b>
For the twelve weeks ended July 16, 2011	\$ 1,535
For the twelve weeks ended July 17, 2010	\$ 1,395
For the twenty-eight weeks ended July 16, 2011	\$ 3,365
For the twenty-eight weeks ended July 17, 2010	\$ 3,256

Estimated net amortization of intangibles for the remainder of fiscal 2011 and the next four years is as follows (amounts in thousands):

	<b>Amortization of Intangibles, net</b>
Remainder of 2011	\$ 3,811
2012	\$ 7,702
2013	\$ 7,471
2014	\$ 7,331
2015	\$ 7,138

#### **6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximates fair value because of the short-term maturity of the instruments. Notes receivable are entered into in connection with the purchase of distributors territories by independent distributors. These notes receivable are recorded in the consolidated balance sheet at carrying value which represents the closest approximation of fair value. In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result, the appropriate

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interest rate that should be used to estimate the fair value of the distributor notes is the prevailing market rate at which similar loans would be made to distributors with similar credit ratings and for the same maturities. However, the company finances approximately 2,775 independent distributors all with varied financial histories and credit risks. Considering the diversity of credit risks among the independent distributors, the company has no method to accurately determine a market interest rate to apply to the notes. A portion of the territories are generally financed over ten years bearing an interest rate of 12% and the distributor notes are collateralized by the independent distributors' territories. A portion of the notes are financed bearing an interest rate of the Treasury or LIBOR yield plus a spread. The fair value of the company's long-term debt at July 16, 2011 approximates the carrying value. For fair value disclosures information about our derivative assets and liabilities see Note 7, *Derivative Financial Instruments*.

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Interest income for the distributor notes receivable was as follows (amounts in thousands):

	<b>Interest Income</b>
For the twelve weeks ended July 16, 2011	\$ 2,968
For the twelve weeks ended July 17, 2010	\$ 2,940
For the twenty-eight weeks ended July 16, 2011	\$ 6,879
For the twenty-eight weeks ended July 17, 2010	\$ 6,855

At July 16, 2011 and January 1, 2011, respectively, the carrying value of the distributor notes was as follows (amounts in thousands):

	<b>July 16, 2011</b>	<b>January 1, 2011</b>
Distributor notes receivable	\$ 114,865	\$ 105,396
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	14,302	12,536
Long-term portion of distributor notes receivable	\$ 100,563	\$ 92,860

At July 16, 2011 and January 1, 2011, the company has evaluated the collectability of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in the distributor settlement process.

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

The company measures the fair value of its derivative portfolio using the fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal market for that asset or liability. These measurements are classified into a hierarchy by the inputs used to perform the fair value calculation as follows:

Level 1: Fair value based on unadjusted quoted prices for identical assets or liabilities in active markets

Level 2: Modeled fair value with model inputs that are all observable market values

Level 3: Modeled fair value with at least one model input that is not an observable market value

**COMMODITY PRICE RISK**

The company enters into commodity derivatives, designated as cash-flow hedges of existing or future exposure to changes in commodity prices. The company's primary raw materials are flour, sweeteners and shortening, along with pulp, paper and petroleum-based packaging products. Natural gas, which is used as oven fuel, is also an important commodity input to production.

As of July 16, 2011, the company's hedge portfolio contained commodity derivatives with a net fair value of \$(12.6) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Other current	\$ 1.5	\$	\$	\$ 1.5
Other long-term	0.4			0.4
Total	1.9			1.9
<b>Liabilities:</b>				

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Other current	(13.0)	(1.3)	(14.3)
Other long-term		(0.2)	(0.2)
Total	(13.0)	(1.5)	(14.5)
Net Fair Value	\$ (11.1)	\$ (1.5)	\$ (12.6)

The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending into fiscal 2012. These instruments are designated as cash-flow hedges. The effective portion of changes in fair value for these derivatives is recorded each period in other comprehensive income (loss), and any ineffective portion of the change in fair value is recorded to current period earnings in selling, marketing and administrative expenses. All of the company held commodity derivatives at July 16, 2011 and January 1, 2011 qualified for hedge accounting.



**Table of Contents****INTEREST RATE RISK**

The company entered into interest rate swaps with notional amounts of \$85.0 million, and \$65.0 million, respectively, to fix the interest rate on the \$150.0 million term loan secured on August 1, 2008.

The interest rate swap agreements result in the company paying or receiving the difference between the fixed and floating rates at specified intervals calculated based on the notional amount. The interest rate differential to be paid or received will be recorded as interest expense. These swap transactions are designated as cash-flow hedges. Accordingly, the effective portion of changes in the fair value of the swaps is recorded each period in other comprehensive income. Any ineffective portions of changes in fair value are recorded to current period earnings in selling, distribution and administrative expenses.

As of July 16, 2011, the fair value of the interest rate swaps was \$(5.1) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
<b>Liabilities:</b>				
Other current		(3.3)		(3.3)
Other long-term		(1.8)		(1.8)
Total		(5.1)		(5.1)
Net Fair Value	\$	\$ (5.1)	\$	\$ (5.1)

The company has the following derivative instruments located on the condensed consolidated balance sheet, utilized for risk management purposes (amounts in thousands):

Derivatives designated as hedging instruments	Derivative Assets				Derivative Liabilities			
	July 16, 2011		January 1, 2011		July 16, 2011		January 1, 2011	
	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value
Interest rate contracts		\$		\$	Other current liabilities	\$ 3,295	Other current liabilities	\$ 3,789
Interest rate contracts					Other long term liabilities	1,812	Other long term liabilities	2,684
Commodity contracts	Other current assets	1,559	Other current assets	22,380	Other current liabilities	14,254	Other current liabilities	2,032
Commodity contracts	Other long term assets	365	Other long term assets		Other long term liabilities	223	Other long term liabilities	371
Total		\$ 1,924		\$ 22,380		\$ 19,584		\$ 8,876

The company has the following derivative instruments located on the condensed consolidated statements of income, utilized for risk management purposes (amounts in thousands and net of tax):

Derivatives in	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the twelve weeks ended		Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the twelve weeks ended	
Cash Flow Hedge Relationships	July 16, 2011	July 17, 2010		July 16, 2011	July 17, 2010

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	(Effective Portion)			
Interest rate contracts	\$ (105)	\$ (1,319)	Interest expense (income)	\$ (380) \$ (657)
Commodity contracts	(17,195)	5,096	Production costs(1)	8,117 (4,777)
<b>Total</b>	<b>\$ (17,300)</b>	<b>\$ 3,777</b>		<b>\$ 7,737 \$ (5,434)</b>

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