FLOWERS FOODS INC
Form 10-Q
August 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 16, 2016

OR

o 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)

GEORGIA	58-2582379
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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 5, 2016
Common Stock, $.01 par value	206,870,338

FLOWERS FOODS, INC.

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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,” “wil 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, liquidity, 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 or increased costs related to our employees 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);
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- the level of success we achieve in developing and introducing new products and entering new markets;
- our ability to implement new technology and customer requirements as required;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- 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;
- consolidation within the baking industry and related industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;
- disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributors;
- increases in employee and employee-related costs, including funding of pension plans;
- the credit, business, and legal risks associated with independent distributors and customers, which operate in the highly competitive retail food and foodservice industries;
- any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, technological breakdowns, product contamination or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events;
- the failure of our information technology systems to perform adequately, including any interruptions, intrusions or security breaches of such systems; 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. Refer to Part I, Item 1A., Risk Factors, of our Annual

Report on Form 10-K for the year ended on January 2, 2016 (the "Form 10-K") 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.

We own or have rights to trademarks or trade names that we use in connection with the operation of our business, including our corporate names, logos and website names. In addition, we own or have the rights to copyrights, trade secrets and other proprietary rights that protect the content of our products and the formulations for such products. Solely for convenience, some of the trademarks, trade names and copyrights referred to in this Quarterly Report on Form 10-Q (this “Form 10-Q”) are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, trade names and copyrights.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	July 16, 2016	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$11,592	$14,378
Accounts and notes receivable, net of allowances of $2,459 and $1,341, respectively	293,519	269,683
Inventories, net:		
Raw materials	40,725	42,336
Packaging materials	23,446	21,853
Finished goods	48,185	46,988
Inventories, net	112,356	111,177
Spare parts and supplies	58,928	57,288
Other	35,877	47,782
Total current assets	512,272	500,308
Property, plant and equipment, net:		
Property, plant and equipment, gross	1,902,564	1,881,264
Less: accumulated depreciation	(1,124,404)	(1,076,296)
Property, plant and equipment, net	778,160	804,968
Notes receivable	149,739	154,311
Assets held for sale	43,018	36,191
Other assets	7,672	7,881
Goodwill	464,926	464,926
Other intangible assets, net	862,073	875,466
Total assets	$2,817,860	$2,844,051
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$130,359	$74,685
Accounts payable	179,268	171,923
Other accrued liabilities	160,474	157,130
Total current liabilities	470,101	403,738
Long-term debt:		
Total long-term debt and capital lease obligations	895,815	930,022
Other liabilities:		

Post-retirement/post-employment obligations	129,061	76,541
Deferred taxes	126,733	146,462
Other long-term liabilities	43,360	44,206
Total other long-term liabilities	299,154	267,209
Stockholders' equity:		
Preferred stock — $100 stated par value, 200,000 authorized and none issued	—	—
Preferred stock — $.01 stated par value, 800,000 authorized and none issued	—	—
Common stock — $.01 stated par value and $.001 current par value, 500,000,000 authorized shares, 228,729,585 shares and 228,729,585 shares issued, respectively	199	199
Treasury stock — 21,859,247 shares and 16,463,137 shares, respectively	(281,834)	(174,635)
Capital in excess of par value	638,327	636,501
Retained earnings	923,726	877,817
Accumulated other comprehensive loss	(127,628)	(96,800)
Total stockholders' equity	1,152,790	1,243,082
Total liabilities and stockholders' equity	$2,817,860	$2,844,051

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Sales	$935,025	$888,795	$2,139,377	$2,034,840
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	477,955	457,253	1,099,145	1,043,169
Selling, distribution and administrative expenses	338,396	318,758	782,935	742,532
Impairment of assets	—	2,275	—	2,275
Pension plan settlement loss	4,641	—	4,641	—
Depreciation and amortization	32,598	30,468	76,065	70,285
Income from operations	81,435	80,041	176,591	176,579
Interest expense	7,649	5,998	16,717	14,357
Interest income	(4,639)	(5,138)	(10,929)	(11,915)
Income before income taxes	78,425	79,181	170,803	174,137
Income tax expense	27,270	27,421	60,285	60,988
Net income	$51,155	$51,760	$110,518	$113,149
Net income per common share:				
Basic:				
Net income per common share	$0.25	$0.25	$0.53	$0.54
Weighted average shares outstanding	207,211	210,334	209,183	210,093
Diluted:				
Net income per common share	$0.24	$0.24	$0.52	$0.53
Weighted average shares outstanding	209,014	212,872	211,230	212,798
Cash dividends paid per common share	$0.1600	$0.1450	$0.3050	$0.2775

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Net income	$51,155	$51,760	$110,518	$113,149
Other comprehensive income, net of tax:				
Pension and postretirement plans:				
Settlement loss	2,854	—	2,854	—
Net gain (loss) for the period	(36,407)	—	(36,407)	—
Amortization of prior service cost (credit) included in net income	17	(67)	50	(156)
Amortization of actuarial loss included in net income	646	624	1,666	1,456
Pension and postretirement plans, net of tax	(32,890)	557	(31,837)	1,300
Derivative instruments:				
Net change in fair value of derivatives	(3,525)	5,818	(937)	1,390
Loss reclassified to net income	803	1,251	1,946	2,838
Derivative instruments, net of tax	(2,722)	7,069	1,009	4,228
Other comprehensive income (loss), net of tax	(35,612)	7,626	(30,828)	5,528
Comprehensive income	$15,543	$59,386	$79,690	$118,677

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Number of shares issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number of Shares	Treasury Stock Cost	Total
Balances at January 2, 2016	228,729,585	$199	$636,501	$877,817	$(96,800)	(16,463,137)	$(174,635)	$1,243,082
Net income				110,518				110,518
Derivative instruments, net of tax					1,009			1,009
Pension and postretirement plans, net of tax					(31,837)			(31,837)
Exercise of stock options			(1,555)			960,796	12,033	10,478
Amortization of share-based compensation awards			11,318					11,318
Issuance of deferred compensation			(81)			4,053	81	—
Tax effect related to share-based payment awards			(871)					(871)
Performance-contingent restricted stock awards issued (Note 13)			(4,449)			419,367	4,449	—
Issuance of deferred stock			(1,411)			111,868	1,411	—

awards								
Stock repurchases			(1,125)			(6,892,194)	(125,173)	(126,298)
Dividends paid on vested share-based payment awards				(579)				(579)
Dividends paid — $0.305 per common share				(64,030)				(64,030)
Balances at July 16, 2016	228,729,585	$199	$638,327	$923,726	$(127,628)	(21,859,247)	$(281,834)	$1,152,790

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	$110,518	$113,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	11,306	10,808
Loss reclassified from accumulated other comprehensive income to net income	3,030	4,481
Depreciation and amortization	76,065	70,285
Deferred income taxes	(3,528)	6,346
Impairment of assets	—	2,275
Provision for inventory obsolescence	675	678
Allowances for accounts receivable	2,411	2,053
Pension and postretirement plans expense (income)	1,607	(3,275)
Other	(3,730)	(1,256)
Qualified pension plan contributions	—	(7,500)
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable, net	(26,090)	(26,590)
Inventories, net	(1,854)	(6,589)
Hedging activities, net	1,040	463
Other assets	3,617	3,370
Accounts payable	7,912	30,063
Other accrued liabilities	10,878	17,173
NET CASH PROVIDED BY OPERATING ACTIVITIES	193,857	215,934
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(41,722)	(40,573)
Proceeds from sale of property, plant and equipment	1,965	10,008
Repurchase of independent distributor territories	(10,930)	(11,428)
Principal payments from notes receivable	13,939	13,624
Acquisition of intangible assets	—	(5,000)
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(36,748)	(33,369)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid, including dividends on share-based payment awards	(64,609)	(59,181)
Exercise of stock options	10,478	2,795
Excess windfall tax benefit related to share-based payment awards	2,126	2,301
Payments for financing fees	(624)	(486)
Stock repurchases, including accelerated stock repurchases	(126,298)	(6,858)
Change in bank overdrafts	(4,718)	(14,115)

Proceeds from debt borrowings	1,359,100	401,000
Debt and capital lease obligation payments	(1,335,350)	(469,000)
NET CASH DISBURSED FOR FINANCING ACTIVITIES	(159,895)	(143,544)
Net (decrease) increase in cash and cash equivalents	(2,786)	39,021
Cash and cash equivalents at beginning of period	14,378	7,523
Cash and cash equivalents at end of period	$11,592	$46,544

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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”, “Flowers Foods”, “Flowers”, “us”, “we”, or “our”) have been prepared by t 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 (the “Exchange Act”). Accordingly, they do not include all of the information and footnotes required by GAAP 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 adjustments) necessary to state 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 weeks ended July 16, 2016 and July 18, 2015 are not necessarily indicative of the results to be expected for a full fiscal year. The Condensed Consolidated Balance Sheet at January 2, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP 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 2, 2016.

ESTIMATES — The preparation of financial statements in conformity with GAAP 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 2, 2016.

REPORTING PERIODS — The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2016 consists of 52 weeks, with the company’s quarterly reporting periods as follows: first quarter ended April 23, 2016 (sixteen weeks), second quarter ended July 16, 2016 (twelve weeks), third quarter ending October 8, 2016 (twelve weeks) and fourth quarter ending December 31, 2016 (twelve weeks).

SEGMENTS — Flowers Foods currently operates two business segments: a direct-store-delivery (“DSD”) segment (“DSD Segment”) and a warehouse delivery segment (“Warehouse Segment”). The DSD Segment (84% of total year to date sales) currently operates 39 bakeries that produce a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through a DSD route delivery system to retail and foodservice customers in the Southeast, Mid-Atlantic, New England, Southwest, California and select markets in Nevada, the Midwest and the Pacific Northwest. The Warehouse Segment (16% of total year to date sales) currently operates ten bakeries that produce snack cakes, breads and rolls for national retail, foodservice, vending, and co-pack customers and deliver through customers’ warehouse channels. The Warehouse Segment also operates one baking ingredient mix facility.

SIGNIFICANT CUSTOMER — Following is the effect our largest customer, Walmart/Sam's Club, had on the company's sales for the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015. Walmart/Sam's Club is the only customer to account for greater than 10% of the company's sales.

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
	(% of Sales)		(% of Sales)	
DSD Segment	17.6	17.2	16.9	17.0
Warehouse Segment	2.6	2.5	2.7	2.5
Total	20.2	19.7	19.6	19.5

Walmart/Sam's Club is our only customer with a balance greater than 10% of outstanding trade receivables. Their percentage of trade receivables was 20.7% and 18.9%, on a consolidated basis, as of July 16, 2016 and January 2, 2016, respectively. No other customer accounted for greater than 10% of the company's outstanding trade receivables.

SIGNIFICANT ACCOUNTING POLICIES — There were no significant changes to our critical accounting policies for the quarter ended July 16, 2016 from those disclosed in the company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

2. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board (the "FASB") issued guidance for recognizing revenue in contracts with customers. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There are five steps outlined in the guidance to achieve this core principle. This guidance was originally effective January 1, 2017, the first day of our fiscal 2017. In July 2015, the FASB issued a deferral for one year, making the effective date December 31, 2017, the first day of our fiscal 2018. In March 2016, the FASB amended the initial guidance to clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB amended the initial guidance to clarify the identification of performance conditions and the licensing implementation guidance. In May 2016, the FASB amended the initial guidance to update certain narrow scopes within the revenue recognition guidance. Early application is permitted, but not before January 1, 2017. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the standards in retained earnings at the date of initial application. An entity will not restate prior periods if uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the standard as compared to the guidance in effect prior to the change, as well as reasons for significant changes. The company intends to adopt the updated standard in the first quarter of fiscal 2018. The company is currently evaluating the impact that implementing this standard will have on its financial statements and disclosures, as well as whether it will use the retrospective or modified retrospective method of adoption.

In July 2015, the FASB issued guidance that entities should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. This guidance shall be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The company is still analyzing the potential impact of this guidance on the company's Condensed Consolidated Financial Statements.

In February 2016, the FASB issued guidance that requires an entity to recognize lease liabilities and a right-of-use asset for virtually all leases (other than those that meet the definition of a short-term lease) on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with earlier adoption permitted. This guidance must be adopted using a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The company intends to adopt the updated standard in the first quarter of fiscal 2019. The company is evaluating the potential impact of this guidance on our Condensed Consolidated Financial Statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The company is evaluating the potential impact of this guidance on our Condensed Consolidated Financial Statements and the timing of when we will adopt the guidance.

We have reviewed other recently issued accounting pronouncements and concluded that they are either not applicable to our business or that no material effect is expected upon future adoption.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discount presentation. This guidance is effective for financial statements for fiscal years beginning after December 15, 2015, and interim periods within those years. This guidance is applied on a retrospective basis at adoption and the disclosures for a change in an accounting principle apply. This guidance was adopted as of January 3, 2016 (the first day of our fiscal 2016) with application of the provisions retrospectively. Debt issuance costs associated with line-of-credit arrangements is not addressed by this guidance. The company's accounts receivable securitization facility and credit facility, discussed in Note 9, Debt and Other Obligations, are excluded from this guidance and are still presented as other long-term assets in the Condensed Consolidated Balance Sheet. As a result of adopting this standard, the debt issuance costs of our other debt obligations were reclassified as a reduction to the carrying amount of the debt liability for the Condensed Consolidated Balance Sheets as of July 16, 2016 and January 2, 2016. The balance sheet as of January 2, 2016 was retrospectively adjusted, which resulted in a $3.9 million decrease to other non-current assets and to total long-term debt and capital lease obligations.

In November 2015, the FASB issued guidance that requires entities to report deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The previous requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this guidance. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The company adopted this standard for the annual period beginning on January 3, 2016 (the first day of our fiscal 2016) and applied it retrospectively. As a result of adopting this standard, all deferred tax assets and liabilities have been classified as noncurrent for the Condensed Consolidated Balance Sheets as of July 16, 2016 and January 2, 2016. The balance sheet as of January 2, 2016 was retrospectively adjusted, which resulted in a $37.2 million decrease in the current deferred income tax asset balance and in the long-term deferred income tax liability balance.

The table below presents the adjustments for each of the line items impacted for these pronouncements (amounts in thousands):

	January 2, 2016	As adjusted January 2, 2016
ASSETS		
Deferred taxes	$ 37,207	$ —
Total current assets	537,515	500,308
Other assets	11,791	7,881
Total assets	$ 2,885,168	$ 2,844,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total long-term debt and capital lease obligations	933,932	930,022
Deferred taxes	183,669	146,462
Total other long-term liabilities	304,416	267,209
Total liabilities and stockholders' equity	$ 2,885,168	$ 2,844,051

In September 2015, the FASB issued guidance that entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance also requires that an entity present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for our fiscal 2016. This is applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance. The potential impact of the guidance on the company's Condensed Consolidated Financial Statements will only be known after a measurement period adjustment for an acquisition is recognized. The adoption of this guidance had no impact on the company during the twenty-eight weeks ended July 16, 2016.

4. ACQUISITIONS

Alpine Valley Bread Company

On October 13, 2015, the company completed the acquisition of 100% of the capital stock of Alpine Valley Bread Company ("Alpine"), a leading organic bread baker, from its shareholders for total consideration of approximately $121.9 million inclusive of payments for certain tax benefits. We paid cash of $109.3 million and issued 481,540 shares of our common stock to the sellers in a private placement. Alpine operates two production facilities in Mesa, Arizona and has widespread distribution across the U.S. The Alpine acquisition has been accounted for as a business combination and is included in our Warehouse Segment. The results of Alpine's operations were included in the company's Condensed Consolidated Financial Statements beginning on October 14, 2015. The total preliminary goodwill recorded for this acquisition was $36.0 million and it is deductible for tax purposes.

During fiscal 2015, the company incurred $1.6 million of acquisition-related costs for Alpine. The acquisition-related costs for Alpine were recorded in the selling, distribution and administrative expense line item in our Condensed Consolidated Statements of Income. Alpine contributed $11.9 million in sales during fiscal 2015. Alpine's operating income since the acquisition was immaterial to our fiscal 2015 results of operations.

The following table summarizes the consideration paid for Alpine based on the fair value at the acquisition date. This table is based on preliminary valuations for the assets acquired and liabilities assumed. The identifiable intangible assets, property, plant and equipment, and certain financial assets and taxes are still under review. We will continue reviewing the final recognized amounts of identifiable assets acquired and liabilities assumed until the fourth quarter of our fiscal 2016 when the allocation will be final (amounts in thousands):

Fair Value of consideration transferred:	
Cash consideration paid	$109,340
Stock consideration paid	12,602
Total consideration paid	121,942
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment	15,614
Identifiable intangible assets	64,600
Financial assets	5,687
Net recognized amounts of identifiable assets acquired	85,901
Goodwill	$36,041

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

	Total	Weighted average amortization years	Attribution Method
Trademarks	$20,900	40.0	Straight-line
Customer relationships	43,700	25.0	Sum of year digits
	$64,600	29.9	

The fair value of trade receivables is $4.8 million with an immaterial amount determined to be uncollectible. We did not acquire any other class of receivables as a result of the acquisition.

Dave's Killer Bread

On September 12, 2015, the company completed the acquisition of 100% of the capital stock of Dave's Killer Bread ("DKB"), the nation's best-selling organic bread, from its shareholders for total cash payments of approximately $282.1 million inclusive of payments for certain tax benefits. DKB operates one production facility in Milwaukie, Oregon and has widespread distribution across the U.S. We believe the acquisition of DKB strengthens our position as the second-largest baker in the U.S. by giving us access to the fast growing organic bread category and expanding our geographic reach into the Pacific Northwest. The DKB acquisition has been accounted for as a business combination and is included in our DSD Segment. The results of DKB's operations are included in the company's Condensed

Consolidated Financial Statements beginning on September 13, 2015. The total preliminary goodwill recorded for this acquisition was $145.9 million and it is not deductible for tax purposes.

During fiscal 2015, the company incurred $4.6 million of acquisition-related costs for DKB. The acquisition-related costs for DKB were recorded in the selling, distribution and administrative expense line item in our Condensed Consolidated Statements of Income. DKB contributed $37.6 million in sales during fiscal 2015. DKB's operating income since the acquisition was immaterial to our fiscal 2015 results of operations.

The following table summarizes the consideration paid for DKB based on the fair value at the acquisition date. This table is based on preliminary valuations for the assets acquired and liabilities assumed. The identifiable intangible assets, property, plant and equipment, and certain financial assets and taxes are still under review. We will also continue reviewing the final recognized amounts of identifiable assets acquired and liabilities assumed until the third quarter of our fiscal 2016 when the allocation will be final (amounts in thousands):

Fair Value of consideration transferred:	
Cash consideration paid	$282,115
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment	9,769
Identifiable intangible assets	176,300
Deferred income taxes	(60,142)
Financial assets	10,263
Net recognized amounts of identifiable assets acquired	136,190
Goodwill	$145,925

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

	Total	Weighted average amortization years	Attribution Method
Trademarks	$107,700	40.0	Straight-line
Customer relationships	68,000	25.0	Sum of year digits
Non-compete agreements	600	2.0	Straight-line
	$176,300	34.1	

The fair value of trade receivables is $14.2 million. The gross amount of the receivable is $14.4 million of which $0.2 million is determined to be uncollectible. We did not acquire any other class of receivables as a result of the acquisition.

Unaudited pro forma consolidated results of operations for the Alpine and DKB acquisitions are not included because the company determined that they are immaterial.

5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (“AOCI”)

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.

During the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015, reclassifications out of accumulated other comprehensive loss were as follows (amounts in thousands):

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI For the Twelve Weeks Ended July 16, 2016	July 18, 2015	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			
Interest rate contracts	$(57)	$(57)	Interest expense
Commodity contracts	(1,248)	(1,977)	Cost of sales, Note 3
Total before tax	(1,305)	(2,034)	Total before tax
Tax benefit	502	783	Tax benefit
Total net of tax	(803)	(1,251)	Net of tax
Amortization of defined benefit pension items:			
Prior-service (cost) credits	(27)	108	Note 1
Settlement loss	(4,641)	—	Note 1
Actuarial losses	(1,050)	(1,014)	Note 1
Total before tax	(5,718)	(906)	Total before tax
Tax benefit	2,201	349	Tax benefit
Total net of tax	(3,517)	(557)	Net of tax
Total reclassifications	$(4,320)	$(1,808)	Net of tax

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI For the Twenty-Eight Weeks Ended July 16, 2016	July 18, 2015	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			
Interest rate contracts	$(135)	$(135)	Interest expense
Commodity contracts	(3,030)	(4,481)	Cost of sales, Note 3
Total before tax	(3,165)	(4,616)	Total before tax
Tax benefit	1,219	1,778	Tax benefit
Total net of tax	(1,946)	(2,838)	Net of tax
Amortization of defined benefit pension items:			
Prior-service (cost) credits	(81)	252	Note 1
Settlement loss	(4,641)	—	Note 1

Actuarial losses	(2,708)	(2,366)	Note 1
Total before tax	(7,430)	(2,114)	Total before tax
Tax benefit	2,860	814	Tax benefit
Total net of tax	(4,570)	(1,300)	Net of tax
Total reclassifications	$(6,516)	$(4,138)	Net of tax

Note 1: These items are included in the computation of net periodic pension cost. See Note 14, Post-retirement Plans, for additional information.

Note 2: Amounts in parentheses indicate debits to determine net income.

Note 3: Amounts are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Condensed Consolidated Statements of Cash Flows.

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During the twenty-eight weeks ended July 16, 2016, changes to accumulated other comprehensive loss, net of income tax, by component were as follows (amounts in thousands):

	Gains/Losses on Cash Flow Hedges	Defined Benefit Pension Plan Items	Total
Accumulated other comprehensive loss, January 2, 2016	$ (10,190)	$ (86,610)	$(96,800)
Other comprehensive income before reclassifications	(937)	(36,407)	(37,344)
Reclassified to earnings from accumulated other comprehensive loss	1,946	4,570	6,516
Accumulated other comprehensive loss, July 16, 2016	$ (9,181)	$ (118,447)	$(127,628)

During the twenty-eight weeks ended July 18, 2015, changes to accumulated other comprehensive loss, net of income tax, by component were as follows (amounts in thousands):

	Gains/Losses on Cash Flow Hedges	Defined Benefit Pension Plan Items	Total
Accumulated other comprehensive loss, January 3, 2015	$ (11,408)	$ (86,612)	$(98,020)
Other comprehensive income before reclassifications	1,390	—	1,390
Reclassified to earnings from accumulated other comprehensive loss	2,838	1,300	4,138
Accumulated other comprehensive loss, July 18, 2015	$ (7,180)	$ (85,312)	$(92,492)

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. The following table presents the net of tax amount of the loss reclassified from accumulated other comprehensive income ("AOCI") for our commodity contracts (amounts in thousands):

	For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015
Gross loss reclassified from AOCI into income	$3,030	$4,481

Tax benefit	(1,167)	(1,725)
Net of tax	$1,863	$2,756

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The table below summarizes our goodwill and other intangible assets at July 16, 2016 and January 2, 2016, respectively, each of which is explained in additional detail below (amounts in thousands):

	July 16, 2016	January 2, 2016
Goodwill	$464,926	$464,926
Amortizable intangible assets, net of amortization	448,073	461,466
Indefinite-lived intangible assets	414,000	414,000
Total goodwill and other intangible assets	$1,326,999	$1,340,392

There were no changes in the carrying amount of goodwill, by segment, since January 2, 2016.

As of July 16, 2016 and January 2, 2016, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

	July 16, 2016			January 2, 2016		
		Accumulated	Net		Accumulated	Net
Asset	Cost	Amortization	Value	Cost	Amortization	Value
Trademarks	$246,327	$ 21,855	$224,472	$246,327	$ 18,037	$228,290
Customer relationships	281,621	60,593	221,028	281,621	51,650	229,971
Non-compete agreements	4,874	4,528	346	4,874	4,043	831
Distributor relationships	4,123	1,896	2,227	4,123	1,749	2,374
Total	$536,945	$ 88,872	$448,073	$536,945	$ 75,479	$461,466

Aggregate amortization expense for the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015 was as follows (amounts in thousands):

	Amortization Expense
For the twelve weeks ended July 16, 2016	$ 5,740
For the twelve weeks ended July 18, 2015	$ 2,710
For the twenty-eight weeks ended July 16, 2016	$ 13,393
For the twenty-eight weeks ended July 18, 2015	$ 6,285

There are $414.0 million of indefinite-lived intangible trademark assets separately identified from goodwill at July 16, 2016 and January 2, 2016. These trademarks are classified as indefinite-lived because we believe they are well established brands, many older than forty years old, with a long history and well defined markets. In addition, we are continuing to use these brands both in their original markets and throughout our expansion territories. We believe these factors support an indefinite-life assignment. We perform an annual impairment analysis, or on interim basis if the facts and circumstances change, to determine if the trademarks are realizing the expected economic benefits.

During the fourth quarter of our fiscal 2015, we reviewed our long-term strategy for all of our organic bread brands due to the acquisitions of the DKB and Alpine organic brands in our third and fourth quarter, respectively, of fiscal 2015. We previously acquired the Barowsky's brand, which included certain organic products, in fiscal 2012. We originally intended to distribute that brand nationally throughout the territories in our DSD Segment. As a result of our strategic review, the DKB brand will be distributed through our DSD Segment and the Alpine brand will be distributed through our Warehouse Segment. Accordingly, the Barowsky's brand will remain primarily a regional bread brand for the northeast. Since the Barowsky's brand will not be used as originally intended, we examined the indefinite-life assignment and determined that it is appropriate to begin amortizing this brand. Beginning in our fourth quarter of fiscal 2015 the Barowsky's brand began being amortized over a 35 year straight-line attribution period. Because this change in strategy still reflects that the estimated fair value exceeds the carrying value, an impairment charge was not applicable. We continue to monitor this and all of our finite-lived intangible assets for changes in the facts and circumstances that could impact the fair value.

Estimated amortization of intangibles for each of the next five years is as follows (amounts in thousands):

	Amortization of Intangibles
Remainder of 2016	$ 11,100
2017	$ 23,578
2018	$ 22,878
2019	$ 22,385
2020	$ 21,893

7. 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 independent distributors' distribution rights by independent distributors. These notes receivable are recorded in the Consolidated Balance Sheet at carrying value, which represents the closest approximation of fair value. 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 interest rate that should be used to estimate the fair value of the distribution rights notes is the prevailing market rate at which similar loans would be made to independent distributors with similar credit ratings and for the same maturities. However, the company finances approximately 3,675 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. The distribution rights are generally financed for up to ten years and the distribution rights notes are collateralized by the independent distributors' distribution rights. The company maintains a wholly-owned subsidiary to assist in financing the distribution rights purchase activities if requested by new independent distributors, using the distribution rights and certain associated assets as collateral. These notes receivable earn interest at a fixed rate.

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

	Interest Income
For the twelve weeks ended July 16, 2016	$4,639
For the twelve weeks ended July 18, 2015	$5,138
For the twenty-eight weeks ended July 16, 2016	$10,929
For the twenty-eight weeks ended July 18, 2015	$11,915

At July 16, 2016, January 2, 2016, and July 18, 2015 respectively, the carrying value of the distributor notes was as follows (amounts in thousands):

	July 16, 2016	January 2, 2016	July 18, 2015
Distributor notes receivable	$170,489	$174,904	$185,552
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	20,750	20,593	20,699
Long-term portion of distributor notes receivable	$149,739	$154,311	$164,853

At July 16, 2016 and January 2, 2016, 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 conjunction with the distributor settlement process.

The fair value of the company's variable rate debt at July 16, 2016 approximates the recorded value. The fair value of the ten-year 4.375% senior notes ("notes") issued on April 3, 2012, as discussed in Note 9, Debt and Other Obligations below, is approximately $435.9 million while the carrying value is $397.2 million on July 16, 2016. The fair value of the notes is estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements and is considered a Level 2 valuation.

For fair value disclosure information about our derivative assets and liabilities see Note 8, Derivative Financial Instruments.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The company measures the fair value of its derivative portfolio by using 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 at the measurement date

Level 2: Modeled fair value with model inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Modeled fair value with unobservable model inputs that are used to estimate the fair value of the asset or liability

Commodity 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 for production.

As of July 16, 2016, the company's hedge portfolio contained commodity derivatives which are recorded in the following accounts with fair values measured as indicated (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current	$—	$—	$ —	$—
Other long-term	273	—	—	273
Total	273	—	—	273
Liabilities:				
Other current	(12,232)	(1,016)	—	(13,248)
Other long-term	—	—	—	—
Total	(12,232)	(1,016)	—	(13,248)
Net Fair Value	$(11,959)	$(1,016)	$ —	$(12,975)

As of January 2, 2016, the company's commodity hedge portfolio contained derivatives which are recorded in the following accounts with fair values measured as indicated (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Other current	$(11,926)	$(2,941)	$ —	$(14,867)
Other long-term	(20)	—	—	(20)
Total	(11,946)	(2,941)	—	(14,887)
Net Fair Value	$(11,946)	$(2,941)	$ —	$(14,887)

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 primarily into fiscal 2017. 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, distribution and administrative expenses. All of the company-held commodity derivatives at July 16, 2016 and January 2, 2016 qualified for hedge accounting.

Interest Rate Risk

The company entered into a treasury rate lock on March 28, 2012 to fix the interest rate for the notes issued on April 3, 2012. The derivative position was closed when the debt was priced on March 29, 2012 with a cash settlement that offset changes in the benchmark treasury rate between the execution of the treasury rate lock and the debt pricing date. This treasury rate lock was designated as a cash flow hedge and the cash settlement was $3.1 million, of which $0.6 million was recognized after debt issuance and $2.5 million ($1.5 million, net of tax) is being amortized to interest expense over the term of the notes.

Derivative Assets and Liabilities

The company has the following derivative instruments located on the Condensed Consolidated Balance Sheet, which are utilized for the risk management purposes detailed above (amounts in thousands):

	Derivative Assets				Derivative Liabilities			
	July 16, 2016		January 2, 2016		July 16, 2016		January 2, 2016	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Other current assets	$ —	Other current assets	$ —	Other current liabilities	$ 13,248	Other current liabilities	$ 14,867
Commodity contracts	Other long term assets	$ 273	Other long term assets	—	Other long-term liabilities	—	Other long-term liabilities	20
Total		$ 273		$ —		$ 13,248		$ 14,887

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Derivative AOCI transactions

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 Cash Flow Hedge Relationships (2)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Twelve Weeks Ended July 16, 2016	July 18, 2015	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)(2)	Amount of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion) For the Twelve Weeks Ended July 16, 2016	July 18, 2015
Interest rate contracts	$—	$—	Interest (expense) income	$(35)	$(35)
Commodity contracts	3,525	(5,818)	Production costs(1)	(768)	(1,216)
Total	$3,525	$(5,818)		$(803)	$(1,251)

Derivatives in Cash Flow Hedge Relationships (2)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Twenty-Eight Weeks Ended July 16, 2016	July 18, 2015	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)(2)	Amount of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion) For the Twenty-Eight Weeks Ended July 16, 2016	July 18, 2015
Interest rate contracts	$—	$—	Interest (expense) income	$(82)	$(82)
Commodity contracts	937	(1,390)	Production costs(1)	(1,864)	(2,756)
Total	$937	$(1,390)		$(1,946)	$(2,838)

1. Included in materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately).
2. Amounts in parentheses indicate debits to determine net income.

There was no hedging ineffectiveness, and no amounts were excluded from the ineffectiveness testing, during the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015, respectively.

The balance in accumulated other comprehensive loss related to commodity price risk and interest rate risk derivative transactions that are closed or will expire over the following years are as follows (amounts in thousands and net of tax) at July 16, 2016:

	Commodity price risk derivatives	Interest rate risk derivatives	Totals
Closed contracts	$ 320	$ 882	$ 1,202
Expiring in 2016	5,597	—	5,597
Expiring in 2017	2,382	—	2,382
Total	$ 8,299	$ 882	$ 9,181

Derivative Transactions Notional Amounts

As of July 16, 2016, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk (amounts in thousands):

	Notional amount
Wheat contracts	$ 85,960
Soybean oil contracts	6,607
Natural gas contracts	6,632
Total	$ 99,199

The company's derivative instruments contain no credit-risk related contingent features at July 16, 2016. As of July 16, 2016 and January 2, 2016, the company had $16.7 million and $20.7 million, respectively, in other current assets representing collateral for hedged positions.

9. DEBT AND OTHER OBLIGATIONS

Long-term debt and capital leases (net of issuance costs and debt discounts excluding line-of-credit arrangements) consisted of the following at July 16, 2016 and January 2, 2016 (amounts in thousands):

	July 16, 2016	January 2, 2016
Unsecured credit facility	$32,500	$160,000
Unsecured 2013 term loan	223,614	238,515
Unsecured 2016 term loan	145,629	—
4.375% senior notes due 2022	397,235	396,975
Accounts receivable securitization	190,000	170,000
Capital lease obligations	18,001	20,228
Other notes payable	19,195	18,989
	1,026,174	1,004,707
Current maturities of long-term debt and capital lease obligations	130,359	74,685
Total long-term debt and capital lease obligations	$895,815	$930,022

Bank overdrafts occur when checks have been issued but have not been presented to the bank for payment. Certain of our banks allow us to delay funding of issued checks until the checks are presented for payment. The delay in funding results in a temporary source of financing from the bank. The activity related to bank overdrafts is shown as a financing activity in our Condensed Consolidated Statements of Cash Flows. Bank overdrafts are included in other current liabilities on our Condensed Consolidated Balance Sheets. As of July 16, 2016 and January 2, 2016, the bank overdraft balance was $13.3 million and $18.0 million, respectively.

The company also had standby letters of credit ("LOCs") outstanding of $15.3 million and $16.9 million at July 16, 2016 and January 2, 2016, respectively, which reduce the availability of funds under the credit facility. The outstanding LOCs are for the benefit of certain insurance companies and lessors. None of the LOCs are recorded as a liability on the Condensed Consolidated Balance Sheet.

2016 Term Loan, Accounts Receivable Securitization Facility, 2013 Term Loan, Senior Notes, and Credit Facility

2016 Term Loan. We entered into an unsecured term facility (the "2016 term loan") on April 19, 2016. The 2016 term loan provides for a five-year, syndicated, unsecured term loan pursuant to which we may incur term loan borrowings in a single draw up to an aggregate principal amount of $150.0 million. The proceeds of the 2016 term loan borrowings were used to finance working capital and for general corporate purposes and to pay fees and expenses related to the 2016 term loan. The company drew down the full amount of the 2016 term loan at execution.

The 2016 term loan amortizes in quarterly installments based on an increasing annual percentage. The first payment was due and payable on June 30, 2016 (the last business day of the first calendar quarter ending after the borrowing date), quarterly payments are due on the last business day of each successive calendar quarter and all remaining outstanding principal is due and payable on the fifth anniversary of the borrowing date. The table below presents the principal payment amounts remaining under the 2016 term loan as of July 16, 2016 (amounts in thousands):

Fiscal Year	Payments
Remainder of 2016	$ 7,500
2017	$ 15,000
2018	$ 15,000
2019	$ 31,875
2020	$ 60,000
2021	$ 16,875

Voluntary prepayments on the 2016 term loan may be made without premium or penalty. Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The applicable margin ranges from 0.00% to 1.25% for base rate loans and from 0.75% to 2.25% for Eurodollar loans, and is based on the company's leverage ratio. Interest on base rate loans is payable quarterly in arrears on the last business day of each calendar quarter. Interest on Eurodollar loans is payable in arrears at the end of the interest period and every three months in the case of interest periods in excess of three months. The company paid financing costs of $0.6 million in connection with the 2016 term loan, which are being amortized over the life of the 2016 term loan. The 2016 term loan is subject to customary restrictive covenants, including certain limitations on liens and significant acquisitions and financial covenants regarding minimum interest coverage ratio and maximum leverage ratio. As of July 16, 2016, the company was in compliance with all restrictive covenants under the 2016 term loan.

Accounts Receivable Securitization Facility. On July 17, 2013, the company entered into an accounts receivable securitization facility (the "facility"). On August 7, 2014, the company entered into an amendment to the facility. The amendment (i) increased the revolving commitments under the facility to $200.0 million from $150.0 million, (ii) extended the term one year to July 17, 2016, and (iii) made certain other conforming changes. On December 17, 2014, the company executed a second amendment to the facility to add a bank to the lending group. The original commitment amount was split between the original lender and the new lender in the proportion of 62.5% for the original lender and 37.5% for the new lender. This modification, which was accounted for as an extinguishment of the debt, resulted in a charge of $0.1 million, or 37.5%, of the unamortized financing costs. On August 20, 2015, the company executed a third amendment to the facility to extend the term to August 11, 2017 and to add a leverage pricing grid. This amendment was accounted for as a modification. Under the facility, a wholly-owned, bankruptcy-remote subsidiary purchases, on an ongoing basis, substantially all trade receivables. As borrowings are made under the facility, the subsidiary pledges the receivables as collateral. In the event of liquidation of the subsidiary, its creditors would be entitled to satisfy their claims from the subsidiary's pledged receivables prior to distributions of collections to the company. We include the subsidiary in our Condensed Consolidated Financial Statements. The facility contains certain customary representations and warranties, affirmative and negative covenants, and events of default. There was $190.0 million outstanding under the facility as of July 16, 2016. There was $170.0 million outstanding under the facility as of January 2, 2016. As of July 16, 2016 and January 2, 2016, the company was in compliance with all restrictive covenants under the facility. On July 16, 2016, the company had $6.2 million available under its facility for working capital and general corporate purposes. Amounts available for withdrawal under the facility are determined as the lesser of the total commitments and a formula derived amount based on qualifying trade receivables.

Optional principal repayments may be made at any time without premium or penalty. Interest is due two days after our reporting periods end in arrears on the outstanding borrowings and is computed as the cost of funds rate plus an applicable margin of 70 to 100 basis points based on leverage. An unused fee of 25 to 35 basis points is applicable on the unused commitment at each reporting period based on leverage. The company paid financing costs of $0.8 million in connection with the facility at the time we entered into the facility, which are being amortized over the life of the facility. During fiscal 2014, we incurred $0.2 million in financing costs with the first and second amendments. An additional $0.1 million in financing costs was paid during fiscal 2015 for the second and third amendments.

2013 Term Loan. We entered into a senior unsecured delayed-draw term facility (the "2013 term loan") on April 5, 2013 with a commitment of up to $300.0 million. The company drew down the full amount of the 2013 term loan on July 18, 2013 (the "borrowing date").

The 2013 term loan amortizes in quarterly installments based on an increasing annual percentage. The first payment was due and payable on June 30, 2013 (the last business day of the first calendar quarter ending after the borrowing date), quarterly payments are due on the last business day of each successive calendar quarter and all remaining outstanding principal is due and payable on the fifth anniversary of the borrowing date. Voluntary prepayments on the 2013 term loan may be made without premium or penalty. The table below presents the principal payment amounts remaining under the 2013 term loan as of July 16, 2016 (amounts in thousands):

Fiscal Year	Payments

Remainder of 2016	$52,500
2017	$112,500
2018	$60,000

On February 14, 2014, we entered into an amendment to the 2013 term loan, which was accounted for as a modification of the debt, which favorably reduced the interest rates described below from those entered into originally on April 5, 2013. On April 19, 2016, we entered into an amendment to the 2013 term loan, which was accounted for as a modification of the debt, that addressed changes in law affecting the terms of the existing agreement, makes certain terms of the existing agreement consistent with the terms of the 2016 term loan, and amends the terms to permit the indebtedness to be incurred under the 2016 term loan.

The April 19, 2016 amendment also reduced the applicable interest rate by reducing the applicable margin for base rate loans to a range of 0.00% to 1.25% and the Eurodollar rate loans to 0.75% to 2.25%, in each case, based on the company's leverage ratio. Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. Interest on base rate loans is payable quarterly in arrears on the last business day of each calendar quarter. Interest on Eurodollar loans is payable in arrears at the end of the interest period and every three months in the case of interest periods in excess of three months. The company paid financing costs of $1.7 million in connection with the execution of the 2013 term loan, which are being amortized over the life of the 2013 term loan. A commitment fee of 20 basis points on the daily undrawn portion of the lenders' commitments commenced on May 1, 2013 and continued until the borrowing date, when the company borrowed the available $300.0 million for the acquisition of certain Hostess Brands, Inc. bread assets. The 2013 term loan is subject to customary restrictive covenants, including certain limitations on liens and significant acquisitions and financial covenants regarding minimum interest coverage ratio and maximum leverage ratio. The February 14, 2014 amendment cost $0.3 million and is being amortized over the remaining term. As of July 16, 2016 and January 2, 2016, the company was in compliance with all restrictive covenants under the 2013 term loan.

Senior Notes. On April 3, 2012, the company issued $400.0 million of senior notes. The company pays semiannual interest on the notes on each April 1 and October 1, beginning on October 1, 2012, and the notes will mature on April 1, 2022. The notes bear interest at 4.375% per annum. On any date prior to January 1, 2022, the company may redeem some or all of the notes at a price equal to the greater of (1) 100% of the principal amount of the notes redeemed and (2) a “make-whole” amount plus, in each case, accrued and unpaid interest. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments of principal thereof (not including any interest accrued thereon to, but not including, the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate (as defined in the indenture governing the notes), plus 35 basis points, plus in each case, unpaid interest accrued thereon to, but not including, the date of redemption. At any time on or after January 1, 2022, the company may redeem some or all of the notes at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest. If the company experiences a “change of control triggering event” (which involves a change of control of the company and related rating of the notes below investment grade), it is required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest thereon unless the company exercised its option to redeem the notes in whole. The notes are also subject to customary restrictive covenants, including certain limitations on liens and sale and leaseback transactions.

The face value of the notes is $400.0 million and the current debt issuance costs and debt discount on the notes is $2.8 million. The company paid issuance costs (including underwriting fees and legal fees) on the notes of $3.9 million. The issuance costs and the debt discount are being amortized to interest expense over the term of the notes. As of July 16, 2016 and January 2, 2016, the company was in compliance with all restrictive covenants under the indenture governing the notes.

Credit Facility. On April 19, 2016, the company amended its senior unsecured credit facility (the “credit facility”), which was accounted for as a modification of the debt, that addressed changes in law affecting the terms of the existing agreement, makes certain terms of the existing agreement consistent with the terms of the 2016 term loan, and amends the terms to permit the indebtedness to be incurred under the 2016 term loan. In addition, the amendment increases the highest applicable margin applicable to base rate loans to 0.75% and the Eurodollar rate loans to 1.75%, in each case, based on the leverage ratio of the company. It also increases the highest applicable facility fee to 0.50%, due quarterly on all commitments under the facility. Previously, on April 21, 2015, the company amended the credit facility to extend the term to April 21, 2020, reduce the applicable margin on base rate and Eurodollar loans and reduce the facility fees, described below. The April 21, 2015 amendment was accounted for as a modification of the debt. The credit facility is a five-year, $500.0 million senior unsecured revolving loan facility. The credit facility contains a provision that permits us to request up to $200.0 million in additional revolving commitments, for a total of up to $700.0 million, subject to the satisfaction of certain conditions. Proceeds from the credit facility may be used for working capital and general corporate purposes, including capital expenditures, acquisition financing, refinancing of indebtedness, dividends and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the amended credit facility and can meet presently foreseeable financial requirements. As of July 16, 2016 and January 2, 2016, the company was in compliance with all restrictive covenants under the credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The underlying rate is defined as rates offered in the interbank Eurodollar market, or the higher of the prime lending rate or the federal funds rate plus 0.50%, with a floor rate defined by the one-month interbank Eurodollar market rate plus 1.00%. The applicable margin ranges from 0.0% to 0.75% for base rate loans and from 0.70% to 1.75% for Eurodollar loans. In addition, a facility fee ranging from 0.05% to 0.50% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company's leverage ratio.

The company paid additional financing costs of $0.4 million in connection with the April 21, 2015 amendment of the credit facility, which, in addition to the remaining balance of the original financing costs, is being amortized over the life of the credit facility.

The highest outstanding daily balance during the twenty-eight weeks ended July 16, 2016 was $244.2 million and the lowest outstanding balance was $10.0 million. Amounts outstanding under the credit facility vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, and tax payments, as well as derivative transactions which are part of the company's overall risk management strategy as discussed in Note 8, Derivative Financial Instruments. During the twenty-eight weeks ended July 16, 2016, the company borrowed $1,158.1 million in revolving borrowings under the credit facility and repaid $1,285.6 million in revolving borrowings. The amount available under the credit facility is reduced by $15.3 million for letters of credit. On July 16, 2016, the company had $452.2 million available under its credit facility for working capital and general corporate purposes.

Credit Ratings. Currently, the company's credit ratings by Fitch Ratings, Moody's Investors Service, and Standard & Poor's are BBB, Baa2, and BBB, respectively. Changes in the company's credit ratings do not trigger a change in the company's available borrowings or costs under the 2016 term loan, facility, 2013 term loan, senior notes, or credit facility, but could affect future credit availability and cost.

Assets recorded under capital lease agreements included in property, plant and equipment consist of machinery and equipment and transportation equipment.

Aggregate maturities of debt outstanding, including capital leases and the associated interest, as of July 16, 2016, are as follows (excluding unamortized debt discount and issuance costs) (amounts in thousands):

Remainder of 2016	$64,958
2017	327,194
2018	84,960
2019	40,318
2020	95,618
2021 and thereafter	418,703
Total	$1,031,751

The company adopted guidance, as discussed in Note 3, Recently Adopted Accounting Pronouncements, that requires debt issuances costs be presented in the balance sheet as a direct reduction from the carrying amount of the liability. The table below reconciles the debt issuance costs and debt discounts to the net carrying value of each of our debt obligations (excluding line-of-credit arrangements) at July 16, 2016 (amounts in thousands):

	Face Value	Debt issuance and debt discount	Net carrying value
Unsecured 2013 term loan	$225,000	$ 1,386	$223,614
Unsecured 2016 term loan	146,250	621	145,629
Other notes payable	20,000	805	19,195
4.375% senior notes due 2022	400,000	2,765	397,235
Total	$791,250	$ 5,577	$785,673

The table below reconciles the debt issuance costs and debt discounts to the net carrying value of each of our debt obligations (excluding line-of-credit arrangements) at January 2, 2016 (amounts in thousands):

	Face Value	Debt issuance and debt discount	Net carrying value
Unsecured 2013 term loan	$240,000	$ 1,485	$238,515
Other notes payable	20,000	1,011	18,989
4.375% senior notes due 2022	400,000	3,025	396,975
Total	$660,000	$ 5,521	$654,479

10. VARIABLE INTEREST ENTITIES

Transportation agreement variable interest entity (the “VIE”) analysis

The company maintains a transportation agreement with an entity that transports a significant portion of the company’s fresh bakery products from the company’s production facilities to outlying distribution centers. The company represents a significant portion of the entity’s revenue. This entity qualifies as a VIE, but the company has determined it is not the primary beneficiary of the VIE.

The company has concluded that certain of the trucks and trailers the VIE uses for distributing our products from the manufacturing facilities to the distribution centers qualify as right to use leases. As of July 16, 2016 and January 2, 2016, there was $18.0 million and $20.2 million, respectively, in net property, plant and equipment and capital lease obligations associated with the right to use leases.

Distribution rights agreement VIE analysis

The incorporated independent distributors (“IDs”) in the DSD Segment qualify as VIEs. The independent distributors who are formed as sole proprietorships are excluded from the following VIE accounting analysis and discussion.

The company typically finances the IDs’ acquisition of the distribution rights and also enters into a contract with the ID to sell product at a discount for distribution in the IDs’ territory covered by their distribution rights. The combination of the company’s loans to the IDs and the ongoing supply arrangements with the IDs provide a level of protection and funding to the equity owners of the various IDs that would not otherwise be available. As of July 16, 2016 and January 2, 2016, there was $67.0 million and $50.8 million, respectively, in gross distribution rights notes receivable outstanding for IDs.

The company is not considered to be the primary beneficiary of the VIEs because the company does not (i) have the ability to direct the significant activities of the VIEs that would affect their ability to operate their respective independent distributor territories and (ii) provide any implicit or explicit guarantees or other financial support to the VIEs, other than the financing described above, for specific return or performance benchmarks. The activities controlled by the IDs that are deemed to most significantly impact the ultimate success of the ID entities relate to those decisions inherent in operating the distribution business in the territory, including acquiring trucks and trailers, managing fuel costs, employee matters and other strategic decisions. In addition, we do not provide, nor do we intend to provide, financial or other support to the IDs. The IDs are responsible for the operations of their respective territories including ordering of products.

The company’s maximum contractual exposure to loss for the IDs relates to the distributor rights note receivable for the portion of the territory the IDs financed at the time they acquired the distribution rights. The IDs remit payment on their distributor rights note receivable each week during the settlement process of their weekly activity. In the event the IDs abandon their territory and have a remaining balance outstanding on the distribution rights note receivable, we will take the distribution rights back from the IDs (recording the distribution rights as assets held for sale) and subsequently sell the distribution rights to another independent distributor. The company’s collateral from the territory distribution rights mitigates potential losses.

11. LITIGATION

The company and its subsidiaries from time to time are parties to, or targets of, lawsuits, claims, investigations and proceedings, which are being handled and defended in the ordinary course of business. While the company is unable to predict the outcome of these matters, it believes, based upon currently available facts, that it is remote that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations or cash flows in the future. However, adverse developments could negatively impact earnings in a particular future fiscal period.

The company's facilities are subject to various federal, state and local laws and regulations regarding the discharge of material into the environment and the protection of the environment in other ways. The company is not a party to any material proceedings arising under these regulations. The company believes that compliance with existing environmental laws and regulations will not materially affect the consolidated financial condition, results of operations, cash flows or the competitive position of the company. The company believes it is currently in substantial compliance with all material environmental regulations affecting the company and its properties.

On September 12, 2012, a complaint was filed in the U.S. District Court for the Western District of North Carolina (Charlotte Division) by Scott Rehberg, Willard Allen Riley and Mario Ronchetti against the company and its subsidiary, Flowers Baking Company of Jamestown, LLC. Plaintiffs are or were distributors of our Jamestown subsidiary who contend they were misclassified as independent contractors. The action sought class certification on behalf of a class comprised of independent distributors of our Jamestown subsidiary who are classified as independent contractors. In March 2013, the court conditionally certified the class action for claims under the Fair Labor Standards Act ("FLSA"). On March 23, 2015, the court re-affirmed its FLSA certification decision and also certified claims under state law.

At this time, the company is also defending 23 other complaints alleging misclassification claims that have been filed. The company and/or its respective subsidiaries are vigorously defending these lawsuits. Given the varying stages of the complaints and the claims and issues presented, the company cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from the unresolved lawsuits.

12. EARNINGS PER SHARE

The following is a reconciliation of net income and weighted average shares for calculating basic and diluted earnings per common share for the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015 (amounts and shares in thousands, except per share data):

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Net income	$51,155	$51,760	$110,518	$113,149
Basic Earnings Per Common Share:				
Basic weighted average shares outstanding for common stock	207,211	210,334	209,183	210,093
Basic earnings per common share	$0.25	$0.25	$0.53	$0.54
Diluted Earnings Per Common Share:				
Basic weighted average shares outstanding for common stock	207,211	210,334	209,183	210,093
Add: Shares of common stock assumed issued upon exercise of stock options and vesting of restricted stock	1,803	2,538	2,047	2,705
Diluted weighted average shares outstanding for common stock	209,014	212,872	211,230	212,798
Diluted earnings per common share	$0.24	$0.24	$0.52	$0.53

There were no anti-dilutive shares during the twelve and twenty-eight weeks ended July 16, 2016.

13. STOCK-BASED COMPENSATION

On March 5, 2014, our Board of Directors approved and adopted the 2014 Omnibus Equity and Incentive Compensation Plan (“Omnibus Plan”). The Omnibus Plan was approved by our shareholders on May 21, 2014. The Omnibus Plan authorizes the compensation committee of the Board of Directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents and other awards for the purpose of providing our officers, key employees, and non-employee directors’ incentives and rewards for performance. The Omnibus Plan replaced the Flowers Foods’ 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (“EPIP”), the stock appreciation right plan, and the bonus plan. All outstanding equity awards that were made under the EPIP will continue to be governed by the EPIP; however, all equity awards granted after May 21, 2014 are governed by the Omnibus Plan. No additional awards will be issued under the EPIP. Awards granted under the Omnibus Plan are limited to the authorized amount of 8,000,000 shares.

The EPIP authorized the compensation committee of the Board of Directors to make awards of options to purchase our common stock, restricted stock, performance stock and units and deferred stock. The company’s officers, key employees and non-employee directors (whose grants are generally approved by the full Board of Directors) were eligible to receive awards under the EPIP. Over the life of the EPIP, the company issued options, restricted stock and deferred stock.

The following is a summary of stock options, restricted stock, and deferred stock outstanding under the plans described above. Information relating to the company’s stock appreciation rights, which were issued under a separate stock appreciation right plan, is also described below.

Stock Options

The company issued non-qualified stock options (“NQSOs”) during fiscal years 2011 and prior that have no additional service period remaining. All outstanding NQSOs have vested and are exercisable on July 16, 2016.

The stock option activity for the twenty-eight weeks ended July 16, 2016 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 2, 2016	4,353	$ 10.97		
Exercised	(961)	$ 10.91		
Outstanding at July 16, 2016	3,392	$ 10.99	1.00	$ 26,471
Exercisable at July 16, 2016	3,392	$ 10.99	1.00	$ 26,471

As of July 16, 2016, compensation expense related to the NQSOs was fully amortized. The cash received, the windfall tax benefit, and intrinsic value from stock option exercises for the twenty-eight weeks ended July 16, 2016 and July 18, 2015 were as follows (amounts in thousands):

	July 16, 2016	July 18, 2015
Cash received from option exercises	$10,478	$2,795
Cash tax windfall, net	$2,020	$841
Intrinsic value of stock options exercised	$7,500	$2,807

Performance-Contingent Restricted Stock Awards

Performance-Contingent Total Shareholder Return Shares (“TSR Shares”)

Since 2012, certain key employees have been granted performance-contingent restricted stock under the EPIP and the Omnibus Plan in the form of TSR Shares. The awards generally vest approximately two years from the date of grant (after the filing of the company’s Annual Report on Form 10-K), and the shares become non-forfeitable if, and to the extent that, on that date the vesting conditions are satisfied. As a result of the delay (July as opposed to January) in the grant of the 2012 awards, the 2012 awards vested during the first quarter of 2014, 18 months from the grant date. The 2013, 2014, 2015 and 2016 awards (granted during the first quarters of their respective years) vest two years from the date of grant. The total shareholder return (“TSR”) is the percent change in the company’s stock price over the measurement period plus the dividends paid to shareholders. The performance payout is calculated at the end of each of the last four quarters (averaged) in the measurement period. Once the TSR is determined for the company (“Company TSR”), it is compared to the TSR of our food company peers (“Peer Group TSR”). The Company TSR compared to the Peer Group TSR will determine the payout as set forth below:

Percentile	Payout as % of Target	
90th	200	%
70th	150	%
50th	100	%
30th	50	%
Below 30th	0	%

For performance between the levels described above, the degree of vesting is interpolated on a linear basis. The 2014 award vested at 27% of target. The 2013 award vested at 88% of target.

The TSR shares vest immediately if the grantee dies or becomes disabled. However, if the grantee retires at age 65 (or age 55 with at least 10 years of service with the company) or later, on the normal vesting date the grantee will receive a pro-rated number of shares based upon the retirement date and measured at the actual performance for the entire performance period. In addition, if the company undergoes a change in control, the TSR shares will immediately vest at the target level, provided that if 12 months of the performance period have been completed, vesting will be determined based on Company TSR as of the date of the change in control without application of four-quarter averaging. During the vesting period, the grantee has none of the rights of a shareholder. Dividends declared during the vesting period will accrue and will be paid at vesting on the shares that ultimately vest. The fair value estimate was determined using a Monte Carlo simulation model, which utilizes multiple input variables to estimate the probability of the company achieving the market condition discussed above. Inputs into the model included the following for the company and comparator companies: (i) TSR from the beginning of the performance cycle through the measurement date; (ii) volatility; (iii) risk-free interest rates; and (iv) the correlation of the comparator companies' TSR. The inputs are based on historical capital market data.

The following performance-contingent TSR Shares have been granted under the Omnibus Plan and have service period remaining (amounts in thousands, except price data):

Grant date	January 3, 2016	January 4, 2015
Shares granted	401	414
Vesting date	2/21/2018	3/1/2017
Fair value per share	$ 24.17	$ 21.21

Performance-Contingent Return on Invested Capital Shares (“ROIC Shares”)

Since 2012, certain key employees have been granted performance-contingent restricted stock under the EPIP and the Omnibus Plan in the form of ROIC Shares. The awards generally vest approximately two years from the date of grant (after the filing of the company’s Annual Report on Form 10-K), and the shares become non-forfeitable if, and to the extent that, on that date, the vesting conditions are satisfied. As a result of the delay (July as opposed to January) in the grant of the 2012 awards, the 2012 awards vested during the first quarter of 2014, 18 months from the grant date. The 2013, 2014, 2015, and 2016 awards (granted during the first quarters of their respective years) vest two years from the date of grant. Return on Invested Capital is calculated by dividing our profit, as defined, by the invested capital (“ROIC”). Generally, the performance condition requires the company’s average ROIC to exceed its average weighted cost of capital (“WACC”) by between 1.75 to 4.75 percentage points (the “ROI Target”) over the two fiscal year performance period. If the lowest ROI Target is not met, the awards are forfeited. The shares can be earned based on a range from 0% to 125% of target as defined below:

- 0% payout if ROIC exceeds WACC by less than 1.75 percentage points;
- ROIC above WACC by 1.75 percentage points pays 50% of ROI Target; or
- ROIC above WACC by 3.75 percentage points pays 100% of ROI Target; or
- ROIC above WACC by 4.75 percentage points pays 125% of ROI Target.

For performance between the levels described above, the degree of vesting is interpolated on a linear basis. The 2014 award actual attainment was 96% of ROI Target. The 2013 award actual attainment was 125% of ROI Target.

The ROIC Shares vest immediately if the grantee dies or becomes disabled. However, if the grantee retires at age 65 (or age 55 with at least 10 years of service with the company) or later, on the normal vesting date the grantee will receive a pro-rated number of shares based upon the retirement date and actual performance for the entire performance period. In addition, if the company undergoes a change in control, the ROIC Shares will immediately vest at the target level. During the vesting period, the grantee has none of the rights of a shareholder. Dividends declared during the vesting period will accrue and will be paid at vesting on the shares that ultimately vest. The fair value of this type of award is equal to the stock price on the grant date. Since these awards have a performance condition feature the expense associated with these awards may change depending on the expected ROI Target attained at each reporting period. The 2015 award is being expensed at 110% of ROI Target and the 2016 award is being expensed at 100% of ROI Target. The following performance-contingent ROIC Shares have been granted under the Omnibus Plan and have service period remaining (amounts in thousands, except price data):

Grant date	January 3, 2016	January 4, 2015
Shares granted	401	414
Vesting date	2/21/2018	3/1/2017

Fair value per share	$ 21.49	$ 19.14

Performance-Contingent Restricted Stock (2014 Grant)

In connection with the vesting of the performance-contingent restricted stock granted in January 2014, during the twenty-eight weeks ended July 16, 2016, 248,872 common shares available for this grant were reduced because the company attained only 27% of the S&P TSR target of the grant (“TSR modifier”). An additional 13,637 common shares were reduced because the company attained 96% of the ROI Target (“ROIC modifier”). At vesting, the company paid accumulated dividends of $0.4 million. The tax shortfall at vesting of these awards was $2.9 million.

Performance-Contingent Restricted Stock

The company's performance-contingent restricted stock activity for the twenty-eight weeks ended July 16, 2016, is presented below (amounts in thousands, except price data):

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 2, 2016	1,349	$ 21.26
Initial grant at target	801	$ 22.83
Grant reduction for not achieving the ROIC modifier	(14)	$ 21.47
Grant reduction for not achieving the TSR modifier	(249)	$ 23.97
Vested	(312)	$ 22.02
Forfeited	(12)	$ 23.72
Nonvested shares at July 16, 2016	1,563	$ 21.53

As of July 16, 2016, there was $18.3 million of total unrecognized compensation cost related to nonvested restricted stock granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 1.36 years. The total intrinsic value of shares vested during the period ended July 16, 2016 was $7.2 million.

Deferred and Restricted Stock

Pursuant to the EPIP, previously the company allowed non-employee directors to convert their annual board retainers into deferred stock equal in value to 130% of the cash payments these directors would have otherwise received. The deferred stock had a minimum two-year vesting period and will be distributed to the individual (along with accumulated dividends) at a time designated by the individual at the date of conversion. Following the May 2014 Board of Directors meeting and the adoption of the Omnibus Plan, annual board retainers converted into deferred stock and issued under the Omnibus Plan are equal in value to 100% of the cash payments directors would otherwise receive and the vesting period is a one-year period to match the period of time that cash would have been received if no conversion existed. Going forward, under the Omnibus Plan, non-employee directors may elect to convert their annual board retainers into deferred stock equal in value to 100% of the cash payments they otherwise would have received. The deferred stock so converted will have a one-year pro-rated vesting period. Accumulated dividends are paid upon delivery of the shares. During fiscal 2016, non-employee directors deferred an aggregate of 19,040 common shares for board retainer deferrals pursuant to the Omnibus Plan.

Pursuant to the Omnibus Plan and the EPIP, non-employee directors also receive annual grants of deferred stock. This deferred stock vests over one year from the grant date. During fiscal 2016, non-employee directors were granted an aggregate of 76,274 common shares of deferred stock pursuant to the Omnibus Plan. The deferred stock will be distributed to the grantee at a time designated by the grantee at the date of grant. Compensation expense is recorded on this deferred stock over the one-year minimum vesting period.

On May 31, 2013, the company's Chief Executive Officer ("CEO") received a time-based restricted stock award of approximately $1.3 million of restricted stock pursuant to the EPIP. This award will vest 100% on the fourth anniversary of the date of the grant provided the CEO remains employed by the company during this period and the award value does not exceed 0.5% of our cumulative EBITDA over the vesting period. Vesting will also occur in the event of the CEO's death or disability, but not his retirement. Dividends will accrue on the award and will be paid to the CEO on the vesting date for all shares that vest. There were 58,500 shares issued for this award at a fair value of $22.25 per share.

The deferred stock activity for the twenty-eight weeks ended July 16, 2016 is set forth below (amounts in thousands, except price data):

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Nonvested shares at January 2, 2016	126	$ 21.89		
Vested	(72)	$ 21.59		
Granted	95	$ 19.30		
Nonvested shares at July 16, 2016	149	$ 20.39	0.83	$ 1,335

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As of July 16, 2016, there was $1.7 million of total unrecognized compensation cost related to deferred stock awards granted under the Ominbus Plan that will be recognized over a weighted-average period of 0.83 years. The total intrinsic value of shares vested during the period ended July 16, 2016 was less than $1.3 million.

Stock Appreciation Rights

Prior to 2007, the company allowed non-employee directors to convert their retainers and committee chair fees into rights. These rights vested after one year and were exercisable over nine years. The company recorded compensation expense for these rights at a measurement date based on changes between the grant price and an estimated fair value of the rights using the Black-Scholes option-pricing model. All remaining shares outstanding at January 2, 2016 were exercised during the twenty-eight weeks ended July 16, 2016.

Share-Based Payments Compensation Expense Summary

The following table summarizes the company's stock based compensation expense for the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015, respectively (amounts in thousands):

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Performance-contingent restricted stock awards	$2,998	$3,089	$10,115	$9,646
Deferred and restricted stock	529	469	1,203	1,110
Stock appreciation rights	—	(39)	(12)	52
Total stock based compensation	$3,527	$3,519	$11,306	$10,808

14. POST-RETIREMENT PLANS

The following summarizes the company's balance sheet related pension and other post-retirement benefit plan accounts at July 16, 2016 as compared to accounts at January 2, 2016 (amounts in thousands):

	July 16, 2016	January 2, 2016
Current benefit liability	$1,118	$1,118
Noncurrent benefit liability	$129,061	$76,541
Accumulated other comprehensive loss, net of tax	$118,447	$86,610

Defined Benefit Plans and Nonqualified Plan

The company amended our qualified defined benefit plans in October 2015 to allow pension plan participants not yet receiving benefit payments the option to elect to receive their benefit as a single lump sum payment. This amendment was effective as of January 1, 2016. This change supports our long-term pension risk management strategy.

Settlement accounting, which accelerates recognition of a plan's unrecognized net gain or loss, is triggered if the lump sums paid during a year exceeds the sum of the plan's service and interest cost. Since the lump sums paid or expected to be paid in 2016 exceed that threshold, the company recognized a settlement charge of $4.6 million in the second quarter. An additional settlement charge may be recognized in the third and fourth quarter. The amount of those charges will depend on the amount settled and the plan's unrecognized net gain or loss at the end of each quarter.

The company used a measurement date of December 31, 2015 for the defined benefit and post-retirement benefit plans described below (excluding Plan No. 1 which has a measurement date of June 30, 2016 due to the settlement). We believe that the difference in the fair value of plan assets between the measurement date of December 31, 2015 and our fiscal year end date of January 2, 2016 was not material and that for practical purposes the measurement date of December 31, 2015 was used throughout for preparation of our financial statements.

We do not anticipate making contributions to our qualified pension plans during fiscal 2016.

The net periodic pension cost (income) for the company's plans include the following components (amounts in thousands):

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Service cost	$192	$201	$447	$470
Interest cost	2,884	4,155	7,417	9,694
Expected return on plan assets	(5,457)	(6,840)	(14,069)	(15,961)
Settlement loss	4,641	—	4,641	—
Amortization of prior service cost	76	—	195	—
Amortization of net loss	1,155	1,149	2,953	2,681
Total net periodic benefit (income) cost	$3,491	$(1,335)	$1,584	$(3,116)

Post-retirement Benefit Plan

The company provides certain medical and life insurance benefits for eligible retired employees covered under the active medical plans. The plan incorporates an up-front deductible, coinsurance payments and retiree contributions at various premium levels. Eligibility and maximum period of coverage is based on age and length of service.

The net periodic post-retirement benefit (income) cost for the company includes the following components (amounts in thousands):

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Service cost	$93	$93	$216	$215
Interest cost	71	82	166	194
Amortization of prior service credit	(49)	(108)	(114)	(252)
Amortization of net gain	(105)	(135)	(245)	(315)
Total net periodic benefit (income) cost	$10	$(68)	$23	$(158)

401(k) Retirement Savings Plan

The Flowers Foods 401(k) Retirement Savings Plan covers substantially all of the company's employees who have completed certain service requirements. During the twenty-eight weeks ended July 16, 2016 and July 18, 2015, the total cost and employer contributions were $15.8 million and $14.5 million, respectively. During the twelve weeks ended July 16, 2016 and July 18, 2015, the total cost and employer contributions were $6.5 million and $6.0 million, respectively.

The company acquired DKB and Alpine during fiscal 2015, at the time of each acquisition we assumed sponsorship of a 401(k) savings plan. We merged these two plans into the Flowers Foods 401(k) Retirement Savings Plan during the twenty-eight weeks ended July 16, 2016.

15. INCOME TAXES

The company's effective tax rate for the twenty-eight weeks ended July 16, 2016 and July 18, 2015 was 35.3% and 35.0%, respectively. The increase in the rate from the prior year is primarily due to greater benefits for state tax incentives in 2015. During the twenty-eight weeks ended July 16, 2016, the primary differences in the effective rate and the statutory rate are state income taxes and the Section 199 qualifying production activities deduction.

During the twenty-eight weeks ended July 16, 2016, the company's activity with respect to its uncertain tax positions and related interest expense accrual was immaterial. At this time, we do not anticipate significant changes to the amount of gross unrecognized tax benefits over the next twelve months.

The company early adopted guidance discussed in Note 3, Recently Adopted Accounting Pronouncements, and retrospectively adjusted our current deferred income tax asset balance of $37.2 million at January 2, 2016 to the long-term deferred income tax liability balance. The Condensed Consolidated Balance Sheet at July 16, 2016 reflects this change.

The Internal Revenue Service ("IRS") completed the audit of fiscal years 2012, 2013, and 2014 during the first quarter of our fiscal 2016. The results of the audit were insignificant and the company is no longer subject to federal examination for years prior to 2015 and, with limited exceptions, for years prior to 2012 in state jurisdictions.

16. SEGMENT REPORTING

The company's DSD Segment primarily produces fresh packaged bread, rolls, tortillas, and snack products and the Warehouse Segment produces fresh and frozen bread and rolls and snack products.

The company evaluates each segment's performance based on income or loss before interest and income taxes, excluding unallocated expenses and charges which the company's management deems to be an overall corporate cost or a cost not reflective of the segment's core operating businesses. Information regarding the operations in these reportable segments is as follows (amounts in thousands):

	For the Twelve Weeks Ended		For the Twenty-Eight Weeks Ended	
	July 16, 2016	July 18, 2015	July 16, 2016	July 18, 2015
Sales:				
DSD Segment	$799,890	$765,822	$1,818,238	$1,752,391
Warehouse Segment	184,887	167,012	433,092	391,746
Eliminations:				
Sales from Warehouse Segment to DSD Segment	(35,629)	(30,186)	(78,485)	(75,038)
Sales from DSD Segment to Warehouse Segment	(14,123)	(13,853)	(33,468)	(34,259)
	$935,025	$888,795	$2,139,377	$2,034,840
Depreciation and amortization:				
DSD Segment	$27,980	$26,995	$65,054	$62,175
Warehouse Segment	4,599	3,591	10,877	8,371
Unallocated corporate costs(1)	19	(118)	134	(261)
	$32,598	$30,468	$76,065	$70,285
Income (loss) from operations:				
DSD Segment	$80,135	$78,071	$172,084	$177,265
Warehouse Segment	15,710	13,976	34,451	30,274
Unallocated corporate costs(1)	(14,410)	(12,006)	(29,944)	(30,960)
	$81,435	$80,041	$176,591	$176,579
Interest expense	$(7,649)	$(5,998)	$(16,717)	$(14,357)
Interest income	$4,639	$5,138	$10,929	$11,915
Income before income taxes	$78,425	$79,181	$170,803	$174,137

(1) Represents costs allocated to the company's corporate head office.

Sales by product category in each reportable segment are as follows for the twelve and twenty-eight weeks ended July 16, 2016 and July 18, 2015 (amounts in thousands):

	For the Twelve Weeks Ended July 16, 2016			For the Twelve Weeks Ended July 18, 2015		
	DSD Segment	Warehouse Segment	Total	DSD Segment	Warehouse Segment	Total
Branded Retail	$508,066	$ 40,020	$548,086	$473,111	$ 31,122	$504,233
Store Branded Retail	116,463	29,286	145,749	116,597	26,241	142,838
Non-retail and Other	161,238	79,952				